Czech Privatization: Players and Winners

Josef Kotrba

CERGE-EI and University of Pittsburgh

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Abstrakt

Tento článek je zaměřen na chování různých skupin ekonomických subjektů participujících ve velké privatizaci. Protože velká privatizace souvisí s ostatními privatizačními programy, stručně popíšeme také restituce, malou privatizaci a bezúplatný převod majetku městům a obcím. Poskytneme deskriptivní analýzu pravidel a postupů ve velké privatizaci, identifikujeme nejdůležitější účastníky procesu a analyzujeme strategie, které mohou v rámci pravidel hry uplatnit. Na vzorku 201 firmy demonstrujeme použití těchto strategií různými typy účastníků a jejich relativní úspěšnost v celém procesu.

Abstract

This paper is focused on behaviour of different groups of economic agents participating in large scale privatization. Since large scale privatization has many interactions with other privatization programs, we will also briefly describe restitutions, small scale privatization and property transfer to municipalities. We will present descriptive analysis of rules and procedures of large scale privatization, identify the most important bidders for privatized property and analyze strategies they can use within given rules. On sample of 201 firms we will demonstrate use of those strategies by different bidders and their relative success in the process.

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Introduction

Privatization in the Czech Republic is (together with privatization in former East Germany) the biggest transfer of public property to private hands in modern economic history[1]. It has had, and will have in the future, major influence on capital and income distribution in the Czech society. Over 6 millions inhabitants received free shares in voucher privatization, the value of shares of the most successful investors was over five times average annual income of employees. Tens of thousands small and large businesses were auctioned, sold in tenders, or sold directly to private entrepreneurs. Another impact on income distribution is due to changes in employment and wage policy of former state owned companies caused by new ownership control.

In this paper, we will focus just on one aspect out of many: how different participants of privatization process attempted to buy firms or parts of firms within large scale privatization, and how successful they were in getting their proposals approved. In section 1, we will provide an overview of different privatization programs and their relative importance. Section 2 will describe in detail rules and procedures of large scale privatization, section 3 will list possible players in privatization process and outline general features of privatization strategies. Section 4 describes source of data for observations on the use of different strategies described in section 5. Section 6 presents results of the process: who gets his project approved and under which conditions. Section 7 presents main conclusions.

1. Scope of privatization programm

Privatization in the Czech Republic was divided into several different programs. The first program adopted by former Czechoslovak parliament consisted of restitutions, which legalized returning certain property to its previous owners. Restitutions were limited both as to who was entitled - only Czechoslovak citizens were qualified - and with respect to which property was concerned. In general, property confiscated before the communist takeover was excluded from all restitutions. Restitutions, adopted between late 1990 and mid 1991, had significant impact especially in early days of privatization and in certain branches, such as retail trade in smaller cities, housing and agriculture.

[1]For overview of privatization programs in the region, see Frydman, Rapaczynski and Earle (1993). Detailed description of Czech privatization is given by Kotrba and Svejnar (1993).

Second was "small scale privatization", which consisted of smaller units sold in public auctions[2]. Law on small privatization was adopted soon after restitution legislation, and the first auctions started in second quarter of 1991, last one took place in late 1993. Small scale privatization was rarely used for privatization of whole companies. In most cases, some property was separated from state owned enterprise and sold separately. As income from privatization was deposited at special accounts of Fund of National Property, and no part of liabilities of state owned enterprise went with auctioned unit to new owner, firms were pure losers in small scale privatization. Small scale privatization was focused prevailingly on small businesses in retail trade, catering and services.

In addition to restitutions, small scale privatization and large scale privatization, described in more detail below there were two other important programs. The first of these was the transformation of cooperatives, which was important particularly in agriculture, but also in retail trading and other branches. The second was the transfer of property to municipalities, which was started by major one shot transfer in 1991 and later continued (in smaller extent) within large scale privatization.

Quantitative impact of each privatization program was following: transferring to municipalities, from which benefited around 6 000 municipalities, involved property worth CSK 350 bil. just in 1991. Municipalities gained additional property within large scale privatization. Restitutions involved property valued between CSK 75 and 125 bil. and small privatization has reached sales amounting to CSK 31 bil[3].

Large scale privatization concerns most of state owned assets in industry, agriculture and trade. For illustration: officially reported book value of capital in the Czech Republic in 1990 was 2,604 billions CSK, including houses, castles, railways and other not privatized property. Total book value of 800 enterprises planned for privatization in first wave amounted to approx. CSK 680 bil.; part of enterprises scheduled for first wave was, however, moved into second wave. Second wave covers around 2 000 enterprises worth approximately

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[2]Detailed comparative description of similar programs in Eastern and Central Europe is given in Gacs, Karimov and Schneider (1993).

[3]Property for large scale privatization, restitutions and transfer to municipalities is valued according to book value, based prevailingly on historical prices. Property for small scale privatization is valued at price from the auction in current CSK from the time of auction.

CSK 550 bil.

Large privatization started rather slowly: within first 8 months of the programm, just 27 projects were approved. In 1992 the process speeded up - first wave of voucher privatization started in May and all projects containing voucher privatization had to be approved by April. Until December 31, 1993, the Ministry of privatization approved projects on property worth CSK 871,6 bil. Out of that, property worth 754 bil. was transformed into joint stock companies. Most of these joint stock companies were partly privatized within voucher privatization[4]. The equity value of Czech companies offered in first wave of voucher privatization amounted to 345 bil. CSK (including over 40 companies controlled by former Czechoslovak federation, and hence not counted in figures referring to Czech ministry of privatization), and 212.5 million shares out of 345.3 was offered for vouchers. Equity value of companies privatized in second wave (excluding those which took part also in first one) totalled to 298 bil., and out of 298 mil. shares 130.6 mil. are offered for vouchers.

2. Rules of large scale privatization

The framework for large scale privatization, adopted in late 1990, focused on two partly conflicting goals. The first goal was to enable fast privatization of a large part of industry, trade and agriculture. That is why its authors rejected proposals in which privatization was viewed as one of many tools to restructure individual enterprises. In their view, restructuring should follow privatization and should be accomplished by the new private owners. The second goal was to introduce as much competition into the process as possible. Anybody had the opportunity to submit a privatization proposal, and, as we will see later, there was some probability of success for even relative outsiders.

Privatization of each enterprise is based on privatization projects. These can propose privatization of the whole firm as it is, however, they can also propose division of the firm into number of smaller units. Those units might or might not have status of entire firms. The management of the state owned enterprise has to submit a so called basic project, which addresses the whole firm. Other bidders can focus their projects either on the whole firm or on one or more parts. Each privatization unit can be then privatized through one of five eligible privatization methods:

[4]For detailed analysis of the first wave of voucher privatization see Singer and Svejnar (1994).

1) transformation into joint stock company and further transferring of the shares (i. e. by voucher privatization),
2) direct sale to a predetermined buyer,
3) public auction,
4) public tender or
5) transfer to municipal property, social security, health insurance and other publicly beneficial institutions[5].

Projects proposing a transformation into a joint stock company have to contain a division of shares. The following methods were allowed for the distribution of shares: free distribution via vouchers, direct sale to domestic or foreign buyers, intermediated sale - through stock market or other financial institution. In addition, up to 10 % (later 5%) of shares could be transformed into employee shares and sold for a special, usually lower, price. Moreover, shares could be transferred for free to the same benefitors listed under method 5. Some shares could be kept permanently or temporarily by the state. Permanent state ownership, in some cases accompanied with special rights to veto certain key decisions (golden share) usually indicates an intention by the state to preserve influence in particularly important companies. Temporary state ownership is often used to give additional time for negotiations with large investors without extending time for privatization of the rest of company. Finally, a small fraction of shares of every company (usually 3 %) is given to a special Restitution Investment Fund, the shares and profits of which are used for compensation of outstanding restitution claims.

The process was divided into several steps. In June 1991, the government published the list of state owned enterprises indicating which firms will be privatized within first or second wave of privatization and which will not be privatized within next five years. Later, a list of firms assigned for participation in voucher privatization was published. Basic projects of those firms had to involve voucher privatization and number of shares for vouchers in each company was negotiated between Ministry of Privatization, founding ministries, management and the Center for Voucher Privatization even before formal approval of projects. Basic privatization projects for the first wave (second wave followed basically the same procedure) had to be submitted to the Ministry of Privatization by November 30, 1991. Competing projects enjoyed a prolonged deadline until January 20, 1992. The next step was for the founding ministries[6]

[5] Number of privatization units and total book value of property privatized by different methods is summarized in Table 1 in the Appendix.

[6] Founding ministries, one for each major branch (now Industry and Trade, Agriculture, Transportation and Health) are responsible for exercising certain property rights over state owned enterprises.

to suggest either to accepting or rejecting each project. Final decision (with certain exceptions) was made by the Ministry of Privatization. This decision had to be made by April 31, 1992 for those privatization units which were transformed into joint stock companies and took part in the first wave of voucher privatization. Decisions on projects for firms or smaller privatization units which were not enclosed into voucher scheme could have been made anytime since mid 1991. Privatization using direct sale to predetermined buyer has to be approved by the Government.

After a project for privatization of a firm (or smaller unit) is approved by the Ministry or the Government, its property is transferred to Fund of National Property. This Fund serves several purposes. In particular, it:

a) Realizes the final sale or transfer of privatized property to owner(s), proposed by the approved privatization project and collects the proceeds of the sale.
b) Exercises property rights over unsold property and shares of firms permanently or temporarily kept by the state.
c) Uses its financial sources for legally determined purposes, including financing the writing off bad debts of selected companies, capitalization of the local banking sector and other activities connected with the financial restructuring of Czech economy.

In most cases, privatization of an individual firm is finished at the Fund by sale according to approved project. However, an approved bidder might fail to buy the property from the Fund, or might not fulfil the duties in terms of schedule of payment or other obligations following from the privatization project. In those cases the Fund ends up keeping property not intended to stay in state’s hands. However, the Fund does not have the power to sell such property on its discretion and new decision regarding it must be made by the Ministry of Privatization.

Privatization of each individual firm is therefore a complex process with many economic agents involved. The most interesting agents - possible submittors of projects and buyers of privatized firms - have considerable space for different strategies. Some constraints are given by regulations regarding pricing. These differs across methods of privatization and across status of proposing buyer. In all cases, a book value has to be stated in the project: for this purpose, a copy of balance sheet of the enterprise must be attached to determine net worth. Real estate must be priced according to valid by-law (which in most cases significantly differs from the book value). In addition, an estimate of out-of-balance sheet assets has to be provided. For public auctions and tenders, this book value is taken as a basis for the starting price, for direct sales to domestic buyers it is the sale price For transformations into joint stock companies, it determines initial claimed equity values.

For direct sales (of privatization units as well as of shares of JSC) there is special discrimination against foreign buyers: domestic buyers are entitled to buy property for its stated book value, whereas foreign buyers must submit price proposal based on audit by an independent accountants. This proposal is then subjected to further negotiations. The lawmakers intended this provision as an advantage for local buyers; in fact, the book value is often based on assets of dubious worth, so that even local bidders often submitted audited estimates of value to reduce purchasing price below the stated book value.

3. Players and strategies

As we have mentioned above, Czech privatization scheme allows anybody to submit a privatization project. Except for the management of companies, which was obliged to submit a project whether or not they wanted to buy some property, most of the other participants have submitted projects to privatize some property for them or third party. Table 2 in Appendix shows breakdown of projects according to submittors. Out of 23,478 projects (concerning 4,450 state owned companies), 21 % was submitted by companies' management. The largest group, however, are projects submitted by those who propose to buy certain part of the company (49 %). Other important groups of participants are lower level management, local government, consulting firms and restitution claimants.

The strategy of the management was largely determined by whether the firm was involved within voucher scheme or not. If not, management was free to suggest sale of the whole firm by any eligible method, or to divide the firm into two or more privatization units and privatize each one separately[7]. In cases where voucher privatization was required, management had to transform the bulk of the firm into joint stock company. This does not mean that its role would remain passive: it could, similarly to in non-voucher case, suggest division of the firm into more privatization units (see Table 5 in the Appendix) and privatize some part by other methods. Moreover, management can suggest

[7]In some cases, especially where negotiation with key strategic foreign partner took place, founding ministry or even the Government played far more active role and management's influence on final decision was proportionally lower.

not to distribute part of the shares through voucher privatization and privatize them in other eligible way. There are six major groups of management's strategies:

a) buy whole firm on own account directly;
b) get some share on firm's property (e.g. buy directly shares of company privatized through vouchers);
c) pick the raisins: i.e. privatize the most interesting parts of the firm on own account and leave other parts;
d) get rid of junk - similar as in the raisin case; management privatizes larger part;
e) act as an agent of third party - can use analogical strategies as in cases a) through c);
f) submit privatization project without getting a share of property and keep collecting benefits from managerial position and
g) make privatization as lengthy as possible and use lack of ownership control to support private activities.

Apparently, strategies b and c are feasible only in firms with more than one individual establishment. To select between strategies, management has to consider (i) difference between book value (in most cases the basis for the purchasing price) and expected market value or discounted future profits and (ii) probability of approval. This can be influenced by several factors: bias of the decision makers against or for certain methods under certain conditions (direct sale suggested for firms intended to be involved in voucher privatization), structure of privatization project, and number and quality of competing projects. In addition to own privatization project, management can use in his strategic behavior other devices. To an extent, they can bias book value, by artificially decreasing (or increasing) profit to deter competitors, lower purchasing price and influence probability of getting the project approved.

Apart of strategies a) to e), where managers can choose from the same methods and their combinations as other players, there are two management specific strategies. Apparently, strategy f) - getting no share on ownership and remain in the position of management - is used widely. To illustrate that, we can just mention that 440 out of 988 Joint Stock Companies privatized in first wave of voucher programm in the Czech Republic had proportion of shares offered for vouchers higher than 95 %. Since 3 % of shares of every JSC are given to Restitution Investment Fund, there is no space left for managers to buy out their firm within privatization. Last strategy, based on hindering privatization, is also used with some chance for success. As Table 3 of the Appendix demonstrates, out of 2,404 firms from first wave of privatization no decision was reached in 276 cases until December 31, 1993 (remember that deadline for management's projects was end of 1991). Privatization process in those firms hence exceeds three years.

Other bidders did have the opportunity to enter the process knowing management's proposal - they had later deadlines. Moreover, they could have observed management's behavior mentioned above and acted accordingly. In the next sections, we will deal with three additional groups of players: proposed buyers, lower level management and restititution claimants. These groups, together with management, accounted for over 75 % of projects submitted (see Table 2 of the Appendix). Apart of those groups, quite frequent proposers were District privatization commissions, formed to run auctions of small scale privatization. Their proposals were focused on auctions and did not have important impact on large scale privatization (most of them were rejected). Local governments proposed free transfer of property. Consulting firms worked either for management or for other possible buyers. Moreover, broad variety of other players included employees, lessees, ministries, trade unions etc.

Proposed buyers could basically copy the strategies of management. Moreover, as they were not obliged to submit project on whole firm, they could have "picked the raisins" without submitting project for whole firm. Offsetting this advantage in comparison with management, they had less information and no possibility of manipulating results of companies to deter entry of potential competing buyers. To offset that, buyers often form coalitions with management and let managers work as their agents[8].

Lower level management faced similar conditions as proposing buyers (does not have to submit any projects, does not have to propose privatization for whole firm) but has inside information and a possibility to manipulate results of the company. An important factor in lower management's bids was their relationship with firm management, in particular, whether they formed a coalition or firm management fights to keep control over the whole firm.

4. The sample

Tables 1, 2 and 3 of the Appendix summarize prevailing part of information available on process of submitting and approving privatization projects. From

[8]For example, most of the important direct sales to foreign buyers were done according to projects submitted by the management - clearly, management worked as an agent of those foreign companies.

this source, we can learn relatively little about patterns in privatization. We do see that the average size of units privatized by direct sale, public tender or auction is far smaller that size of joint stock companies and that privatized companies tend to break into more during privatization. To see which strategies were typical for different submittors and what was response by the decision makers we need far more detailed information. This is contained in The records of the Ministry of Privatization, which has basic information on every project submitted since 1991.

Their database is organized in 31 subdatabases, each of them containing only a part of relevant information on privatization projects. Because of the complex structure of the database, its size and confidential character, it was impossible to work with total population. Therefore, we work with stratified random sample of 201 firms. As database of total population was not available, sample was chosen out of 1,605 firms, where at least one unit was approved for privatization before May 1992. Our sample hence consists prevailingly from firms privatized within first wave. Out of firms where decision on privatization was reached (so that there are no remaining undecided projects), 117 took part in voucher privatization and 72 were privatized by other methods and projects on 12 firms are still waiting for decision (see Table 8).

Comparing Tables 1 and 16, we see that our sample is representative as to results of privatization. Structure of privatization units and privatized property according to privatization methods in the sample is very close to that of total population from end of 1992.

5. Players and strategies in view of empirical results

In our sample, we can find the use of all major groups of strategies described above. 107 firms (out of 189 completely decided) were privatized as one unit. From that, 48 firms were not involved in voucher privatization. As can be seen from Table 11 in the Appendix, management suggested direct sale in 16 cases (being successful in 11 of them). Those cases can be interpreted as representing either strategy a), buying the firm without picking raisins or getting rid of least interesting parts of the enterprise, or its analogy when management is working as agent of third party. Relatively frequent suggestions of public tenders or auctions might be interpreted as sign of no interest of management on privatization. However, due to pricing rule for domestic bidders (price is 100 % of book value) it also may indicate that management's reservation price differs from official valuation and that they can get the property cheaper in public auction or tender.

Firms involved within voucher privatization are the most likely candidates for strategy b) - as buying of the whole firm is not possible, managers who want to get ownership control over their enterprise should look to purchase some shares directly. Both data on first wave of voucher privatization[9] and data on the sample of 201 enterprises show that direct sale of shares is relatively rare approach. In latter group, direct sale to domestic buyer was suggested in case of 14 companies and approved in 12 of them. Total number of projects submitted by the management was 12, and four of that suggested to privatize part of the firm by other methods - one with combination of direct sales, auctions and free transfer (total of privatization units is in this case 44), one with free transfer and one with auction. In those cases, strategy d) seems to be reasonable explanation - management is trying to get rid of less interesting parts of the firm. Foreign direct sale is observed at 9 companies, whereas only in one case the project suggests to split the firm. All 9 projects have been submitted by management, which illustrates case when management works as an agent of third party. Only one of 9 projects combined transformation with public auction.

The relatively rare occurrence of direct purchase of shares can be to high degree attributed to the pricing rule of shares. If management expects the shares to have a lower market value than their nominal price (i.e. management values the company to less than its book value) it is rational to delay purchase of shares until they are traded in the stock exchange. In many cases like that, shares remain temporarily in the portfolio of Fund of National Property (for proportion of shares remaining with FNP see Table 17).

However, cases such as 34 projects proposed by the management suggesting privatization of the firm as single unit Joint stock company with 95% and more shares offered for vouchers (see Table 14) show in most cases there was no interest of management in getting ownership rights on their company[10].

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[9]Direct sale of shares by domestic buyer was observed in 90 out of 988 companies involved in the first wave of voucher privatization; in 42 companies there was foreign direct buyer (see Table 5). In most companies, these purchases did not mean control over company and in total, they accounted for only 3.4 % of face value of shares of companies involved in voucher privatization (see Table 6).

[10]Often discussed, but so far not proven by systematic evidence, are coalitions between managements and investment privatization funds.

Remaining 82 firms were privatized within two or more privatization units. As it is clear form Table 8, firms involved in voucher privatization had higher tendency to be divided than other. Most of this effect can be attributed to number of establishments of privatized firms: firms involved in voucher privatization were far larger, and had more establishments[11]. In most cases, management is major submittor of projects with more than one privatization unit. In average, projects submitted by management suggested division of firms into 2.48 units (see Table 9). Apart from cases when there is a clear intention of management to buy one of the units and not to buy others, it is hard to distinguish between "raisins" and "junk".

Among rare cases where identification of such variants is possible are projects suggesting splitting of state owned company into more units, one of them privatized as JSC solely or nearly solely by vouchers. Such joint stock company can hardly be "raisin" as the management shows no intention to control it, while remaining parts of the company are likely to have "raisin" among them. Table 14 shows that out of 51 projects including formation of JSC and privatization of 95 % and more of shares by vouchers, exactly one third suggests division of former state owned enterprise into more units. Proportion of these cases, which involve either most passive strategy f) or "picking the raisins" on total projects with that high proportion of vouchers does not differ from overall proportion of splitted projects on projects including vouchers. Since projects involving lower proportion of shares involve strategy b) - getting share on property - where "getting rid of junk" should occur instead of "picking the raisins" similar (even slightly higher) proportion of proposed splits of the firm, we can claim that both strategies can be observed and their rate of use is comparably high[12].

Strategies employed by lower management involve "picking the raisins" of larger firms (typical example are 19 projects in 9 firms to be privatized in voucher privatization where lower management suggested direct sale of part of the firm - see Table 15). In other cases, lower management competed with management of the firm for control of whole company: in the group of

[11] Average size of privatized property per one firm involved in voucher scheme was 561 mill. CSK compared with just 55 mill. CSK for other firms (number of firms in Tab. 13, values of property in Tab. 16).

[12] Lizal, Singer and Svejnar (1994) paper on companies' breakups presents formal model on both motivations for breakups. Testing for hypothesis whether one or other is typical or prevailing fails to give conclusive answer. In view of our results, this is probably caused by similar occurrence of both of them.

companies privatized as single unit, two projects out of 13 addressed whole company. Projects submitted by lower management also document that strategy based on managerial position without ownership is desirable in some cases. 23.5 % of projects submitted by lower level management on companies involved in voucher privatization suggested to privatize part of firm the project covered as joint stock company offered in 95 % and more for vouchers (see Table 14). Since lower level management is not obliged to submit privatization project by the law, these cases show that lower management pursues costly (in terms of effort) attempt to split the firm without getting ownership control.

Proposed buyers differ from both groups of managers. Unlike firm managers, who submit majority of projects on transformations to joint stock companies (see Table 13), proposed buyer focus their attention to direct sale, almost in all cases without combining direct sale with other methods - which clearly identifies strategy a. Transformation in joint stock company, second most frequently used privatization method indicated in most cases strategy b. Relatively frequent suggestions of auctions and tenders can be interpreted in some cases as "getting rid of junk". However, in most cases tenders and auctions are the only method suggested, which does not admit such interpretation: there is no rational explanation why should proposing buyer use his resources to help someone else by making major part of firm better. This implies, that auctions and tenders serve as one of the means to pursue strategy a) on the whole firms, or to "pick the raisins".

Proposed buyers tend to use the advantage not to cover the whole firm by their project. Average project submitted by proposed buyer involves 1.11 privatization units (see Table 9). This is even more true about restitution claimants, who submit projects on units connected with their restitution claim. In our sample, no restitution claimant has submitted project on more than one unit.

6. Who are the winners

First look at the results of approval process (see Table 7) seems to give straight answer on this question. Out of 257 projects submitted by managers over 62 % was approved, whereas all other submittors succeeded just in 17.3 % of cases. Over 53 % of all approved projects was submitted by managers. Together with slightly less successful lower level management, management looks like clear winner of the process.

This picture of privatization is, however, highly misleading. In 51 out of 201 firms, there was no project submitted by other bidders than management. On the other hand, 14 firms have attracted more than 10 projects by other bidders than management. Even though not all of those projects were competing against each other (some of them bided for different establishments of the same firm), competition tended to be concentrated on most attractive privatization units.

Phenomenon of non competing projects is highly unlikely in cases when whole firm was privatized as single unit: any project had to compete either for whole firm, or was trying to pick the raisin. Of course, it is possible theoretically that two projects would try to pick two different raisins of the firm and therefore not compete against each other. In our sample of 107 firms privatized as single unit, occurrence of such case is not proven[13]. For 48 firms not involved in voucher privatization total of 137 projects was submitted. Out of that, 53 was submitted by management, 45 by proposed buyer and 39 by all others. Comparison of success of managers and proposed buyers for those firms gives quite different picture than that mentioned above: managers submitted projects for 42 firms, succeeding in 28 of them - rate of success is exactly two thirds. However, in 15 firms they faced no competition and succeeded in all of them. In those firms where they competed with other players, they succeeded in 35 % of firms. Proposed buyers submitted projects for 27 firms and succeeded in 44 % of them. This means that as a group they were more successful than managers.

Another factor reducing optical success of managers is the fact that managers suggested quite frequently auctions and tenders, where they may not get the property[14]. In case of single unit privatization, out of 39 projects on auction or

[13]It cannot be rejected since for certain projects, identification of targeted property is missing.

[14]As we have mentioned above, proposing auction or tender might be consistent with both intention to buy some property as well as with strategy

tender less than a half (18) projects were submitted by managers. However, out of 17 approved 13 was submitted by managers - without necessarily giving more property than others. As shown in Table 13, which summarizes projects according to submittors and result for all firms (not just those privatized as single unit), managers were far more successful with projects on auctions and tenders than other bidders in general.

In firms privatized as more then one unit, success of proposing buyers is smaller. If we look just at direct sales (see Table 15), managers succeeded in 14 out of 22 firms which were in voucher privatization, whereas proposed buyers in 17 out of 62 where they suggested to sell either the whole or part of the firm directly. This is, however, partly caused by attempts to get the whole firm out of voucher privatization, which has extremely low probability for getting approval. All groups of submittors were more successful in firms not involved in voucher privatization, but management has kept its lead over proposed buyer.

After all, managers were the most successful players in privatization game. However, rules of large privatization enabled entry of other agents too. As we have demonstrated above, they did have reasonable chance for success and did have important impact on results of privatization process. Success of the management was partly due to the fact they deterred entry and hence won without any competition instead having good results in the competition.

7. Conclusions

Large scale privatization programm has proven to be an useful device for privatization of large proportion of an economy. However, its results did not fully meet intentions of its authors. The system have enabled reasonable extent of competition and have prevented rather impopular situation when management gets everything. However, broad space for different ways of privatization made the process of decision making too complex and, therefore, rather lengthy. Also the intention to let the new owners restructure have proven not to be viable in many cases. Not only that privatization ends in changes of organizational structure of privatized firms (see Tables 4 and 8 for figures on splitting firms into multiple privatization units), but in many cases, state has to step in restructuring firms already privatized. Good examples are firms like Aero, Skoda and others.

"getting rid of junk". Unfortunately, there is no evidence on who wins the auctions and tenders and what is the resulting price.

Voucher privatization, which was intended as major factor contributing to high speed of the process succeeded to distribute ownership to broad public. However, it failed to be the simple method reducing requirements on decision making capacities to minimum. In fact, according to data published before the bidding process for vouchers started, 388 out of 988 firms in voucher privatization was not privatized as single unit and former state owned enterprise was splitted in more companies. This figure understates real number of splits since it is based on number of privatization units which were approved in that time. In fact, parts of firms involved in first wave of voucher privatization were privatized later and some of them are still waiting for the decision. In our sample, we found that just approximately one half of firms privatized in vouchers was privatized as single unit. Moreover, in more than half of those companies only a part of shares was privatized by vouchers: out of 429 companies privatized as single joint stock, in 257 cases vouchers were used for distribution of more than 95 % of shares, remaining 137 cases involved combinations of vouchers and other methods.

As a result, speed and simplicity was sacrificed in favour of inducing competition and providing flexible framework for privatization of individual firms. As we have demonstrated in sections 5 and 6, both flexibility and space for competition were provided in an extent which sufficed for having wide variety of privatization outcomes (from joining several firms in one privatization unit to splitting one firm into 10 and more smaller ones) and for non management bidders to get reasonable chance to compete.

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TABLE 1: PROGRESS OF LARGE SCALE PRIVATIZATION IN 1992 - 1993: APPROVED PRIVATIZATION PROJECTS[1)]

Privatization method: number of firms value of property	Cummulative results since 1991			
	1992		1993	
	June	December	June	December
Public Auction	218 2,650	336 3,881	431 5,634	514 5,811
Public Tender	147 5,953	300 l0,436	424 16,434	502 19,188
Direct Sale[2)]	524 14,077	986 26,613	1,359 38,016	2,422 62,288
Privatization Joint Stock Comp.	1,120 380,001	1,218 420,171	1,327 534,779	1,777 754,263
Unpaid transfer	786 7,395	1,052 9,633	1,352 12,772	2,318 30,013
Total	2,795 432,318	3,900 470,734	4,893 607,635	7,533 871,563

Source: Ministry for Privatization of the Czech Republic

1) Former federal property is not included.

2) Includes certain restitutions

TABLE 2: SUBMITTORS OF PROJECTS IN THE CZECH REPUBLIC: PROJECTS SUBMITTED BY DECEMBER 31, 1993

Project submitted by	1991 - 1993	
	Total	%
Management of company	4,902	20.88
Management of establishment	687	2.91
Bidder for purchase of company	11,398	48.55
District Privatiz. Commission	1,097	4.67
Restitution claimants	629	2.68
Local government	713	3.04
Consulting firms	535	2.28
Others and unidentified	3,517	14.98
Total	23,478	100

Source: Ministry of Privatization of the Czech Republic

TABLE 3: PRIVATIZATION PROJECTS AND PRIVATIZED ENTERPRISES IN THE CZECH REPUBLIC, DECEMBER 31, 1993

Wave	First		Second	
Number of	projects	firms	projects	firms
projects submitted	11,349	2,404	12,126	2,046
decision reached	10,514	2,128	5,447	998
projects approved	3,669	1,963	3,132	894
--project rejected	6,845	165	2,345	104
-undecided	935	276	6,649	1,048

Source: Ministry of Privatization of the Czech Republic

TABLE 4: STRUCTURE OF PRIVATIZATION ON JOINT STOCK COMPANIES PARTICIPATING IN FIRST WAVE OF VOUCHER PRIVATIZATION

	No. of privatization units into which was privatized state owned enterprise divided[1)]				
	1	2-4	5-9	10 -	Total
Czech JSC	600	248	99	41	988
Slovak JSC	320	108	70	5	503
Total CSFR	920	356	169	46	1,491

Source: Database published by Center for Voucher Privatization

1) In some cases, more than one units were privatized within voucher privatization. Each company is then counted separately. 1,491 Joint stock companies were established from 1,309 original state owned enterprises.

TABLE 5: PRIVATIZATION OF JOINT STOCK COMPANIES: COMBINATION OF VOUCHERS AND OTHER PRIVAITZATION METHODS IN THE FIRST WAVE

Privatization method used	JSC	Percent of shares privatized				
		0	0-25	25-50	50-75	75-
Vouchers	Czech	0	14	108	177	689
	Slovak	0	7	2	49	419
	CSFR	0	21	136	226	1,108
Direct sale Domestic buyer	Czech	898	24	28	35	3
	Slovak	472	11	9	10	1
	CSFR	1,370	35	37	45	4
Direct sale Foreign buyer	Czech	947	12	14	15	1
	Slovak	493	2	5	2	0
	CSFR	1,430	14	19	17	1
Fund of Nat. Property: Temporary	Czech	658	217	83	17	3
	Slovak	492	21	37	11	2
	CSFR	1,140	238	120	28	5
Fund of Nat. Property: Permanent	Czech	960	23	5	0	0
	Slovak	472	3	17	6	0
	CSFR	1,437	26	22	6	0

Source: Database published by Center for Voucher Privatization

TABLE 6: PRIVATIZATION OF SHARES OF JOINT STOCK COMPANIES

Method of privatization	December 31, 1992		June 30, 1993	
	Face value[1)]	%	Face value	%
Intermediated sale	6,099	1.6	6,193	1.4
Vouchers	238,345	62.2	271,324	61.4
Dir. sale domestic	6,683	1.7	8,194	1.8
Dir. sale foregn	6,647	1.7	7,103	1.6
Temporary FNPr.	59,354	15.5	71,200	16.1
Permanent FNPr.	327	0.1	329	0.1
Free transfer	43,406	11.3	49,763	11.3
Employee shares	5,846	1.5	11,389	2.6
Other	16,540	4.3	16,550	3.7
Total	383,247	100	442,145	100

Source: Ministry for Privatization of the Czech Republic

1) Millions of CSK. Based on face value of shares. Equity capital of transformed JSC is set according to book value of property privatized within it. As some adjustment are feasible and part of firm's assets is put into reserves, equity capital is generally lower than book value.

TABLE 7: PRIVATIZATION PROJECTS ACCORDING TO SUBMITTORS

Project submitted by	Firm in voucher scheme	Number of projects			
		subm.	appr.	rej.	undec.
Firm Management	both	257	160	94	3
	yes	171	117	53	1
	no	86	43	41	2
Lower Management	both	75	24	47	5
	yes	66	24	40	2
	no	7	0	7	0
Proposed Buyer	both	423	73	322	28
	yes	283	44	227	12
	no	140	29	95	16
Restit. Claimant	both	60	10	48	2
	yes	37	4	33	1
	no	22	6	15	1
District Priv. Committee	both	82	20	61	1
	yes	21	1	20	0
	no	61	19	41	1
Total	both	1054	298	719	37
	yes	694	196	481	17
	no	360	102	238	20

Source: Database of the Ministry of Privatization, sample of 201 enterprises

TABLE 8: SPLITS OF FIRMS[1)] AS A RESULT OF PRIVATIZATION

Firm splitted into following no. of privatization units:	Involved in voucher scheme:		
	yes	no	all firms
added to other company	2	2	4
1	59	48	107
2	20	6	26
3	8	5	13
4	8	4	12
5	5	2	7
6	4	2	6
7	4	0	4
8	0	2	2
9	1	0	1
10 and more	6	1	7
Total no. of firms	117	72	189

Source: Database of the Ministry of Privatization, sample of 201 enterprises

1) Based on subsample of approved projects on firms for which no undecided project remains so that number of privatization units is final.

TABLE 9: SPLITTING OF FIRMS AND PROJECT SUBMITTORS: AVERAGE NUMBER OF PRIVATIZATION UNITS PER PRIVATIZATION PROJECT[1)]

Project submitted	All firms		Vouchers		Non voucher	
	Total	Appr.	Total	Appr.	Total	Appr.
Manag. of company	2.48	2.53	2.30	2.59	2.84	2.35
Lower manag.	1.08	1.25	1.09	1.25	1.00	n.a.
Prop. buyer	1.11	1.16	1.13	1.09	1.07	1.28
Restitut. claim.	1.00	1.00	1.00	1.00	1.00	1.00
All submittors	1.45	1.89	1.42	2.00	1.52	1.67

Source: Database of the Ministry of Privatization, sample of 201 enterprises

1) For 22 out of 1,054 projects information on number of units was missing. Averages are hence based on 1,032 projects for which number of units is bigger than zero.

TABLE 10: PRIVATIZATION METHODS: PRINCIPAL AND COMPLEMENTARY USE[1)]

Share on privatized property	Privatization method applied				
	Public Auction	Public Tender	Direct Sale	Transf. to JSC	Free Transfer
100%	7	11	29	64	2
above 90%	7	16	35	97	2
above 75%	8	16	36	110	2
above 50%	8	17	39	116	2
above 25%	12	21	43	117	3
above 10%	12	23	52	119	11
Total	18	31	72	119	51
One unit, one firm	6	11	26	62	2[2)]

Source: Database of the Ministry of Privatization, sample of 201 enterprises

1) Based on subsample of 185 firms for which no undecided project remains so that number of privatization units is final. 250 projects with missing information on size of privatization unit are omitted.

2) In one of those cases, prevailing part of the firm was not privatized and free transfer was in fact used as complementary instead of principal method.

TABLE 11: SIMPLEST PRIVATIZATION STRATEGY: ONE FIRM, ONE UNIT[1)]

Privatization method applied	Project submitted by				
	Firm manag.	Lower manag.	Prop. buyer	Restitclaim.	All proj.
Firms involved in voucher privatization					
Public auction	1	0	5	0	15
- approved	0	0	0	0	0
Public tender	1	2	5	0	13
- approved	0	0	0	0	0
Direct sale	4	0	22	6	35
- approved	0	0	0	0	0
Transf. JSC	70	6	14	1	98
- approved	55	3	1	0	59
Free transfer	2	0	6	1	13
- approved	0	0	0	0	0
Total projects	73	8	49	9[2)]	164
- approved	55	3	1	0	59
Proj. submitted on no. of firms	57	4	28	4	59
Firms not involved in voucher privatization					
Public auction	6	0	0	0	19
- approved	4	0	0	0	6
Public tender	12	0	3	0	20
- approved	9	0	1	0	11
Direct sale	16	2	31	6	63
- approved	11	0	11	4	26
Transf. JSC	18	2	5	0	32
- approved	3	0	0	0	3
Free transfer	1	1	6	0	13
- approved	1	0	0	0	2
Total projects	53	5	45	6	137
- approved	28	0	12	4	48
Proj. submitted on no. of firms	42	3	27	4	48

Source: Database of the Ministry of Privatization, sample of 201 enterprises

1) Based on subsample of 107 firms which were privatized as one unit.

2) Inconsistency of sum is caused by missing information on three (rejected) projects, for which there is no indication on privatization methods and number of privatization units.

TABLE 12: FREQUENCY OF PRIVATIZATION METHODS: PROJECTS, FIRMS AND UNITS

Methods applied in number of:	Firms		Projects		Priv. units	
	Prop.	Appr.	Prop.	Appr.	Prop.	Appr.
Public Auction	49	22	127	34	227	50
- voucher firms	28	8	54	8	76	18
- other firms	21	14	73	26	151	32
Public Tender	51	36	114	53	144	68
- voucher firms	26	14	67	30	78	35
- other firms	25	22	47	23	66	33
Direct Sale	131	78	473	106	541	144
- voucher firms	70	33	289	51	320	68
- other firms	61	45	188	55	221	76
Joint Stock Co.	160	126	335	141	353	152
- voucher firms	123	122	281	137	299	148
- other firms	37	4	54	4	54	4
Free Transfer	80	54	130	56	236	148
- voucher firms	54	37	96	39	186	123
- other firms	26	17	34	17	50	25
Total	201	197	1,054	298	1,501	562
- voucher firms	124	122	694	196	959	392
- other firms	77	75	360	102	252	170

Source: Database of the Ministry of Privatization, sample of 201 enterprises

TABLE 13: PROJECT SUBMITTORS AND PRIVATIZATION METHODS

Privatization method proposed	Project submitted by							
	Firm manag.		Lower manag.		Prop. buyer		Restit. claim.	
	tot	app	tot	app	tot	app	tot	app
Public auction	24	15	0	0	21	2	0	0
- single method	8	5	0	0	16	1	0	0
Public tender	33	27	8	5	46	17	0	0
- single method	15	11	8	5	38	14	0	0
Direct sale	64	36	23	4	294	53	37	10
- single method	30	13	23	4	281	49	37	10
Joint Stock Co.	189	120	41	13	54	4	2	0
- single method	127	73	39	2	43	3	2	0
Free transfer	52	43	3	2	29	5	7	0
- single method	1	1	1	0	21	0	7	0

Source: Database of the Ministry of Privatization, sample of 201 enterprises

TABLE 14: VOUCHERS AND SPLITTING THE FIRM[1)]

No. of projects submitted by: Firm divided to:	% of vouchers on equity capital					
	- 50	50-75	75-90	90-95	95-	Total
Firm management	39	37	30	17	51	174
- single unit	27	28	18	7	34	114
- more units	12	9	12	10	17	60
Lower management	9	8	6	1	14	51
- single unit	9	8	6	0	12	34
- more units	0	0	0	1	2	17
Proposed buyer	25	6	2	0	5	38
- single unit	24	4	0	0	5	33
- more units	1	2	2	0	0	5
All submittors	94	54	47	19	77	291
- single unit	78	43	32	8	58	219
- more units	16	11	15	11	17	72

Source: Database of the Ministry of Privatization, sample of 201 enterprises

1) Based on subsample of 291 projects with complete information on equity capital and number of shares proposed for distribution through vouchers.

TABLE 15: DIRECT SALES: SUBMITTORS AND SIZE OF THE UNIT

Project submitted by	Units for direct sale							
	Total submitted				Of that approved			
	FI	PR	UN	Avg. size	FI	PR	UN	Avg. size[1)]
Firms involved in voucher privatization								
Firm manag.	22	32	59	25,412	14	14	27	12,430
Lower manag.	9	19	21	38,353	2	4	6	10,061
Proposed buyer	62	186	194	32,681	17	28	30	13,423
Restit. claim.	11	20	20	17,614	4	4	4	19,977
All submittors	70	289	330	26,675	33	51	68	12,927
Firms not involved in voucher privatization								
Firm manag.	25	32	65	18,392	21	22	43	25,224
Lower manag.	3	4	4	14,450	0	0	0	N.A.
Proposed buyer	40	108	108	30,386	20	25	26	27,430
Restit. claim.	7	17	17	17,820	5	6	6	32,457
All submittors	61	189	219	24,432	45	55	76	25,981

Source: Database of the Ministry of Privatization, sample of 201 enterprises

1) PR = number of projects, UN = number of units, FI = number of firms for which projects submitted. For computation of average size, projects with omitted informantion on size are excluded. Size is given in thousands CSK of book value.

TABLE 16: PROPERTY PRIVATIZED BY DIFFERENT METHODS

Privatization method: number of units value of property[1)]	Firm was involved in voucher scheme		
	yes	no	all firms
Public Auction	18 259	32 330	50 589
Public Tender	35 929	33 1,356	68 2,285
Direct Sale	68 866	76 1,900	144 2,766
Joint Stock Company	148 64,844	4[2)] 367	152 65,211
Free Transfer	123 1,637	25 174	148 1,811
Total Property	392 68,535	170 4,127	562 72,662

Source: Database of the Ministry of Privatization, sample of 201 enterprises

1) Millions of Czech crowns

2) Two of four non-voucher joint stock companies were proposed for voucher privatization but were later withdrawn. Book value of those companies was 40 million CSK; they were privatized as two joint stock (worth 36 mil.) and one unit for direct sale (worth 6 mil.).

TABLE 17: PRIVATIZATION OF SHARES OF JOINT STOCK COMPANIES

Privatization method	Face value[1)]	%
Intermediated sale	896,746	2.31
Vouchers	20,172,008[2)]	51.86
Direct sale	918,702	2.36
Fund of national property	12,244,607	31.48
Free transfer	3,109,615	7.99
Restitution claimants	226,028	.58
Restit. Investment Fund	1,187,505	3.05
Equity capital	38,893,560	100.00
Book value of the company	43,834,998	x

Source: Ministry for Privatization of the Czech Republic

1) Thousands of CSK. Based on face value of shares - see note 1) at Table 6. Information on distribution of shares of 13 companies is missing, so that all figures in Table 14 represent just 139 Joint stock companies for which all information is available.

2) Number of shares for vouchers was subjected to several revisions. Equity capital was also changed in some companies during elaboration of projects.