Czech Privatization: from Public Ownership to Public Ownership in Five Years?

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1. THE ECONOMIC REFORM

The Czech (or Czechoslovak) economic reform may be assumed as a representative case of what is conventionally called the “shock therapy”. It consisted of three crucial elements: macroeconomic stabilization, market liberalization, and privatization. The sequencing of these elements was the same as indicated here. The generalized model of this strategy and its logic labelled as “The Sachs Model” was recently comprehensively described and critically analyzed by Chlumsky (1994).

The starting point of the reform, the stabilization policy based on a targetted decrease of the domestic aggregate demand, consisted of restrictive or quasi-restrictive “tight” monetary and fiscal policies of high nominal interest rates, low real public expenditures, high level of taxation, budgetary surplus, and low and stable exchange rate of the national currency. Its nominal stabilization on a level far below the purchasing power parity for long time served (besides of its pro-export and anti-import effects) as the monetarist's “nominal anchor”, i. e. a standard for all absolute and relative prices (including wages, rents, etc.) within the economy.

After the stabilization policy measures of 1990, the January 1991 liberalization followed (for the analytical description of the macroeconomic policies of 1991 and the resulting slumpflation see Mertlik, 1993a, 1993b). The privatization process (as the most important part of the institutional change) started in the autumn of 1990 but in larger extent also only in the beginning of 1991; its first important phase finished (at least formally) in the middle of 1993 and its second phase in spring of 1995. However, there still is a part of

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property under state control (state-owned enterprises, budgetary and contributed organizations[1] and government's shares in public limited companies) that shall be privatized according to government decisions in the coming years.

2. THE DESIGN OF PRIVATIZATION

By January 1, 1991, the state sector together with cooperatives had been still producing about 98 % of GDP. The governmental designers of the privatization programme declared an intention' to transfer about 70 - 80 % of the state-owned enterprises (SOEs) into private hands at a fast pace. Two methods have been selected by the government to constitute the basis of the process of privatization: corporatization and subsequent sale of (former) SOEs to private bodies, and the "voucher method", i. e. non-traditional privatization technique based upon free distribution of the former SOEs' shares to the population. A third basic method has been added to the above mentioned two by the parliament - the "natural restitution", i. e. the restitution of the nationalized property to the original owners or the heirs thereof according to the property rights as of February 25, 1948, the date of appointment of the government by which the process of transformation of Czechoslovak economy into a centrally planned economy (CPE) of the Soviet type was commenced. The natural restitution however concerned the property in individual unlimited ownership only, not partnerships and shares in private or public limited companies. The framework for the course of privatization has been defined by privatization and restitution acts (for analysis of the socio-cultural preconditions of the privatization process see Chaloupka et al., 1993).

According to the Small Privatization Act, the property involved was sold in auctions to physical persons or private enterprises (with exception of co-operatives) with no foreign capital participation. In the case that the auctioned property was not sold, a "repeated" auction was organized where the participation of foreigners and foreign firms (unlike in the first auction) was admitted. The very first Small Privatization auctions had

[1] According to the Czech (Czechoslovak) legislation, the state-owned enterprise is a publicly owned profit-making integrated property unit with limited liability guaranteed by its equity. SOE's equity is unshared, e. not divided into property shares. The budgetary organization is a non-profit organization not providing marketable services and hence without its own income (revenue); it is financed from the public budget and the property in its "operational administration' belongs to (i. e. is property of) its founder, that is to the government (or a municipality). Another non-profit organization is the contributed organization; unlike the budgetary organization, the contributed organization provides (at least partly) marketable services, and hence part of its financial means ("the extra-budgetary means") comes from its market revenue, while the rest - a fixed amount allocated to it each year -is financed from the budget ("the budgetary contribution").

taken place in the end of 1990. Besides of small enterprises (shops, small business units rendering services, etc.), also factories of several hundreds of employees were sold in the Small Privatization process. The last point followed from the fact that in the Small Privatization Act there was no legal definition of the scale of the property that is subject to this act. Instead of it there was a functional definition that prevented to privatize (according to the Small Privatization Act) any property that was or probably could be an object of natural restitution, or which was burdened with "non-own liabilities", i. e. other liabilities than own capital. In practice, not enterprises but physical capital as such (extracted from SOEs) was sold or rented in the Small Privatization auctions, while liabilities burdening the offered assets were left in their "mother" SOEs. The decision which particular property **was** auctioned according to the Small Privatization Act was fully in the competence-of the District Privatization Commissions established and organized for this purpose by the respective national government and by its regional executive bodies (the District Authorities).

The auctions according to the Small Privatization Act basically finished in the end of 1992 when the prevailing part of the property appointed by the District Privatization Commissions for this form of privatization was sold or rented (several auctions of the Small Privatization were organized also later). Since its beginning up to the end of 1993, there were 24,359 units of property sold or rented in the Small Privatization auctions, with total market value of almost CZK 31 billion.

In the process of auctioning lots of unfair phenomena occurred as a massive silent participation of foreign capital via hired local people acting as quasi-buyers; strong suspicion exists that a substantial part of this foreign capital represented dirty money coming from foreign illegal economic activity as from the &rug market etc. - even Interpol had officially informed the government that the auctions were a good chance for "money laundering" and that this was practiced largely. The other unfair practices observed in the Small Privatization process were of domestic origin and they represented such things as speculations and manipulations with the auctions by organized gangs leading to artificial (extremely high or extremely low) prices of some enterprises of special interest of these gangs. All these things were not legally affectable in the Czech Republic that time because of lots of gaps in the legislation.

The Small Privatization process represented itself an enormous social experiment in which the creation of new petit bourgeois and bourgeois classes was the main objective. But its significance was probably a minor one in comparison with the scope and impact of the natural restitutions, and of course also compared to the significance of the Large Privatization, the precedent-less social experiment which was announced by the government in 1990, designed in detail during 1990 - 1991, and received its legal basis in the Large Privatization Act of 1991.

The Large Privatization process started in February 1992, while the preparatory period had been running from the beginning of autumn 1991. The organization of this process was based upon submitting of individual privatization projects for all units of state property that should have been privatized within this scheme. They were all SOEs and other units of state property with the exception of those units already chosen by the District Privatization Commissions for Small Privatization, those naturally restituted, and also those listed in a special list of SOEs and other units of public property that will not be privatized within a time period of next five years (this list was approved by the government in 1991 and it contains such items as railways. post offices, universities and so forth; the list is not very long - it contains some 500 items). The projects were subject to approval by the government. While the managements of SOEs were legally obliged to prepare and submit privatization projects of their SOEs, all other physical and legal bodies - Czech and foreign - had a right to submit their own, so-called competitive privatization projects, designed to privatize some SOEs or parts of them (one plant for example). Therefore, the Ministry for Administration of the National Property and its Privatization (MANPP) in most cases could choose between two or several privatization projects of the same enterprise - in average, there has been about 4 - 5 privatization projects submitted for each privatized part of former state property so far. Besides the outspoken voucher method, also a direct sale to an “assigned owner” (i. e. without tender), a tender, an auction, a free transfer of shares to a local authority, to a pension fund or a health insurance fund, and the sale of shares in the capital market are privatization techniques applicable under the provisions of the Large Privatization Act. In most privatization projects there was a combination of different privatization techniques (a “privatization mix”) applied.

The procedure of the ownership transformation within the Large Privatization scheme was the latter: after the governmental approval of a privatization project of a SOE (or a budgetary organization, or a contributed organization respectively), the enterprise or organization was transferred from the founding ministry (as its owner) to the National Property Fund (NPF), a public body established by the government for materialization of the approved privatization projects, for the control of the privatized property before its transfer to the new owner, and for the administration of the property (shares) kept in NPF's portfolio. NPF is subordinated to and supervised by MANPP. NPF then either sold the property of the transferred enterprise or organization, or part of it, to the new owner(s) according to the approved privatization project (that means, directly to the herein “assigned owner”, or to the winner of a tender or an auction organized by NPF in accordance with the privatization project), or transferred the property free to the new owner; or liquidated the enterprise or organization and in the same moment put its property as a capital input into a newly established public limited company. Then NPF, again according to the approved privatization project, either sold the shares of the newly established public limited company (again to the “assigned owner”, or to a winner of a tender; or, in the organized capital market - that usually means in the Prague Stock Exchange, but it may be also in the Czech directly accessible electronic market, the RM-System), or transferred them free to the new owner, or put them into the voucher privatization. Or, last but not least (again in accordance with the respective approved privatization project), it has kept the shares temporarily (before future selling), or permanently, in its portfolio.

The Large Privatization process was organized in two so-called privatization waves, defined by the law as a “specific process of supply and demand of the national property appointed physically and in time”. For the first wave the government selected 2,210 SOEs from about 4,400 eligible ones. The scheduling of enterprises into privatization waves was purely pragmatic - the less problematic cases were put into the first wave while the more problematic cases (unclear property rights, unclear size of liabilities and so forth) were mostly postponed for the second wave. Also, some industries were postponed for the second wave as a whole (e. g. a decisive part of chemical industry, the whole pharmaceutical industry, coal mining, ferrous metallurgy, state-owned farming, forestry, and others). The first wave was finished about in the middle of 1993; parallelly, the second wave started already in the first half of 1992 by its preparatory phase and finished in spring 1995 (for the detailed history of the Czech privatization including figures see Buchtikova, 1995).

Let's realize how enormous social change the Large Privatization process represented. The basic of the voucher method of privatization is the idea of the free distribution of the national wealth to the population on some equal but not egalitarian basis; the government believed that this method was socially just because it provided the same chance, for everyone. At the same time it was according to the government's rhetoric economically rational because it safeguarded that principally only the social elite (with the best knowledge of markets and with the best ability to develop rational expectations about the uncertain future, and on this background capable to make correct decisions) could be successful. Said in other words, the government believed that thanks to the voucher method of privatization the national wealth would quickly and safely fall into the best hands existing in the society, i. e. into the hands of the most capable people among the nation - the individuals provided with the highest wisdom, ability and education. Thus the social order would efficiently and promptly return back from the dangerous and distorting communist experiment to some Hayekian spontaneous order, or to a natural state of affairs in which the best are the richest and *vice versa.*

The interest of the Czech public in the voucher privatization was relatively low during the first two months of the registration period of the first wave (November - December 1991). Only a few hundred thousand people registered themselves up to the end of the year. This was caused probably also by the weak, stupid and untrustworthy governmental advertising campaign based on short Coca-Cola-style TV clips providing almost no information about the whole program for the general public. However, a sudden and radical change took place in January 1992.

This was the time of emergence of an aggressive, ballyhoo advertising campaign led in all mass media by numerous freshly established Investment Privatization Funds (IPFs), special public limited companies organized by banks, insurance companies, consultant firms, and various other private companies and also some physical persons (the precondition to establish these business was to provide them with equity capital of at least CZK 1 million). IPFs are public limited companies issuing shares against reception of investment vouchers. In the Large Privatization they used the investment vouchers collected from the public for purchasing shares of corporatized former SOEs. One IPF may control up to 20 % of shares of one enterprise according to the law.

The campaign of some of IPFs (thee had been established about 260 of them but only about twelve became really large voucher disponents during the first wave) was based on the public promise that they will buy their own shares back from the public (i. e. from their shareholders) after one year of the transfer of the “purchased” SOEs shares to their hands for at least ten (or even fifteen) times higher price than was the expense of their shareholders for obtaining their investment vouchers allocated to the respective IPF. This public promise was the definite incentive for the public to participate. in the voucher privatization. Only with this people *en masse* realized that the investment vouchers and the shares they can obtain for them are really something valuable, that it represents real property. As the result of this social learning, 82 % of Czech adults registered as investment voucher holders (each registered investment voucher holder received a voucher booklet with one thousand investment points for a nominal fee of CZK 1,035 representing at that time about one fifth of an average monthly wage; the book value of offered stock proportional to one voucher booklet was about CZK 60,000). These about 5.95 million first wave investment voucher holders allocated 72.2 9/0 of their investment points into some (one or more) IPF(s), while only the remaining 27.8 % of investment points were used by them directly for investments into shares of enterprises.

Altogether, in the first wave of the Large Privatization there was approved and materialized 3,858 privatization projects for the selected 2,210 enterprises (the difference among the number of approved projects and the number of privatized SOEs demonstrates the process of deconcentration accomplished within the privatization process: it means that as one of the results of the first wave of the Large Privatization the number of enterprises increased from 2,210 to 3,858, i.e. by almost 75 %). The total equity of this privatized property was almost CZK 469 billion; over CZK 198 billion of it, i.e. over 42 %, was privatized by vouchers. An equity of almost CZK 10 billion was transferred free to municipalities, social insurance funds etc.: another equity of over CZK 40 billion was sold (in auctions, tenders, or directly to an assigned owner”). The remaining equity of over CZK 220 billion, i.e. about 47 % of all equity of the first wave, was only corporatized and up to the end of September 1994 kept in NPF's portfolio (data according to Buchtikovâ, 1995; Skalick9, 1994).

As already mentioned, this corporatized property is then mostly a subject of further privatization in several forms: it is either sold in the capital market, in tenders, as a direct sale, or to the employees as employee stock, or it is transferred free to restituents (according to their restitution claims in cases where the natural restitution was not possible), to municipalities or to social insurance funds. Besides of it, part of the shares is kept, temporarily or permanently, in NPF as government shares in public limited companies. NPF now believes that it will finish sale of its assets scheduled to selling about in the last years of this decade (say, in 1998). Sales of stock from NPF's portfolio (if not determined directly in the privatization project, i.e. if only defined herein as temporarily kept in NPF”) are subject to approval or decision of the government. Also, the government may of course change its original decision about the permanent keeping of some stock in NPF, and decide about its sale or free transfer.

From the above description it is apparent that mere corporatization (consisting in the change of the legal status of the company from SOE, of from budgetary or contributed organization, to the public limited company shares of which are kept by_NPF - unlike ownership entitlements to SOEs and budget and contributed organizations that are in the hands of various ministries) is also in the contemporary Czech reality considered as a form of privatization. Thus, what is recorded as “privatized property” in Czech privatization statistics represents a heterogeneous set of property rights setups where the owner(s) might be private or public. The functional definition of the concept of “privatization” and privatized property” is therefore in fact just a negative form relating to SOEs, budgetary organizations and contributed organizations: “privatized” means something that was in a form of SOE (or of a budgetary or a contributed organization; that means, in some *unshared public ownership form)* and what is not in such unshared public form any more. One may thus concisely conclude that “privatized” in the Czech Republic means just transformed from unshared public ownership into shared ownership (public or private)”.

According to the information of MANPP from December 1994 (see Skalick9, 1994), up to the end of September 1994 the privatization of 3,403 SOEs, budgetary organization and contributed organization amounting the equity of over CZK 912 billion was accomplished in the course of the Large Privatization; the extent of mere corporatization contained in this figure was not published. This however means that up to the mentioned date 1,193 legal bodies in unshared public ownership (SOEs, budgetary organizations, contributed organizations) with the value of equity capital of over CZK 443 billion were privatized in the course of its that time still proceeding second wave. In the whole Large Privatization, up to the end of September 1994 120 units of property were fully or partially sold to foreign investors. Equity of these foreign takeovers amounts over CZK 25 billion - that is Jess then 3 % of the all equity, privatized (or rather corporatized) in the Large Privatization scheme. The remaining property that only should have been privatized (corporatized) till the end of the second wave was of equity of CZK 31 billion that time.

The whole remaining unshared property of the state after the end of the second wave of the Large Privatization (i.e. property in the form of SOEs, budgetary organizations and contributed organizations) will be (according to Skalick9, 1994) of about CZK 500 billion of equity capital. Part of it will be also privatized; however, the government intends to privatize gradually only small fraction of it (about 250 units with equity capital amounting CZK several billions from a set of all 4,429 units of unshared property of the state recorded in the end of 1994). But this further privatization - sometimes called “the small third wave" of the Large Privatization - includes such important items as e.g. the railways.

According to the most fresh information of NPF from the end of April 1995, NPF had an equity of CZK 279 billion in its administration that time; almost one quarter of this equity was in the permanent holding" of NPF - it was represented by shares of 50 - 60 "strategic" companies where the government according to the respective approved privatization projects has been present as a "strategic" (majority or minority) investor. That equity of CZK 279 billion also represented about 40 % (sic!) of all shares NPF ever had in its portfolio so far.

3. THE OWNERSHIP SETUP RESULTING FROM PRIVATIZATION

The result of the so far accomplished privatization in the Czech Republic, however, may be only hardly understood solely from its statistical records. It is more useful to imagine how the property rights structure of the economy looks like. In all privatization forms, and also in the process of natural restitution, the control over important part of the economy came into hands of (not exclusively but far dominantly Czech) individuals or private firms; in the case of firms they are mostly private limited liability companies formed by managers of former SOEs and heavily indebted at Czech banks thanks to their credits t¯rrey¯66iild accomplish leveraged buy-outs. This however mostly refers to small and medium enterprises only.

Regarding large enterprises, and also majority of medium enterprises, these are normally controlled by IPFs. Important but exceptional cases breaking this rule of course do exist: several tens of enterprises put into joint-venture with, or sold to, foreign direct investors (the most famous such case being the case of Skoda, a.s., Mladá Boleslav that came under control of Volkswagen). And also few cases - perhaps less then ten - when a large enterprise is now controlled by a private Czech individual or firm (the most eminent case of this set is no doubt the case of one of the flagships of the Czech economy, Skoda koncern, a.s., controlled by its president and core shareholder L. Soudek, probably the most wealthy Czech national of today).

Nevertheless, emphasized once more, the rule is that a "standard" Czech enterprise is controlled by a group of IPFs. And also, in most enterprises privatized in the voucher scheme the NPF still has a minority share. So, the question is who the owners of IPFs are. Among the largest IPFs, with few exceptions like Harvard Capital & Consulting, YSE, and

C.S. Funds (these IPFs are controlled by Czech private individuals, very probably with some unknown foreign capital behind), and like IPFs of Creditanstalt or NiSeobecnd Uverova banka (controlled by foreign banks, the first one Austrian and the second one Slovak - but with important share of Czech NPF in its own ownership structure), all others are controlled by major Czech banks - namely by the “Big Five”, i.e. the group of Czech banking giants consisiting of Ceska spofitelna, a.s., Komerenf banka, a.s., Ceskoslovenska obchodni banka, a.s., InvestiCni a postovni banka, a.s., and Agrobanka, a.s., and by the biggest Czech insurance company (former state-owned monopolist) Oeska pojiSfovna, a.s.

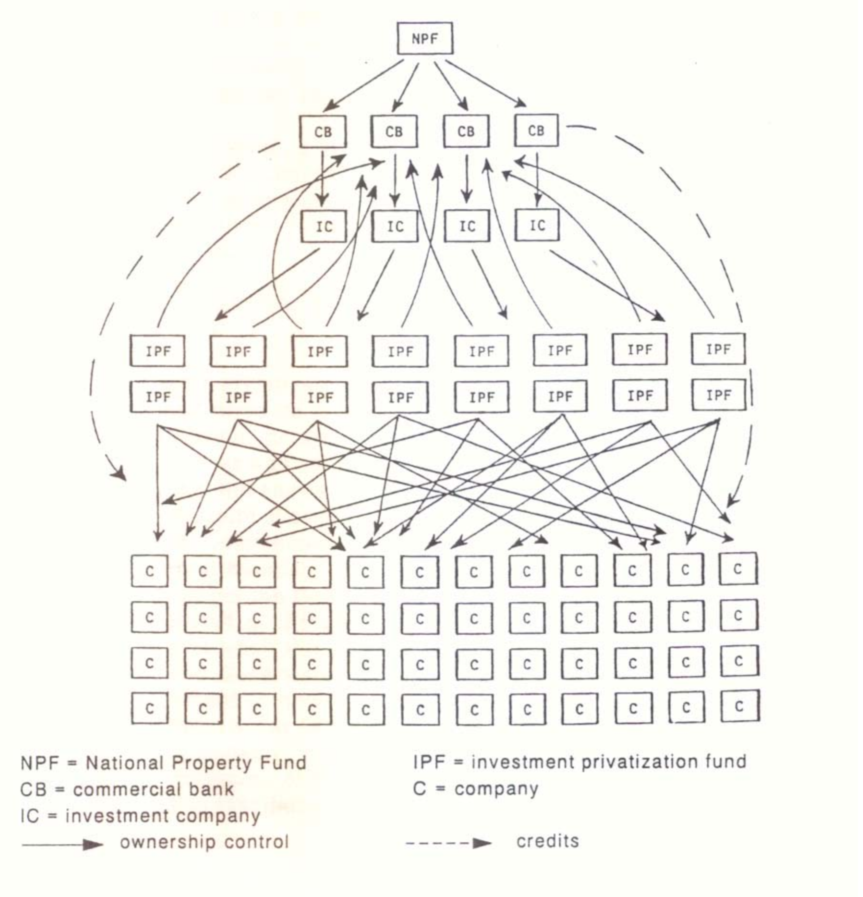
Let's go on. Who does control the “Big Five”? Agrobanka, a.s. (the smallest among them) is controlled by Czech companies - the former SOEs privatized mostly within the voucher scheme, and by other banks; öeskoslovenska obchodni banka is controlled by NPF and by NPF of Slovakia. All the remaining three banks-where Oeska sporitelna and Komerönf banka are far the biggest banks in the country - do have their controlling packages of shares in a permanent administration of the portfolio of NPF, and so does the insurance company Oeska pojisfovna: also, there are numerous important cross-ownerships of minority packages of all these banks. And the Banking Act forbids to sell the shares of Czech banks abroad without a special permission of the government. So, the circle seems to be complete.

Thus, we may conclude that what the Czechs do have now, as the result of over five years of privatization, is literally an excellent example of David Starks's recombinant property” (see Stark, 1994), or perhaps a national financial capitalism” (or a socialism” if someone likes) resembling that of Germany, but with a central role of the national government as a core investor” indirectly controlling (via NPF and through the network of its capital shares) the spine of more or less of the whole economy. This is what remains beyond the privatization activities of the past years: if we want to know who controls a typical Czech privatized enterprise, we mostly find a complicated chain of capital shares in the end thereof being NPF. On the other hand, another is the question of the corporate governance: here the role of managers, and of banks as owners and creditors (but this means: of bank managements!), has grown enormously (see section 5.). The best theoretical reflection of this “privatization, Czech style” is so far provided by Mleoch, 1995.

In 1993 - as the result of the privatization process accomplished so far, and also due to the dynamic growth of the genuine” private sector originated from scratch only after 1989 (whatever impressive, this is nevertheless prevalently limited to the services sector) -

the share of the private sector in the GPD formation for the first time exceeded the share of the public sector (according to the official statistics where - in accordance with the logic described above - all public limited companies are regarded as private firms). In 1994 (as the result of the progress of the second wave of Large Privatization) this change in sectoral structure of the GPD formation even accelerated. Compared with the situation prior to privatization, what has happened so far is a real change: but, in the light of the description given above it is very far from the simple ideas of private ownership of the neo-liberal economic ideology, and namely from the intellectual tradition of the Austrian school, that was, at least from the point of view of the official rhetoric of the Czech government, so important for the construction of the Czech privatization design. Instead of the responsible individual owner, a new - or perhaps guasi–new–hierarchial structure has emerged (in detail see in MI6och, 1995: for illustration see Diagram). However, the role played so far by NPF seems to be in most cases very passive, so that one may think that what the Czech economy consists of is a pyramidal monster with a sleeping head. But is the head of the monster really sleeping?

Ownership Structure of Czech Economy



On the other hand, this new hierarchical structure is very fragile and unstable. The main reason for this instability is the behavior of IPFs which follows their twofold and conflicting role in the economy. On the one hand, IPFs are strange financial holdings and at least some of them are trying to play the role of active (and responsible?) owners; on the other hand, they do have the obligations toward their small shareholders (clients), i.e. to grow, to maintain the market prices of their own shares, and to bring dividends.

How to fulfill this second role of IPFs and obligations resulting from it in the moment when the capital markets are depressed due to too large overhang of supply over demand, and market prices of securities are generally low, and when most enterprises are not profit-making enough and their dividends are low or zero? The only way how to earn returns and satisfy shareholders (and also, and not least, creditors) is to sell parts of portfolio. This necessity is also forced by the suboptimality and low quality of portfolio of all IPFs where shares of enterprises are highly dominant and other - more liquid - assets as bonds, bank deposit, real estates etc. are negligible or marginal. The problem of IPF5 is not just the current maintenance of the quality of their portfolio but the necessity of their deep restructuralization. Which shares are offered by IPFs first when only few of them are really valuable and liquid? Of course primarily just these “good” shares because only for them some demand exists. But in principle, most IPF5 are willing to sell any shares from their portfolio if they receive a good bid.

Also small individual shareholders - former voucher holders - are revealing their liquidity preferences and gradually selling their shares. Thus, it seems that a period of a dramatic secondary restructuralization of property rights -or the “real privatization” following the “formal privatization” - is arriving. As some managers of IPF5 and the Prague Stock Exchange brokers say (and frequent reports about new acquisitions in the press confirm), this is just now the time when large packages of shares of Czech companies are traded -however, almost exclusively outside the official capital markets, as direct trades at the counter of the Securities Centre. These new phenomena of 1995 probably may be identified with the threat of the “cheap sale of the national economy” foreseen by some critics of the voucher privatization in the early nineties, before the start of the whole voucher experiment.

The missing protection of minority shareholders (and of companies) against hostile takeovers *(no* legislation protecting rights of minority shareholders exist in the Czech legal system) provides a favorable environment for this silent secondary privatization.

4. THE MODE OF OPERATION OF THE FORMER STATE-OWNED SECTOR

If we evaluate the mode of economic operation of the state-owned or former state-owned sector of the Czech economy as far as by about the end of 1993, we see that only minor changes were materialized actually. The general structure of how the system was functioning - soft budget constraints, monopolistic behavior, and no bankruptcies of enterprises in financial crisis - had been continuing almost identically as before the reform started: this time, however, without subsidies, but with growing “bad debts” of banks and “bad receivables” of enterprises. From the point of view of this overwhelming picture, the expected “market shock” didn't till 1993 really arrived[/]. On the other hand, to expect a wave of bankruptcies as a single process didn't seem to be realistic even then as a deep internal restructuralization processes to be were successfully accomplished or at least started in most Czech enterprises. Their ability to adapt themselves to all external changes and shocks showed to exceed all expectations. Rather, it was clear already that time that the inevitable future process of liquidation of non-viable firms will be mostly gradual, smooth and not very dramatic.

In 1994, the total extent of the mutual indebtedness and payment insolvency of firms in the Czech economy seemed to have begun to diminish. It seems that the year 1994 was a year of some financial stabilization of the Czech enterprise sphere when many firms started a process of a targeted effort to get rid of the bad debt and bad receivables burden (and to get rid of insolvency and excess indebtedness generally). The budget constraint of enterprises apparently hardened: firms in many industries changed their selling policies and they are now strictly demanding cash or prompt payment with most customers (with the exception of the group of the “best customers”, i.e. large aphid long time regular customers that are financially stable; such firms usually may enjoy a preferential payment treatment that is a benefit of their reliability). Thus, the decrease of the bad receivables burden of enterprises (if accomplished) is a result of their microeconomic adaptation. It is also correlated to the increase of rivalry and to hardening of the competitive environment in the economy (which, however, is still highly imperfect in microeconomic terms).

On the other hand, a process of sorting firms into “good” (viable) and “bad” (non-viable) - or a “natural selection” if the reader likes - apparently started or significantly progressed in 1994. As the result, first bankruptcies of large and important firms have emerged; we may expect an acceleration of this process in 1995.

5. CORPORATE GOVERNANCE IN VOUCHER-PRIVATIZED FIRMS

How are the privatized Czech firms governed? If we omit those cases when the privatized firms do have an individual owner or owners as the result of their privatization, or when they were bought by a foreign core investor, it follows from what was said so far about the voucher privatization (see namely section 3.) that the answer of this question is not easy. We also have to realize what the structure of company statutory bodies and their interrelations according to the Czech Commercial Code is.

The general meeting of shareholders in Czech public limited companies elects and recalls the Board of Directors and the Supervisory Board; alternatively, the status of the company may arrange these relations closer to the German model when the general meeting elects and recalls the Supervisory Board and the Supervisory Board elects and recalls the Board of Directors; this arrangement is however very rare in practice. The Board of Directors elects and recalls the Chairman of the Board of Directors as the company's top official. Besides of these structures, Czech companies usually have managements consisting of the General Manager and top managers responsible for individual areas; these managements, and not the Board of Directors, usually control everyday life of companies. The General Manager and other top managers are appointed by the Board of Directors.

The General Manager of a company is usually elected also to the position of the member and Chairman of the Board of Directors, while other members of the Board of Directors are usually representatives of shareholders; sometimes also some other top managers, stakeholders (as bank representatives), and/or external experts are elected as members of the Board of Directors.

The composition of the Supervisory Board does usually have similar structure - it again consists of representatives of owners, banks, and management. According to the Commercial Code one third of members of the Supervisory Board are representatives of employees; in reality these are usually also (top) managers. Normally, the Supervisory Board is not large - the minimum number of members, three, is quite usual - while the Board of Directors usually has at least twice more members.

The frequency of meetings of both Boards is usually low. In reality, the internal members of Boards, that is the managers of the company, usually do have (sometimes together with representatives of creditors of the company, i.e. banks) the decisive influence over both Boards. The company management as the principal controller of the inner information about the company is usually able to persuade the other board members about the reasonability of the proposals of the management. Both Boards mostly do not intervene much into managerial decision-making processes.

Thus, in spite of the importance of the specific role of all company's agents involved (including employees, owners, creditors, customers, etc.), the position of managers in the corporate governance structure seems to be so far the most powerful in the Czech economy (and likely even increased, if compared to their position prior to the privatization), while the generally twofold role of banks as creditors and owners (through IPF5) of companies also increased very importantly, and seems to be decisive for the future (from the long-run perspective). Hence, if one speaks about the corporate" or managerial revolution" and/or the "banking revolution" in the Czech economy, he or she reflects two important sides of the contemporary Czech reality. However, it is not clear so far which of many sides of this complex reality will be dominant.

6. FINAL REMARKS

The privatization process was the most important moment in the life of all Czech enterprises in the course of 1991 - 1993 (for some of them this situation continued up to 1995). This was an enormous task consuming large time resources of enterprise managements. They had to concentrate their attention, effort and managerial capacity on this issue (including exacting administrative load - privatization among others meant excessive paperwork with proofs of real estates property rights, fulfilling numerous forms and documents accompanying the privatization projects, etc., in an extent far exceeding the normal" level of administrative work of top managements). A natural negative outcome of this hectic period was that managements of privatized enterprises couldn't deliver appropriate attention to the tasks of strategic planning, marketing management, product development, technological, production and efficiency problems etc., i.e. to these matters coordination thereof is crucial for the market performance of a company. The major contemporary weak points of Czech firms often follow from, or were accelerated by, this three-years or four-years lasting privatization preoccupation".[2]

Prior to the privatization process itself, a "pre-privatization agony" period took place in the Czech Republic. This period was characterized by uncertainty and following

[2] For an analysis of the competitive advantage of Czech industry and its change during the transformation see Mertlik, 1994a.

short-term behavior of managers, most importantly expressed by the "spontaneous privatization" activities[3] (for description of the "pre-privatization agony" see Mertlik, 1993b, 1994b; for the analyses of the most typical behavioral patterns of firms before and during the privatization process see Buchtfkove, Capek, 1993; MrCoch, 1993).

On the other hand, the development in last about two years shows that "privatization matters": whatever general trends of behavior of firms are identical in already-privatized and not-yet-privatized firms, there are also important differences between firms of these two groups. First of all, privatized firms are asked to produce profit, while not-yet-privatized firms still have a chance to be loss-makers, and this way to accomplish a more brutal financial restructuralization.

Based on the institution of the individual privatization project, the Czech Large Privatization was a highly decentralized process in which the government mostly set rules according to which private individuals, firms, managements and other actors had to play. Its success depended on private initiative "from below". The most important force in this process proved to be managements of SOEs, in fact also fulfilling lots of owner's functions; the government mostly approved or rejected what managements had submitted. Thus, managements were *defining* the arrangement and content of privatization in each particular case, setting the agenda to be dealt with. The information monopoly of managements of most enterprises was, of course, a good initial position for following their goals. As Buchtikove and Capek mentioned (see Buchtikove, Capek 1993), there is a striking similarity" between the government - enterprise "upside-down" relation in the planning process in CPE and in the privatization process based on individual privatization projects: the proposals of enterprise plans as well as (basic) privatization project were submitted by well-informed enterprises to ignorant government that had to decide about them without sufficient amount of relevant knowledge.

From the observation of the course of the privatization process in the Czech Republic we may derive something as a "general model" of managements' behavior. The first option about which managements were typically thinking was the possibility of a

[3] The Czech economy didn't experienced the same kind of ‚spontaneous privatization" based on economically and socially productive and principally legal activities of managements as Hungary did in the late eighties (compare Voszka, 1993). Instead, there was a wild Czechoslovak form of spontaneous privatization based on semi-criminal or criminal activies of managements of SOEs that were, at least in the short and medium run, counterproductive, both economically and socially (see Mertlik. 1993b; MlOoch, 1993). Unlike in the Hungarian case when the process of "spontaneous privatization" was not a real privatization but just a new form of operationalization of public property rights, in the Czech case the spontaneous privatization was a real privatization, i.e. a transfer of property rights from public to private hands through informal economic activities.

leveraged buy-out ("direct sale"). The question they were answering was: is a leveraged buy-out feasible? If the answer (based on strictly economic analyzing) was positive, then they proposed and forced this option. If not - the reason for the negative answer mostly being the interest rate and the size of the credit burden of the company (or debt service) after privatization - then they usually chose the voucher privatization as the "second best" solution, a solution that provided them with strong corporate control over weak and often in fact powerless institutional owners (IPFs). The brilliant thinking of Czech managers showed its power in this moment, when they, unlike politicians or independent analysts, correctly predicted the outcome of the voucher experiment in the area of property rights and corporate control (at least from the short and medium-run perspective) prior to its implementation.

Related to the privatization strategies of managements of SOEs is the *principal stability and continuity of management* in most Czech enterprises. Generally, no important personnel shaking in (former) SOEs proceeded since the late eighties.

Finally, the very purpose of the privatization was to solve the problem of the fuzzy property rights setup, or of the *absentee ownership,* inherited from the central planning, and thus to solve one of the sources of the "pre-privatization agony" (besides of the radical uncertainty of SOEs and their managements concerning their future). The government intended to find a concrete owner to any part of the so far anonymous state-owned property. The ownership control of enterprises was believed to be a key prerequisite of their efficient economic performance. The voucher privatization, however, in most cases seems to lead to results very distant from this officially declared neoliberal target. The new owners are mostly institutional owners (IPFs) without appropriate managing, controlling and supervising powers. They hold large property in several tens or even hundreds of businesses but only limited qualified professional skills and capacity. And, like in the model of the central planning, they have a lack of information - the information monopoly is on the side of enterprises' managements. In this situation, the *unity of interests* of enterprises (their managements) and of IPFs and/or banks as owners is a necessary precondition of the desired efficient operation and performance of former SOEs. On the other hand, under any collision or contradiction of interests of owners and managers the *agency problem* arises; and, in the Czech specific situation of legal and moral gaps (and low financial discipline, monopolistic commodity markets and a very weak and insignificant stock market) it may have a destructive effect. It may factually be prolonging at least some features of the period of the "pre-privatization agony", that is the situation when enterprises are without any effective control of their owners (and thus their managements have free hands to do with them anything they want). Hence the voucher privatization seems to result in a large-scale and considerably long-run *institutionalization* of the absentee ownership.

Furthermore, most enterprises are in a situation when they do not have any major owner and IPFs controlling smaller packages of their shares are not able (or willing) to find mutually agreed solutions because of diverse strategies and interests. An example of a typical counterproductive conflicting situation of this type is when there is a conflict in the board of directors of an enterprise between (representatives of) IPFs preferring capital accumulation and growth and those preferring high dividends.

Thus, one can conclude that privatization matters but not only privatization, and even seems to be possible to say that privatization matters in smaller extent then marketization as such. Or, if we do not adopt this generalizing approach, we may say that only *the particular form and content of privatization matters.* Summed-up, the proposition resulting from the empirical evidence gained in the field research (see Mertlik, 1995; Capek, 1995) is that the privatization process predetermines the future of each company; on the other hand, *there is no significant correlation between the form of privatization and the economic performance (including efficiency, productivity and profitability)* of privatized companies. Two companies with similar “initial conditions” privatized the same way may get to substantially different development paths while on the other hand the development of another two companies with similar “initial conditions” but very different “privatization history' may be pretty much the same.

The other conclusion is that the instability of the emerged property rights setup and the resulting corporate governance created by the voucher privatization becomes now to be apparent. Besides of the above mentioned beginning of “the real privatization”, i.e. property rights shift from those that got ownership entitlements in the voucher privatization to next owners (which usually embodies, among others, important re-concentration processes), it is important to mention that all agents involved - and namely managements of privatized enterprises, banks and IPFs - are increasingly asking for an institutional (legislative) change of the existing regulation (as e.g. removing of the 20 'Y. limit of the IPFs share on company equity which would enable a significantly higher capital concentration in IPFs), and this need of a change is now more reflected by the political sphere, too.[4]

Another feasible important stabilizing step - however highly controversial one - might be of course the possible sale of the “core” share of the government (NPF) in numerous enterprises, and namely in banks and other financial institutions (like insurance companies), to genuine private investors”, what practically means to foreign capital; the decision about such step nevertheless lies exclusively in the area of politics or of value judgments, and thus apart of the domain of the descriptive economic analysis (whatever serious economic consequences it might have).

And last but not least, it is worth to repeat finally once more that the important process of the “silent secondary privatization” already proceeds in the capital market where IPFs are for various reasons (the need of permanent restructuralization of their current portfolio, but mainly the necessity to sell out part of their assets in order to be able to meet their liabilities) selling part of shares from their portfolio. The buyers are often foreign investors but also Czech private investors; hence, the structure of the property rights in voucher-privatized companies is now silently and invisibly changing.

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[4] In February 1995 the government has prepared a preliminary version of an amendment of the Collective Investment Act (i.e. act on investment companies, IPFs, and mutual funds) that aims to redefine IPFs' powers in enterprises under their control). This amendment was rejected by the Council of Economic Ministers of the government, and a new version was prepared and again rejected by the same governmental body in August 1995, because of principal mutual disagreement of individual economic ministers about the nature of the necessary legal changes; however, despite these clashes, the issue is due to the present acceleration of the process of the “secondary privatization' just getting more and more hot.

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