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## METHODOLOGICAL APPROACH TO BALANCE THE INTERESTS IN CORPORATE GOVERNANCE

A sophisticated method (technology) to balance the interests of the persons interested in the corporate governance is presented herein. Therefore a general step-by-step concept is worked out and detailed characteristics of the technological stages are provided. The practical requirements and the eventual application of this approach were proven by the approbation in 42 public joint stock companies. Its relevance is illustrated with typical characteristics on the grounds of the elaborated and analyzed balance of interests of the stakeholders in public joint stock companies. It was verified, that the main methodological approach enriches the instruments for interest balancing.

JEL: J53; G20; L23

For many decades the dominant “*Agent Theory*” has determined the corporate behavior and the role of the corporate governance (CG). It is focused on the “*shareholder's benefit*”. The main arguments are, that business is made with the capital of the shareholders and they bear the pivotal risk, and the interests of the other stakeholders (SH) do not assume any residual risk and are shielded through their contracts with the Management Boards (MB).

Since the early XXI<sup>st</sup> century CG has matured on the *principles of the Organization for Economic Co-operation and Development (OECD)*, elaborated on their proposal and with their assistance, applying the *good CG practices* in the USA, the United Kingdom, the Netherlands and the Republic of South Africa.<sup>1</sup> The principles, coordinated and adopted in 1999 and revised and extended in 2004 are: *the rights of the shareholders; the equitable treatment of the shareholders; the role of stakeholders in CG; disclosure of information and transparency; responsibilities of the board*. They are the only internationally accepted principles, defining the key parameters of the up-to-date corporate governance, as well as the framework of the legal, institutional and regional structures and practices, generating the environment, where the corporations (the shareholding companies) function and progress.<sup>2</sup>

The elaboration and the adoption of the OECD's principles were challenged by the deep *crisis within the CG system* at the turn of the XXI<sup>st</sup> century, having made *inefficient its functioning and totally destroyed its image*.<sup>3</sup>

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<sup>1</sup> OECD's principles of corporate governance, 1999, 2004.

<sup>2</sup> The concept “*Corporation*” has been approved in the Anglo-Saxon system, and the concept “*Shareholding Company*” – in the Continental European System. In the Law on public offering of securities the concept “*joint-stock company*” is used.

<sup>3</sup> See *Martin, H.* New Corporate Governance. [Board Governance Tools]. 2006, p. 3.

Therefore CG had to undergo radical changes, in order to convey it to a qualitatively new stage of its lifecycle. Meanwhile the “theory of the stakeholders” not only develops and broadens the CG views, but it radically changes its focus – taking into consideration the interests of all *stakeholders*. The highlight is the *corporate social responsibility*. This theory has become the vehicle of the new paradigm, on which the contemporary CG format is based. Actually it differs from the current one – *from a tool of providing maximum benefit for the shareholders, CG has become a balancing tool for the interests of all stakeholders according to their real contribution to generating corporate goods.*<sup>4</sup>

Each group of stakeholders *provides a specific resource*, plays a role in the corporate development and thus contributes to the achievement of the common goals. But these persons have their specific interests and always strive at *maximizing their benefit* when distributing the corporate benefit. It makes their goals incompatible, and results in contradictions and conflicts of interests.<sup>5</sup>

The interrelations of the corporations and the stakeholders are quite complicated. Some of them are stipulated in law. The internal policies of the corporations in balancing the interests of the stakeholders are still at the stage of balancing the interests of the stakeholders and in view of avoiding conflicts they are on the stage of pursuit of appropriate solutions.<sup>6</sup> Two studies have tried to elaborate a methodological approach for balancing the interests of the stakeholders in Bulgaria.<sup>7</sup> We are not aware of any similar attempts made in the specialized readings. The methodology and the techniques of balancing the interests are some of the shortcomings of CG. Therefore an proper decision should be found, to be “recognized” and used by the Boards of the shareholding companies.

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<sup>4</sup> See Georgiev, *Il. and Il. Georgieva*. Corporate governance.(updated). Sofia, 2008, p. 18-38.

<sup>5</sup> See The conflict of interests in the business. Business Ethics. Sofia, Center for economic development, 2003, p. 26.

<sup>6</sup> See White Paper on Corporate Governance in South East Europe. Sofia, 2003, p. 31-39.

<sup>7</sup> See Georgiev, *Il. and Sp. Keremidchiev*. Corporate governance of the mass privatized industries in Bulgaria. Sofia, 1999 (The different groups of stakeholders and their interests were pointed out, 80 mass privatized holding companies have been studied and the interests were evaluated according to the scale from +1 to + 5 and from -1 to -5, arranging them according to the satisfaction degree and analyzing them, a serious disequilibrium was established, revealing the main reasons thereto); Dankova, *P.* Managing the interests of the stakeholders in the public companies in the Republic of Bulgaria (investigation), 2007. (various groups of stakeholders are identified and their contribution and interests; an evaluation model is set up, testing methodology and an enquiry form; 100 public joint stock companies have been investigated and by questioning the members of the boards - the companies were evaluated according to the 5-step-scale: the importance of the contribution, the real contribution and satisfaction of the interest; the critical points are revealed and analyzed). Ideas and decisions from both studies are used here, aligning them to the author's shared philosophy on generating the methodological approach. This philosophy originated from the entire study carried out by Georgiev, *Il. and Il. Georgieva*. Op. Cit.

*Our hypothesis* is, that the Boards of the public joint-stock companies in Bulgaria do not apply any specific methodology (technology) and do not set up any equilibrium of the interests of the stakeholders in CG, so no analyses are made on the level of satisfaction of the interests of the various groups of stakeholders, not revealing the potential contradictions and conflicts. The reasons thereto are numerous, but the key ones are three:

*Firstly*, the SH's role was internationally acknowledged for the first time in 2004, when within the system of principles of OECD (1999) the principle "shareholders' role" was replaced by the principle "stakeholders' role". Obviously the elapsed period is not sufficient to elaborate and apply the generally accepted technology and techniques of balancing the interests. Good global practices in this respect are not well known.

*Secondly*, the Boards have not become aware yet, that the *contemporary corporation is a socially responsible institution*, and *CG – a tool to match the interests of all stakeholders*. They are not convinced in the concept on the "benefit for the stakeholders" and they still do not feel themselves obliged to focus on providing "benefit for the shareholder". It is also due to the highly concentrated ownership, enabling the large shareholders to assume complete control on the governance.

*Thirdly*, the legislation of the trade companies has no expressly stated requirement for balancing the stakeholders' interests according to the state-of-the-art principles of CG. It does not motivate the Boards to master and apply efficiently the system of tools and methodological approaches for balancing such interests.

*The novelty in this study* is mainly in the philosophy of the approach for setting up the technology for balancing the interests of the stakeholders – the contributions and interests are graded, assessing them by means of an importance (priority) ratio between 1.0 and 0.1; the maximum and the real contributions and interests are specified, rating them according to the scale between 5 and 0.1, weighing them with the respective importance ratio; their coverage degree is specified, in order to assess the interest satisfaction level, and to reveal the value of unutilized potential of the various kinds of resources (contributions) and the field of eventual contradictions and the pending conflicts of interests of the different groups. The opportunity for balancing the interests should be based not only on the polls, but also on the analysis and the assessment of the main parameters and the economic performance of the company.

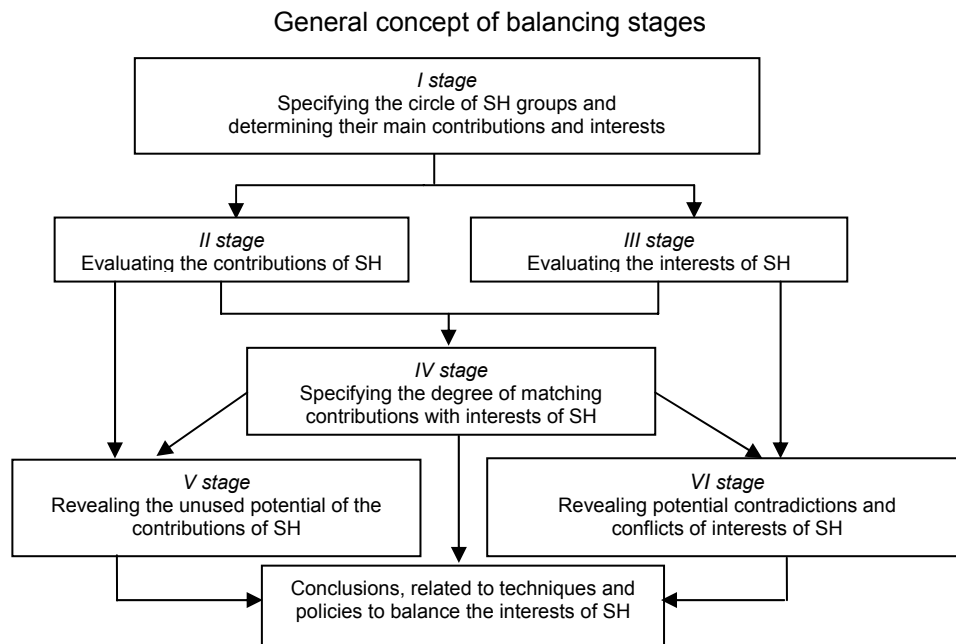
### **Conceptual Model of Methodological Approach for Balancing the Interests**

#### *1. General Conceptual Scheme of the Stages and the Technological Steps for Balancing*

In order to balance the interests of the stakeholders, their contributions and interests should be matched and assessed and an equilibrium should be reached, in view of satisfying them in each group within the general corporate goods. The

balancing technology passes subsequently through 6 stages and 3 technological steps, being interrelated and interdependent (see the Figure).

Figure



## 2. Constructive Characteristics of the Technological Steps in the Various Stages

• **I stage.** *Specifying the circle of SH groups in CG and determining their main contributions and interests*

Step 1. Specifying the circle of groups. In market economy the corporations function and develop (having implicit and explicit links to a lot of persons, contributing with their input resources to the success of the company) and expect to derive a certain benefit. In their capacity of providers of resources and pursuing the achievement of their interests, these persons are in a position to influence CG. Thus, all the persons related to the corporation are called “stakeholders”.<sup>8</sup> Such persons, respectively groups of persons are: *shareholders, managers, personnel (specialists and workers), suppliers, clients, creditors, local government authorities, central government authorities, ecological and other non-governmental organizations.*

Step 2. Defining the main contributions of each group of SH in CG. These contributions are examined in the second section.<sup>9</sup>

<sup>8</sup> White Paper..., p. 31.

<sup>9</sup> For more details see *Georgiev, Il. and Il. Georgieva.* Op. Cit., p. 132-138.

Step 3. Defining the main interests of each group of SH in CG. These interests are examined in the second section.<sup>10</sup>

● *II stage. Rating the contributions of the stakeholders*

Step 1. Defining the priority of the contributions of the stakeholders according to their importance for the functioning and the development of the company and the creation of corporate goods. This rating is made by means of ratios between 1.00 and 0.1 at a step of 0.19, namely:

- Rating between 1.00-0.81 is granted to contributions, being of pivotal importance for the functioning and the development of the company and for creating corporate goods.

- Rating between 0.80-0.61 - to contributions, of *major importance* for the functioning and the development of the company and for creating corporate goods.

- Rating between 0.60-0.41 - to contributions, of *medium importance* for the functioning and the development of the company and for creating corporate goods.

- Rating between 0.40-0.21 - to contributions, of *minor importance* for the functioning and the development of the company and for creating corporate goods.

- Rating between 0.20-0.01 is attributed to contributions, of *low importance* for the functioning and the development of the company and for creating corporate goods.

Step 2. Defining (rating) the *real contributions* of the stakeholders to CG of the company. This rating is performed according to a scale between 5 - 0.01 at a step of 0.99, namely:

- Rating between 5.00-4.01 is granted to contributions, of *pivotal impact* on the functioning and the development of the company and on creating corporate goods.

- Rating between 4.00-3.01 - of contributions, of *great impact* on the functioning and the development of the company and on creating corporate goods.

- Rating between 3.00-2.01 - of contributions, of *medium impact* on the functioning and the development of the company and on creating corporate goods.

- Rating between 2.00-1.01 - of contributions, of *low impact* on the functioning and the development of the company and on creating corporate goods.

- Rating between 1.00-0.01 - of contributions, of a *very low impact* on the functioning and the development of the company and on creating corporate goods.

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<sup>10</sup> Georgiev, Il. and Il. Georgieva. Op. Cit.

Step 3. Defining the *average weight of the maximum contribution* of the individual SH groups. Such a rating is derived, by multiplying the importance ratio of each contribution by 5, being the maximum rating for contribution.

Step 4. Defining the *average weight* of the real contribution of the individual SH groups. Such a rating is derived, by multiplying the importance ratio of each contribution by the rating of the real contribution.

Step 5. Defining the *difference* between the average weights of the maximum and the real contribution. Such a rating is derived, by subtracting from the average weight of the maximum contribution the average weight of the real contribution.

Step 6. Defining the *average amount of the average weights of the maximum and the real contribution* of the respective SH group. It is derived, by dividing the *amounts of the average weights* respectively of the maximum and the real contribution of the respective SH group by the number of rows (the number of summed up types of contributions).

Step 7. Defining the *total amount of the average weights* of the maximum and the real contribution of all SH groups. It is obtained, by *adding* respectively *the amounts of the derived average weights* respectively the maximum and the real contribution of all SH groups and these amounts are divided by the number of groups.

• *III stage. Rating the interests of the stakeholders*

Step 1. Defining *the priority of the interests of SH according to their importance for them*. This rating is also made by *ratios with importance between 1.00 - 0.01 at a step of 0.19*, namely:

• Rating between 1.00-0.81 is granted to interests of *extraordinary importance for SH*.

• Rating between 0.80-0.61 - of interests of *major importance for SH*.

• Rating between 0.60-0.41 - of interests of *medium importance for SH*.

• Rating between 0.40-0.21 - of interests of *minor importance for SH*.

• Rating between 0.20-0.01 - of interests of *very minor importance for SH*.

Step 2. Defining (rating) the *real satisfaction of the interests* of a particular SH group. Such a rating is made according to a *scale of importance between 5 - 0.01 at a step of 0.99*, namely:

• Rating between 5.00-4.01 is granted to interests, *very well satisfying SH*.

• Rating between 4.00-3.01 - of interests, *well satisfying SH*.

• Rating between 3.00-2.01 - of interests, *averagely satisfying SH*.

• Rating between 2.00-1.01 - of interests, *not satisfying SH*.

Step 3. Defining the *average weight of the maximum interest* of the individual SH groups. Such a rating is derived, by multiplying the importance ratio of a particular interest by 5, being the maximum rating of the interest of the particular SH group.

Step 4. Defining the *average weight of the really satisfied interest* of the individual SH groups. Such a rating is derived, by multiplying the importance factor of the particular interest by the rating of the really satisfied interest.

Step 5. Defining the *difference* between the average weights of the maximum and the really satisfied interest. Such a rating is derived, by subtracting from the average weights of the maximum interest the average weights of the real interest.

Step 6. Defining the *average amount of the average weights of the maximum and the really satisfied interest* of the respective SH group. It is obtained, by *adding the average weights* resp. the maximum and the really satisfied interest of the SH group and dividing it on the number of rows (the number of types of summed contributions).

Step 7. Defining the *total amount of the average weights of the maximum and the really satisfied interest of all SH groups*. It is obtained, by *adding the derived average amounts of the weighed average points respectively* of the maximum and the really satisfied interest of such groups and the sums are divided by their number.

●IV stage. *Degree of overlapping contributions with interests*

Step 1. Comparing the *sum of the average amounts of the real contributions* and the *average amount of the really satisfied interests* of the individual SH groups. The degree of overlapping of *both ratings* shows how much *the level of the really satisfied interests* of a particular SH group *corresponds to the contributions* really used thereof for the development and functioning of the company. If the difference is considerable - for instance greater than 0.20, it shows that the interests within the group are not well balanced and appropriate measures should be taken.

Step 2. Comparing the *sum total the average ratings of the real contributions* and that of *the really satisfied interests* of all SH groups. The degree of overlapping of *both ratings* shows how much *the level of the really satisfied interests of all SH groups corresponds to the contributions* really used by them for the development and functioning of the company. If the interests in the individual groups are equally balanced, there should not be any difference between the *ratings of the really satisfied interests*. *If both sums do not overlap, it means, that the equity has been disturbed and necessary measures should be taken.*

●V stage. *Comparing the maximum contribution and the real contribution*

Step 1. Comparing the *sum of the average rating of the average weights* of the maximum *contribution* and the one of *the real contribution* for each of the SH groups. This comparison of both sums *indicates the value of the unutilized potential of the contributions of the individual SH groups*. *And the value of unutilized potential of the types of contributions is revealed by the differences between their maximum and real value*. It facilitates CG in the decisions for full utilization of the resources of the company.

Step 2. Comparing the *sum total of average rating of the average weights of the maximum contribution* and the one of *the real contribution* in general for SH. This comparison *indicates the value of the unutilized potential of the contributions of the stakeholders in general for the company*.

●VI stage. *Comparing the maximum and the really satisfied interest*

Step 1. Comparing the *sum total of the average rating of the average weights of the maximum interest* and the one of *the really satisfied interest*. The comparison of

both sums indicates *available potential contradictions and pivotal conflicts of interests in each of the SH groups*. The different points of the contradictions and the eventual conflicts are revealed by the differences between the ratings of the maximum and the real interests respectively. They are indications for CG to take the *necessary measures* to avoid them in time.

Step 2. Comparing the *sum total of the average rating of the average weights of the maximum interest and the one of the really satisfied interest* totally for SH. Such a comparison demonstrates *available potential contradictions and eventual unsolved conflicts of interests between the stakeholders within the company*.

The final part of the methodological approach is the analysis of the results of the balancing and the formulating of the respective conclusions and recommendations on the efficient utilization of the resources of the company, taking the necessary measures to avoid the potential contradictions and conflicts of interests of the stakeholders and the application of efficient balancing techniques and policies.

### **Application of the Methodological Approach (Technology) for Balancing the Interests of the Stakeholders**

The elaborated methodological approach (technology) for balancing the interests of the stakeholders was approbated in 42 public joint-stock companies in Bulgaria by means of surveys held between 2007 – 2010.<sup>11</sup> From the investigated public joint-stock companies the typical features were selected – the carriers of the typical characteristics of most of the public joint-stock companies in Bulgaria, having the required parameters for a convincing presentation of the approach.

#### *1. Presentation of the Public Joint-stock Company*

The selected company was entered as public company in 1999 with the Registry Office in Sofia and capital stock BGN 20 mln. In that year the company shares were registered at the Bulgarian Stock Exchange. In 2009 the capital amounted to BGN 40 mln., i.e. double increase as a result of three new issues of shares. It was divided in 40 mln. pcs. of registered dematerialized shares of a class with a voting right, each of par value of 1 BGN. All the shares give equal rights to their holders.

The capital structure of the company is a convincing evidence for a *concentrated ownership*: the majority shareholder is a legal entity, holding 68% of the shares; another legal entity keeps 7% thereof, and the remaining 25% are divided among 2497 legal entities and natural persons, representing the numerous small shareholders. The increase in the shares by means of the new issue boosts up the value of their stock market trade, ensuring the shareholders a comparatively high liquidity of the shares held. The portion of the large shareholders has remained unchanged, but the number of the small shareholders and their composition were changed.

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<sup>11</sup> The surveys were carried out with the assistance of MSc students at the University for National and World Economy and the Technical University in Sofia.



The governance system of the company has two tiers – consisting of a Supervisory Board of three members and a Management Board of five members—three of them being independent members and one Executive Director. All of them are university graduates – economics or engineering, having experience in *finance management*. Their remuneration is comparatively high. The Chairman of the Supervisory Board (0.21%) and one member of the Supervisory Board (0.02%) are shareholders of the company.

The company disposes of: a good corporate governance program, corporate governance code, code of conduct and regulations on the performance of the management board. The announced main values of the company are: *confidence; innovations and development; ecology and safety*. Pursuant to the Law on Public Offering of Securities the company shall disclose information within the set deadlines and according to the generally accepted forms and standards. The company disposes of a well functioning system for quality, timely and intelligible information.

Two banks have extended credits to the company - respectively BGN 5800 thousand and EUR 4700 thousand, that have been serviced regularly.

Most of the products made by the company are exported to other countries, and the exports' share is rising steadily. The main economic parameters of the company are:

Indicators	Unit	2006	2007	2008	2009
1. Capital stock	thousand BGN	20 000	20 000	35000	40 000
2. Revenues from sales	thousand BGN	80 340	102 800	164 370	115 250
3. Net profit	thousand BGN	7 600	18 800	25 500	15 600
a) for investments	thousand BGN	7 600	15320	25 500	15 600
b) for dividends	thousand BGN	0.0	3480	0.0	0.0
4. Market value of 1 share	BGN	11.20	23.00	12.00	5.60
5. Dividends per 1 share	BGN	0.0	0.17	0.0	0.0

The monitored company is prospering and recovers rapidly from the economic crisis.

## 2. Balancing the Interests of the Stakeholders

### 2.1. Balancing the Interests of the Large Shareholders

They rank first in the SH system. Their share in the capital is 75%, guaranteeing a total control on management. They are loyal to the company and facilitate the good image. They take part in the Supervisory Board and have their representative in the Management Board. They are interested in the long-term and sustainable development of the company, and thus they distribute the net profit predominantly for reinvestments and a small portion thereof – for dividends (0.17 BGN/share in 2007). Additional investments are provided by means of several new issues of shares, purchasing 68% thereof and maintaining their share in the company capital. All that has contributed to the enormous increase in the market value of the shares. The developed information system gives them in-time and quality information. Their shares are very well protected by the Central Depository, being of vital importance for the preservation of the ownership.

The ratings of contributions and interests are listed in Table 1-A and B. Obviously the majority owners have availed themselves of the total control on the governance of the company, in order to ensure a higher degree of real satisfaction of their own interests, than their real contributions (Table 1-B).

Table 1

## Balancing the interests of the large shareholders

## A. Rating the contributions

No.	Types of contributions	Importance factor for the company	Rating of real contribution	Average weight		
				Max. contribution (col. 3x col. 5)	Real contribution (col. 3 x col. 4)	Difference (col. 5 - col. 6)
1	2	3	4	5	6	7
1.1	Capital (money)	0.95	4.50	4.75	4.28	0.48
1.2	Participation in the Board	0.70	4.00	3.50	2.80	0.70
1.3	Control on the management	0.80	5.00	4.00	4.00	0.00
1.4	Involvement in the decisions of AGM	0.75	5.00	3.75	3.75	0.00
1.5	Loyalty to the corporation	0.90	5.00	4.50	4.50	0.00
<i>Sum of average ratings of the contributions</i>				4.10	3.87	0.24

## B. Rating the interests

No.	Types of interests	Importance factor for SH	Rating of really satisfied interest	Average weight		
				Max. interest	Really satisfied interest	Difference (col.5-col.6)
1	2	3	4	5	6	7
1.1	Reliable registration of the shares	0.95	5.00	4.75	4.75	0.00
1.2	Dividend of the profit	0.60	3.50	3.00	2.10	0.90
1.3	Increasing the value of the shares	0.90	4.50	4.50	4.05	0.45
1.4	Participation in the Board	0.75	5.00	3.75	3.75	0.00
1.5	Control on the management	0.95	5.00	4.75	4.75	0.00
1.6	Up-to-date and quality information	0.85	5.00	4.25	4.25	0.00
1.7	Free sale of the shares	0.90	5.00	4.50	4.50	0.00
1.8	Involvement in a new issue	0.90	5.00	4.50	4.50	0.00
<i>Sum of average rating of the interests</i>				4.25	4.08	0.17

## C. Degree of overlapping contributions with interests

No.	Indicators	Average weight		
		Max. contribution Max. interest	Real contribution Really satisfied interest	Difference (col. 5 - col. 6)
1	2	5	6	7
1	Sum of average ratings of the contributions	4.10	3.87	0.24
2	Sum of average ratings of the interests	4.25	4.08	0.17
<i>Difference between contributions and interests (row.1-row.2)</i>		-0.15	-0.22	0.07

## 2.2. Balancing the Interests of the Small Shareholders

The number of the small shareholders is high (2497), but their portion in the capital is just 25%, reducing considerably their control opportunities on the management. The significant movement of the shares on the stock exchange is a proof, that some of them are not loyal to the company. They are not involved in the boards. In most cases the majority of the small shareholders do not exercise their right to vote on the Annual General Meeting (AGM), they are not represented by associations and institutional investors. They are interested completely in the short-term yield, and therefore they are not apt to capitalize the profit. They have obtained dividends only for one year. The substantial growth of the market value of the shares is in their favor. Their shares are protected by the Central Depository. They have an access to the information of the company, but a few of them are interested in the status and the development of the company. Here the small shareholders are the typical “stowaway” – they have neither opportunity, nor the motivation to be involved in the governance of the company and they consider, that the large shareholders should care.

The ratings of the contributions and the interests are presented in Tables 2-A and B. Their contributions are not large, but their interests are injured enormously (Table 2-B).

*Table 2*

### Balancing the interests of the small shareholders

#### A. Rating the contributions

No.	Types of contributions	Importance factor for the company	Rating of real contribution	Average weight		
				Max. contribution (col. 3 x col. 5)	Real contribution (col. 3x col. 4)	Difference (col. 5 - col. 6)
1	2	3	4	5	6	7
2.1	Capital (money)	0.85	4.50	4.25	3.83	0.43
2.2	Participation in the Board	0.40	0.00	2.00	0.00	2.00
2.3	Control on the management	0.80	3.00	4.00	2.40	1.60
2.4	Involvement in the decisions of AGM	0.80	3.50	4.00	2.80	1.20
2.5	Loyalty to the corporation	0.90	4.00	4.50	3.60	0.90
<i>Sum of average ratings of the contributions</i>				3.75	2.53	1.23

## B. Rating the interests

No.	Types of interests	Importance factor for SH	Rating of really satisfied interest	Average weight		
				Max. interest	Really satisfied interest	Difference (col. 5 - col. 6)
1	2	3	4	5	6	7
2.1	Reliable registration of the shares	0.85	4.50	4.25	3.83	0.43
2.2	Dividend from the profit	0.85	2.50	4.25	2.13	2.13
2.3	Increasing the value of the shares	0.80	4.50	4.00	3.60	0.40
2.4	Participation in the Board	0.50	0.00	2.50	0.00	2.50
2.5	Control on the management	0.65	0.00	3.25	0.00	3.25
2.6	Up-to-date and quality information	0.80	4.00	4.00	3.20	0.80
2.7	Free sale of the shares	0.80	4.50	4.00	3.60	0.40
2.8	Participation in a new issue	0.55	4.00	2.75	2.20	0.55
<i>Sum of the average ratings of the interests</i>				3.63	2.32	1.31

## C. Degree of overlapping contributions with interests

No.	Indicators	Average weight		
		Max. contribution Max. interest	Real contribution Really satisfied interest	Difference (col. 5 - col. 6)
1	2	5	6	7
1	Sum of average ratings of the contributions	3.75	2.53	1.23
2	Sum of average ratings of the interests	3.63	2.32	1.31
<i>Difference between contributions and interests (p.1-p.2)</i>		0.13	0.21	-0.08

## 2.3. Balancing the Interests of the Managers

The managers' group is a unique stakeholder – the bridge between the shareholders and the other SH, having a leading position in the governance of the company, being in the center of the system of contractual relations among all the parties and concluding contracts with them. This group plays a key role in investing and utilizing the corporate capital, in determining the profit and dividends, in balancing the interests of the stakeholders. Typical for them are the expectations for high yield, power, prestige and stability. The requirements for them are high professionalism and loyalty to the company.

In the monitored company the large shareholders are members of the Supervisory Board and have their representative at the Management Board. All members of CG have financial management qualifications and professional experience. They are loyal to the large shareholders. Their remuneration (salaries and bonuses) is comparatively high for the economic sector. The company managed by them expands rapidly, develops and prospers. The products are competitive both on the domestic and the international market. The market value of the shares of the company is increasing and they are quoted well on the Bulgarian Stock Exchange. The

company is quickly going out of the economic crisis, although being adversely affected due to the nature of the activities.

The ratings of the contributions and the interests are presented in - Tables 3-A and B. Their contributions are higher than the level of satisfaction of their interests (Table 3-B). This is quite common for a company with concentrated ownership - the majority owners have power and authority.

Table 3

Balancing the interests of the managers

A. Rating the contributions

No.	Types of contributions	Importance factor for the company	Rating of real contribution	Average weight		
				Max. contribution col. 3 x col. 5	Real contribution col. 3 x col. 4	Difference col. 5 - col. 6
1	2	3	4	5	6	7
3.1	Management knowledge, skills and experience	0.90	4.50	4.50	4.05	0.45
3.2	Time	0.85	4.40	4.25	3.74	0.51
3.3	Labor	0.82	4.50	4.10	3.69	0.41
3.4	Loyalty to the corporation	0.90	5.00	4.50	4.50	0.00
3.5	Entrepreneurship	0.85	4.80	4.25	4.08	0.17
3.6	Economy	0.85	4.70	4.25	4.00	0.26
3.7	Communicability	0.80	4.60	4.00	3.68	0.32
<i>Sum of the average ratings of the contributions</i>				4.26	3.96	0.30

B. Rating the interests

No.	Types of interests	Importance factor for SH	Rating of really satisfied interest	Average weight		
				Max. interest	Really satisfied interest	Difference (col 5-col. 6)
1	2	3	4	5	6	7
3.1	High salaries	0.90	4.50	4.50	4.05	0.45
3.2	Power	0.85	4.00	4.25	3.40	0.85
3.3	Prestige	0.80	4.50	4.00	3.60	0.40
3.4	Honest and equitable attitude	0.80	4.20	4.00	3.36	0.64
<i>Sum of the average ratings of the interests</i>				4.19	3.60	0.59

C. Degree of overlapping contributions with interests

No.	Indicators	Average weight		
		Max. contribution Max. interest	Real contribution Really satisfied interest	Difference (col. 5-col. 6)
1	2	5	6	7
1	Sum of average ratings of the contributions	4.26	3.96	0.30
2	Sum of average ratings of the interests	4.19	3.60	0.59
<i>Difference between contributions and interests (p.1-p.2)</i>		0.08	0.36	-0.28

## 2.4. Balancing the Interests of the Personnel

The shareholders invest financial capital, and the personnel invests human capital. Both of them are necessary and indispensable factors for the functioning and the developing of the company, for its effective activities. Now the specific knowledge and skills are vital for gaining corporate advantage,<sup>12</sup> the same refers to the personnel's loyalty to the company. The employees are aware of their importance and have the corresponding expectations – mainly for payment, according to the resources invested therein, as well as for safety at work, safe healthy working conditions and honest attitude, without discrimination. The personnel also needs conditions for further qualification. A motivating factor for the specialists is the promotion in the corporate hierarchy.

In this particular company the personnel has the required specific knowledge and skills. They spend the proper time and labor in production. Their remuneration is the average for this sector. There are neither laid off nor discharged workers. The technology itself suggests more unfavorable working conditions, and therefore some of them quit work. The attitude of the managers of all levels to the staff is honest and there is no discrimination. All the necessary conditions for promotion in the hierarchy are available.

The ratings of the contributions and the interests of the personnel are represented in Tables 4-A and B. The personnel's contributions are higher than the level of satisfaction of their interests (Table 4-B). It is the natural result mainly of the higher labor supply, than the labor demand on the labor market.

*Table 4*

### Balancing the interests of the personnel

#### A. Rating the contributions

No.	Types of contributions	Importance factor for the company	Rating of real contribution	Average weight		
				Max. contribution (col. 3 x col. 5)	Real contribution (col. 3 x col. 4)	Difference (col. 5 - col. 6)
1	2	3	4	5	6	7
4.1	Specific knowledge and skills	0.80	4.00	4.00	3.20	0.80
4.2	Time	0.90	4.50	4.50	4.05	0.45
4.3	Labor	0.95	4.50	4.75	4.28	0.48
4.4	Loyalty to the corporation	0.75	4.00	3.75	3.00	0.75
4.5	Loyalty to the profession	0.72	4.00	3.60	2.88	0.72
4.6	Teamwork	0.70	4.30	3.50	3.01	0.49
<i>Sum of average ratings of the contributions</i>				4.02	3.40	0.61

<sup>12</sup> *Drucker, P.* Management, Tasks, Responsibilities, Practices. Sofia, 2003.

### B. Rating the interests

No.	Types of interests	Importance factor for SH	Rating of really satisfied interest	Average weight		
				Max. interest	Really satisfied Interest	Difference (col. 5 - col. 6)
1	2	3	4	5	6	7
4.1	Equitable payment	0.85	4.00	4.25	3.40	0.85
4.2	Safety at work	0.80	4.20	4.00	3.36	0.64
4.3	Safety and health at work	0.75	4.00	3.75	3.00	0.75
4.4	Honest relation, without discrimination	0.75	4.30	3.75	3.23	0.53
4.5	Qualification opportunities	0.70	4.10	3.50	2.87	0.63
4.6	Promotion opportunities	0.65	4.00	3.25	2.60	0.65
<i>Sum of average Rating the interests</i>				3.75	3.08	0.67

### C. Degree of overlapping contributions with interests

No.	Indicators	Average weight		
		Max. contribution Max. interest	Real contribution Really satisfied interest	Difference (col. 5- col. 6)
1	2	5	6	7
1	Sum of average ratings of the contributions	4.02	3.40	0.61
2	Sum of average Rating the interests	3.75	3.08	0.67
<i>Difference between contributions and interests (p.1-p.2)</i>		0.27	0.33	-0.06

### 2.5. Balancing the Interests of the Suppliers

The suppliers are at the inlet point of the company and without the inputs, delivered by them, the functioning and development of the company are impossible. Of course there are certain requirements to the quality and the price of the resources and the in-time deliveries. The correctness of the company is vital for the supplier, as their existence and development often depends on the "sustainability of the business". The correct business relations must be mutual. The supplier expects a fair market value and in-time payments for the supplied resources, as well as stable long-term delivery contracts, in order to draw up properly his development policies and strategies.

The investigated company does not have any problems with the quality, price and timely deliveries of inputs and materials. The suppliers dispose of long-term contracts, but they have considerable receivables due to deferred payments.

The ratings of the contributions and the interests of the suppliers are listed in Tables 5-A and B. The contributions of the suppliers for the development of the company are bigger than the level of satisfaction of their interests (Table 5-B). The main reason thereto is the mutual indebtedness of the Bulgarian companies under the current conditions.

Table 5

## Balancing the interests of the suppliers

## A. Rating the contributions

No.	Types of contributions	Importance factor for the company	Rating of real contribution	Average weight		
				Max. contribution (col. 3 x col. 5)	Real contribution (col. 3 x col. 4)	Difference (col. 5 - col. 6)
1	2	3	4	5	6	7
5.1	Providing the required resources	0.80	4.50	4.00	3.60	0.40
5.2	Competitive quality and prices	0.90	4.60	4.50	4.14	0.36
5.3	In-time deliveries	0.85	4.30	4.25	3.66	0.60
5.4	Correct business relations	0.82	4.00	4.10	3.28	0.82
<i>Sum of average ratings of the contributions</i>				4.21	3.67	0.54

## B. Rating the interests

No.	Types of interests	Importance factor for SH	Rating of really satisfied interest	Average weight		
				Max. interest	Really satisfied interest	Difference (col. 5 - col. 6)
1	2	3	4	5	6	7
5.1	Fair market value of resources	0.90	4.50	4.50	4.05	0.45
5.2	Stability of the long-term contracts	0.80	4.50	4.00	3.60	0.40
5.3	In-time payments of the deliveries	0.85	3.50	4.25	2.98	1.28
5.4	Honest business relations	0.82	3.50	4.10	2.87	1.23
<i>Sum of average ratings of the interests</i>				4.21	3.37	0.84

## C. Degree of overlapping contributions with interests

No.	Indicators	Average weight		
		Max. contribution Max. interest	Real contribution Really satisfied interest	Difference (col. 5 - col. 6)
1	2	5	6	7
1	Sum of average ratings of the contributions	4.21	3.67	0.54
2	Sum of average Rating the interests	4.21	3.37	0.84
<i>Difference between contributions and interests (p.1-p.2)</i>		0.00	0.30	-0.30

## 2.6. Balancing the Interests of the Clients

The clients are at the outlet point of the company and without the revenues, provided by them, the company is unable to survive and develop. Therefore Peter Drucker points out, that the target of the businesses is always the same: "to create



consumers”.<sup>13</sup> Their loyalty to the corporate brand is of paramount importance for the successful activity of the company. However, to keep them, the business should always aim at the ever-rising expectations of the clients for competitive quality, price and safety of the products, services, fair advertizing, civilized services and relations, secure warranty and after-sales services. In this particular company the quality of the products is below the average world level, but due to the very low price, there is a demand for the products. Warranty and after-sales service are available.

The ratings of the contributions and the interests of the clients are shown in Tables 6-A and B). Their interests are quite well satisfied (Table 6-B).

Table 6

Balancing the interests of the clients

A. Rating the contributions

No.	Types of contributions	Importance factor for the company	Rating of real contribution	Average weight		
				Max. contribution (col. 3 x col. 5)	Real contribution (col. 3 x col. 4)	Difference (col. 5 - col. 6)
1	2	3	4	5	6	7
6.1	Revenues for the corporation	0.95	4.50	4.75	4.28	0.48
6.2	Loyalty to the corporate brand	0.75	4.00	3.75	3.00	0.75
6.3	Honest business relations	0.82	4.30	4.10	3.53	0.57
<i>Sum of the average ratings of the contributions</i>				4.20	3.60	0.60

B. Rating the interests

No.	Types of interests	Importance factor for SH	Rating of really satisfied interest	Average weight		
				Max. interest	Really satisfied interest	Difference (col. 5 - col. 6)
1	2	3	4	5	6	7
6.1	Competitive quality	0.80	4.20	4.00	3.36	0.64
6.2	Fair market value	0.90	4.50	4.50	4.05	0.45
6.3	Safe products and services	0.80	4.00	4.00	3.20	0.80
6.4	Civilized services	0.85	4.30	4.25	3.66	0.60
6.5	Fair, not misleading advertizing	0.78	4.00	3.90	3.12	0.78
6.6	Secure warranty and service	0.85	4.40	4.25	3.74	0.51
<i>Sum of the average ratings of the interests</i>				4.15	3.52	0.63

<sup>13</sup> Drucker, P. Post-capitalist society. Sofia: Lik, 2000.

## C. Degree of overlapping contributions with interests

No.	Indicators	Average weight		
		Max. contribution Max.interest	Real contribution Really satisfied interest	Difference (col. 5 - col. 6)
1	2	5	6	7
1	Sum of the average ratings of the contributions	4.20	3.60	0.60
2	Sum of the average ratings of the interests	4.15	3.52	0.63
<i>Difference between contributions and interests (p.1-p.2)</i>		<i>0.05</i>	<i>0.08</i>	<i>-0.03</i>

## 2.7. Balancing the Interests of the Creditors

The sustainable economic development of each company depends on the optimum ratio between equity and loan capital. But in order to achieve it, both owners' equity and borrowed funds are required. Therefore the corresponding bank must be sure, that the company will be in a position to pay back the credit. The correct business relations are extremely important for both parties. The tested company has a good image for the banks. It has considerable loans. Its liabilities are regularly covered.

The ratings of the contributions and the interests of the creditors are on (Table 7-A and B). In this case their interests are completely satisfied (Table 7-B).

Table 7

## Balancing the interests of the creditors

## A. Rating the contributions

No.	Types of contributions	Importance factor for the company	Rating of real contribution	Average weight		
				Max. contribution (col. 3 x col. 5)	Real contribution (col. 3 x col. 4)	Difference (col. 5 - col. 6)
1	2	3	4	5	6	7
7.1	Credit funds	0.90	5.00	4.50	4.50	0.00
7.2	Honest business relations	0.85	5.00	4.25	4.25	0.00
<i>Sum of the average ratings of the contributions</i>				<i>4.38</i>	<i>4.38</i>	<i>0.00</i>

B. Rating the interests

No.	Types of interests	Importance ratio for SH	Rating of the really satisfied interest	Average weight		
				Max. interest	Really satisfied interest	Difference (col. 5 - col. 6)
1	2	3	4	5	6	7
7.1	Regular servicing the credit	0.90	5.00	4.50	4.50	0.00
7.2	Honest business relations	0.85	5.00	4.25	4.25	0.00
<i>Sum of the average ratings of the interests</i>				4.38	4.38	0.00

C. Degree of overlapping contributions with interests

No.	Indicators	Average weight		
		Max. contribution Max. interest	Real contribution Really satisfied interest	Difference (col. 5 - col. 6)
1	2	5	6	7
1	Sum of the average ratings of the contributions	4.38	4.38	0.00
2	Sum of the average ratings of the interests	4.38	4.38	0.00
<i>Difference between contributions and interests (p.1-p.2)</i>		0.00	0.00	0.00

2.8. Balancing the Interests of the Central and Local Government Authorities (the Community)

The central and local government authorities represent the society in the interrelations with the businesses. They establish the legal framework, ensuring the favorable business environment. They are obliged to provide for developed infrastructure, educated and qualified human resources, as well as to meet the requirements for industrial and commercial areas. They also have expectations. They are keenly interested in the long-term economic viability of the companies, as *“the social and economic health of the society”* depends very much on this factor. They monitor the companies to comply with the *“rules of the game”* established by them. Therefore the central and local government authorities insist on having information on the status and the development of the public joint-stock companies.

The ratings of the contributions and the interests of the central and local government authorities are displayed in Tables 8–A and B. The interests are

much more than the contributions (Table 8-B). This is logically due to the abdication of the authorities from some of their functions in view of the businesses.

Table 8

## Balancing the interests of the central and local government authorities

## A. Rating the contributions

No.	Types of contributions	Importance factor for the company	Rating of real contribution	Average weight		
				Max. contribution (col. 3 x col. 5)	Real contribution (col.3 x col.4)	Difference (col. 5 - col. 6)
1	2	3	4	5	6	7
8.1	Favorable business environment	0.95	4.20	4.75	3.99	0.76
8.2	Developed infrastructure	0.90	4.00	4.50	3.60	0.90
8.3	Educated and qualified staff	0.80	3.50	4.00	2.80	1.20
8.4	Industrial and trade areas	0.70	4.10	3.50	2.87	0.63
<i>Sum of average ratings of the contributions</i>				4.19	3.32	0.87

## B. Rating the interests

No.	Types of interests	Importance factor for SH	Rating of really satisfied interest	Average weight		
				Max. interest	Really satisfied interest	Difference (col. 5 - col. 6)
1	2	3	4	5	6	7
8.1	Economic viability of the company	0.90	4.50	4.50	4.05	0.45
8.2	Taxes and fees	0.85	5.00	4.25	4.25	0.00
8.3	Secure incomes of the employees	0.80	4.40	4.00	3.52	0.48
8.4	Creation of new jobs	0.80	4.30	4.00	3.44	0.56
8.5	Safety and health at work	0.80	4.00	4.00	3.20	0.80
8.6	Environment protection	0.85	4.10	4.25	3.49	0.77
8.7	Up-to-date information on the status of the corporation	0.80	4.50	4.00	3.60	0.40
<i>Sum of average rating the interests</i>				4.14	3.65	0.49

C. Degree of overlapping contributions with interests

No.	Indicators	Average weight		
		Max. contribution Max. interest	Real contribution Really satisfied interest	Difference (col. 5 - col. 6)
1	2	5	6	7
1	Sum of average ratings of the contributions	4.19	3.32	0.87
2	Sum of average Rating the interests	4.14	3.65	0.49
<i>Difference between contributions and interests (p. 1-p.2)</i>		0.04	-0.33	0.38

2.9. Balance in General for the Stakeholders

This balance reflects the sums of the average ratings of the contributions and the interests, divided to 8 respectively (Table 9). Obviously in general for the company the contributions and the interests are in equilibrium.

Table 9

Balance of the stakeholders in general

N o.	Indicators	Average weight		
		Max. contribution Max. interest	Real contribution Really satisfied Interest	Difference (col. 5 - col. 6)
1	2	5	6	7
1	Sum of average ratings of the contributions (from 1B to 8B : 8)	4.14	3.59	0.55
2	Sum of average ratings of the interests (from 1B to 8B : 8)	4.09	3.50	0.59
<i>Difference between contributions and interests (row 1- row.2)</i>		0.05	0.09	-0.04

*The main conclusions and recommendations*, derived from the proposed methodological approach, are:

- In the balance in general for the company a comparatively good equilibrium is observed among contributions and interests, but the sum total of the average rating consists of considerable tolerances plus/minus the sums for the particular SH groups.
- The highly concentrated property has granted the large shareholders a total control on the company governance and they have subordinated its development to their own targets and interests.

- CG has not adopted with full conviction the concept on the “*benefit of the stakeholders*”, has not elaborated any policies to this end and has mastered the techniques for balancing the interests of such persons, and therefore they aim mainly at the “*benefit of the large shareholders*”.

- A considerable difference was allowed between the real contributions and the really satisfied interests, as well as between the maximum and the really satisfied interests of most of the groups of stakeholders, i.e there is a *large sphere of potential contradictions and a lot of points of unsolved disagreements of conflicts of interests*.

- There is an enormous difference between the maximum and the real contributions at almost all groups of stakeholders, i.e. each of them has unused potential resources.

Obviously CG should accept convincingly the concept on the “*benefit of the stakeholders*” and should elaborate policies, should master and apply efficiently the techniques of balancing the interests, revealing the potential contradictions and overcoming the conflicts of interests, as well as for effective use of the resource potential.

These conclusions and recommendations for the studied company overlap to a great extent with the ones, ensuing from the analysis of the balance of the stakeholders of the investigated 42 joint-stock companies. Undoubtedly they refer more or less to the other public joint-stock companies as well.

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