Project Title:

PRIVATE AND SHARED BENEFITS (ENTRENCHMENT VERSUS INCENTIVE EFFECT) OF MANAGERIAL CONTROL, INCREASING LEVEL OF MANAGERIAL OWNERSHIP AND THE IMPLICATIONS FOR FIRMS PERFORMANCE – THE CASE OF SLOVENIA

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KEY WORDS: managerial ownership, ownership gap, listing, ownership concentration, corporate governance, firm performance

NON-TECHNICAL SUMMARY/ABSTRACT
(400 words)

The Slovenian way to privatize involved the allocation of substantial ownership rights to inside owners (employees, former employees and their relatives). The managers however, obtained only minority stakes. While they got less than 4 percent of firm capital, their ownership appetites are much bigger with the 'desired' ownership level exceeding 20 percent. Since the managers are the ones driving the ownership changes in the years following privatization, their 'desires' are probably the ones determining the ownership changes in the post-privatization period. The authors in fact illustrate that increases in managerial ownership actually take place. The concentration of ownership in the hands of powerful insiders is most prominent in non-public firms, where the transfers of ownership take place at relatively low prices and remain mostly undisclosed to the public.

The article does not discuss the fairness or the observed redistribution of the privatized capital. Its main aim is to provide the answers to some basic economic questions. What is the impact of the existing and increasing managerial ownership on firm economic/financial performance? Does the accumulation of voting power in the hands of managers provide the latter with the right incentives to do better? Is managerial ownership efficient in aligning the interests of managers with those of firm owners, namely in solving the 'traditional' agency problem? Are there any other mechanisms that shareholders use in order to direct managerial behavior towards the maximization of shareholder value? Last but not least, what are the consequences of the current in-satisfaction of managers in relation to their participation in the firms' capital for the performance of Slovenian corporations?

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Upon the empirical analysis of 136 Slovenian firms, the authors find that:

- managerial ownership is still rather limited in size;
- Slovenian managers want higher stakes in the firms they manage;
- managerial ownership has on average a positive impact for firm performance;
- listing, ownership concentration and managerial ownership improve the ‘agency relationships’ in Slovenian corporations;
- managerial dissatisfaction with ownership and the desire to accumulate more wealth harm firm financial performance but has no effect on the economic performance;
- the negative effect on financial performance does not realize in listed firms, leading to the conclusion that:
    - **listing on the Stock exchange is beneficial** for investor protection;
    - there is a need for the ‘policy recommendation’ that would motivate the **larger non-public firms to list.**

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