**Economic Development and Reconstruction Policies in South-East Europe:
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TOWARDS MODERNIZATION OF THE CORPORATE GOVERNANCE IN BULGARIA

Spartak Keremidchiev

Institute of Economics, Bulgarian Academy of Sciences

email: scg@mail.orbitel.bg

The paper aims at outlining the existing gaps in Bulgarian corporate governance compared to the standards and the state of corporate governance in developed market economies. The current state of corporate governance, the degree of ownership concentration as well as the strengths and weaknesses of corporate governance are examined for the fulfillment of this goal. On the other hand the current trends in development of corporate governance model in leading market economies are discussed. A conceptual model for modernization of corporate governance in Bulgaria is created.

Key words: corporate governance, ownership concentration, modernization of corporate governance in Bulgaria.

JEL: G 31, G32, G34, G38

1. Regulatory mechanisms in the process of corporate governance forming

One of the determining phenomena of the corporate governance model in Bulgaria is the delay of regulatory mechanisms forming. The newest economic history is very rich in examples that can illustrate this statement. In the beginning of transition to market economy different forms of pyramid structures emerged and successfully developed for some years. They bravely issued and distributed on a mass scale shares, vouchers and other 'property titles' and titles for participation in the profits of their companies which implemented big economic projects, like construction of large tourist complexes or investment in perspective researches for discovery of a formula against AIDS. Their fraudulent schemes were obvious even for a junior economist, however not for the state governance. Eventually, the unprotected citizen honestly paid for the lack of protection on the part of the state (s)he lives in. The state lost the trust of the petty investor without whom there is not an existing developed stock market. Consequently bans and strict regimes regulating the securities emissions were introduced, however it was too late. The «Birth-giving» of the market proved to be a very prolonged one and the professional «midwife» assistance extremely needed.

The mass privatization scheme developed in a similar way. Rather with inaction and poor initial regulation the state tolerated the private privatization funds. Therefore, thanks to its help large share of the investment bonds were concentrated in these funds. After that the state «slept through» the moment when the privatization funds were seized by their founders and the voucher investors were again deceived. This again was followed by introduction of strict regulations, sanctions, mechanisms and other measures, but in practice there was nothing to be regulated through them. Similar to pyramid structures, in the mass privatization Bulgaria was not an inventor, but an incorporator of these schemes with certain time lag. The conclusion, coming from both short stories is that in the transition period the state proved to be a weak barrier before the agile speculators, who thanks to this quickly reallocated the huge public wealth in their possession. The capitalism basis having an extremely unevenly allocated social structure was created. It was also obvious that the state, presented by its governing elite did not learn from the foreign experience and that the learning curve effects are not evidenced in the country.

***The second important phenomenon*,** characterizing the corporate governance regulatory mechanisms is the asynchronous within them. In the initial transition years different regulation between the emerging private and the large state sector was obviously observed. Private enterprises, which existed even without having registered capital, received credits much easier, worked at very favorable tax regime and were extremely mobile when entering and leaving the business. All these regulatory mechanisms did not relate to the state enterprises that were under strict political, formal ownership and real managerial control.

The establishment of the public company and especially the passing of the Law on Public Offering of Securities in 2002 created a strong asynchronous in regulating public and none-public trade companies. The maintenance expenditures of a public company, created as such according to cabinet-invented criteria, are huge and the economic interest from its existence – none, due to lack of interest for trading with its securities. In fact, the prime cause for the emergence of this problem was the selection of enterprises for mass privatization. In order to accumulate an essential critical mass, given the generally unprepared for mass privatization state enterprises, in the privatization list compulsory were corporatized many small and medium-sized companies, like for example, rural hotels, poultry farms and small production workshops. While in the developed market systems these businesses were predominantly family or company property of several physical persons or companies, after their privatization they became property of many shareholders – privatization funds, voucher individual investors, personnel and management, the state presented by the respective sector Minister. After the mass privatization the property in these companies reached very high level of concentration. Due to the none-liquidity of shares many voucher owners are formally enlisted as shareholders. According to the initial and current public company criteria, these enterprises are obliged to make their activity extremely transparent, which already serves the interest only of the many officials of the State Stock Exchange and Securities Commission for which was transformed in a new Committee for Financial Supervision. Quite reasonably the Bulgarian Industrial Capital Association (BICA) recently made a public proposal for changing the understandings for a public company. It, of course, met the strong opposition on the side of the state structures.

The third archaic element of corporate governance regulatory mechanisms can be found in state enterprises. In the years of transition the state enterprises were exposed to unjustified nihilism related to their regulatory environment, which was explained with their forthcoming fast privatization. Which are the most striking manifestations of this environment?

At first place, the state as an owner acts too irresponsibly towards the figure of the company's manager. During the entire transition period no guarantees protecting the manager from political interventions in her/his work or her/his replacement due to political reasons were created. All governments came and left having «own» managers of the most important enterprises – BTC, Bulgartabac, NEC, Neftohim, etc., as far as their mandate reached. Even managers of small workshops and factories were replaced. Governors' logo: "Now we have the authority, now we have to end consume it" was interpreted as an opportunity to replace "their – the bad" with "our – the good" managers. The managers struck back of course. Some tried to play with the political parties and financed them or rendered services to them against keeping their job. In other cases, state managers moved from one party to another according to their chances to assume power.

Besides, state managers were not provided with an adequate remuneration system. Even with the newest system for state enterprises regulation, which

was enforced on June 3rd 2003, the state manager's remuneration mostly depended on the size of the enterprise (s)he manages, reported as balance sheet value of the tangible assets and the personnel number, while the economic results had a marginal impact on her/his remuneration. Given this system the Bulgarian Lee Iacocca will never emerge.

The regulation of the Bulgarian state enterprises underwent several stages. In the first transition years it was very liberal, which allowed the managerial team to have almost full rights to sell the company's assets, conclude contracts, give guarantees and make different transactions without limit or agreement on the part of the principal. This was a very favorable environment for «draining» the enterprises and their illegal privatization. Gradually these state companies' opportunities were limited and eventually in the end of the 1990ies even a contract for a company's property insurance could be only concluded after principal's authorization. The administrative capacity of the state administration was very weak then, even for reaction to such proposals. In the beginning of 1997, for example, there were about 20 officials responsible for 426 state enterprises in the Ministry of Trade and Foreign Economic Cooperation. They disposed of one obsolete computer and most of them were low-qualified. At least once a year for each enterprise a general assembly had to be convened, the annual balance sheet, the report and other financial information had to be approved, the three-month financial reports had to be regularly analyzed, the property sale contracts, the insurance contracts the credit contracts and the management members replacements had to be authorized, etc. The existing state apparatus could not even combat for the necessary documentation movement thus ensuring the smooth going of the production and the management cycle, and it was really imaginary that it would undertake functions related to enterprises operation observation and control, which are the real duties of owners who do not participate in the management. Thus, state enterprises' managers acquired huge additional freedom for practical decisions on one hand, however on the other hand their decisions were administratively slowed down. Considering the state apparatus reaction level, many state enterprises managers gave up at the initial stage the realization of perspective transactions requiring support and fast cooperation with the property principal.

During the entire transition period state enterprises were exposed to 'manual' management, regulated or unregulated direct interference of the property principal. The business planning, which is one of the most important mechanisms for regulating the activity of managers and is actively applied in private foreign companies is missed. State companies operate without business plan, vision and development objectives. They do not have strategic goals and do not implement restructuring programs. The introduction of business planning would have a favorable impact on management activity reporting and would provide a more realistic basis (than the party evaluation) for the managerial teams' success or failure. This mechanism has not been used yet, although the state property is still big. It prevails in the monopolistic sectors and it is envisaged that a considerably large share (about 25-30%) will be preserved as a strategic

state property during the next years as well. Without a substantial review of state enterprises regulatory mechanisms, even at reduced number of state enterprises, the ineffective management paradoxes, known from the past will emerge in the future.

2. Ownership Concentration in Bulgarian Corporation

The level of ownership concentration is one of the most important characteristics of the corporate governance model. For the purpose of surveying the ownership concentration in the Bulgarian companies, the Amadeus database is used. This database covers the largest companies within the country. Practically, this is the richest accessible database providing company information. The process of company information collection is in accordance with the standard requirements for all countries, in which the database is being developed. According to the statistical units selection criteria, a company should have at least one of the following parameters in order to be included:

- Its annual turnover should be over 10 million Euro;
- Number of employed should be over 150 people;
- The balance sheet assets should be over 10 million Euros.

For Bulgaria, the total number of companies included in the database is 2747. This sample provides complete data for the ownership breakdown of 1602 companies. The calculations on companies' ownership breakdown are made on the basis of this information resource. The company data refer to year 2000.

Table 1: Basic characteristics of the sample of companies

Indicators	Number of companies
Total number of companies	1602
Total number of companies with state share	922
Companies with state share = 50%	3
Companies with state share > 50%	725
Companies with state share >=50%	728
Companies with state share <50%	194
Companies with private share above 50%	874

Some of the basic characteristics of the used sample are presented in Table 1. The number of companies with state share in the sample is 922. From them 728 companies are with predominant state shares. Most of the companies in the sample – 874 are with predominant private shares. This ratio completely

complies with the privatization process situation by the year 2000, and indicates the representativeness of the used sample.

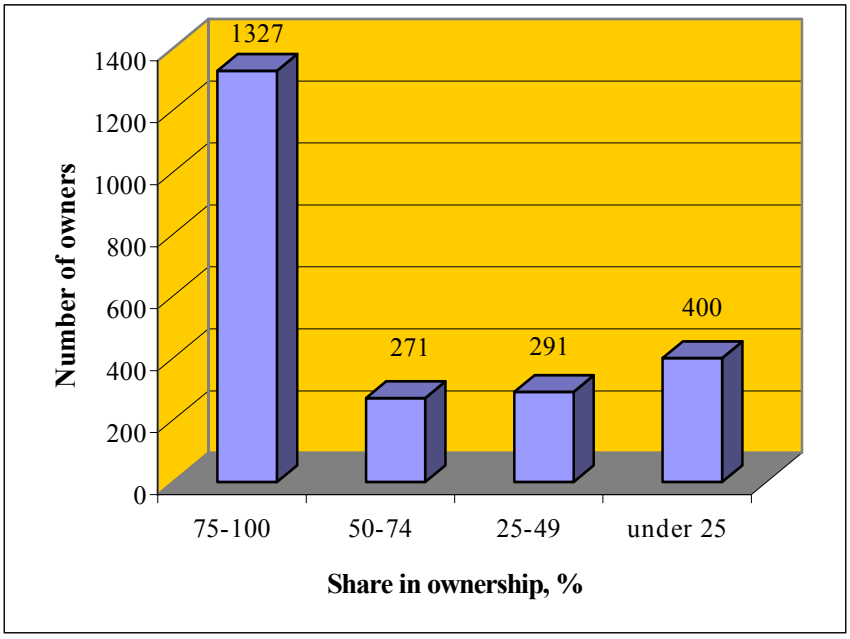
The following indicators are used for surveying the companies' ownership breakdown:

- Share of company's ownership per owner (breakdown of shares, possessed by one owner in statistical groups: 75-100%, 50-74%, 25-49% and below 25%);
- Share of blockholder's ownership in the company (breakdown of shares, possessed by the largest shareholder in statistical groups: 75-100%, 50-74%, 25-49% and below 25%);
- Number of owners for one company.

The results from the statistical calculations are presented in Figures 1, 2 and 3. The results by the first used indicator are presented in Figure 1. In 1327 out of 1602 surveyed companies (83%) there is a single dominating owner, who entirely controls the decision making process in the company.

Within the surveyed companies, 271 owners possess from 50 to 74% of the company's shares. This means that they are either blockholders or they stay in coalition with another owner, who has share in the company, allowing the 75% threshold to be reached, so that they alone can make the most important decisions. Another possibility is that they tie up with several owners, forming the blockholder share of 75% threshold.

Figure 1: Share of company's ownership per owner



There are 291 owners in the group with ownership share between 25-49%. There are two theoretical possibilities for this group. Firstly, at least two

owners are needed in order the 75% threshold of ownership share to be achieved. According to the Bulgarian legal system this threshold of 75% is enough for full management of a corporation. The second possibility is a coalition by more than two owners to be sought for in order the entire control of the company to be achieved.

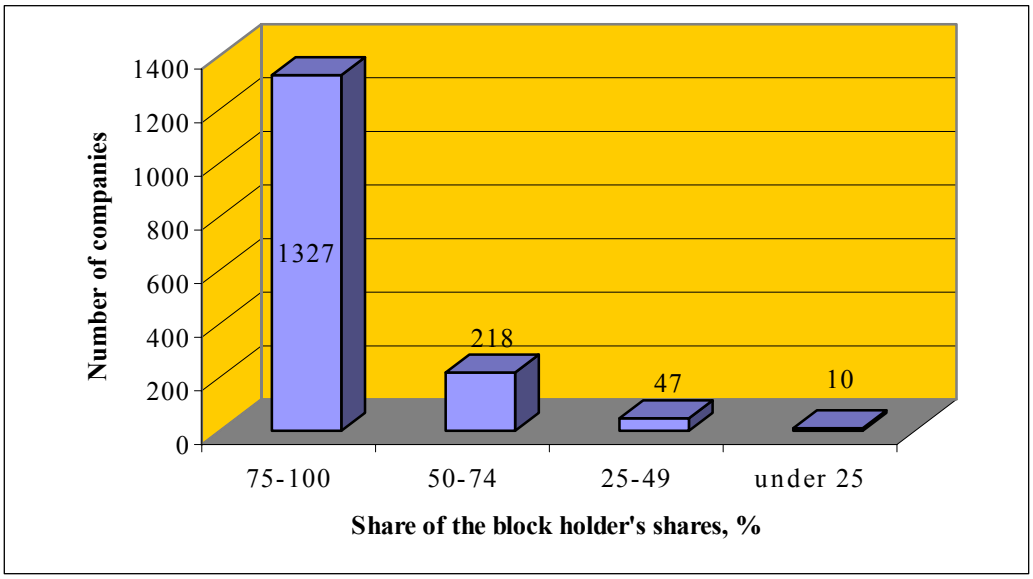
As much as 400 owners have shares below 25% of the company ownership. Here, there are also two ways for coalition. At least three owners are needed in order full control of the corporation to be achieved. The other option is a coalition by more than three owners, whose joint capital reaches the critical threshold of 75%.

The Figure 2 presents the results from the calculations according to the second indicator used – blockholder's share in the company ownership. This indicator allows the analysis commenced with the first indicator to be continued and deepened. It is normal that the number of block holders, possessing share of 75-100% to be equal to the number of owners with share between 75-100%. The breakdown of owners within the range of 50-74% ownership share differs for the first two indicators. The explanation lies within the fact that in 53 companies (271-218) two owners possess equal share of the ownership.

Hardly in 47 enterprises the share of blockholders is between 25- 49%. These are the cases of equal participation in a coalition of two, three or four owners.

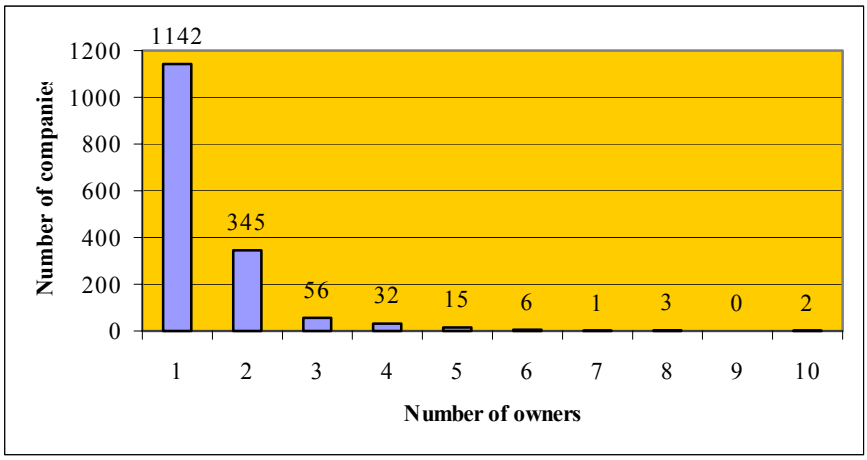
There is a possibility for coalition in the ten companies, in which each of the block holders possess less than 25% of the capital. The difference from the case above is that, here more owners are needed. The total number of block holders is equal to the number of companies in the sample.

Figure 2: Breakdown of blockholder's share in the company ownership



The calculations on the breakdown of owners' number in one company, presented in Figure 3, show that there is only one owner in 1142 (71.3%) companies from the observed sample. There are two owners in 345 companies, or 21.5% of the sample. The breakdown of companies' number is in reverse proportion to the owners' number increase. There is even no company, which has 9 owners and only 2 companies have 10 owners.

Figure 3: Number of owners in one company



The geographical breakdown of companies' ownership according to the concentration draws the following picture:

- The number of companies with different level of block holder's share breakdown is the largest in the biggest cities of the country - Sofia, Plovdiv, Varna, Burgas, Rousse etc. It makes impression that there is immense difference in the number of companies between Sofia and the other cities, as well as between big and small towns. This breakdown is a consequence of the high level of business concentration in the big industrial centers of the country and especially in the capital city.
- After the first 25-30 towns where the share of the block holder is below 75%, the number of the companies in the settlements drops below 4. This is an indicator for the unequal geographical breakdown of the existing production potential.
- Even in small towns and villages, where presumably the social capital is at a higher level, compared to cities, companies are owned by one owner in most of the cases.

After almost 10 years of transition to market economy, several conclusions can be drawn on the basis of the analysis of the ownership breakdown in companies:

- The ownership concentration in companies within the country is very high. The dominating model is that of one or two company owners.

- In comparison with other countries, Bulgaria is among the economies with highest ownership concentration. Ownership transformation led to a transition from centralized state ownership to concentrated private ownership.
- Given the high level of ownership concentration, the corporate control model is direct, through direct supervision and control over the manager on the part of the owner, in case these two very important persons for corporate management are different. There are no possibilities for development of a corporate control market. In practice, capital markets development and stock exchange trade is impossible when such ownership concentration exists.

3. Strengths and weaknesses of corporate governance in Bulgaria

Summarizing the legal framework of corporate governance, emphasizing on the Law for Public Offering of Securities (LPOS), on its actual application and the preceding analysis, a systematization of the main strengths and weaknesses of corporate governance in Bulgaria has been made. It is presented in Table 2. The purpose of the presented in this table info is to summarize the corporate governance analyses and serve as a starting point for creating a corporate governance modernization policy within the country.

Table 2: Strengths and weaknesses of corporate governance in Bulgaria

Elements	Strengths	Weaknesses
1. Protection of shareholders' rights	1. The public company capital cannot be increased by the order of art.193, art.195 and art.196, item 3 of the CL (art.113 of the LPOS). 2. Requirement for GAS decision for transactions with FA, exceeding the legally defined percentages (art.114 of the LPOS). 3. Requirement for GAS decision for transactions between associated bodies (art.114 of the LPOS). 4. When making decision according to art. 114 of the LPOS the interested parties cannot exercise their right to vote. 5. The managing body presents	1. No obligation for written notification of the shareholders of personal shares for GAS convening. 2. The board is not obliged to inform the shareholders about important decisions affecting their interests. 3. The GAS agenda may be changed only if all shareholders are present. 4. The minor shareholders do not have the opportunity to include questions in the general assembly agenda. 5. No obligatory minimum quorum for adopting important GAS decisions. 6. The authorization procedure is

Elements	Strengths	Weaknesses
	to the GAS a motivated report for the expediency and conditions of the transactions according to art.114, item 1. 6. Requirement to declare all persons that hold at least 25% of the voting rights of GAS of a public company. 7. The GAS of the public company is held at its headquarters. 8. The members of the management and executive bodies of the public companies are obliged to answer correctly, comprehensively and in essence to the shareholders' questions set at the GA. 9. The company is obliged to ensure the payment of the GAS-voted dividends to the shareholders within three months, but only for the public companies. 10. Every shareholder has the right to get acquainted with the GAS protocol. 11. The persons possessing at least 5% of the public company capital may bring a suit for the company claims against third parties.	complicated what makes it practically unusable by the shareholders. 7. No specified simplified procedure and established organization for authorization of banks to represent the interests of the petty shareholders. 8. No reliable legal protection for compensation of the petty shareholders in the event of violating their rights. 9. Complex procedures impede the registration of all public companies with the stock exchange most substantially affecting the interests of the petty shareholders. 10. No established and institutionally strengthened associations of petty shareholders. 11. There is no legal opportunity for the staff of the corporations to be represented at the GAS.
2. Positioning and operation of corporation management and control bodies. Transparency of information	1. At least one-third of the board members and the supervisory board of the public company should be independent bodies. 2. The members of the management and control bodies of the public company are obliged to perform their duties to the interest of all shareholders, to be loyal and to avoid conflicts of interests.	1. No legal decision for the personal allocation of functions of the president and the executive director of the board. 2. No legal restriction for the managers participation in boards, as well as requirements for education, profession, specialty and professional experience. 3. Legal regulation for the

Elements	Strengths	Weaknesses
	3. The management body of the public company is obliged to employ under a labor contract investors relations director, who reports to the GAS. 4. The management body of the public company submits to the committee annual and quarter reports according to defined indicators. 5. The management body of the public company is obliged to prepare a program for the internationally acknowledged standards for good corporate governance defined by the committee and to report the program implementation when presenting the annual reports.	independent bodies to be at least one-third of the board members and the supervisory board refers only for the public companies and does not solve the issue fully, because they remain a minority. 4. No system for objective assessment of the corporation activity by the board is established. 5. No built functioning system for strategic corporate governance, effective monitoring of the activity of the corporations and regular reporting the results of this activity to the shareholders. 6. Possibility to dismiss, at any time, the members of the management boards and the executive members of the board of directors. No guarantees for execution of their functions within the mandate set in the Statutes. 7. No system for establishment and effective operation of specialized committees to the corporation board. 8. The public companies formally introduce the OECD standards for good corporate governance. 9. Lack of public information on: - Total remuneration received during the year by the members of the management bodies of the corporations; - Acquired, possessed and transferred company shares and bonds by the members of the committees during the year; - The committee

Elements	Strengths	Weaknesses
		members' rights to acquire company shares and bonds; - The committee members' participation in trade companies as unlimited liability partners, the possession of more than 25 per cent of the capital of another company, as well as their participation in the management of other organizations as prosecutors, managers and board members.
3. Institutional and regulatory environment of the corporate governance	1. Attempts are improving the institutional and regulatory environment of the corporate governance by the adoption of a new LPOS, privatization through the stock exchange, etc.	1. Lack of entire vision for the development of the country corporate governance, as well as structures that would deal with its reformation. 2. Poor development of: - financial markets; - production factor market; - capital market; - corporate control market; - manager market. 3. The rating agencies for assessment of the corporate governance level are not functioning.

Notes:
FA – Fixed Assets
LPOS – Law on Public Offering of Securities
GAS – General Assembly of Shareholders

4. Trends of corporate governance modernization

While the corporate governance in Bulgaria was being established, the developed market economies displayed the beginning of an active process of its cardinal reformation. Particularly pronounced reformist endeavors started to develop since the beginning of the 1990s, and are still ongoing (see table 3). They are transferred in the countries preparing for EU membership. The most recent initiative of the European Commission in that respect is "Modernizing

Company Law and Enhancing Corporate Governance in the EU"[1]. The purpose of this initiative is to prepare an action plan that would integrate the efforts of the Member States for reforming corporate governance in their enterprises.

Table 3: Calendar of the most important reformist activities

Year	Country	Activity
1992	Great Britain	Cadbury Report and Cadbury Code
1995	Great Britain	Greenberry Report
	France	Vienot First Report
1998	Great Britain	Hampel Report
1999	France	Vienot Second Report
2001	Germany	Report of the committee led by T. Baums containing over 150 reform proposals
2003	European Commission	Action plan for modernizing the trade company law and corporate governance strengthening

The OECD launched in 1999 principles of good corporate governance (revised in January 2004) as advisable standards to be followed[2]. Other influential international organizations like the International Corporate Governance Network, Institute of International Finance, and many stock exchanges and associations of financial intermediaries have also developed corporate governance standards and codes for the past years, which are recommendable for the Member States and the member organization. Building on these principles, developed and developing economies establish committees to assess the corporate governance systems, to adapt these principle formulations and to comply markets and corporation with them.

A short review of the reformist activities related to the corporate governance in the European countries is presented in table 3. It gives an idea only for a small amount of activities done within a short period in the EU Member States and in some acceding countries. The main tendencies in the development of corporate governance regulation in the EU Member States are in line with the EOCD principles and refer to:

- Limiting the membership in the board of directors; limiting the involvement of one director in few boards; differentiating the function of the president and the executive director of the board of directors; increasing the number of independent (external) directors; establishing specialized committees to the board of directors; enhancing transparency in remunerating the and of the executive directors; enhancing the responsibility of the board members towards their shareholders.

[1] Modernising Company Law and Enhancing Corporate Governance in the EU – A Plan to Move Forward, Commission of the EC, 25 May 2003.

2 OECD, OECD Principles of Corporate Governance, 1999 and 2004.

- Preparing and adopting a corporate governance code, reflecting international standards and recommendations;
- Enhancing protection of petty shareholders, development of proxy voting system via Internet, via mail, via telephone, etc.;
- Setting higher demands to corporations for public disclosure of information;
- Establishing committees to assess the corporate governance systems and to comply them with the international requirements;
- Amending the legislation referring to securities and stock exchanges, commercial and labor legislation in line with the strategies for corporate governance modernization;
- Establishing system for assessment of the corporate governance of corporations by the rating companies.

The Bulgarian corporate governance system should try to integrate these formulations and standards. Hence, the standards for good corporate governance might be achieved.

5. Modernization of the corporate governance system in Bulgaria

The above-referred essential corporate governance weaknesses and problems and the forthcoming perspective before Bulgaria of joining the European Union, as well the need for enhancing the Bulgarian corporate production competitiveness impose a quick and substantial alternation of the corporate governance aiming at its compliance with contemporary standards and fundamental principles on which the corporate governance of the EU Member States builds.

The proposals for modernization of the corporate governance system are based upon:

- the analysis of the corporate governance development in the country;
- the analysis of the undercurrents and undertaken reformist actions for changing the corporate governance in the EU countries in the past years;
- advisable standards and fundamental principles, developed by the OECD, the International Institute for Corporate Governance, the Institute of International Finance, as well as by many stock exchanges or associations of financial intermediaries, recommendable for the Member State or for the member organizations.

There is indispensable needfulness for following changes in the Bulgarian corporate governance to be performed.

First, expanding and ensuring the rights of the petty and minor shareholders.

This could be done through solving of the following more important problems:

1. Creation of facilities for the shareholders to effectively participate in the work of the general assemblies of the shareholders by:

- the processes and procedures for holding the general assemblies of the shareholders should allow equal treatment of all shareholders; the management of the joint-stock companies should make voting understandable, easy and inexpensive;
- the shareholders should be timely informed about the rules, including the voting procedures at the general assemblies; they should have sufficient and timely information about the date, place and agenda of the general assemblies, as well as complete and prompt information about the issues discussed at the assemblies;
- the minor shareholders should be provided the opportunity to add new points in the general assembly agenda after announcing the general assemblies; the Board of Directors should be responsible for providing obligatory precise and exhaustive answer to all queries by the shareholders of the corporation they manage;
- obligatory disclosure of information at the general assemblies of the shareholders about remunerating and compensating members of the Board of Directors, their involvement in other boards.

2. Ensuring reliable protection of the rights of the petty shareholders. This problem may be solved through:

- legal introduction and practical implementation of inexpensive ways for petty shareholder voting via Internet, via mail, via telephone, etc.;
- authorization (delegation) by the individual shareholders of the execution of their property rights of commercial banks, associations of petty shareholders and other structures.

3. A deadline (e.g. up to 3 months) for payment of dividends to the shareholders should be specified. The shareholders should be able to hold the Board of Directors responsible for the decisions it makes.

4. The management bodies of the companies should be obliged to periodically inform the shareholders of the company about the most important management decisions.

5. Establishment and institutional building of associations of petty shareholders. The petty shareholders may obtain proxy at the general assemblies of the corporations, legal protection and consultations via them. The building of legal framework for the protection of their rights and lobbying for its practical implementation should become another priority of the work of these companies.

Second, ensuring better positioning and effective functioning of the corporation board.

This might be done through altering the corporate governance scheme in the following directions:

1. Restricting the participation of one manager to a limited number of (e.g. up to 3) boards and precise definition of the requirements of these participation from the point of view of education, profession, specialty and professional experience.

2. Increase and regulation of the number of independent (external) directors not only of the public companies. It is expedient the independent (external) directors to be at least 50 per cent of the board members. This will allow the inclusion in the board of independent professionals, that would in turn increase its level of competency and would enhance the guarantees that it protects, the interests of all shareholders, not only of the large ones.

3. Building a functioning system for strategic management of the shareholders, effective monitoring of the company activity and regular reporting the activity results before the shareholders. To that end, it is necessary for the board to perform the following key functions:

- organization, composition, review, adoption and management of a corporate strategy and policies, as well as of strategic plans for development of the corporate activities, of risk policies, of annual budgets and business plans, and of effectively functioning monitoring of the current expenses and investments;
- monitoring, analysis and assessment of the performance of the annual budgets and business plans, the level and dynamics of the qualitative financial-economic indicators, of the current expenses and investment of shareholder company's associated companies;
- monitoring and management of potential conflicts of interests of the managers, board members and shareholders, including unauthorized use of corporate assets and misuse in transactions with associated third parties;
- creation of corporate systems for internal financial audit, including also by independent auditor, financial controllers;
- monitoring the effectiveness of the board management activity, and if needed, timely changes in the management practices.

4. Establishment of functioning specialized committees to the board of the joint-stock company like:

- *Committee for nomination of board members.* External members to the joint-stock company should be included in it. Its main task is setting the conditions to be met by the board members, appointing candidates for board members, reviewing and assessing their potential, working for the building of balance between the executive body power and the external directors, taking care for the board members rotation, setting the maximum period for occupying a

position within the board and the ultimate age for retirements of its members. It is very important to ensure a transparent nomination process.

- *Remuneration Committee*. Its task consists of preparation and justification of proposals for remunerating the top executive management and development of a system for their stimulation depending on the current and long-term outcomes of the corporation. The Committee reports to the board the results of the work and the assessments, and proposes a way for defining the remuneration of the top executive management. Eventually, the board of directors approves the payment-related decisions, because it has the task of balancing the interests of the shareholders and the executive management.
- *Strategic Audit Committee*. Its main tasks is collecting, analyzing and providing information to the board of directors about the company activity.

Third, disclosing information and ensuring transparency.

To that end, the corporate governance system should be build and functioning in a way that ensures timely, complete and precise disclosure of all questions referring to the joint-stock company, including the financial status, proxy, ownership and management of the joint-stock company and its associate companies. The disclosure obligatory encompasses, but also is not limited to, information about: objectives; management structures and policy of the joint-stock company; operational and financial outcomes; possession of large share packages and voting rights; board members and key managers; predictable material and risk factors. The channels for information dissemination should ensure veritable, timely and inexpensive access to users.

Forth, building and operating of corporate control market.

Such a market would perform "a safety function" that may be used in case the board of directors does not manage to ex post correct management errors. On the other hand, the practice in the developed countries indicates that an existing threat of buying-up will increase the efficiency of the board of directors to ex ante correct management errors. The barriers before the buying-up and taking-over of joint-stock companies should be eliminated for building this market.

Fifth, building and operating of an active manager market in and outside the trade companies.

The objective of this market is to create and observe the competitiveness rules among managers. Their price will be defined depending on their work results. This will contribute to enhancing the quality of joint-stock company management. The primary institution within this market protecting managers' rights should be an association established by the managers or the functions might be assumed by already existing employers' organizations.

Sixth. Drafting State Enterprises Law.

This Law should regulate the relations of forming, operating, appointing and stimulating of managers, business planning, the financial interrelations of the state enterprises with the budget, and particularly the dividend policy rules, the ways for performing state control, the mechanisms for appointing and dismissing management bodies in state enterprises or in the companies with dominant state participation. This Law will replace the recently adopted[3], however "archaic in spirit" decree that only touches upon (but not solve) some of these problems.

Seventh, establishment and maintenance of the activity of rating agencies for assessment of the initial corporate governance in the corporation which are to issue public emissions of shares and bonds, but also corporations within segment "A" listed at the stock exchange.

The practical implementation of the above-mentioned priority changes requires the establishment of a *National Committee for Corporate Governance System Reform*. This Committee should be composed by Bulgarian and foreign experts, practitioners and responsible state officials as well. Its main task is to prepare the entire change in the normative framework and practices of the primary institutions influencing the corporate governance. Such committees are in the fundamentals of the corporate governance changes in the United Kingdom, Germany and France. Given the complex character of the corporate governance reform, such a committee may play an extremely beneficial role if receives the necessary institutional support and composed properly.

The apprehension, normative decision and practical implementation of the above-referred priority changes will bring the corporate governance system in Bulgaria closer to the contemporary standards of the corporate governance models.

[3] See State Gazette, 3 June 2003.