

Employee Ownership in Bulgaria

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56% of the national capital in Bulgaria has been privatized with management/employee participation. In the period between 1994 to 2001, more than 1400 MEBO deals have been completed with the participation of Employee Associations /EA/. The preferences enjoyed by EA for these deals were as follows:

- Payment of only 10% of the agreed price at signing the privatization contract;
- And the remaining price to be paid in installments / increased by half of the average annual bank rate of interest/ for a period of up to 10 years.

Compared to the standards of transferring the ownership to the employees defined by the many years of experience in other countries, though, in many of the cases, we failed to initialize or to keep running a genuine MEBO. We did achieve preferences for the Employees' Association /EA/, it is true, but we didn't succeed in passing a full-bodied privatization law as to the requirements towards the EA which would have guaranteed a genuine MEBO. On the one hand, this opened the door wider for the privatization in the country but, on the other, it created opportunities for false MEBO's – mostly management buy-outs or buy outs in combination with foreign partners who pretended to join the MEBO idea just to be able to enjoy its preferences – the specific State credit under the form of 10% payment now and 10-year installments. The Bulgarian ESOP story goes like that:

In the early nineties, inspired by the changes in the former communist countries, Robert Oakeshott of Job Ownership, London, undertook the importing of the ESOP idea as part of the most advanced practices concerning the new distribution of capital and new industrial relations of the West. The expectation was that, given the huge amount of assets changing hands - from 100% State property to private ownership, there would be a natural space and need for the participation of the employees in that, unprecedented for human history scale of privatization process. But this flow of one of the most advanced ideas of the West towards the East, initiated by Robert Oakeshott, could hardly resemble the phenomenon in physics of the so called “linked vessels”. In an emerging market economy, the need for culture of industrial relations can hardly be comprehended as an

immediate necessity. In a chaotic and poor society, the need for survival, sometimes at all costs, prevails over any long-term strategies. “The fittest survive” – but, certainly, the managers were stronger than the employees, and most of them are not, currently seeing their employees as eventual partners. The result: Among all MEBO deals, only but a few are genuine MEBOs. Many managers have not yet been able to see the advantages of a MEBO, because they would only be displayed in the long run: with the new motivation of the employees - shareholders, the company is likely to become more competitive, due to the improved team work in the creative spirit of mutual trust, involvement and participation. Ironically, the managers still do not appreciate the fact that it is better to have a smaller piece of a bigger pie, than a large piece from a tiny one. So, many took advantage of what was obvious and immediate – the deficiencies in the Privatization law, and the beauty of the preferences 10% now, the remaining to be paid off in 10 years with $\frac{1}{2}$ of the annual bank rate of interest, secured for them the opportunity to take the bigger part of the pie. Thus, the greater part of those seeming MEBO's are, actually masked MBOs.

What should be done? Until the much slower process of shaping up of modern industrial relations catches up with the faster privatization process, the few genuine MEBOs should be singled out and supported to survive for better times. A new idea is like a seed. It can't be totally lost. It will grow, anyway, but it takes time to bear fruit. This is what we learned for ESOP in Bulgaria, because both our teachers and us, initially thought it to be easier. Our care should be that, at least the soil, on which it falls, be not rocks or desert sands. The criteria after which these companies should be identified are:

1. There should be business in the business, i.e. the company has to be viable and has to have at least potential future;
2. There should exist a MEBO type of distribution of ownership;
3. A reasonable management with a long-term vision of the future of the company built as a result of teamwork of partners.

It has to be noted that, what both genuine MEBOs and MBOs have in common is the chronic lack of turnover and investment capital, and shortage of management skills and culture concerning the proper role of the Chief manager. The typical management style is

of the type “one man-one show” where the Top manager has made himself irreplaceable by taking on all the responsibilities and himself making all the choices, up to the minutest detail.

What I am trying to reveal is the crucial need, in those selected true MEBOs, of technical assistance in the form of company by company projects, business planning and financing on the basis of the business planning.

And here is where the international society of Employee – shareholders can step in. I think, it is within the scope of capacity of the EFES network to attentively appreciate the quality of, say, ten to twenty such MEBO’s, and then approach some interested financial institutions to, effectively, make the link between a business and an investor.

As in the most of the rest of post-communist countries of Central and Eastern Europe, in Bulgaria, too, the pendulum took to the opposite direction. In the last amendments of the Privatization law, there are no preferences for the employees’ participation in the privatization. At the same time the companies, privatized with employee participation are, as a minimum, just as successful as those privatized by cash privatization. In both of the one and the other case, approximately half are meeting their obligations as to investment and creating new jobs.

So, now is time coming, when it is important to show the specific power of opportunities born by the now existing MEBO companies. Which would act as a leading example in the society. The development of the employees’ participation in the ownership should also become one of the criteria for Bulgaria joining the EU.

My suggestion is that, taking practical steps towards financial and technical support for the struggling employee-owners and their businesses in our countries, should be entered into the program of the International employee-owners society as a crucial strategy for facilitating the, otherwise inevitable movement of ideas, and ESOP idea in particular, from West to East.

Robert Oakeshott started something valuable ten years ago. EFES network should capitalize on what has been achieved so far, for the companies, enjoying its help, will be the very ones to be considered “the group of pilot companies” for the others to follow.

The Role of Post-privatization Control in the Process of
Privatizing and Analysis of the MEBO Deals

1. Post-privatization control

The process of privatization in Bulgaria started in the beginning of 1993. The objective was that, through this process, a new organizational and economic environment was created on the basis of private ownership, free competition and invasion and integration with the international markets.

The role of the post-privatization control can, most generally, be outlined as an opportunity to further trace the restructuring of the already privatized companies, which in its turn is expressed in the following:

- Improving the viability of the privatized companies;
- Optimizing the production cycle;
- Introducing new technological capacities;
- Re-qualifying of employees and optimizing the personnel;
- Reaching to European standards of the quality of production etc.

Implementing the post-privatization control includes a precise control over the covering of engagements, taken on by the Buyers on the completed deals, related to:

- Pay off of the agreed price at the privatization deal, mainly concerning the installments which the MEBO buyers had to pay within a certain period of time;
- Settling or doing of valid payments to Creditors of the privatized company;
- Fulfillment of the Investment programmes;
- Keeping the engagement of ensuring a definite average list of personnel numbers, in accordance with a Programme of Job security, in the privatized company
- keeping the subject of activity of the privatized companies;
- the Buyers should be keeping the obligation not to transfer the ownership on the shares /stakes/ acquired as to the power of the privatization contract, as well as not to diminish the percentage of participation taken on in the privatized companies;
- the Buyers should be keeping the obligation not to dispose of the fixed assets – property of the privatized companies /or autonomous parts of it/;
- keeping the environmental provisions in the contracts.

Alongside with control of documents as to these engagements, inspections are being made on the site of the privatized companies to fix their actual situation.

2. Deals with MEBO buyers

For the period of 1993 to the end of 2001 the completed deals with MEBO buyers by all the institutions, dealing with privatization procedures, are 1 440 deals. For the same period, the deals signed solely by the Privatization agency are 227, those with the majority stakes having the better part – 143 deals. A sale of 66 minority stakes has been realized, while 18 are the deals for autonomous parts.

In a general aspect, it can be stated that, on the one hand, the privatization with the participation of management and employee associations has turned out to be not the most successful way of changing the ownership of the companies, the reasons for which can be summarized in the following way:

- Difficulties in securing the financial resources, needed to pay off the price of the privatization deal;
- Difficulties in realization of the necessary volume of investment, ensuring the companies' viability;
- Lack of experience for optimizing the activity of the privatized companies and for improving their financial figures;
- Lack of experience for efficient management of a private company, which to survive and develop in the circumstances of a competitive environment.

On the other hand, in some of the cases, the MEBO privatization had been the only choice, because of the fact that there hadn't been any investment interest registered by another buyer. To that moment, the companies had already become unattractive and in worsened financial and economic condition. Through the risk, taken on selling these companies to MEBO buyers, the eventual procedure of bankruptcy and liquidation had been avoided.

As to the project of funding these companies, I consider that, in the event of developing a system of objective criteria, with the help of which to do a selection of these MEBO buyers, and working out of a long-term business strategy, these would lead to a positive effect – for the privatized company, on one hand, and for the corresponding field of the country's economy, on the other.