

**КОНЦЕНТРАЦИЯ СОБСТВЕННОСТИ: ИНСАЙДЕРЫ
И АУТСАЙДЕРЫ В БОЛГАРСКОЙ КОРПОРАТИВНОЙ
МОДЕЛИ (РЕЗУЛЬТАТЫ РЕПРЕЗЕНТАТИВНОГО
АНКЕТНОГО МЕТОДА ОБСЛЕДОВАНИЯ)**

**OWNERSHIP CONCENTRATION: INSIDERS AND OUTSIDERS
IN THE BULGARIAN CORPORATE MODEL
(RESULTS FROM REPRESENTATIVE
QUESTIONNAIRE SURVEY)**

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The legal-normative frame of the Bulgarian corporate sector is complete and well-structured. It is harmonized with the requirements concerning the membership of Bulgaria in the European Union. It ranges about 30 acts and over 15 executive acts, each of them amended many times. An active debate concerning further specification of the normative acts is running. In many ways it is similar to the problems, discussed in the international literature [1, p. 60–78]. It concerns mainly the revealing of information, deals with certain parameters, minority shareholders' rights, independent directors, etc. The debate reveals the duality of the Bulgarian corporate model — transposing regulations, characteristic of the Anglo-Saxon system and concentrated ownership. The case of «maintaining the public status» or «striking off» the companies is a specific one.

A non-repeated standard selection of the general combination of public companies in Bulgaria for 2000 (458 public joint stock companies (JSC) and 728 joint stock companies, which have stroked off the public register in the period 2000–2005) forms an 8 % sample (90 companies — 40 public joint stock companies and other 50 joint stock companies, which have stroked off the public register).¹ The information is gathered through personal interviews in April — May 2006. The questionnaire consists of 232 variables, grouped in 4 sections, directed towards ownership and governance, main stakeholders, legal-normative and investment environment, etc.

The companies from the sample of the conducted representative questionnaire survey reveal the contemporary scales of the Bulgarian economy. A larger part of them are more similar to the characteristics of the so-called small and medium-sized enterprises. The synonymous recommendations for their striking off the public register are in this connection. The companies from the processing industry, as well as the service sector, prevail. More than 60 % of them mark a growth — of their turnover and respectively the sales incomes.

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The current paper presents the concrete results of the empiric study regarding ownership concentration and structure, which is considered an internal factor of the corporate governance. The percentage of the biggest three shareholders is used as an assessment of the ownership concentration in the companies from the sample.

Ownership concentration in public companies

The literature on the corporate governance in Bulgaria imposes the general conclusion that «in Bulgaria there is a strong ownership concentration, which is among the strongest premises for corporate control, realized directly by the leading owners...» (2, p. 7)

The results of the questionnaire survey show a high degree of ownership concentration (table 1). In more than 68 % of the cases the biggest shareholder owns more than 40 % of the capital and in almost half of the joint stock companies — more than 60 %. The role of the second and third biggest shareholder should not be underestimated. In more than 40 % of the interviewed firms the second biggest shareholder holds up to 20 % of the capital of the companies, and in 17,8 % — between 20 and 40 %. In about 38 % of the cases the third biggest shareholder owns up to 20 % of the shares. Obviously, the data confirm that the process of ownership concentration generally is not completed. Therefore, a forming of a relatively «transparent» system of corporate control with dominating shareholding main bodies should be expected. In this connection the general question is to what extent the concentrated ownership exceeds the effectiveness of the firms and the corporate governance. Exactly the concentrated ownership in its different versions is a main economic mechanism for corporate control in the conditions of uncertain «transition» business environment in the Balkan area. The Bulgarian corporate sector shows features, characteristic of the continental model. Therefore, it can be expected that the «*Comply or explain*»² approach will be approved by most of the corporate agents in the country (3, p. 10–18).

Table 1

Percentage of shares, owned by the biggest shareholders in the interviewed enterprises

B13. Approximately what percentage of the shares in your company belongs to the first/second/third/biggest shareholder (physical entity/juridical entity)?	First biggest shareholder		Second biggest shareholder		Third biggest shareholder	
	number	%	number	%	number	%
Less than 20 %	2	2,2	37	41,1	34	37,8
More than 20–40 %	14	15,6	16	17,8	2	2,2
More than 40–60 %	19	21,1	2	2,2	–	–
More than 60–80 %	19	21,1	–	–	–	–
More than 80–100 %	24	26,7	–	–	–	–
Replied	78	86,7	55	61,1	36	40,0
Not replied	12	13,3	35	38,9	54	60,0
Total:	90	100,0	90	100,0	90	100,0

On the other hand, the concentration level, considered as percentage of the biggest shareholder, does not depend on whether the enterprises have a status of a public company or they are «closed» joint stock companies (table 2). The distribution by ownership of the first biggest shareholder is considerably even between the public joint stock companies and

² The principle “comply or explain” is adopted by the European Commission from the UK Combined Code. The corporate governances are obliged to explain to the shareholders and other interested parties the reasons for non-compliance with the recommended in general norms, set in the Codes for good corporate governance of the respective country. In Bulgaria such code is adopted at the end of 2007. The developed by the Bulgarian Stock Exchange code was active until then.

other joint stock companies. However, the cases when the first shareholder owns less than 33 % of the ownership are an exception in the public (open) joint stock companies.

Table 2

Distribution of the first biggest shareholders by juridical status of the enterprises in the sample

	JSC with status of public company (number)	JSC (number)	Total (number)
Percentage of the first biggest shareholder			
Less than 33 %	3	8	11
33–67 %	15	9	24
More than 67 %	19	21	40
Total (number)	37	38	75
Percentage of the second biggest shareholder			
Less than 33 %	22	23	45
More than 33 %	6	3	9
Total (number)	28	26	54
Percentage of the third biggest shareholder			
Less than 10 %	15	12	27
Less than 20 %	4	4	8
More than 20 %	–	2	2
Total (number)	19	18	37

The position of the second and third biggest shareholder is also not directly dependent on whether the companies are public or not. It is interesting also that the number of companies with «visible» second and third biggest shareholders decreases — the trend is compliant with the ownership concentration in the defined above as «uncertain» business environment.

The situation is different when we trace the distribution of the percentages of the first three shareholders depending on whether the interviewed companies belong to a holding structure (table 3). It is noticeable that in the so-called «independent» enterprises the percentage of the leading (biggest) shareholder outlines more clearly. The same is valid for the position of the second biggest shareholder in them. Such trend is observed (though in more limited number of cases) also for the third biggest shareholder. With certain «convention» we can conclude that the ownership structure in the enterprises from holdings will further develop (especially if taking into consideration the percentage of firms where the first shareholder has ownership less than 33 %).

Table 3

Distribution of the first shareholders by enterprises' affiliation to holding structures

	«Independent» enterprise (number)	Enterprise from a holding (number)	Total (number)
Percentage of the first biggest shareholder			
Less than 33 %	4	7	11
33–67 %	18	8	26
More than 67 %	24	18	42
Total (number)	46	33	79
Percentage of the second biggest shareholder			
Less than 33 %	23	24	47
More than 33 %	8	2	10
Total (number)	31	26	57

	«Independent» enterprise (number)	Enterprise from a holding (number)	Total (number)
Percentage of the third biggest shareholder			
Less than 10 %	13	14	27
Less than 20 %	4	4	8
More than 20 %	3	1	4
Total (number)	20	19	39

To a certain extent this confirms the statements in many studies (4) — the degree of concentration in the so-called «independent» (not belonging to a holding) enterprises, as well as in the companies from holdings, is higher than the ownership distribution in the holding structures.

The ownership concentration is higher in the companies with personnel more than 1000 people (table 4). It is almost the same in the companies with not more than 100 people employed. The percentage of the first biggest shareholder (more than 67 % ownership) is less than ½ in the enterprises with personnel between 101–200 people, 201–500 people, etc. In the first, in 53,85 % of the cases the biggest shareholder owns capital of 33–67 %. In the second, the first leading shareholder owns the same percentages in more than 40 % of the interviewed companies, and in another more than 10 % he owns less than 33 % of the capital.

Table 4

**Percentage of the first biggest shareholder depending on the size of the companies
(number of employed)**

Number of employed	Percentage of the first biggest shareholder, %			Total
	Less than 33 %	33–67 %	67–100 %	
Less than 100 people	10,00	30,00	60,00	100
101–200 people		53,85	46,15	100
201–500 people	11,76	41,18	47,06	100
501–1000 people	28,57	28,57	42,86	100
More than 1000 people		25,00	75,00	100
Total:	9,84	37,70	52,46	100

If we consider the dependency of ownership concentration — size by balance value of the assets, we determine the highest percentage of the first shareholder in the companies with more than 30 million BGN assets. In the other cases — balance value less than 30 million BGN, the first shareholder is most often positioned in the second range — 33–67 %. However, we should have in mind that enterprise with balance value more than 30 million BGN are not more than 10 % of the sample.

Table 5

Necessity of ownership concentration in the companies from the sample

B14. In your opinion, is further ownership concentration necessary?	Number	%
It is inexpedient, further ownership concentration is not needed	49	54,4
Yes, it is expedient to increase the concentration level	18	20,0
Yes, the concentration level should increase substantially	5	5,6
It is difficult for me to reply	14	15,6
Not replied	4	4,4
Total:	90	100,0

The declared necessity of further ownership concentration should be interpreted in the same way (see table 5). More than half of the interviewed outline that it is not necessary. Still, about 20 % of the respondents state that there is a «moderate» necessity of ownership

concentration. Only in about 6 % of the cases (i.e. 5 companies) there is a definite reply that an increase of the ownership concentration is needed.

Main stakeholders

The ownership structure in the interviewed companies is characterized by a serious presence of the so-called insiders — mainly managers, and significantly less — personnel.

Despite the high percentage of not replied, the presence of the management in the ownership of the studied companies is impressive. In more than ½ of the cases they hold more than half of the capital. On the other hand, in another 17,8 % of the cases the presence of the management is also not to be underestimated – they own between 30 and 50 % of the ownership.

The presence of the management is especially visible where the ownership concentration is high (more than 67 % for the first biggest shareholder). In 15 of the studied companies with such ownership concentration the management holds more than 70 % of the capital. This in practice covers the percentage of the biggest shareholder. Thus, the conclusion of coincidence of management and ownership in about 1/3 of the companies, for which we have information, outlines.

The personnel representatives are also among the owners, but mainly as minority shareholders. In about 74,5 % of the cases, for which we have information, they have less than 10 % of the shares. In another 20 % of the interviewed companies, however, they own between 10 and 30 % of the capital, and only in 2 companies – between 30 and 50 %.

Table 6

Percentage of the so-called insiders in the ownership of the interviewed companies

Share – insiders	Managers		Workers	
	Number	% in all replied	Number	% in all replied
Less than 10 %	7	15,6	35	74,5
10–30 %	5	11,1	9	19,1
31–50 %	8	17,8	2	4,3
51–70 %	5	11,1	–	–
71–90 %	6	13,3	–	–
91–100 %	14	31,1	1	2,1
Replied	45	100,0	47	100,0
Not replied	45		43	
Total:	90		90	

The workers own up to 10 % in 18 of the studied companies. There the biggest shareholder has more than 67 % of the ownership. So, the higher the ownership concentration, the more limited the workers' and any other participation in it is. In this sense, the personnel participation is obviously not considered an incentive for achieving higher productivity, competitiveness, etc.

Table 7

Share of the so-called outsiders in the ownership of the interviewed companies

Share-outsiders	State (national, regional and local authorities), state enterprises, holdings		Individuals, not working in the enterprises at the moment		Bulgarian private enterprises, holdings		Other (investment companies, pension funds, etc.)		Foreign investors (physical entities/juridical entities)	
	number	% in all replied	number	% in all replied	number	% in all replied	number	% in all replied	number	% in all replied
Less than 10 %	6	40,0	24	48,0	6	14,3	11	78,6	5	27,8
10–30 %	1	6,7	16	32,0	4	9,5	2	14,3	3	16,7
31–50 %	2	13,3	6	12,0	7	16,7	–	–	2	11,1
51–70 %	–	–	4	8,0	8	19,0	–	–	2	11,1
71–90 %	2	13,3	–	–	9	21,4	–	–	2	11,1
91–100 %	4	26,7	–	–	8	19,0	1	7,1	4	22,2
Replied	15	100,0	50	100,0	42	100,0	14	100,0	18	100,0
Not replied	75		40		48		76		72	
Total:	90		90		90		90		90	

Having in mind the limited number of cases we comment (table 6), the conclusions here are rather indicative, orienting, concerning imposed trends in the corporate sector in the country.

Concerning the presence of the so-called outsiders in the ownership (see table 7) — individuals, not working in the relative enterprise at the moment, Bulgarian juridical entities, foreign investors, state and institutional investors, we can state the following:

1. Individuals, not engaged at the moment with the interviewed companies, in most cases are minority shareholders. Almost half of the respondents to this question — namely in 48 % of the cases, do not possess more than 10 % of the capital. On the other hand, in about 1/3 of the cases Bulgarian citizens are in the range of 10–30 % of the capital. However, in the other about 20 % of the companies, for which we have information, they control more than 30 % of the ownership.

2. The situation is more different for the local juridical entities — there in more than 57 % of the cases they own more than 50 % of the ownership, and in about 1/3 of the interviewed enterprises their percentage exceeds 70 %.

3. Concerning the presence of institutional or foreign investors — obviously in the segment «corporate sector» it is still quite limited. Concerning the institutional investors — this is due to regulation and normative restraints. Though quite modest, the foreign participation is also oriented towards higher ownership concentration. In more than 40 % of the respondents, where foreign participation is fixed, they control more than 50 % of ownership. Moreover, in 1/3 of the cases the foreign investors own more than 70 % of the capital.

4. Though single (the participation of the discussed above institutional investors is similar), there are cases of participation of the state in the ownership of the interviewed companies.

Conclusions

The trend towards reducing the percentage of personnel in the ownership of the companies is obvious. Undoubtedly, the restructuring (most often passive) and modernization of the companies goes through establishing a direct ownership control and coincidence of management and ownership. The ownership concentration in local juridical entities and the management outlines.

The minority state packages satisfy the restitution claims, especially in the cases when the enterprises are created before the nationalization in December 1947. All this confirms the thesis that the presence of the state in the corporate sector is not of decisive significance. If the managers and the large shareholders are potentially «active» group of shareholders, the state (state representatives) and personnel are considered «passive» ones.

The combination of high ownership concentration and noticeable shareholding participation of the management confirms, though indirectly, that the ownership concentrates in the hands of the so-called insiders. As a rule, the leading managers are the biggest shareholder, which determines the «design» of the corporate model in the country. In this sense, one of the main characteristics of the corporate sector in Bulgaria is really the coincidence of management and ownership. That is why the standard in the corporate governance theory «principal-agent problems» (5, p. 291–325; 6, p. 327–340) are modified under the «transition» Bulgarian conditions.

As a whole, when analyzing the foreign presence in the corporate sector, we face the question of identifying the origin of the investments. In many cases it is a participation of exported capitals. In this sense the role of the foreign shareholders in the sector remains difficult to capture.

The factors determining the ownership concentration and the role of the insiders in the Bulgarian corporate model are historically predetermined by the specific of the transition. The privatization procedures, where two consecutive Bulgarian administrations are seeking for a certain coalition with the workers — through voucher or management by out privatizations, together with the existing informal networks, act towards establishing an insiders' corporate model with limited participation of the so called «stakeholders non-shareholders».

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