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OWNERSHIP STRUCTURE AND CORPORATE CONTROL IN BULGARIA

The paper presents the actual ownership structure of public companies in Bulgaria on the basis of a survey[1] of 104 companies traded on the Bulgarian Stock Exchange. It also discusses the problems of disclosure of ownership information, focussing on the transposition of the EC Large Holdings Directives. The paper finds out an inconsistent enforcement of the disclosure procedures and very concentrated ownership; for more than half of the companies the largest shareholders stakes' exceed more than 50%. That provides incentives and opportunities for violation of the rights of minority shareholders, though this is far not the only reason.

JEL: G32, G34, G38, K22

Privatization in Central and Eastern Europe is supposed to erode the old system for corporate control exercised directly by the state or by its centralized bodies and to replace it by a more or less contemporary market based mechanism. That is not an easy task. The controversial experience with functioning and regulation of Bulgarian public companies provides a striking evidence of that statement. It includes an almost standard practice of expropriating the rights of the minority shareholders throughout a series of techniques including conditional rise of capital; more rare but not less dramatic hostile takeovers when again the minorities are the least care of the fighting parties. Last but not least this evidence includes also the hardly pulsing Bulgarian capital market with low traded volumes, lack of liquidity and stagnated prices.

The paper takes a look behind the curtain of that grim evidence investigating the emerged corporate control in the Bulgarian public companies. In doing so, the paper follows the model and methodology provided by the European Corporate Governance Network in its recent international study of corporate control in Europe, (Becht and Mayer, 2001). According to that, the analysis concentrates on the legal framework of disclosing the information by the public companies and mainly on the transposition and implementation of the 88/627 EEC directive (so-called Large Holdings Directive).

The second pillar of the paper is a survey of the current ownership structure in the largest 104 Bulgarian companies traded on the stock markets. The average size of the largest shareholdings, their accumulated stakes and their dispersion over the whole range of the companies have been analyzed,

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showing eventually the different types of investors and their relative place in the ownership of the public companies. There is one major difference of that paper from the relevant analyses of the European corporate control presented by ECGN. Our survey does not investigate the accumulation of ultimate voting blocks by voting pacts, family control and other means. The paper deals only with the direct ownership stakes held by the shareholders, because of the availability of data. Nonetheless, the overall results of the survey show such a high concentration of the ownership – the average figure for the largest holders is 59.5 %, suggesting no serious need to create voting pacts to establish of effective control. Thus, we believe that the results, even based only on the direct control represent quite well the actual picture of Bulgarian current corporate control.

The paper proceeds as follows. The second section is devoted to the disclosure issues; the third deals with the ownership structure and the last concludes the paper.

Ownership Disclosure: Legislation and Practice

The current situation on the Stock Exchange with serious lack of trust in securities trade and illiquidity of the market is a strong evidence to how important the disclosure of information is, especially the ownership one not only to the inexperienced individuals but also to the professional brokers. Just for illustration, there are a number of companies, which are definitely underestimated by the bourse by any criteria including net assets, discounted cash flows, price earnings ratios etc., but the interest in them is really small. My personal observations show that even the professional financial analysts, who are certain in the good future of some companies await an action by foreign portfolio investors, in order to take position. Many of them have suffered more or less over the recent years taking positions in companies which were closed down or the trade was blocked due to actions of the majority shareholders. Ironically, the low liquidity is also the reason why the foreign investors also postpone their decisions.

Providing more and better information in this situation may or may not solve the problem, but certainly will increase the confidence and trust in all the market agents.

Transposition of the Large Holding Directive

The starting point for implementation of the 88/627 EEC directive was the 1995 Law on Securities, Stock Exchanges and Investment Companies (LSSEIC). It included some of the essential features for accurate disclosing:

First of all it applied to the votes and not to the direct capital holdings. This way it was possible, at least by the law, to track the actual controlling entities and not just the persons who participated in the ownership structure of the company in question.

Second, the LSSEIC assigned the obligation for notification to the physical or legal entity, which actually acquires or disposes of the voting holdings in the General Meeting (GM) of the target company.

Third, the notification requirement was applied not only to the actual, but to the potential voting rights, since art. 93 of LSSEIC stipulated that object of the report are not just the shares, but also the bonds, which might be converted in voting shares according to the Commercial Law (Chapter 14).

Forth, The thresholds, applied were 10 per cent of the votes or a division of it. The notification was enforceable in both cases when the holdings were surpassing or falling below the thresholds. In fact, the applied thresholds did not comply with those of the LH Directive, but they were effectively revealing the presence of large shareholders. Especially, if one considers that this law does not envisage any mandatory bid thresholds. It stipulates that an investor who wishes to obtain a 25 percent stake should offer a tender, but the ambiguous formulation of the rule prevented from any incidents of application. Thus, for the minority investors the disclosed information within the 10 percent thresholds was equally useful or, if you prefer, useless to that envisaged in the LHD.

Sixth, The LH Directive was quite closely, but not fully applied in one more essential point: the accumulation of the votes dispersed between connected persons. The law required the person in question when counting his voting power to consider the following voting rights shares:

- those held by others in their own names, but on his behalf;
- those held by a controlled by him undertaking or its subsidiary;
- those held by a third party, which has an agreement with him for a common policy towards the management of the company in question
- those lodged as security with him except when their holder reserves the rights for himself
- those deposited with him and he can use their rights at its own discretion

In fact, the Bulgarian LSSEIC was even more stringent, since it requires for the purpose of notification, all the shares held by connected persons be accumulated. The term includes spouses and close relatives, as well as the already mentioned case of controlled undertaking or its subsidiary. But what is more interesting: it also includes the two parties which jointly control a third party and also the two parties, commonly controlled by a third party.

Later, with the adoption of the Law on Public Offering of Securities (LPOS) 2000, the large holding directive was even closer transposed. The thresholds were adjusted closely - first notification at 5 percent and then at each 5% up and down for the listed companies and the scale proposed in the LHD for the unofficial market.[2]

Two cases of concert action remained not transposed so called 'life interest voting rights' and the rights agreed for future acquirement. A possible reason seems to be the lack of the concept for 'life interests' in our legal system, but it is not clear enough. The procedure of notification was adopted following the directive in terms of who notifies whom and when. In fact, the Bulgarian rules are even more stringent, since not only the acquirer was obliged to make a notification, but also the Central Depositor (CD), which is the only clearing and settlement institution for all the public companies stock.

Implementation of the LHD

Within such a detailed legal framework, it seems surprising that very few records on accumulated votes could be found in the Registers of the Bulgarian Securities Commission. This is the place where all the information for the public companies is kept and it is supposed that this is the only place when a more or less systematic information about the voting blocks should be done. The registries are electronic with a lot of opportunities and an internet access. Although, the needed information is scared, not complete and inconsistent.

First of all, one of the reasons for that seems to be the old disease of the Bulgarian legal tradition – each law refers to a number of sublegal ordinances, which the government issues at its own discretion and pace, but without the law just sticks. Here also, the appropriate ordinance is adopted almost a year after the law; no matter that it just repeats the law and provides a few new articles of minor importance. Then comes the unprecedented decision of the previous government not appoint new officers for almost a half a year after the expiry of the term of the previous Commission staff. And all the records are only possible through an official decision. The still missing centralized forms of gathering information is a serious impediment. The LH Directive requires complicated, comparable and verifiable information, which could not be gathered via free statements, where always something is middling or more aggregated or else.

The companies' behaviour is an important issue too, because they seldom send notifications. The low penalties are perhaps involved in this – some thousands of dollars penalty with untouched voting rights of the next general assembly are probably a loose barrier toward retention of information, which may ensure a much bigger benefit.

It seems that there is another more 'objective' reason for not providing such information. The problem is in the definitions of the concerted action. Most

[2] It is important to note that the inofficial market still does not exist though its regulation is in force. The companies which do not meet the requirements for the official market are traded on the so-called free market. In fact it is much more important because 90% of the trade runs there.

of them concern Bulgaria, rare occasional cases. In fact, to have a voiced voting agreement you need a good reason, sophisticated legal system or developed court action or so. Why would you need to affirm this agreement, if you can, in terms of a slow ineffective legal enforcement system, enjoy the benefits of unannounced relations?

A bit more effective seems the situation with the controlled undertakings, if you match the formal criteria you must report the 'extra' voting power in your possession. But what are the formal criteria 50+ percent of voting shares in an undertaking? So if you secure a dominating position with less, let say 49% in a subsidiary you do not need to report anything. Of course an objection is possible, about the other criteria control over the 50+ percent of the managing bodies or even decisive power over the decision of the subsidiary, but it is even harder to find out such cases. You need to have another strong shareholder to make an attempt to set his own managers and fail from the shareholder in question to be able to plead in court that there is no announced connection between a holding and a subsidiary. For a country with an emerging market this seems completely unfeasible.

The actual chance is in the formal criteria of control. If it is set low enough it may help to disclose all these holdings, which now stay behind the curtain. I believe that this was the idea behind the 10% threshold for control in the previous securities law, as it can be seen from the illustration in Figure 1. Having such or similar low threshold is not a surprise keeping in mind that the *factual* level of control is about 20% (see the Belgium 20% rule). John Scott in his book (Scott, 199*) says that in the UK he found companies with diversified ownership where 17% were enough for the largest shareholder to exercise effective control. Thus, the companies are able to make effective arrangements avoiding the formal criteria for 50+ percent voting stake in an undertaking. And, in my opinion, the LH Directive with its statement for 'majority' voting rights as a criterion does not provide much help in that direction.

Dilution of the Voting Rights, restrictions and the rights of minority shareholders

The effective protection of the minority shareholders is a key issue for Bulgarian capital markets. With the new LPOS from 2000 a lot of changes were introduced in this direction though one still cannot say that we have achieved satisfying results.

The previous law on securities was tolerant to the conditional rise of capital, which was directly affecting the voting rights in the company. Under the strong pressure from the investment society and independent research groups it was generally abolished by the current law, though some cases still remain: for financial institutions in the restructuring process; or for all public companies for the purpose of merging; securities swaps and other similar cases. Still, the cases of dilution have not ceased, generally because even with the normal rise of capital a large number of the so called ‘mass privatization shareholders” did not or could not use their rights, and under the primitive procedure “first came first served” the dominant shareholders always subscribe their shares, thus diluting the rights of the other holders. And what’s more, the state was involved, through the purposeful ‘silent’ rejection of its own rights, which again ruined the minority shareholders’ rights. The LPOS has a cure – the opportunity to raise capital through the issue of tradable rights to subscribe for new shares, but it hasn’t been used so far. The new government undertook an obligation to ensure that this rule become mandatory.

Another step further in protection of minority rights is the option for the shareholders holding 5+ percent of the capital in a public company to plead in the court against 3rd parties presuming managers’ negligence. It is also possible for these shareholders to seek compensation for damage in court, whether caused on purpose or by negligence. The mandatory bid introduced with the new securities law is perhaps one of the most important measures for protection of the securities law. Although, far from perfect, it shows development from the rule when such a mandatory bid to all the shareholders was expected only if an investor intended to buy at least 25% of the capital, an impediment easily avoided.

Currently there are two thresholds for tender bid to all the shareholders – at 50% and 90%. The first one is quite clear, though quite high actually and requires everybody, who reaches that level of the voting rights in the general assembly, to offer a bid or to dispose of the excessive shares within 14 days of acquisition. The norm also covers the case when the threshold is passed by the holdings of the “connected persons”. Actually, this is a good example of inconstancy of the law since the notion of the LH Directive for accumulation of the voting blocks is not applied, instead the old notion of “connect persons” still applies. As we have already seen there is a substantial difference between the scope of the two notions.

Much more complicated is the definition of the second threshold. It is optional, provides the right for the shareholder to make a bid, but is also mandatory because without this bid it is not possible to unregister the company from the register of the public companies, which actually is the final goal of such an action.[3] The thresholds and the procedure for the bids are far from their western counterparts and the protection is not very effective. In fact as we will see below, the concentration of the ownership already exceeds the 50% and does not actuate the law. And the upper threshold is not more than a chance to get any price for the shares in the minority holders. Nevertheless the

[3] The company could also unregister if the general criteria for the minimum capital and shareholders (Table 1); in those cases the tender bid is not mandatory.

tender bid provides an opportunity for the petty shareholders and currently when the investment community is more or less activated sometimes we have minors able to sustain their rights against the majority, at least for the price of their stock.

Ownership Structure and Corporate Control

Direct Shareholdings

Direct holdings are disclosed under the Bulgarian Law on Public Offering of Securities. They reveal the holdings as they are registered in the Central Depositor. For our 104 companies there are 244 direct stakes, which vary between 1 and 6 per firm. Thus, an average firm has between two and three shareholders. A first evidence of a highly concentrated ownership is shown on Table 1; more than 50% of the companies have just two shareholders and 95% - not more than 4.

Table 1

Frequency distribution of companies by direct shareholdings

Number	Frequency	Percent	Cumulative percent
1	32	30.8	30.8
2	26	25.0	55.8
3	30	28.8	84.6
4	11	10.6	95.2
5	4	3.8	99.0
6	1	1.0	100.0
Total	104	100.0	–

Figure 1 is another, very strong piece of evidence that the concentration of ownership in Bulgarian public companies has made a considerable progress. In fact even the largest shareholder itself is able to exercise full control in more than half of the companies traded on the Bulgarian stock market. With his almost 60% of its average size it needs just a very limited cooperation from the other owners mainly in the cases of changed company statutes. And even those cases do not represent a serious impediment if one takes into account that the second and the third shareholders are really small with 12.7 and 5.5 percent an average. Keeping in mind the low activity of the small individual ownership we may accept that the largest shareholders not only behave unrestricted in the strategic governance of the firm, but in fact they do not need, as a general rule, formation of complicated voting pacts and groups.

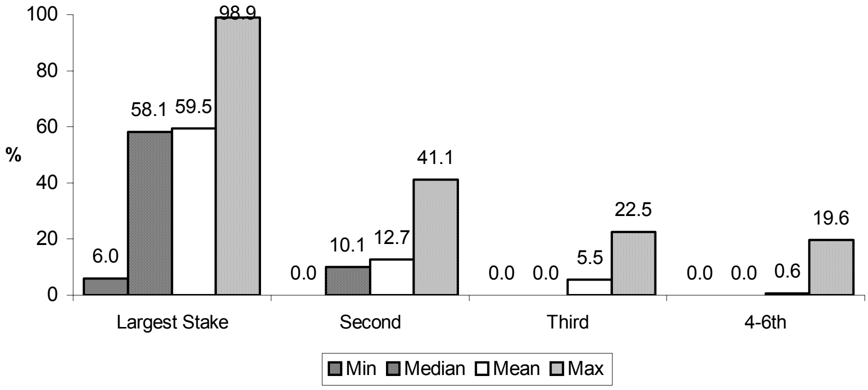

Figure 1. Size concentration measures of large direct shareholdings

Table 2 provides an opportunity to estimate also the role and place of the small shareholders, those who are below 5% and because of that are not reported at all. The accumulated average stake of all large (above 5%) holdings in the structure of the biggest Bulgarian public companies is almost 80%. The figure becomes even more aggravated if one looks just at the sum of the first three largest shareholders – they account jointly for an average of 77.8%, i.e. the small shareholders do not have the chance to resist any action of the larger ones. And not only because they are small, but also because that overwhelming dominance emerges between so few large holders that they could very easily get the necessary coordination between themselves without any formal voting agreement.

Table 2

Size concentration of large direct shareholdings (%)

Measure	Mean	Median	Std.dev.	Min	Max
C_1: Largest shareholding	59.5	58.1	26.0	6.0	98.9
C_3: Sum of largest 3 stakes	77.8	87.2	23.5	6.0	99.5
C_{all}: Sum of all stakes	79.5	88.9	23.6	6.0	99.5

The histogram of the largest direct stakes shows clearly the features of the Bulgarian ownership structure. First of all it is easy to detect the prevalence of the stakes of over 50% size. Further, the same stakes show no specific peaks. The companies are more or less equally dispersed and contrary to one's expectations, there is a local bottom in the 60-75% range indicating the lack of any specific thresholds. The only point when one can observe concentration of companies is just below of 50 percent size and it is well explained with the presence of the mandatory bid imposed by the current law on securities. There are quite a lot companies within the range of 90-100%, which is unusual in countries with well developed capital markets. This fact proves that a lot of the currently traded companies are prepared or already in the process of withdrawing from the public companies register. And such a concentration of ownership allows them to make a bid to the small shareholders, as prescribed by the procedure.

The picture is a good illustration of the limited usefulness of having the mechanism of the mandatory offering bid when the thresholds and the rules of its application are not well considered.

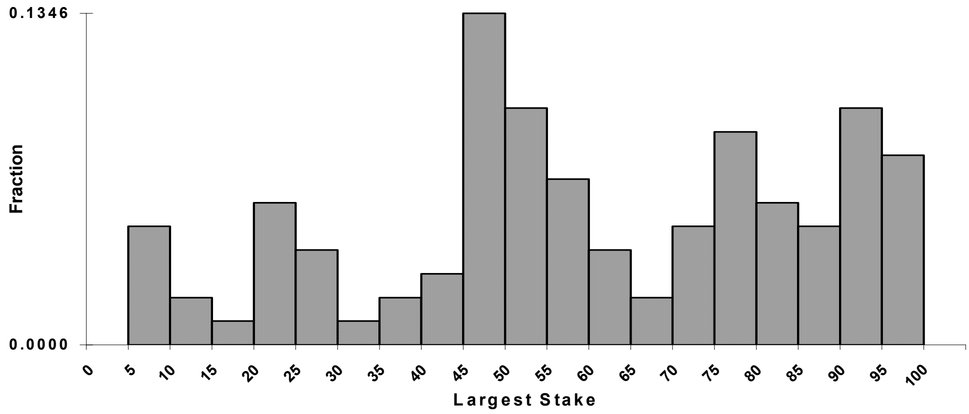

Figure 2. Histogram of the largest stakes

As a whole, the sum of the large direct share stakes (5+ % of the outstanding shares) amounts to almost 80% in 2001 (see Table 3). The average cumulative share of all large holdings held just by industrial and commercial companies is even more concentrated. It approaches 90%, (at the low std. dev. of 7.6%), showing that companies of the real sector in Bulgaria are functioning almost completely as subsidiaries of more complex, mostly vertical, groups. The relevant figures for the other two sectors represented here – the financial and that of the holding companies are close to each other – 38% and 37.3% respectively, and they are rather low. Of course when we consider the financial sector we should remember that only two of hundreds of financial companies are represented at he Bulgarian capital market as public companies, which provides another important feature of sector.[4]

The case of the holdings is much more complicated. As a matter of fact they emerged with very dispersed ownership accumulating their capital from the citizens' mass privatization vouchers and a legal restriction for a single shareholder to own, directly or indirectly, more than 10% of their capital. Later, when privatization funds became holdings, their shareholders succeeded, through various ways, mainly raising of capital, in increasing much the average size of their stakes. Hence, one can see the figure of 37% rather high.

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[4] Of course, the latter is due partially to the fact that some of the biggest Bulgarian banks were sold to strategic investors and are now part of bigger foreign groups, which are traded internationally.

Table 3

Ownership structure of Bulgarian public companies by type of holders

	Accumulated direct shareholdings held by:										
	All investors	Domestic industrial companies	Domestic holding companies	Domestic bank	MEBO	Government	Individuals/ Families	Foreign portfolio investor	Foreign strategic investor	All Bulgarian	All Foreign
Panel A: In all sample companies (104 cases)											
Stake (%)	79,6	14,6	23,4	0,7	8,4	9,6	1,6	6,9	14,4	58,3	21,3
Std. dev.	23,5	26,0	33,6	2,7	22,1	18,9	10,3	15,2	30,5	36,0	31,4
Panel B: In holding companies (17 cases)											
Stake (%)	37,3	19,2	6,0	0,0	0,0	5,5	0,0	6,6	0,0	30,7	6,6
Std.dev.	26,1	24,7	16,2	-	-	22,5	-	9,7	-	28,6	9,4
Panel C: In financial companies / banks (2 cases)											
Stake (%)	38,0	7,6	0,0	6,4	0,0	10,6	0,0	13,5	0,0	24,53	13,51
Std. dev.	15,6	10,7	-	9,0	-	15,0	-	19,1	-	24,53	13,51
Panel D: In industrial/commercial companies (85 cases)											
Stake (%)	89,0	13,8	27,5	0,7	10,2	10,5	1,9	6,8	17,6	64,6	24,4
Std.dev.	7,6	26,6	35,2	2,7	24,1	18,3	11,4	16,1	32,9	34,4	33,6

The percentile plot diagram of the largest direct shareholdings (Figure 3) represents the cumulative distributions of largest voting blocks (from the smallest to the largest) in 104 Bulgarian public companies, listed by May 2001. It provides information what fraction of the companies in our sample are with the largest blocks less than the values reported on the vertical axis. If the actual distribution is close to the 45° line then the density of the firms is almost equally distributed for the whole range of the largest stakes sizes. A distribution above the 45° line reflects a predomination of companies with greater largest holdings and a distribution below - indicates more dispersed ownership.

The data confirms the earlier observation of strong concentration of ownership; at least one third of the firms have largest stakes of less than 50%. It also shows that there is only one sector with a clearly expressed increased density – between 40-45 and 50 percent. The overall impression of the plot is a good evidence of the regulation influence on control pattern, though ironic, through its weakness and ambiguity.

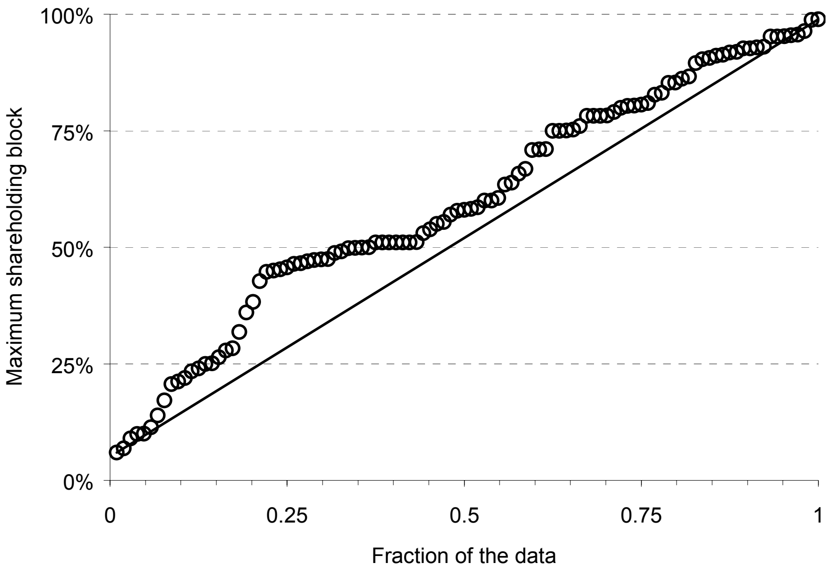

Figure 3. Percentile plot of largest direct shareholdings

Categories of Shareholders

The data analysis provides another important point of view of the ownership structure in Bulgaria, that of the types of investors. Table 4 is divided into 4 panels. Panel A shows the average size of the accumulated stakes of six different domestic and two foreign types of investors in all the 104 companies. Not surprisingly the biggest stake is held by the holding companies -23.4% and the second group is that of the domestic industrial and commercial investors followed closely by the foreign strategic investors. When analysed holding companies, the order of the first two types of investors is reversed. Their most important shareholders are industrial companies, though, with lesser average size of their share – just 19.2%. That is in accordance with the much lesser sizes of the largest stakes in the holding companies – 37.3% on average. The share of holdings in the direct ownership of other holdings is small – 6% as it is for the foreign types. That suggests the specific role of the Bulgarian holdings created by the mass privatization as ultimate owners in many industrial enterprises.

Perhaps, the most surprising seem the results of the Financial sector (Panel C), diversified ownership with a strong presence of foreign portfolio investors and government and also with absence of investments from the holdings' type of investors. Of course the crucial reason is the abnormal few representatives of the sector which are listed on the stock market – two companies hardly reveal the situation properly, but there are also some specifics. To mention just a few: government sector is high because one of the presented banks was not fully privatized at that moment and the zero share of the holdings came from the exclusion of the financial companies from mass privatization. The role of the foreign portfolio investors is discussed below.

The last panel (D) of Table 3 shows the direct ownership structure only of those 85 industrial and commercial companies traded on Bulgarian stock markets, which are included in our sample. Those are the biggest companies and represent the real sector rather well. A leading type is that of the domestic holding companies with the serious 27.5% on average. Logically if taken into account the privatization goals, the second group is that foreign strategic investors, followed by domestic industrial companies. Bellow, the types of investors are presented more detailed.

Holding companies

This is still the most important type of investors in the Bulgarian economy – they keep an average of 23% in all companies, a share which rises even further in the industrial companies from our sample (up to 27.5%), falls dramatically in the other holdings (6.0%) and is virtually inexistent in the financial sector (0.0%). Those features are due to the specific creation of this group. The vast majority emerged like privatization funds with small and limited fresh capital and privatization vouchers from the population. Later the vast majority became holdings or investment funds. Though, guided by different legal frameworks the two groups act more or less similarly in between a strategic and portfolio investors. And in fact, given the low liquidity and underestimation of the stock they hold, they must find other ways of income, involving more or less the management of the companies they invest in.

Industrial /Commercial companies

The second important type of investors, though rather uneven, contains purely industrial companies, investing in other companies in order to close a productive or marketing cycle, as well as commercial firms, which play more or less a holding role, but determine themselves as commercial companies. Generally, those are private firms and the available information is rather limited. Their accumulated share generally is about 14% rises to 19% in holdings and falls to 13.8% in the other industrial companies; this suggests a relatively equal distribution of their interest throughout the whole economy. They are also represented in the financial sector, but as already mentioned their average size (7.6%) should be considered more carefully because of the small number of cases in the sample.

Domestic financial companies (banks)

The low representation of the financial companies as public ones is combined also with their low representation as an investment type – just 7 occurrences in our sample of 244 holdings were identified as held by one or another type of financial institutions, mostly banks. That is caused again by mass privatization though, partially. In fact the banks and insurance companies were privatized later and through strategic investors. This way they did not involve directly in the ownership of former state enterprises. Some of the banks are still not privatized. Pension funds are still in the process of their establishment on the market. Furthermore, the low performance of the stock markets requires much more involvement in the management, which is apparently not intended by financial institutions. This way an overall average stake of 0.7% with the only significant stake of 6.4% held in the financial companies seems quite justifiable for the current situation.

Management Employee Partnerships (MEBO)

This specific form of investors was created with the only purpose of privatization emerged relatively recently. It received a large application especially in the cases of middle and small privatization, and provided a lot of concessions for those who participated in it, mainly for the top managers. Although MEBO forms obtained large stakes in the companies privatized exclusively by that method, in our case of complex privatization of the public companies they obtained relatively smaller packs. They hold stakes only in industrial companies and its average size is 10.2%.

Government

The process of government withdrawal is perhaps in its latest phase, but still the state has sufficient stakes in some sectors. The industrial and financial ones have average stakes of more than 10% each held by the government. The overall figure is slightly lower (9.6%). To some extent the figure for the government stakes in the holdings is a bit surprising (5.5%) because it applies only to one case Bulgarian tobacco holding, though with the impressive 93% stake, due to the delayed privatization of the branch.

The less important not surprisingly are the individual and family investors. In fact in our sample just few cases of holdings above 5% in the capital are reported. This is because it is much more comfortable for an individual to exercise his ownership and control rights through an intermediating private company. The benefits are connected mainly with the tax opportunities, but also concern the necessity for a deeper involvement in the management.

Foreign investors

This is an important group with 21.3% stake in all the companies, which rises to 24.4% in the industrial and commercial companies and falls down to 13.51% in the financial companies. Foreign investors are weaker only in the ownership structure of the holding companies. Here, the process of free distribution of vouchers at the beginning played a role, but also some subsequent takeovers in which the domestic investors ousted the foreign founders of privatization funds. Thus, we obtained only 6.6% average stake of foreigners in the holding companies.

The foreign investors comprise two types – strategic and portfolio investors. The first group is relatively transparent – those are more or less well established companies, with a strong position in key Bulgarian companies. Unfortunately, not always, as is the case with the Bulgarian national air carrier. Logically, they have a significant 14.4% average stake in the sample, and 17.6% - just in industrial sector companies. Those figures are more than twice higher than the figures for the so-called portfolio investors. The latter hold an overall of 6.9% average stake and close stakes in industrial and holding companies. Significantly higher is their ownership in the financial sector, but this should be considered carefully. Portfolio investors in the Bulgarian case are a rather vague category. The reason is that those are often companies with an offshore registration and the nationality of the capital is difficult even impossible to prove. Unfortunately, this is the reality - even some strategic investors raise doubts in this respect.

Conclusions

The survey provided an important information for several conclusions:

1 The ownership of Bulgarian public companies is strongly concentrated in the hands of a small number of shareholders.

2 The latter exercise sufficient corporate control (more than 50%), which allows them to benefit privately from the management of the company.

3 This is often on the basis of attempts to withdraw the company from the stock market and to unregister it from the public companies register.

4 The opportunity for private benefits from the management does not encourage the majority shareholders to distribute dividends to all classes of shareholders

5 All of the above features of the Bulgarian corporate control results in the low level of interest of the small shareholders, which in turns leads to low liquid market.

6 The illiquid market eventually helps the majority owners in their reasoning and attempts to impose a corporate governance model based on direct control and not on the capital market or on the role of financial institutions.

7 Apart from the disappointed and discouraged small investors that model of corporate governance is an obstacle to the Stock Exchange in future.

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