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RIGORÓZNÍ PRÁCE

Corporate Governance and Ownership Concentration in the Czech Republic

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Prohlášení

Prohlašuji, že jsem rigorózní práci vypracoval samostatne a použil pouze uvedené prameny a literaturu.

V Praze dne podpis studenta

ABSTRAKT

Tato rigorózní práce se zabývá otázkami corporate governance a koncentrace vlastnictví v Ceské republice. Po teoretickém úvodu vysvetlujícím vztah mezi koncentrací vlastnictví a corporate governance je nastínen vývoj behem devadesátých letech a role privatizace a institucionálního prostredí v tomto procesu. Následne je blíže zkoumána soucasná situace v ceském korporátním sektoru (vcetne soucasného stavu koncentrace vlastnictví), zejména pak u spolecností kótovaných na Burze cenných papíru v Praze. Práce porovnává situaci v Ceské republice se situací v Madarsku a také s koncentrací vlastnictví v Polsku. V poslední cásti jsou pak zkoumány faktory prímo ovlivnující corporate governance v Ceské republice.

This thesis deals with issues of corporate governance and ownership concentration in the Czech Republic. The theoretical background that relates ownership concentration and corporate governance is followed by the overview of the developments of the 1990s, in particular the role of privatization and institutional framework in these developments is scrutinized. Then, the current situation in the Czech corporate sector (among companies listed on the Prague Stock Exchange in particular) – including ownership concentration – is examined. It is compared to the situation in the Hungarian corporate sector and to the ownership concentration levels in Poland. The final part looks at corporate governance drivers in the Czech Republic.

Résumé in English

This thesis examined corporate governance in the Czech Republic. The extra attention was paid to ownership concentration that has – as has been shown in Chapter 2 – crucial policy implication with respect to corporate governance. The past developments in the Czech corporate sector were reviewed in order to help us better understand the status quo of the Czech corporate governance. It has been shown that the institutional framework during the 1990s was very poor and in combination with unorthodox method of privatization resulted in the emergence of severe moral hazard problems. These developments adversely affected the Czech capital market, which thus did not function properly. However, certain improvements in the area of corporate governance have taken place in recent years and for example the first successful initial public offerings on the Prague stock exchange serve as an evidence of the improved functioning of the Czech capital market.

When the ownership concentration among the listed firms was examined, it was found that its level is exceptionally on the Prague Stock Exchange. The size of the average and median largest voting blocks was found to be 74,88 and 77,60 percent respectively. These figures substantially exceeded the figures for Hungarian and Polish listed companies that were also scrutinized. It was found that there are numerous firms in these two countries that exhibit rather fragmented ownership (largest voting block size below 30 percent) – the phenomenon unobserved among the companies listed on the Prague Stock Exchange. The findings have shown that the Czech stock market can be described as an outlier among emerging as well as mature markets with respect to ownership concentration. Therefore some implications for corporate governance are quite different from some other countries.

Eventually, it has been documented that although certain significant improvements have taken place in the area of institutional framework, the attitude to corporate governance of the key participants – the firms themselves – is rather poor. In vast majority, the companies do not comment on corporate governance in their annual reports.

List of Abbreviations

BSE	Budapest Stock Exchange
CG	Corporate Governance
CEE countries	Central and Eastern European countries
CZ	Czech Republic
CZK	Czech Crown
EBRD	European Bank for Reconstruction and Development
HU	Hungary
HUF	Hungarian Forint
IPF	Investment Privatization Fund
OECD	Organization for Economic Co-operation and Development
PL	Poland
PSE	Prague Stock Exchange
SEC	Czech Securities Commission
WSE	Warsaw Stock Exchange

Content

4.5 Implications of Corporate Governance Landscape.. 61

1 Introduction

Corporate governance has been defined in many various ways. Some of these definitions are very narrow while some are broad and sometimes difficult to understand. Since some of the definitions are not very clear I liked the idea of Oman, Fries, Buiter (2003) who explained the meaning of corporate governance by defining its purpose. They state that the purpose of corporate governance, in any country, is threefold:

- "*Facilitate and stimulate the performance of corporations by creating and maintaining incentives that motivate corporate insiders to maximize firms' operational efficiency, return on assets and long-term productivity growth;*
- *Limit insiders' abuse of power over corporate resources – whether such abuse takes the form of insiders' asset stripping or otherwise siphoning off corporate resources for their private use, and/or their causing significant wastage of corporate-controlled resources (the so-called agency problems) – which are otherwise likely to result from insiders' self serving behavior;*
- *Provide means to monitor managers' behavior to ensure corporate accountability and provide for reasonably cost-effective protection of investors' and society's interests vis-à-vis corporate insiders.*"[1]

As you can see, according to such broad conception, corporate governance seems to be very powerful – for example in dealing with the abuse from the insiders who expropriate other stakeholders. It is also true that some of the above mentioned fraudulent practices (such as asset striping) have been quite common in the Czech Republic in the post-privatization period.

Based on these assumptions and on the fact that the Czech capital market is still clearly not fully functioning (as will be shown later), my hypothesis is that the potential benefits of good and relevant corporate governance in the Czech

[1] see Oman, Fries, Buiter (2003)

Republic had not only been unutilized in the past, but – even more importantly – are still not fully utilized today.

Regarding my methodology, I am going to explore the current conditions on the Czech capital market as well as past developments that contributed to the current status quo (path dependency). I will take an extra care of institutional framework that has a key role in whole corporate governance concept. The ownership concentration will be scrutinized in detail since it has crucial policy implications for effective corporate governance. The level of ownership concentration itself is also partly determined by the institutional framework, so we will face a certain degree of cohesion as well. For comparison, a detailed analysis of developments in Hungarian corporate governance will be presented. I will also scrutinize the ownership concentration patterns in other Central and Eastern European economies, in Poland in particular.

The structure of this thesis is as follows. In the second chapter (which can be regarded as the theoretical background for my subsequent analysis) I will introduce two models of corporate governance that are based on ownership concentration levels and that have a fundamental policy implication in the area of corporate governance. In the third chapter I will review some of the past developments in the Czech Republic and in Hungary that had a significant impact on corporate governance. The two following chapters represent the core of my thesis. Chapter 4 deals with current situation in the corporate sectors in both countries; substantial proportion of this chapter is devoted to ownership concentration and its international comparison. Chapter 5 documents the current state of corporate governance drivers in the Czech Republic, mainly in the form of institutional framework and in the attitude of Czech firms. Conclusions will be presented in the sixth and final chapter.

2 Widely Held Model versus Blockholder Model

In this chapter I would like to briefly explain the fundamental role of ownership patterns in definition of key corporate governance issues. Such division based on ownership patterns is not as common as the traditional shareholder versus stakeholder models. However, as you will see, widely held model is similar to shareholder model and blockholder model is similar to stakeholder model. Though, the definition through ownership concentration in my opinion better demonstrates the importance of legal and whole institutional framework in the models. Ownership concentration can also be better measured than the primary objective of the firm through which we define stakeholder/shareholder models.

We have also witnessed certain convergence of stakeholder and shareholder models. The role of stakeholders has gained more importance even in the countries that are traditionally shareholder biased; for example OECD (2004) Principles of Corporate Governance dedicate a whole chapter to stakeholders. On the other hand, we have also witnessed a very rare hostile takeover in Germany (a country which is typically stakeholder oriented) when Vodafone had taken over Mannesmann despite fierce resistance of some stakeholders[2].

Corporate governance has originally been associated with the "principal-agent" problem resulting from separation of ownership and control in the world of incomplete contracts. In other words – How to ensure that the managers of the firm act in the interest of the owners/shareholders? This model has been further developed in extensive corporate governance literature[3]. For example Stiglitz (1999) describes how it has been put into the context of the problems of imperfect/asymmetric information and public goods.

This literature has been written mainly by the authors from the United Kingdom and the United States. Naturally, the issues that the authors explored were the

[2] see Hopner, Jackson (2001) for detailed analysis
[3] see for instance Finance Model in Keasey, Thompson, Wright (1997)

ones that they observed in the Anglo-Saxon capital market conditions. As a consequence, the chief conflict that these researchers attempted to mitigate was between self-interested management and weak, dispersed shareholders. Such conflict is based on the premise (which is valid in the Anglo-Saxon environment) that ownership of corporations that are listed on the stock market is substantially dispersed.

However, some comparative studies on corporate control such as Barca, Becht (2001) have proven that there are very significant differences in the ownership patterns among different countries. It has been shown that the purely dispersed ownership with tens of thousands of small shareholders as we know it from the Anglo-Saxon literature is widely common only in UK, US, and also Japan. Most of the firms outside these countries have a dominant owner that is often involved in the management of the firm.

This finding has a critical impact on how we conceive the whole corporate governance problem. Therefore, I introduce two different models of corporate governance and control – Widely Held Model and Blockholder Model[4]. In the following paragraphs I will describe the main characteristics and implications of these models.

Widely Held Model

This model can be observed in countries where wide dispersed ownership is dominant. The characteristic exponents of this model are the United States and the United Kingdom. Becht, Barca (2001) found that the median values of the largest voting blocks in listed companies do not exceed 10 percent there.

As has already been mentioned above the core conflict in the widely held system is between controlling managers and 'outside' widely dispersed shareholders, hence this model is also sometimes called 'Outsider Model'.

[4] such definition of corporate governance models can be found in Mahler , Andersson (1999), Berglof, Thadden (1999) or Becht (2003)

Strong shareholder protection, of minority shareholders in particular, is of key importance in this model. Due to such protection, active corporate governance is discouraged and thus concentration of ownership does not occur. A liquid and well functioning stock market is also necessary since it protects minority shareholders as well by allowing cheap exit from the firms.

Blockholder Model

This model is prevalent in the continental Europe – particularly in Germany, Austria, Belgium, and Italy – where the ownership concentration is much higher than in the Anglo-Saxon countries. According to Barca, Becht (2001) data, the median largest voting block values in the listed companies in the above mentioned countries exceeded 50 percent, i.e. in over a half of the companies there was a majority owner.

The major corporate governance problem in the closely held corporation is not connected with monitoring issues and overall shareholder protection as in widely held model. Here, the main conflict is between 'inside' controlling shareholders (blockholders) and 'outside' minority shareholders. However, there can simultaneously still occur a standard agency problem between managers and shareholders as described in widely held model. There are also usually involved other interest groups (stakeholders) that might exert substantial influence on some decisions of the company. These stakeholders are typically employees, trade unions, firm-specific buyers, public, etc.

In the table below I summarized the key advantages and disadvantages of the two models as well as policy implication that are suggested to mitigate the chief conflicts.

Figure 1 - The two models (based on Becht (2003))

	Widely Held Model	Blockholder Model
Advantages	- diversification opportunities - higher secondary market liquidity, thus lower cost of equity	- power to monitor management, either directly or through boards the blockholders appoint
Disadvantages	- board are unaccountable and/or captured by CEO who pursues 'visionary' projects, like massive acquisition programmes financed through equity issues to their broad shareholder base - lack of monitoring at the shareholder and the board level - free riding	- boards captured by blockholders, who pursue their own aims, not those of all shareholders and sometimes even at the expense of minority shareholders - narrower equity base and lower secondary market liquidity, thus higher cost of capital for companies and more expensive exit for small shareholders
Policy Implications	- increase effectiveness of voting: proxy voting, voting by mail/electronic voting - increased autonomy of the board through independent directors. - elimination of duality (separation of CEO and Chairman of the Board functions) - increase directors' liability - market for corporate control	- minority shareholder protection (such as cumulative voting, limits on the voting power of blockholders)

3 Past Developments Concerning Corporate Governance

3.1 Privatization and Ownership Concentration

In this section I am going to outline the process of ownership transformation from state to private sector. I will not provide a detailed analysis of the Czech privatization, as it has already been done in a great number of studies[5]. I will rather focus on the progression of ownership concentration, which will be discussed in closer detail in later sections (since it has crucial corporate governance implications).

After the Velvet Revolution of 1989 and abandonment of the communist regime, former Czechoslovakian economy found itself in a shape of capitalist's nightmare. The private sector was of a negligible size even when compared to some other Central and Eastern Countries (1990 contributions of private sector to the GDP were as follows: Czech Republic – 12%, Poland – 31%, Hungary – 25%[6]).

The whole corporate sector was seriously distorted by 40 years of communist rule. Kouba (2004) points out that the microeconomic foundations of companies to be privatized were very weak. Czech companies were isolated from world markets, administrative monopolies and soft budget constraints were commonplace. Naturally, book keeping did not provide many clues about performances of individual companies. Other critical issue was that there was no institutional framework relevant for market economy.

The country's new leaders faced a difficult task of privatizing virtually the entire economy in order to establish efficiency of the Czech corporate sector. The process of privatization was executed through the tree following methods:

[5] see for example Mejstrík (1997).
[6] data from Hanousek, Kocenda (2003)

Restitutions	Assets were restored to those from whom they had been nationalized by the communist regime after 1948.
Small-scale Privatization	By the end of 1993, over 22 000 small economic units (mainly retail stores, but also restaurants and smaller industrial enterprises) were sold at public auctions (foreigners were not allowed to take part).
Large-scale Privatization	Launched in 1991, this privatization program consisted of a number of privatization techniques: small businesses were typically auctioned or sold in tender; medium and some large businesses were sold in tender or to a predetermined buyer (direct sales); most of the largest businesses were transformed into joint stock companies, the shares thereof were then distributed within voucher privatization (almost one half of the total number), sold for cash, or transferred for free to municipalities (sort of stakeholder model of corporate governance). Firms were divided into three categories (some of the companies belonged to more categories): A) firms to be privatized in the first wave B) firms to be privatized in the second wave C) firms to be privatized later (after 5 years)

In the following analysis I would like to concentrate on the voucher scheme, as this part of privatization was decisive for the development of the Czech capital market.

All Czech citizens over 18 years of age who resided in the former Czechoslovakia could participate in the voucher scheme. Each participant received 1 000 voucher points (after bidding rounds, points were exchanged for shares, which were traded at the newly established Prague Stock Exchange) for a fee of CZK 1 000[7] (to cover transaction costs associated with voucher scheme).

With millions of citizens participating in the voucher scheme, the main concern of some experts was the emergence of dispersed ownership, which was the expected outcome of the Czech voucher privatization scheme. These voices suggested that such diffuse ownership would not create – together with the lacking institutional framework (efficient law, enforcement, market liquidity) – sufficient pressure needed to alter behavior of managers and other insiders. Thus, the rise of characteristic issue of Anglo-Saxon corporate governance – principal-agent problem (as described in Chapter 2) – was anticipated.

However, the emergence of investment privatization funds (IPFs) proved to be pivotal for the creation of post-privatization ownership patters. Before the bidding process started, each voucher holder had the option to assign all or part of his voucher points to one or more investment privatization funds.

It is important to note that there were several regulations that affected the behavior of the privatization funds regarding ownership concentration. To note the key ones - an IPF could not hold more than 20 percent of shares in any one company and could not invest more than 10 percent of its acquired shares in the voucher scheme in a single company.

Over 75 percent of eligible citizens participated in the first wave of voucher privatization. A surprisingly large share of participants opted to put their stakes into IPFs. The figure below reveals that almost three quarters of voucher points were entrusted to funds in the first wave and only a slightly lower proportion in the second wave.

[7] The amount of CZK 1 000 was at that time approximately equal to an average weekly salary

Figure 2 – Voucher Privatization in Numbers

	First Wave 1991-1993	Second Wave Jan-Oct 1994
No. of IPFs registered	268	196
No. of unit trusts registered	-	158
No. of voucher points available	8 560 mil.	6 160 mil.
Share of total voucher pts entrusted to funds	72%	64%

Source: Hashi (1997)

There was a considerable concentration among the IPFs. 77 percent of all voucher points entrusted to funds in the first wave were gathered by 13 biggest investment companies[8] (each of these companies attracted over 100 million voucher points). The concentration was slightly lower in the second wave with 12 biggest companies holding 58 percent of voucher points attracted by IPFs. These data imply that the ownership structure of companies subject to the voucher privatization was dominated by a limited number of large investment companies (often established by banks or insurance companies)[9].

Laštovicka, Marcincin, Mejstrík (1995) provide evidence that IPFs held a share of over 20 percent in 787 of 949 companies, i.e. in almost 83 percent of companies. This concentration was even higher when expressed as relative power of investors[10], in other words as effective control. In that case, a single largest fund effectively controlled over 50 percent of the votes in 146 of 949 cases and two largest funds combined held over 50 percent stake in almost half of the cases. This indicated that the IPFs disposed of much more effective control than their nominal shareholdings suggested. Thus, at this stage it already became apparent that mass privatization could lead to substantial degree of ownership concentration.

[8] Investment companies were asset managers that managed assets of a number of funds (these funds were often daughter companies of the asset managers)

[9] see Hashi (1997) for more detail

[10] it basically meant purging the shareholdings from inactive fragmented shareholders who did not exert any power in companies' governance; see Laštovicka, Marcincin, Mejstrík (1995) for detail

Shares from the first wave were distributed to citizens and to IPFs in late May 1993 and shares from the second wave in early 1995. Shortly thereafter, shares of both, individual companies and IPFs, began to be traded on the secondary market. Consequently, the two official waves described above were followed by the so-called "third wave" of privatization in 1995-1996. Hashi (1997) describes this as period of heavy buying and selling of shares by IPFs and individuals (individuals usually preferred cash to shares). At this stage, the strategy of IPFs was to reduce the diversity of their overly diversified initial post-privatization portfolios and rather gain more concentrated ownership in fewer companies.

Hanousek, Kocenda, Švejnar (2004) describe the process as follows: "*The 1995-96 ownership changes were massive, unregulated and frequently unobservable to outsiders, including researchers. Investors, especially IPFs, engaged in direct swaps of large blocks of shares, and off-market trading was common*."[11]

As a consequence of these developments, the post-privatization ownership structure was a lot more concentrated than expected. Grosfeld, Hashi (2003) provide evidence showing significant ownership concentration in the post-privatization years in the table below[12].

Figure 3 – The Average Share of the Largest Shareholder in Firms Privatized Through the Voucher Scheme

	1996	1997	1998	1999
Mean	38,8	42,8	48,6	51,9
Median	36,3	42,0	47,5	49,7
Std. Dev.	19,3	20,4	21,5	21,8
No. of firms	652	652	652	652

Source: Grosfeld, Hashi (2003)

[11] Hanousek, Kocenda, Švejnar (2004), p. 7
[12] Vychodil (2004) relates post-privatization ownership concentration to performance

It is clearly shown that the ownership concentration increased in quite a rapid pace in the second half of the 1990s. In 1999, half of the sample firms had one shareholder controlling almost 50 percent of the company's equity. This was quite unexpected, because we have witnessed a very significant ownership concentration just within six years since the end of the second wave of voucher privatization – the process when voucher points, i.e. shares, were distributed among an extremely fragmented population of almost 6 million individuals.

3.2 Privatization in Hungary

Now I would like to take a little detour in order to outline the transition process in Hungary which was quite different from the one in the Czech Republic. This background knowledge is necessary, because the method of privatization had an essential impact on the Hungarian capital market, which will be under scrutiny in the following sections as a comparison to the Czech capital market.

The developments concerning transformation of Hungarian economy were very different from the developments in Czechoslovakia/ the Czech Republic in many aspects. Weaker communist rule allowed developments unthinkable in former Czechoslovakia in the 1980s. Economic reforms had started already in 1980s when, for example, the legal conditions for joint ventures with foreign firms were established. The company Act from 1988 allowed everyone, including foreigners, to set up companies in the country. The Transformation Act of 1989 created legal framework for transformation of the state-owned companies to private properties. The government also decreased subsidies to state companies, liberalized foreign trade and relaxed price and wage regulations in the late 1980s. IMF described the Hungarian economy of 1989 as *'… a market economy, somewhat similar to those of Western countries in 1950s and 1960s*.'[13] Although these reforms allowed for the emergence of small private businesses, state ownership still exceeded 85 percent of Hungarian assets in the so called competitive sector.

Thus, following the political turnover, Hungary found itself in much more market environment than Czechoslovakia of 1989. The degree of central planning was much lower and the management autonomy at state owned firms was significantly higher.

The process of privatization itself was a lot more of a mixed nature than the one in the Czech Republic. Several unconventional programs were employed. The Small Investor Share Program, a project similar to the Czech voucher scheme,

[13] see www.developmentgap.org/imfhungary.html

was not successful, offered shares only two in companies and was terminated then. Another method of privatization was the sale of assets on preferential terms. So called Existence loans with highly advantageous terms for debtors were offered to finance these acquisitions. Self-privatization was the name for the scheme which identified nearly 500 small and medium sized firms to be privatized via private consulting firms.

Despite a few successes of the above schemes, the majority of state assets were sold off by the means of auctions (in particular small-scale privatization to local buyers – similar to Czech small privatization scheme) and direct sales (to local or foreign investors via public tenders, private placements of shares, etc.). During the so-called big privatization – taking place in 1995 and 1996 – banks, majority of gas and electricity suppliers, as well as power plants, were sold to strategic investors. Another significant share of state assets (for example large chemical or pharmaceutical companies in the second half of the 1990s) was privatized through float of shares on the stock exchange. This method attracted institutional and financial owners in particular.

So how did the post-privatization ownership pattern look? Kovach and Csite (1998)[14] found out that in 1997, 85 percent of Hungarian firms had one majority owner. However, as we shall see later and in contrast to the Czech Republic, there also emerged a few dozens of large firms traded on Budapest Stock Exchange, which can be characterized by relatively dispersed ownership.

The approaches of the two governments also differed significantly in the area of institutional framework and regulation. Pajuste (2002) notes that Hungary, similarly to Poland, has chosen strict regulatory mechanisms that were aimed at investor protection from expropriation from managers or controlling blockholders. As documented in the following section, such approach was in a great contrast to the Czech one.

[14] see Kovách, Csite (1999)

3.3 Privatization and Its Impact on Corporate Governance

3.3.1 Drawbacks of Privatization

In the mid 1990s the Czech mass privatization had been rated as one of the most successful experiments in ownership transformation in transition economies. Within the short period of 5 years, the ownership of over 1700 large and medium sized enterprises (about 70% of the Czech economy) was transferred to the private sector with significant proportion of the adult population participating in it actively.

However, there were two important caveats that proved to be well-founded in the second half of the 1990s.

1. The transfer of state-owned enterprises to the private sector itself is only a necessary, but not a sufficient, condition for transition to efficient capitalism.

2. Was it really the transfer to private hands?

Ad 1

Stiglitz (1999) points out that there is a nexus of institutions – to complement private ownership – that make capitalism work. Various studies[15] demonstrated that the method of voucher privatization was not supported by adequate institutional framework. In order to make these weaknesses more apparent I would like to illustrate them with the help of the findings of Glaeser, Johnson, Shleifer (2001) who explored post-reform corporate codification. As we shall see later, this legal and regulatory framework had a critical effect on corporate governance in the Czech companies in the 1990s.

[15] See Coffey (1999), Mlcoch (2000), Kouba (2004)

Company Law and Investor Protection

In the first part of their study Glaeser, Johnson, Shleifer (2001) examined how well the first Czech post-reform commercial code protected minority shareholders against expropriation by dominant shareholders and other insiders. This was a very important part of the framework, because as shown in Section 3.1, Czech privatization method induced significant ownership concentration. It has been explained in Chapter 3 that in case of such ownership concentration the chief problem that corporate governance has to deal with is the conflict between majority and minority shareholders.

The authors found significant deficiencies in the code and the one they pointed out the most was that 51 percent of votes were enough to appoint all directors[16] (see the model of large shareholders behaving like in 3.3.2). Overall, the Czech law scored below average, when compared to a sample of 48 other countries, with the shareholder rights score (based on La Porta et al. (1998) methodology) of 2 out of 5[17].

Securities Law and Regulation

Another part of institutional framework scrutinized by Glaeser, Johnson, Shleifer (2001) was securities law and regulation[18]. This element of the framework was also very important for corporate governance, as it essentially shaped the development of the capital market in the Czech Republic.

[16] whereas for example Polish law allowed a shareholder holding 20 percent (and in some cases even less) to elect a director
[17] Several common law countries, such as US or UK received full 5 points. Sample average was the score of 3.
[18] Czech Securities Act was adopted in 1992 and became effective on January 1, 1993

Originally, Czech capital market was supervised by the Capital Markets Supervisors Office which was part of the Ministry of Finance[19]. However, Glaeser, Johnson, Shleifer provide evidence showing that this Office did not fulfill its function properly and they even describe it as 'indifferent to regulating securities markets'[20].

Regarding securities law, serious drawbacks were also revealed. Some of these were found in the area of security issuers, in disclosure of financial results and in disclosure of ownership structures in particular. The following weaknesses were listed among the most significant ones: only annual reporting was mandatory (in contrast to quarterly reporting, for instance in Poland); the Czech companies were not required to disclose all material information, but only significant adverse developments; and finally, disclosure of ownership structure was not obligatory.

Other serious shortcoming that contributed to weak minority shareholders protection was that the Czech law did not include mandatory bid rule until 1996[21]. This fact further weakened the position of minority shareholders, who in case of the emergence of majority shareholder in the companies in which they held shareholdings, incurred substantial costs. This occurred because – as documented by Mejstrík (2003) – the share price declined rapidly after the announcement of majority shareholder.

Glaeser, Johnson, and Shleifer also stressed that the regulation of financial intermediaries (such as brokerage enterprises, investment advisers, or mutual funds) was very lenient in the Czech Republic.

[19] Czech Securities Commission was established only in 1998
[20] see Glaeser, Johnson, Shleifer (2001), p. 875
[21] Although mandatory bid rule was codified in 1996, it was properly enforces only since about 2001. Before 2001 this rule was often circumvented by splitting the controlling entity into more entities with stakes below the statutory mandatory bid threshold.

Ad 2

As already mentioned in Section 3.1, a number of large investment companies controlling a substantial share of the privatized property were established by large financial institutions. However, those large institutions remained in principle in the ownership of the state. Thus, although the government had formally withdrawn from the economy, it still indirectly controlled a significant proportion of the Czech companies. Mlcoch (2000) noted that in the late 1990s such investment funds managed hundreds of companies and that the Czech privatization therefore produced quasi-private rather than private ownership. Mertlík (1995) went even further and described the Czech privatization as a way from public ownership to public ownership in five years.

3.3.2 Implications for Corporate Governance

The above described poor institutional and legal framework, inadequate behavior of the banking sector that, to a large extent, remained state-controlled accompanied by the lack of political will[22] to enforce existing laws in combination with the chosen method privatization resulted in very poor governance of significant proportion of companies privatized through voucher scheme. Richter (2000) made an interesting point by stating that creation of stringent institutional framework would not be necessary if another method of privatization was used. For example direct sale to single owner (or limited number of owners) would not have allowed such a high degree of expropriation.

Under the above mentioned circumstances, managers, majority shareholders and other insiders were allowed to behave opportunistically, at the expense of other stakeholders.

Mejstrík (1998) introduced a corporate governance model entitled 'Large shareholder behaving as a single owner' that described how governance worked in practice in many companies during the post-privatization. According to this

[22] see Glaeser, Johnson, Shleifer (2001)

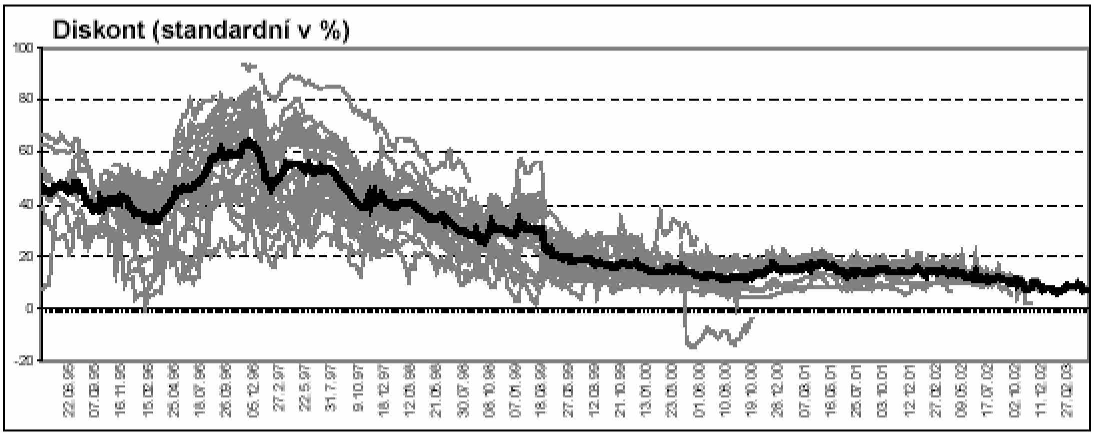
model, the markets for capital and corporate control transformed themselves into a bivalent form with ‘0’ and ‘1’ being the only values for corporate control. This deformation was caused by weak legal framework, especially in the area of minority shareholders’ protection (shortcomings described above). The consequence was that owner controlling 50 percent plus one shares (in practice that share could had been even smaller as long as the owner controlled efficient majority of the votes) of the company gained practically full control of the company and were thus able to expropriate other shareholders. Majority owner was allowed to dispose of the entire profit, because ‘*the controlled company could be forced to enter into disadvantageous contracts with trading vehicles set up by dominant shareholder*’[23].

In such conditions the temptation to moral hazard behavior was great, resulting in different forms of asset stripping such as looting or tunneling[24].

Another piece of evidence suggesting problems with corporate governance is shown in Figure 4. As Stiglitz (1999) points out, in standard theory, closed end funds should never sell at a significant discount (over 10 percent) relative to the value of the underlying assets. However, the figure below that representing the discount at which the funds were traded shows that the discount sometimes exceeded 50 percent.

[23] see Mejstrík (2003), p. 390
[24] different methods of asset stripping used in the Czech Republic are described in Roberts (2004)

Figure 4 - Discount of Investment Funds (1996-2003), defined as Net Asset Value per share compared to IPFs share value



Source: Fajtová (2004)

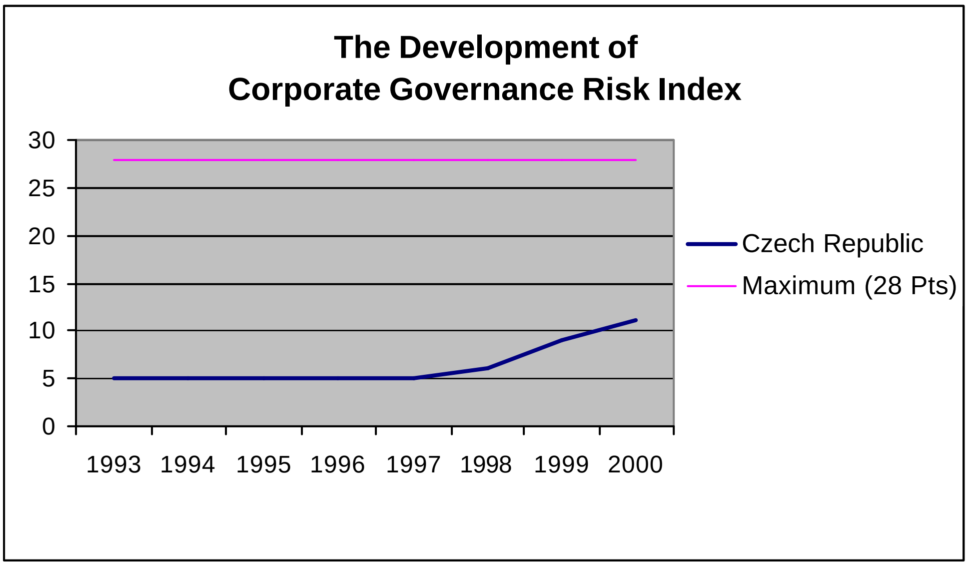
The last piece of evidence that suggests poor corporate governance in the Czech Republic in the 1990s was provided in Katzová et al. (2002). The authors executed a survey on corporate governance risk in the Czech Republic. In 2000, questionnaires regarding the assessment of the entrepreneurial environment were filled by 50 managers of important companies in the country in order to evaluate corporate governance risk using a standardized methodology (the questions were from the following areas based on Crichton-Miller and Worman[25]: evaluation of corporate law, legal processes assessment, regulatory regime assessment, assessment of ethical overlay).

For the Czech Republic of 2000, the authors calculated a total score of 11 out of maximum 28 points (the standard among G-7 countries was between 21 and 28 points; score of 11 represents the lowest score that still qualifies as a modest risk[26]). For comparison, Hungary had scored 19 points and Poland had scored 14 points. The Czech Republic scored worse than Hungary in all four areas mentioned above. The authors had also attempted to estimate the development of Corporate Governance Index for the whole period between 1993 and 2000 using a retrospective approach. The figure below depicts the estimated index development. As you can see, although the score of 11 is still very far from G-7

[25] see Katzová et al. (2002) for details
[26] Corporate Governace Risk score interpretation: 0-5 very high risk, 6-10 high risk, 11-20 modest risk, 21-28 low risk

levels, the estimated score during 1990s was even lower. The score of 5 that was estimated for years 1993 to 1997 for example suggests, according to score interpretation, a very high risk for investors.

Figure 5 - Corporate Governance Risk Index



Source: Katzová et al. (2002)

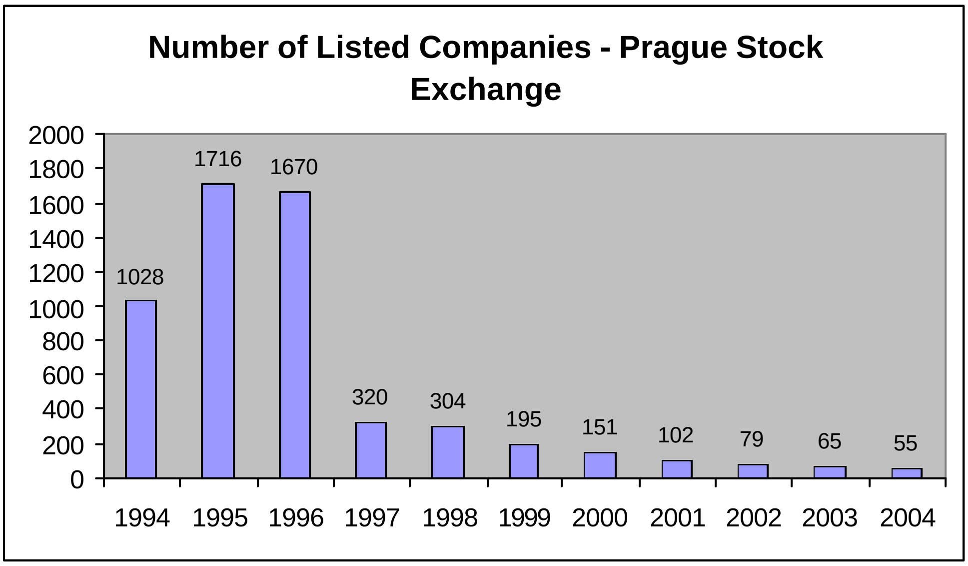
3.4 Privatization and its Impact on the Stock Market

The Czech voucher privatization had, by definition, also a critical impact on the stock exchange. In this section I would like to sketch the developments on Prague Stock Exchange in the 1990s. This should again help us to better understand the current situation on the stock market, which will then be analyzed in greater detail in the following chapter. The data for Budapest Stock Exchange will be also presented for comparison.

The graph below visibly depicts the nature of the process of the Czech voucher privatization. Companies that were involved in the voucher scheme were automatically listed on the Prague Stock Exchange. It is important to point out that this process can be viewed as mandatory initial public offerings of almost 2000 companies. It is illogical to assume that a liquid capital market for such a high number of companies could have been created in the Czech Republic of the mid-1990s.

Consequently, vast majority of companies was delisted either voluntarily (usually after nearly full concentration of ownership) or because they did not fulfill liquidity or/and other listing requirements.

Figure 6 - Number of listed companies



Source: PSE Factbook 2004

The total number of listed companies in Figure 6 below reveals the fact that the approach in Hungary was completely different. Only companies with voluntary initial public offerings (sometimes as part of privatization process when the state owned shares were floated on the stock market) joined the stock exchange. The number increased gradually in the second half of the 1990s after a more adequate institutional framework for trading was established. A number of delistings has taken place since (for similar reasons as in the Czech Republic), but a few IPOs have also been executed.

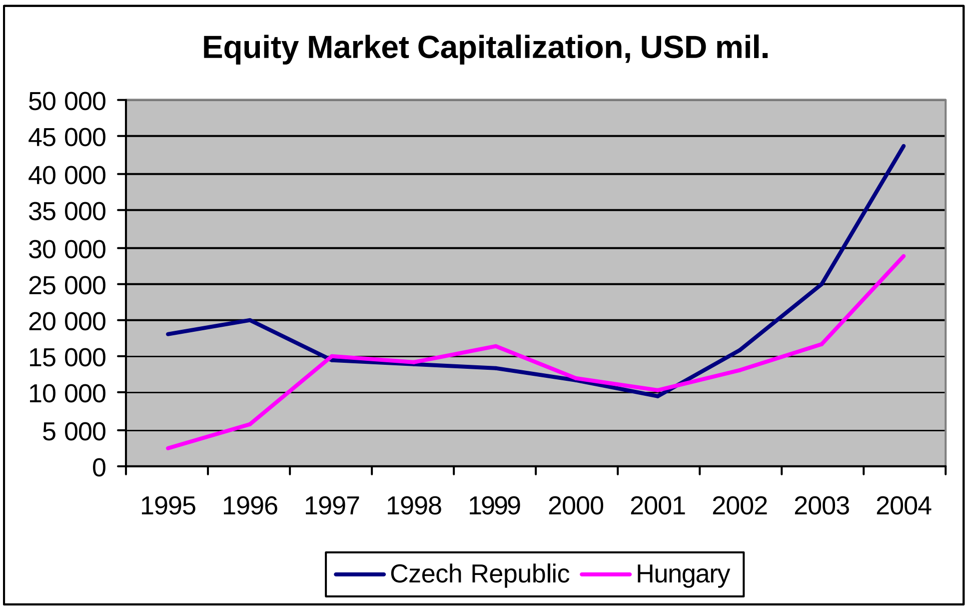
Figure 7 - Total Number of Listed Companies

	1994	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
Czech Republic	1 028	1 716	1 670	320	304	195	151	102	79	65	55
Hungary	40	42	45	49	55	66	60	56	49	53	48

Source: Prague Stock Exchange, Budapest Stock Exchange

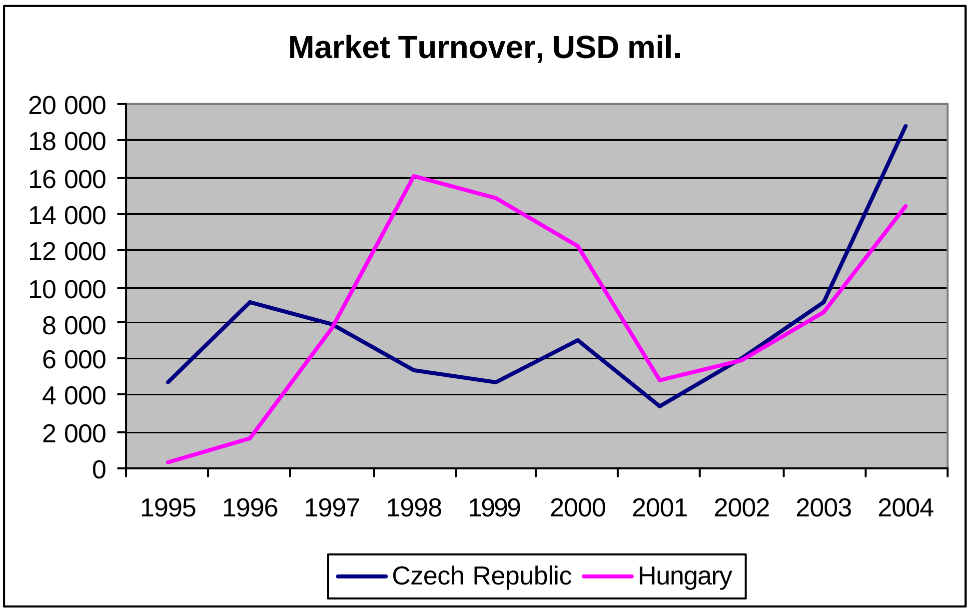
The two graphs below represent market capitalizations and liquidity (measured as trade values) of Prague and Budapest Stock Exchanges in the last ten years. Here again we can see the effects of the different privatization methods. The initially growing Czech market (as a consequence of mandatory IPOs) faced a significant downturn in the second half of the 1990s partially due to major delistings (almost 90 percent of the companies were delisted between 1995 and 2000) and also due to the post-privatization problems as described in the previous section.

Figure 8 – Equity Market Capitalization



Source: PSE Factbook 2004, Budapest Stock Exchange

Figure 9 – Market Liquidity



Source: PSE Factbook 2004, Budapest Stock Exchange

Figure 9 also shows that in Hungary there was a similar liquidity bubble between 1998 and 2000 as there was in the Czech Republic in the mid-1990s. However, as Figure 7 documents, the Hungarian stock exchange also faced a decrease in the number of listed companies for the first time in its history. Naturally, the world capital market recession also contributed to the worsened performance of both stock exchanges at the beginning of the millennium. However, the negative trend has been reversed in 2002 and both exchanges are currently experiencing growth. The present situation among listed firms will be examined in the next section.

4 Current Corporate Governance Landscape - The Situation in the Czech Corporate Sector

In order to further investigate corporate governance among the Czech firms, we need to understand something what can be described as “corporate governance landscape”. Such diagnosis should help us to identify the role of corporate governance in the Czech Republic and what main challenges the corporate governance shall deal with. First, I am going to analyze the position of the listed companies in the Czech economy. Then, I will briefly examine the financing sources of the Czech companies and whether the companies perceive equity market as a potential source of finance. Subsequently, I will take a closer look at the present situation on the Prague Stock Exchange. Eventually, in Section 4.4 a detailed analysis of ownership concentration among the Czech listed firms will be presented and compared with the situation on the stock exchanges in mature as well as emerging (Hungary and Poland in particular) economies.

4.1 Czech Corporate Sector

In his rather provocative paper entitled “The Growing Irrelevance of Corporate Governance in Transition Economies”[27] Mihalyi stresses out that in Hungary the vast majority of the biggest companies are only subordinated units of transnational corporations with headquarters somewhere else in the world. He argues that these units cannot be regarded as full-fledged companies, but should rather be understood as operations with fairly limited objective functions. He further develops his argument by saying that the in such companies *‘… the principal-agent contradiction does not manifest itself at all. There is no need for governing bodies (board of directors, supervisory board) either. One or two designated managers directly represent the interest of the foreign owner.*’[28]

[27] see Mihalyi (2002)
[28] see Mihalyi (2002), p. 10

It is important to emphasize that Mihalyi perceives corporate governance in its narrowest sense, i.e. as the agency problem – the conflict between shareholders and managers. He does not take into account potential conflict between majority and minority shareholders as described in Chapter 2.

Apparently, Hungarian privatization method affected the current ownership patterns among Hungarian firms. A significant share of companies has an owner who controls full 100 percent of equity as a result of privatization through direct sale. There are also numerous companies, which were established as greenfield investments and, which occupy a prominent role among Hungarian biggest firms – 11 of the 20 largest were established as greenfield investments.

Mihalyi documents his point of corporate governance irrelevance by the fact that out of the top 100 Hungarian companies (based on 2000 net revenue) 63 are directly owned by a large transnational corporation and only 17 of these were – at least at some point of their history – listed on the stock exchange (either Budapest stock exchange or a foreign one). He also presents a table of 20 biggest Hungarian companies (see Figure 10) revealing that only 3 of those are listed on the BSE while 12 are owned by transnational strategic investor (companies such as Audi Hungaria Motor, Philips Hungary, IBM Storage Product, Flextronics International, Metro Holding Hungary, GE Hungary, to name the ones that belong to Hungarian top 10) and 3 other are state owned. It is obvious that this state is to a large extent again a consequence of Hungarian privatization method that preferred direct sales to foreign investors as outlined in Section 3.2.

In order to examine the situation among the Czech leading companies I have used the similar method and examined Czech biggest 100 companies as listed in Book of Lists (2005). According to my findings 25 of the 100 non-financial companies with the highest 2003 revenues are currently listed on Prague Stock Exchange. The table below documents the situation among the top 20.

Figure 10 - Top 100 Hungarian non-financial companies bases on 2000 net revenues

		2000 Net Revenues (HUF bn.)	2000 Net Revenues (EUR mil.)	Type of Owner	TNC - Strategic Investor	Greenfield
1	**MOL Hung. Oil and Gas**	1 025	4 271	Financial investors		
2	**Audi Hungaria Motor**	901	3 753	TNC - strategic investor	Yes	Yes
3	**Philips Hungary**	640	2 665	TNC - strategic investor	Yes	Yes
4	**IBM Storage Product**	632	3 663	TNC - strategic investor	Yes	Yes
5	**Matav**	446	1 858	TNC - strategic investor	Yes	
6	**Hung. Electricity Works**	340	1 415	State ownership		
7	**Panrusgaz**	290	1 209	Diversified ownership, 49% owned by MOL		Yes
8	**Flextronics Int.**	245	1 021	TNC - strategic investor	Yes	Yes
9	**Metro Holding Hungary**	202	841	TNC - strategic investor	Yes	Yes
10	**GE Hungary**	186	774	TNC - strategic investor	Yes	
11	**Opel Hungary**	179	745	TNC - strategic investor	Yes	Yes
12	**Hungarian State Railways**	177	739	State ownership		
13	**Dunaferr Danube Steel**	173	721	State ownership		
14	**Tisza Chemical Works (TVK)**	157	653	Diversified ownership, majority owned by MOL		
15	**Westel**	153	368	100% owned by Matav		Yes
16	**Budapest Electricity Work (ELMU)**	137	569	TNC - strategic investor	Yes	
17	**Tesco Global Dept. Stores**	126	527	TNC - strategic investor	Yes	Yes
18	**Magyar Suzuki**	126	525	TNC - strategic investor	Yes	Yes
19	**Hungarotabak**	125	520	TNC - strategic investor	Yes	
20	**Shell Hungary Trade**	118	493	TNC - strategic investor	Yes	Yes

Note: shaded companies are currently listed on Budapest Stock Exchange, TNC – Transnational Corporation; Source: Mihalyi (2002) Hungarian Book of Lists 2001-2002, own research

Figure 11 - Top 100 Czech non-financial companies bases on 2003 revenues

		2003 Revenues (CZK mil.)	2003 Revenues (EUR mil.)	Ownership Structure	Owner's Country of Origin	TNC - Strategic Investor	Greenfield
1	**Škoda Auto**	151 923	4 748	100% Volkswagen	Germany	Yes	
2	**CEZ**	80 737	2 523	67,6% National Property Fund	Czech Republic		
3	**Transgas**	62 603	1 956	100% RWE Gas International	Germany	Yes	
4	**Ceský Telecom**	51 476	1 609	51,5% National Property Fund	Czech Republic		
5	**ISPAT Nová Hut**	48 084	1 503	70,13% LNM Holdings N.V.	Netherlands Antilles	Yes	
6	**Ceské dráhy (railways)**	47 247	1 476	100% state owned	Czech Republic		
7	**FOXCONN**	39 000	1 219	100% Foxconn Holdings B.V.	Netherlands	Yes	Yes
8	**Moravia Steel**	36 703	1 147	50% Nusspa, 50% R.F.G	Czech Republic		
9	**Ceská rafinérská***	35 029	1 095	51% Unipetrol, 16,33% ConocoPhilips, 16,33% ENI, 16,33% Shell	Czech Republic, Netherlands		
10	**Barum Continental**	32 721	1 023	45% Continental Fra, 30% Korso GmbH, 25% Continental AG	France, Germany	Yes	
11	**MAKRO Cash & Carry CR**	31 082	971	100% Metro Cash & Carry International	Netherlands	Yes	Yes
12	**OKD**	29 429	920	95,9% Karbon Invest	Czech Republic		
13	**Eurotel Praha**	27 610	863	100% Ceský Telecom	Czech Republic		
14	**Cepro**	26 251	820	100% National Property Fund	Czech Republic		
15	**T-Mobile CZ**	24 442	764	60,77% CMobil, 39,23% Ceské Radiokomunikace	Netherlands	Yes	
16	**Kaufland CR**	23 531	735	100% Kaufland Tschechien GmbH	Germany	Yes	Yes
17	**Metalimex**	23 410	732	97,7 Karbon Invest	Czech Republic		
18	**Unipetrol Rafinerie***	21 860	683	100% Unipetrol	Czech Republic		
19	**OMV Ceská republika**	20 101	628	100% OMV Wien	Austria	Yes	Yes
20	**Ceské aerolinie**	19 845	620	56,9% National Property Fund, 35% Czech Consolidation Agency	Czech Republic		

Note: shaded companies are currently listed on Prague Stock Exchange, TNC – Transnational Corporation; Source: Book of Lists 2005, own research

The above table demonstrates that the largest Czech non-financial companies are in many cases controlled by foreign strategic investors (last column in the table shows which of the companies have a foreign strategic investor as a major owner), but the proportion of such firms is somewhat smaller than in Hungary.

It is also clear that only a minority of these companies have their shares traded on the Prague Stock Exchange. As of January 2005 4 (shaded) corporations are listed. Unipetrol being a kind of a holding company and controls two of the top 20 firms (denoted with an asterisk) is also listed. The proportion of listed companies shall, however, further decrease since both OKD and Metalimex have already agreed on delisting because of decisive ownership concentration.

This means there will only be three companies of the 20 Czech biggest firms that will be listed – CEZ, Ceský Telecom, and Unipetrol – each with a controlling state stake. Government holds over two thirds of CEZ's equity and over half of Ceský Telecom's equity through the National Property Fund (the government currently attempts to find an investor for Ceský Telecom). The government already decided on the Sale of its 63 percent stake in Unipetrol to Polish PKN Orlen (another foreign strategic investor) and the transaction is currently being administratively executed by the European Commission in Brussels.

It is also important to remark that two (Erste Bank and Komercní banka) of the three biggest (biggest being non-listed CSOB) commercial banks and the biggest insurance company (Ceská pojištovna) are also listed on the PSE – these three are also the only financial companies traded on the PSE. Regarding the ownership structures:

- Erste Bank share issue replaced Ceská sporitelna share issue after Erste Bank gained almost full control of Ceská sporitelna's equity; the shares of

Erste Bank are therefore currently cross-listed on Prague and Vienna Stock Exchanges[29];

- Komercní banka is controlled by French strategic investor Société Générale holding over 60 percent of voting rights;
- Ceská pojištovna is nearly fully controlled by Cespo B.V. of Netherlands (that is controlled by Czech PPF Group) holding almost 98 percent of equity.

From the above-mentioned analysis it follows that the situation among the largest Czech companies does resemble, to a certain degree, to the one in Hungary as described by Mihalyi (2002). On the other hand, we should notice that the proportion of the listed companies (although number of companies are in the process of delisting) in the Czech Republic is to some extent higher than in Hungary and that participation of transnational strategic investors is not so overwhelming in the Czech Republic, as four of the biggest 20 companies are controlled by private Czech owners (I also include Komercní banka although the direct owner is domiciled in Netherlands). The fact that also contributed to such a high proportion of large companies being fully owned by transnational strategic investors in Hungary compared to the Czech Republic is the finding that whereas only 4 companies of the Czech top 20 were started as greenfield investments the figure for Hungary is 11.

The findings are also consistent with the dominant privatization methods used by both countries. The Czech voucher privatization entailed that many of the biggest companies "went public" on the mandatory basis resulting in a higher share of these large companies being listed on the Prague Stock Exchange. The Czech privatization also generally preferred (in the early stages in particular) Czech investors to foreign ones resulting in slightly lower share of companies controlled by foreign strategic investors.

[29] in my calculations in the following sections regarding ownership concentration I have used the ownership structure of Ceská sporitelna and not the one its mother company Erste Bank of Austria (majority of its shares is traded on Vienna Stock Exchange)

4.2 New Equity vs. Other Types of Financing

Figure 6 and the analysis of the largest listed corporations in the previous section show that the general trend is to delist the companies from the Prague Stock Exchange. This suggests that the companies do not consider listing beneficial or being a potential source of financing. In the next few paragraphs I would like to analyze this deduction in more detail. First, I will present the results of the survey that analyzed the attitude of Czech firms towards capital market as a source of financing and then I will scrutinize whether the firms also employ such financing in practice.

Dvorák (2004) examined the financing of Czech companies through capital markets using the questionnaire method. The survey was conducted in 2000 and a unique population of 2419 companies was contacted in order to fill in the questionnaire. 647 companies sent back the questionnaire and 596 of these completed the questionnaires fully. The table below summarizes the main forms of investment financing employed between 1997 and 1999 by the companies that returned the questionnaire.

Figure 12 - Main forms of investment financing (percentages of positive answers)

Retained profits, depreciation	62%
Loans	17%
Leasing	14%
Bond issue	3%
Equity increase (private placement)	2%
Combination of the above mentioned	2%
Joint ventures	0%
Venture capital	0%
IPO	0%

Source: Dvorák (2004)

The results clearly show that the capital market played almost no role in the investment financing in the given period (no Initial Public Offerings, only few bond issues). According to the survey only 20 companies, i.e. only 3,4 percent, considered raising funds by public offer of new shares on the domestic capital market and only 10 companies, i.e. 1,7 percent, considered public offer of new shares on a foreign market.

Having reviewed the general attitude towards the equity market financing in 2000, I will now examine whether any Czech companies actually sought financing through the equity market.

The answer is very simple. By January 2005 there was only one successfully completed initial public offering on the Prague Stock Exchange[30]. Numerous reasons for such a poor performance of PSE were listed in various studies[31]. The ones that were mentioned in most case were: the method of Czech privatization without proper institutional framework and consequent lost of trust in the capital market and low liquidity of the Czech capital market, reluctance to disclose required information (and other indirect costs of being listed), insufficient support of IPOs from the government, influence of banking sector, or the overall condition of Czech economy. Vajsejtl (2004) also mentioned unfriendliness of the legal framework towards potential public offering. SEC (2001) in their study concerning the main obstacles of the IPOs in the Czech Republic highlighted the excessive amount of time necessary to complete the whole IPO process in the Czech environment. According to their estimates the whole process would have taken 10 to 22 months based on the legislation valid in 2000, which certainly did not contribute to the encouragement of IPOs.

Nevertheless, the situation improved significantly in the last few years and the first, and so far the only, successful IPO was completed in 2004. The shares (on

[30] There was one more successful IPO in the Czech Republic – Software602, however, this offering did not take place on PSE, but on RM-System which is a very small and rather illiquid OTC stock market. There were also some other unsuccessful attempts, such as Limart. See Vajsejtl (2004) for more detail.
[31] see for example Czech Securities Commission (2001), or Vajsejtl (2004)

PSE) and global depositary receipts (on London Stock Exchange) of the Czech pharmaceutical company Zentiva started to be traded in June 2004.

This unprecedented achievement might prove to be a major turning point in the attitude of Czech firms towards IPOs and thus result in a significant revival of the PSE (in the previous sections we have seen mainly the opposite trend with numerous companies leaving the market).

Vajsejtl (2004) noticed that Zentiva's IPO had been a very positive signal in three ways:

- Zentiva proved that the legal framework has improved significantly and an IPO became much less time consuming (the whole process of IPO can be executed within three months).
- Zentiva's IPO also showed that there are enough liquid investment resources to make the offering successful (within half a year the share price increased from the initial CZK 485 to CZK 757 at the end of 2004).
- Zentiva's IPO should improve trust among investors towards the new IPOs as well as trust among potential issuers.

The evidence that the above argument was at least to some extent correct and that an IPO on the Prague Stock Exchange is finally becoming a serious financing option is the very recent initial public offering of Orco Property Group. This Luxembourg based real estate company successfully accomplished the second IPO in the history of PSE and its shares (which are primarily traded on Paris Stock Exchange) started to be traded as part of SPAD trading system[32] on February 1, 2005.

[32] see Section 4.3 for details; Orco is not included in the analysis below (this thesis was submitted in February 2005)

4.3 Current Situation on the Prague Stock Exchange

The graphs of the PSE's market capitalization and liquidity in Section 3.4 and the case of successful initial public offerings suggest improving performance of the entire Czech stock market over the last three years. However, the first impression of rapid growth of the whole market is in a way misleading[33]. The figure below is the list of share issues as of end of 2004 with their basic characteristics. The last column in the table represents annual trade volumes for each of the listed share issues. If we take a closer look at these values, we can see that CZK 100 bn. (about USD 4 bn.) was exceeded in three cases only. There are four more issues (including Zentiva) with trade values between CZK 14 bn. and CZK 31 bn. These seven companies are also the only ones on the PSE that use SPAD trading system[34] and with the exception of Philip Morris CR constitute the prestigious main market.

The only non-SPAD share issue with a fairly large trade value was the one of Ceské Radiokomunikace. However, this was primarily caused by the fact that the majority owner Bivideon increased its stake from 72 percent to over 94 percent. Bivideon currently attempts to delist the company from the PSE faces, however, fierce opposition from minority shareholders who obstruct this step.

The trading (for non-SPAD trading, where order driven system is used) with the remaining 47 share issues (out of the total of 55) is of a rather negligible size; CZK 112 mil. was the highest volume and the trade values for 35 companies did not even exceed CZK 1 mil. (about USD 40 th.) over the period of the entire year of 2004. This is an interesting finding since some of the international investment funds, set a minimum investment size of for example USD 1 million.

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[33] also because the figures are in USD, so the weakening of dollar partially contributed to the increase in the last two years

[34] SPAD is a quote driven trading system of seven most liquid with market makers supplying the liquidity into the system; see www.pse.cz for more detail

The SPAD share issues (representing 13 percent of the number of listed companies) therefore make up 83 percent of the Prague Stock Exchange's market capitalization and even more strikingly, the trade value in 2004 for these seven companies amounted to 98 percent of the total trade value of all listed equities in 2004 (if the value for Ceské Radiokomunikace is added we even get an absurd 99,9 percent).

These findings imply that the Czech stock market is evidently not properly functioning. 85 percent of the listed companies are simply "dormant" and are listed just as a heritage of voucher privatization. This also implies that we should witness further significant delisting (besides the above mentioned Ceské Radiokomunikace, two other listed companies have already agreed on delisting[35]).

The above-mentioned findings lead us to the discovery that we confront two divergent groups of share issues:

1. 7 issues traded through SPAD that are relatively liquid and of reasonable size
2. 48 non-SPAD issues that are traded very rarely and have a very low liquidity

But what caused this divergence? I will try to find some clues by inspecting the ownership concentration in the listed companies.

[35] these are two of the dormant-type companies - Metalimex and Wienerberger

Figure 13 – Share Issues on PSE

PŘEHLED EMISÍ AKCIÍ K 31. 12. 2004 / *LIST OF SHARE ISSUES AT DEC. 31, 2004*

ISIN *ISIN*	Název *Security Name*	Trh [1] *Market* [1]	Kurz (Kč) *Price (CZK)*	Roční změna (%) *Yearly Change (%)*	Tržní kapitalizace (mil. Kč) *Market Capitalization (mil. CZK)*	Objem obchodů v r. 2004 (mil. Kč) *Trade Value in 2004 (mil. CZK)*
CZ0008413556	ČESKÁ NÁMOŘ.PLAVBA	C	362.20	0.00	479.9	0.000
CZ0008002755	ČESKÁ POJIŠŤOVNA	B	15,300.00	77.08	30,347.5	112.412
CS0005029156	ČESKÁ ZBROJOVKA	B	1,155.00	15.38	794.1	0.534
CZ0009054607	ČESKÉ RADIOKOMUN.	B	444.00	28.70	13,719.6	9,216.290
CZ0005103457	ČESKOMORAVSKÉ DOLY	C	395.00	119.44	1,063.9	0.512
CZ0009093209	ČESKÝ TELECOM	A	369.20	26.74	118,915.6	121,040.157
CZ0005112300	ČEZ	A	340.70	133.84	201,766.2	108,047.288
CS0008419750	ENERGOAQUA	C	773.30	21.53	542.1	0.000
AT0000652011	ERSTE BANK	A	1,187.00	48.75	286,592.7	31,141.868
CZ0005077057	JČ ENERGETIKA	B	2,403.00	4.43	3,039.4	0.350
CZ0005005850	JČ PAPÍRNY VĚTŘNÍ	C	58.00	156.75	141.8	2.934
CZ0005078857	JČ PLYNÁRENSKÁ	B	2,415.00	2.50	773.9	0.012
CZ0005077958	JM ENERGETIKA	B	2,800.00	0.00	6,572.3	0.086
CZ0005078956	JM PLYNÁRENSKÁ	B	3,990.00	0.00	3,931.8	0.000
CZ0008019106	KOMERČNÍ BANKA	A	3,272.00	35.32	124,368.2	149,252.757
CZ0009048955	KOTVA	C	363.00	4.76	252.0	0.004
CZ0008418951	LAFARGE CEMENT	C	2,130.00	12.11	2,434.5	0.327
CS0008422853	LÁZNĚ TEPLICE V Č.	C	749.70	30.77	209.8	0.015
CS0008446753	LÉČ.LÁZNĚ JÁCHYMOV	C	754.70	11.46	315.9	0.012
CS0008412458	METALIMEX	C	2,650.00	33.17	2,442.4	0.682
CZ0005082255	NKT CABLES	C	799.00	20.15	288.5	0.193
CZ0005100651	OKD	C	500.00	81.82	11,593.3	8.346
CZ0005091355	PARAMO	C	1,071.00	127.34	1,424.5	1.381
CS0008418869	PHILIP MORRIS ČR	C	16,776.00	6.66	32,104.2	29,238.120
CZ0005078154	PRAŽSKÁ ENERGETIKA	B	3,087.00	19.42	7,883.7	0.009
CZ0005084350	PRAŽSKÁ PLYNÁREN.	B	2,470.00	10.22	2,347.3	0.000
CZ0009055158	PRAŽSKÉ SLUŽBY	C	840.00	0.00	1,307.1	0.000
CS0008416251	RM-S HOLDING	B	1,896.00	-7.51	1,486.5	64.458
CZ0005078055	SČ ENERGETIKA	B	2,650.00	15.17	5,701.9	2.790
CZ0005092452	SČ PLYNÁRENSKÁ	B	2,893.00	15.72	1,968.8	0.000
CZ0008460052	SETUZA	B	416.70	72.05	480.3	0.007
CZ0005102350	SEVEROČESKÉ DOLY	B	1,480.00	58.29	11,124.4	44.013
CZ0005018259	SLEZAN FRÝDEK-MÍS.	C	400.00	-17.53	322.3	0.122
CZ0005078352	SM ENERGETIKA	B	3,690.00	19.03	8,413.6	1.874
CZ0005084459	SM PLYNÁRENSKÁ	B	2,616.00	-8.21	3,851.5	0.003
CS0008435251	SM VOD.A KAN.OVA	B	839.40	-15.98	353.7	0.056
CZ0005103952	SOKOLOVSKÁ UHELNÁ	B	880.00	49.15	5,235.4	30.920
CS0008424958	SPOLANA	B	80.00	6.67	598.5	0.718
CZ0005092858	SPOLEK CH.HUT.VÝR.	C	215.00	34.38	833.9	0.961
CS0005022854	SSŽ	B	2,500.00	84.50	3,465.5	8.591
CZ0005078253	STČ ENERGETICKÁ	B	2,350.00	22.40	5,554.5	1.439
CZ0005078659	STČ PLYNÁRENSKÁ	B	4,400.00	47.85	1,885.9	0.026
CS0008418554	STOCK PLZEŇ	C	11,865.00	5.00	735.6	72.837
CS0005006857	ŠKODA PRAHA	B	203.90	68.86	256.4	0.022
CS0008423950	TEPLÁRNA ÚSTÍ N.L.	B	1,240.00	68.71	1,284.4	0.429
CS0008452157	TEPLÁRNY BRNO	C	1,157.00	4.99	1,024.7	0.000
CZ0005088559	TOMA	C	412.00	157.50	608.6	0.204
CZ0009091500	UNIPETROL	A	98.20	47.80	17,807.1	14,064.253
CS0008458659	UNITED ENERGY	B	1,875.00	33.93	1,886.8	0.000
CZ0005076950	VČ ENERGETIKA	B	2,929.00	24.90	5,003.9	0.079
CZ0005092551	VČ PLYNÁRENSKÁ	B	3,616.00	10.24	2,292.5	0.000
CS0008415857	WIENERBERGER C.P.	C	3,247.00	27.53	1,672.2	0.000
CZ0005077354	ZČ ENERGETIKA	B	5,200.00	17.78	5,510.5	0.095
CZ0005078758	ZČ PLYNÁRENSKÁ	B	3,645.00	4.98	1,870.3	0.000
NL0000405173	ZENTIVA	A	757.60	50.17 [2]	28,892.0	17,023.437

[1] A = Hlavní trh B = Vedlejší trh C = Volný trh

[1] *A = Main Market B = Secondary Market C = Free Market*

[2] Porovnání s kurzem z 28. června 2004

[2] *Comparison with price from June 28, 2004*

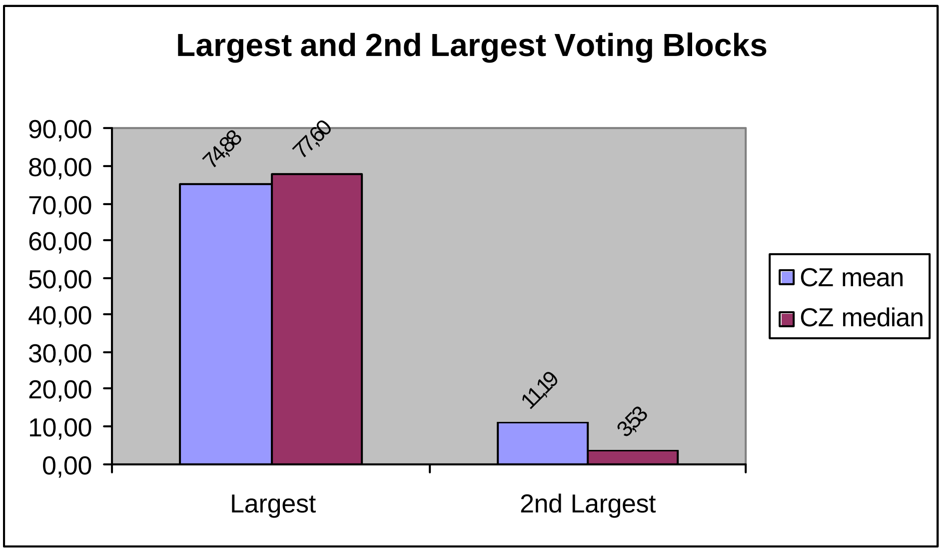
Source: Factbook PSE 2004

4.4 Current Levels of Ownership Concentration

4.4.1 Ownership Concentration in the Czech Republic

In the Section 3.1, I have described the developments in the ownership patterns during the 1990s in the Czech companies that were privatized through voucher privatization. In order to assess the current situation on the Czech stock exchange, I examined the largest voting blocks in all 55 companies which have their shares currently listed on the Prague Stock Exchange (January 2005). I recorded the value of the first and second largest voting blocks in each of these companies. The data were obtained from the websites of the Czech Securities Commission, the Securities Centre and the Prague Stock Exchange, as well as the websites of the listed companies. I attempted to find data that are as much up to date as possible, to reflect the situation at the beginning of 2005.

Figure 14 – Size of Ultimate Voting Blocks in Czech Listed Companies



Source: PSE, SEC, author's calculations, other sources

The diagram depicts that the concentration of ownership (for the remaining 55 companies listed on the Prague Stock Exchange) further increased (compared to Figure 3) and the average size of the largest voting block reached almost 75 percent of total votes. The median figure indicates that the largest voting block in half of the companies on the PSE is over 77 percent. The figure for the 2nd largest voting block is unfortunately not very accurate since the shareholdings are usually only revealed for voting blocks with 5 percent of total votes and more. However, in many companies the second voting block does not exceed this threshold, so it is impossible to estimate its size. Nevertheless, it is not a major drawback, because with such a high concentration as documented above, the largest voting block is of higher importance.

Now we can compare the ownership concentration levels in the listed Czech companies with the rest of the world. The table below summarizes the sizes of largest and second largest voting blocks in the public companies in some European countries and the USA. The presented data are for different years in different countries, but mainly from 1995 and 1996.

Figure 15 - Largest Voting Blocks – International Comparison

	No. of Public Companies	Largest Voting Block		2nd Largest Voting Block	
		Median	Mean	Median	Mean
Austria	50	52,0	54,1	2,5	7,8
Belgium	140	56,0	55,9	6,3	10,3
Germany	327	57,0	49,6	<5	2,9
Spain	193	34,5	40,1	8,9	10,5
France	CAC40	20,0	29,4	5,9	6,4
Italy	214	54,5	52,3	5,0	7,7
Netherlands	137	43,5	42,8	7,7	11,4
Sweden	304	34,9	37,6	8,7	11,2
UK	207	9,9	14,4	6,6	7,3
USA					
NYSE	1309	5,4	8,5	0,0	3,7
Nasdaq	2831	8,6	13,0	0,0	5,7
Czech Republic (Jan 2005)	*55*	*77,60*	*74,88*	*3,53*	*11,19*

Source: Barca, Becht (2001), PSE, SEC, BSE, other sources

The table above reveals a very important finding – the ownership concentration on the Czech stock market has considerably exceeded the concentration levels on all recorded markets of the developed world.

In order to further develop the idea of substantial ownership concentration on the Czech stock market I calculated the average size of the largest shareholding weighted by the market capitalization and by the trade value in 2004. This was done in order to investigate the ownership concentration in the important and liquid share issues, because – as explained above – the vast majority of firms listed on the PSE are rather illiquid.

Figure 16 - Average Largest Shareholding (Weighted)

	Largest Shareholder	2nd Largest Shareholder
Weighted with respect to company's MCAP	76,01%	3,43%
Weighted with respect to company's Trade Value	63,67%	3,43%

Source: PSE, SEC, author's calculations

The table shows that even after weighting the biggest voting blocks with respect to companies' market capitalization and with respect to companies' trade values, the concentration still remains the highest compared to the developed markets mentioned above. When weighted by the market capitalization, the average largest voting block increased even further. When weighted by the company's trade value, the average largest shareholding as well as the average second largest shareholding both decrease.

4.4.2 Comparison to Hungary

We have seen that the Czech listed companies have more concentrated ownership than the ones in the western world. Now I proceed to the comparison with the Hungarian listed companies. This will help us understand whether the ownership concentration on the stock market of another transition economy also differs from the developed markets.

Before I present the ownership concentration figures, I would like to briefly describe the basic features of the Budapest Stock Exchange. As mentioned above, there are equities of 46 joint stock companies currently listed on the Budapest Stock Exchange. The equity market is divided into two categories, A and B. In category A there are 22 companies. These firms have to meet special listing requirements. Some of these requirements are: the market value of listed shares has to exceed certain level (HUF 2,5 bn. which is about USD 14 mil.); at least 25 percent of the series to be listed has to represent public float; the company has to have at least 100 shareholders; etc[36].

When we examine market capitalization and value traded of the individual companies, we arrive to a similar observation as the one on the Prague Stock Exchange. First of all, as expected, the Category B equities are of a minor importance. Category A shares represented 93,6 percent of total BSE's market capitalization and 99,3 percent of the value traded.

In the table below the largest voting block sizes for Czech and Hungarian listed companies are compared. The data for both countries are separated into two categories (SPAD, non-SPAD in the Czech Republic and A List, B List in Hungary) in order to better understand the ownership concentrations on the important liquid markets. The data for Hungarian voting rights were obtained from the website of the Budapest Stock Exchange.

[36] For all listing requirements see www.bse.hu

Figure 17 – Ownership Concentration: PSE vs. BSE

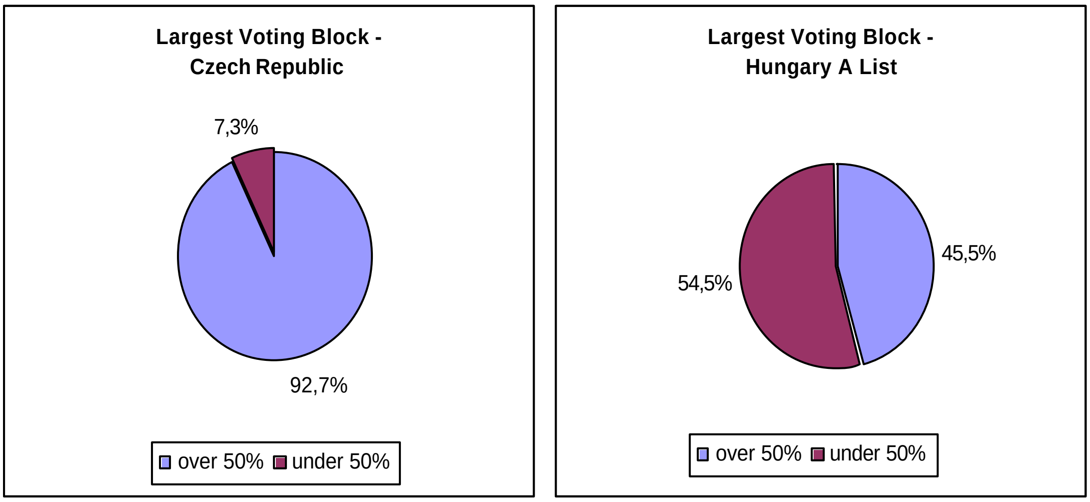
	No. of Public Companies	Largest Voting Block		2nd Largest Voting Block	
		Median	Mean	Median	Mean
Czech Republic	55	77,60	74,88	3,53	11,19
SPAD	7	62,99	67,36	1,23	2,20
Non-SPAD	48	82,99	75,97	5,41	12,50
Hungary Total	46	49,97	45,02	11,52	13,74
Hungary A List	22	37,54	40,09	10,20	10,10
Hungary B List	24	53,89	49,72	16,51	17,22

Source: PSE, SEC, BSE, author's calculations, other sources

The primary observation is that companies listed on the Budapest Stock Exchange have significantly more dispersed ownership than the ones on the Prague Stock Exchange. Especially the companies listed in category A on the BSE have a relatively diffuse ownership similar to that of Spain in Figure 15. And although the ownership concentration for the SPAD issues is somewhat lower than the averages for the whole PSE, it remains very high and the average largest voting block is still higher than any of the ones recorded in Figure 15.

Another indicator of ownership concentration is the number of companies with the largest voting block of over 50 percent. On the Prague Stock Exchange 51 companies out of the total of 55 have a voting block larger than 50 percent. In comparison, only 10 out of 22 companies on the BSE's A list have a 50 percent plus voting block holder.

Figure 18 - Percentages of Voting Blocks over 50 percent



Source: PSE, SEC, BSE, author's calculations, other sources

In order to compare the above-mentioned figures with some values from the developed world I present the table below. As you can see while Hungarian A List is again close to the Spanish, the only country that comes close to the Czech Republic is Italy in 1993. There are also Germany and France with higher concentration than Hungary. US, Japan, and UK had a much lower concentration levels, in some cases already 20 years ago.

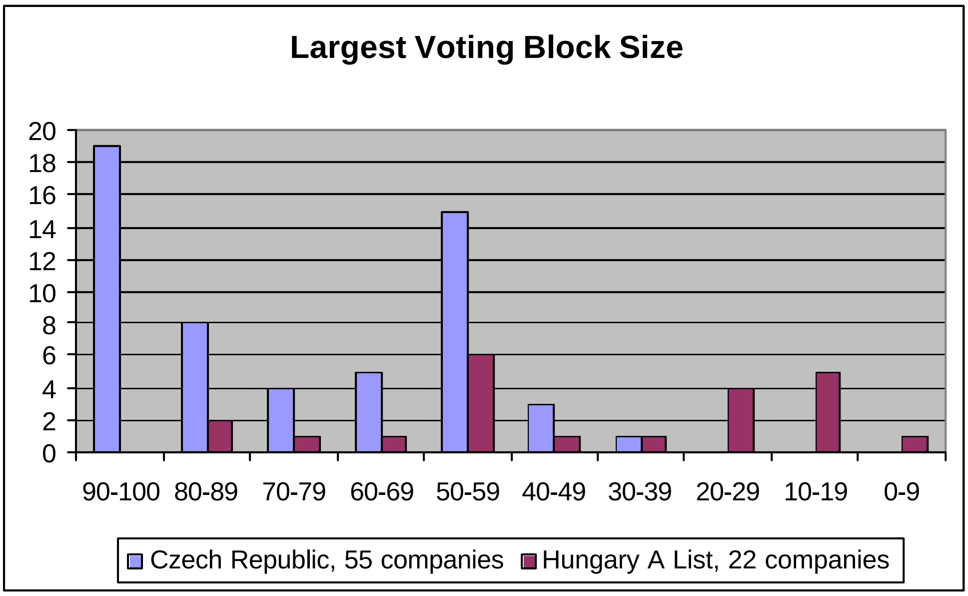
Figure 19 – Ownership Concentration in Listed Firms in Various Countries

Country	Year	Percentage of companies with a voting block over 50 percent of equity
Italy	1993	89%
Germany	1985	66%
France	1982	55%
Spain	1990	49%
Sweden	1987	42%
US	1981	9%
Japan	1983	5%
UK	1990	5%

Source: Buckley, et al. (1998)

Another graph that explains a lot concerning largest voting blocks is presented below. It shows frequencies for various sizes of the largest voting blocks. As you can see, there are, for example, 19 companies on the PSE with size of the largest voting block between 90 and 100 percent of the company's total voting rights, 8 with the size between 80 and 89,99 percent, etc.

Figure 20 - Largest Voting Blocks by Size



Source: PSE, SEC, BSE, author's calculations, other sources

The previous paragraphs have revealed some very interesting findings concerning the ownership concentration in the Czech listed companies as well as some crucial differences in the Czech and Hungarian ownership concentration patterns. Now I will try to analyze these results in some more detail.

Figure 20 shows that we do not observe any company with a really dispersed ownership similar to the one in Anglo-Saxon world. The company with the smallest size of largest voting block is Jihoceské Papírny Vetrní, with the largest voting block of about 39 percent. This firm, however, is very specific as it finds itself in a difficult financial situation and has the lowest market capitalization of all the 55 companies listed on the PSE. Its biggest voting block is owned by the government (through the Czech Consolidation Agency[37]) that is currently looking for a potential buyer of its stake. Then there are three more companies (again, rather of a minor importance) with the volume of the biggest voting right between 40 and 49,99 percent. The remaining 51 companies have a majority owner with voting block exceeding 50 percent. 19 of these firms even have the blockholder with voting rights exceeding 90 percent.

Figure 20 also illustrates another fact worth mentioning. In significant proportion of the companies there is an owner controlling the voting block just above 50 percent of the total voting rights. Berglof and Pajuste (2003) also observed the clustering around 50 percent level in their 2000 data[38]. The authors explain this phenomenon by the mandatory takeover bid threshold, which was at one point at the 50 percent level in the Czech Republic. Nevertheless, I am somewhat skeptical about this reasoning. First, the mandatory takeover rule was enacted only in 1996 but has been efficiently enforced since 2001 and in many cases the 'around 50 percent' ownership has been established before the mandatory takeover rule was in place. Second, most of the companies cluster (also visible on Berglof and Pajuste (2003) diagrams) around 50 percent from above, i.e. control just over a half of voting rights. Therefore, the mandatory takeover rule can hardly fully explain the clustering.

In my opinion, the pattern is better elucidated by the model 'Large shareholder behaving as a single owner' as described in Section 3.3.2. The central idea of this model is that

Figure 20 also reveals the contrast in the levels of Czech and Hungarian ownership concentrations. 10 out of 22 companies in category A on the BSE have the largest voting right holder with less than 30 percent of total rights. As we have seen above, none of the Czech listed companies belongs to this category. There are also only 4 companies with the largest blockholder

[37] see www.czca.cz

[38] see Berglof and Pajuste diagrams in Figure 23

controlling over 60 percent of voting rights – a category which is represented by 65 percent of the Czech listed firms. Probably the only similarity in Figure 20 is that substantial proportion of blockholders control slightly more than 50 percent of the voting rights. Obviously, in Hungary it is also advantageous to exceed the 50 percent plus one share threshold.

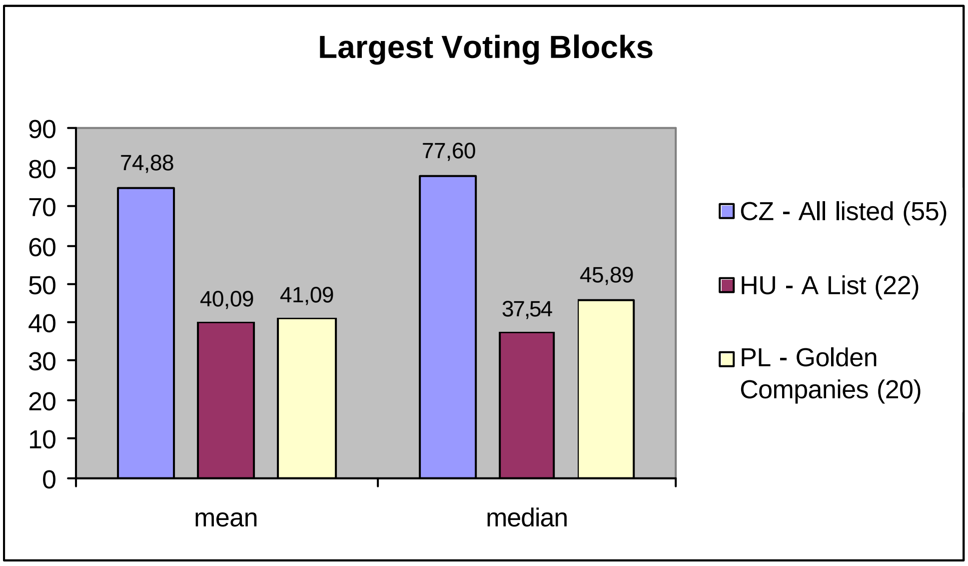
4.4.3 Comparison to Poland

To further support my argument that the ownership concentration among the Czech listed firms is exceptionally high even when compared to CEE countries, which also underwent transition from centrally planned to market economy (since Hungary, rather than the Czech Republic, might be an outlier among emerging markets), I will now provide the analysis of ownership concentration among companies listed on the Warsaw Stock Exchange[39].

At the end of 2004 there were shares of 230 companies traded on the WSE. Similarly to my analysis of the ownership concentration on the Budapest Stock Exchange I am only going to examine the largest voting blocks in the most important Polish companies, which make up majority of the trading volumes. Such issuers are described as Golden Companies on WSE and comprise 20 biggest listed companies (which also participate in the WIG20 index). The importance of these 20 companies can be demonstrated by the fact that they made up over three quarters of the total trade volume (for all 230 listed firms) in 2004.

[39] For details of Polish privatization, see Hashi (1999); see also Grosfeld, Hashi (2003) for the Polish post-privatization developments in ownership concentration. Overall it can be stated that the Polish program of National Investment Funds was mainly concerned about corporate governance arrangements favoring enterprise restructuring. The regulatory framework was also much more stringent than in the Czech Republic and thus resembling more to the Hungarian one.

Figure 21 - Largest Voting Blocks (2004/2005 data)



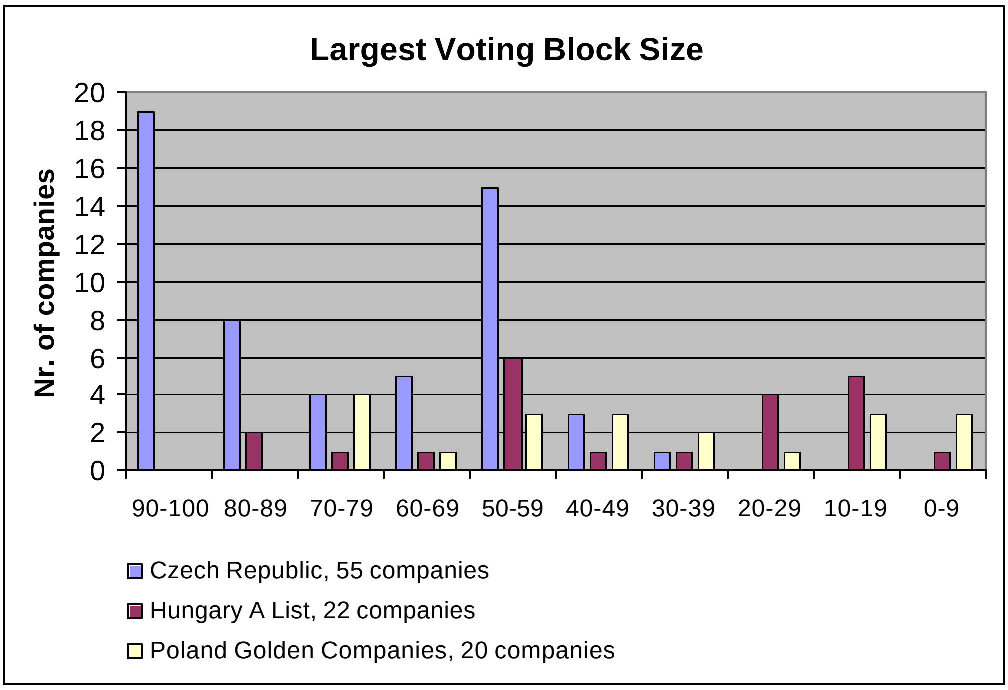
Source: PSE, SEC, BSE, WSE, author's calculations, other sources

The above graph shows that the average and median sizes of the largest voting blocks among the Polish Golden Companies are again substantially smaller than the ones among the Czech listed firms and are rather similar to the ones among Hungarian A List companies. Although the median value is somewhat higher for Poland than for Hungary, it is still below 50 percent and significantly smaller than the median value for the Czech Republic. If you recall Figures 16 and 17, you can also notice that the Polish average largest voting block size is still much lower than the weighted Czech block size or the average block size for SPAD share issues. Thus, we cannot say that the differences can be explained by the fact that only the most important Polish companies (Golden Companies) were analyzed.

The figure below is the familiar graph (Figure 20 extended for Poland) that divides the companies by the size of their largest voting blocks. The data yet again clearly document the exceptional situation on the Czech stock market. While the vast majority of the Czech companies are controlled by the blockholder with a voting block exceeding 50 percent, only 8 of 20 Polish Golden Companies have such an owner (none of these companies has a 80+ percent blockholder). On the other hand, 9 of these companies have the largest blockholder with less

40 percent of the votes (there is only one such company on the Czech Stock market).

Figure 22 - Largest Voting Blocks by Size (CZ, HU, PL)



Source: PSE, SEC, BSE, WSE, author's calculations, other sources

Therefore, we can conclude that the ownership concentration patterns among the Polish Golden companies resemble much more to the ones among Hungarian A List companies than to the ones among the Czech listed companies. In Poland we again observe certain companies with rather fragmented ownership – something nonexistent on the Czech stock market.

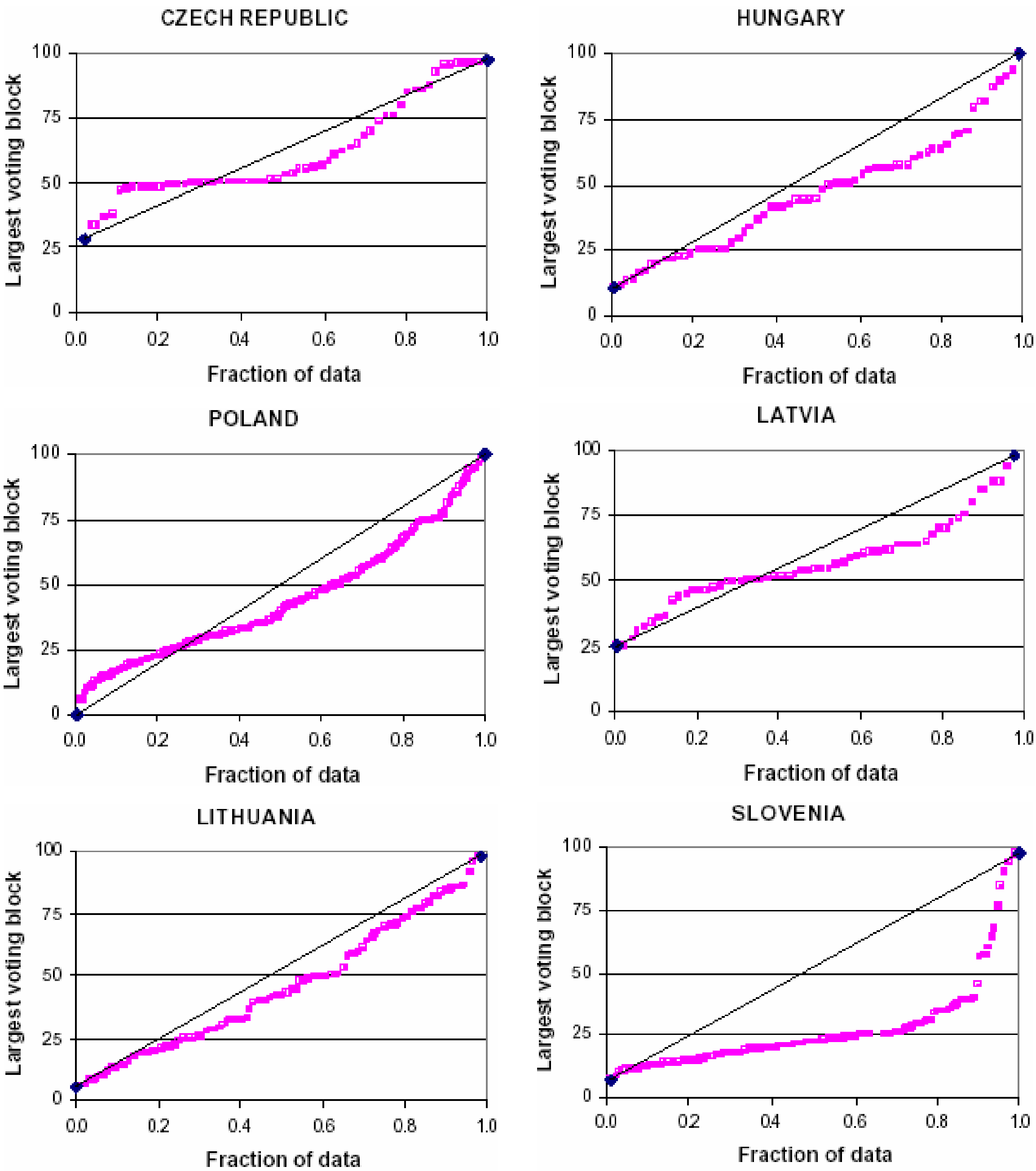
4.4.4 CEE Markets Overview

In order to have same overall comparison with other European transition economies I present the graphs by Berglof and Pajuste (2003) in Figure 23. These are percentile plots showing the sizes of the largest controlling stakes in listed companies in six emerging markets including the Czech Republic and Hungary. The data are, however, slightly older, from 2000 and 2001. Also, direct shareholdings rather than voting rights are sometimes used.

The graphs again confirm that the concentration among the Czech listed companies is very high even when compared to other transition economies. What is perhaps the most striking (although not commented on by Berglof and Pajuste in their paper) is a very low proportion of Czech companies with largest holdings below 50 percent (again, proving the validity of the Czech bivalent model). This observation has already been described above, now we can, however, see that this pattern is unprecedented in other countries. The other distinctive characteristic of the plot for the Czech Republic is the unparalleled share of companies with blockholder controlling almost 100 percent of the company's equity.

The plot graphs also verify my findings about much lower ownership concentrations in Hungary and Poland with very few big controlling shareholders in contrast to the Czech Republic. Based on the information in this and the previous three sections, we can safely state that the Czech Republic is an outlier among the CEE countries with respect to ownership concentration.

Figure 23 - Percentile plots showing cumulative distribution of the size of the control stake held by the largest shareholder, 2000 data, Latvia and Lithuania - 2001 data



Source: Berglof and Pajuste (2003)

4.5 Implications of Corporate Governance Landscape

The previous four subchapters have revealed a lot about the Czech corporate sector and the situation on the Prague Stock Exchange. We have also learned a lot about ownership concentration in the Czech listed firms. But how do these findings relate to corporate governance?

As shown in Section 4.1, only a minor share of the Czech biggest companies is listed on the PSE. I have found out that most of the top 100 non-financial companies by revenue that are non-listed (almost 80 percent) have only a very limited number of owners. In about 52 of 100 cases there is even a sole owner controlling the whole equity. In 40 cases this owner is a foreign strategic investor that controls either 100 percent or something very close to 100 percent (98 percent plus) of the company's equity. These findings partially confirm the theory presented by Mihalyi that many of the companies in Central and Eastern Europe are only subordinated units of transnational corporations with headquarters somewhere else in the world. In such companies the two central corporate governance problems are to a certain extent mitigated since the single owner model is in a way the most straightforward way to govern an enterprise. The fully involved owner acts as an efficient monitor and we do not confront expropriation problem since there are no minority shareholders.

Regarding the companies listed on the Prague Stock Exchange, a very high ownership concentration has been found. Virtually all these companies have a dominant owner controlling over a half of the company's voting rights. Various factors obviously contributed to this status quo. Mass privatization and the emergence of investment privatization funds, poor legal (and whole institutional) framework and enforcement, or government's keenness to keep a majority share in some of the companies all were among these causes.

This observation about ownership concentration is of a crucial importance with regard to corporate governance. In Chapter 2, two basic corporate governance models, defined by the degree of ownership concentration, have been introduced. It has been explained that each model has different crucial corporate governance issues that need to be taken care off. With such a high ownership concentration, the Czech listed companies can be apparently described by the blockholder model (recall the central peril of this model being the expropriation of minority shareholders by the dominant stakeholders).

5 Corporate Governance Drivers

The detailed analysis of the Czech corporate sector has revealed some promising developments that have taken place in the recent years. Thus, in this chapter will try to identify some factors in the area of corporate governance (corporate governance drivers) that may contribute to:

1) further growth of SPAD companies
2) emergence of Zentiva followers – IPOs of mid-sized companies that have never been listed on the stock exchange
3) revival of some dormant companies that are currently listed on the Prague Stock Exchange

5.1 What are the Investors Saying?

It is obvious that attraction of institutional investors would help to achieve the three goals set above. Therefore, in the first part of this chapter I am going to present the opinions of the institutional investors regarding corporate governance. It is important to understand the wants and needs of the investors since these are some of key drivers of corporate governance. This should help us to recognize the role and value of corporate governance. These findings in combination with our theoretical (Chapter 2) and empirical (Section 4.4) knowledge should help us to target particular corporate governance issues that are crucial for successful development of the Czech capital market.

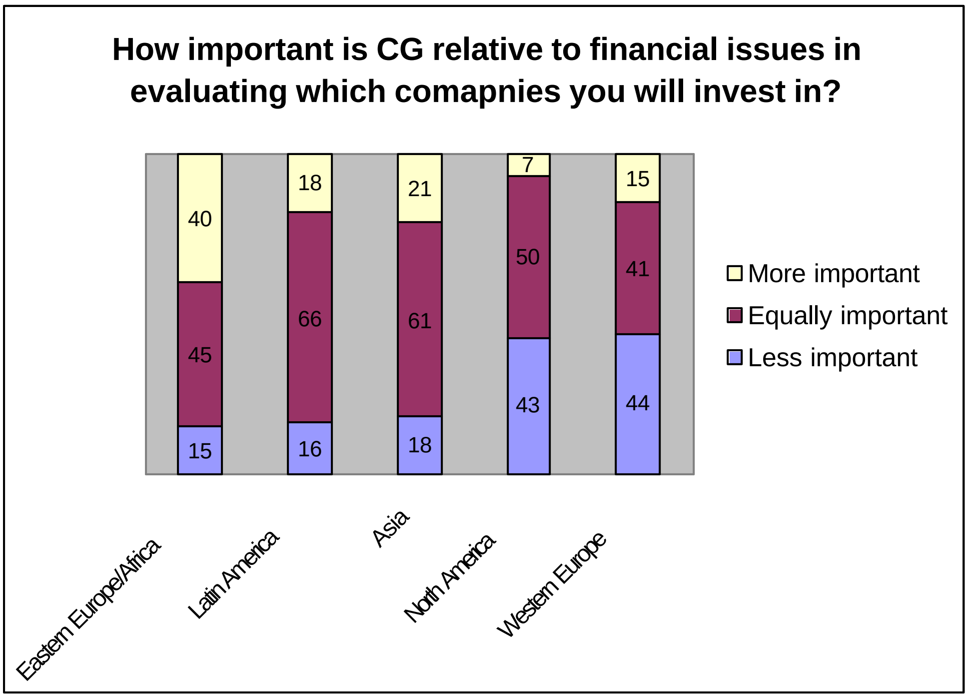
McKinsey's Global Investor Opinion Survey from 2002[40] provides evidence that corporate governance issues are very important for institutional investors. The questionnaire-based survey, undertaken in April and May 2002, was based on 201 responses from professional investors from institutions with estimated

[40] see McKinsey 2002a

assets of USD 9 trillion under management. 31 countries in Europe, Asia, Latin America, Middle East, Africa, and North America were covered with Poland being the only country from the CEE block.

Figure 24 illustrates that, for investors, corporate governance (defined by McKinsey as 'effective boards of directors, broad disclosure, and strong rights and equal treatment for shareholders') is often on par with financial data when evaluating investment decisions. This is especially the case for emerging markets where over 80% of investors assign an equal or a more important role of corporate governance compared to financial indicators. A note is necessary here concerning the division into regions. Somehow awkward coupling of Eastern Europe and Africa means that the Czech Republic (not examined in the survey) would rather qualify somewhere between Eastern Europe/Africa and Western Europe. The other data from the Survey reveal that investors assume a significant corporate governance risk in African countries.

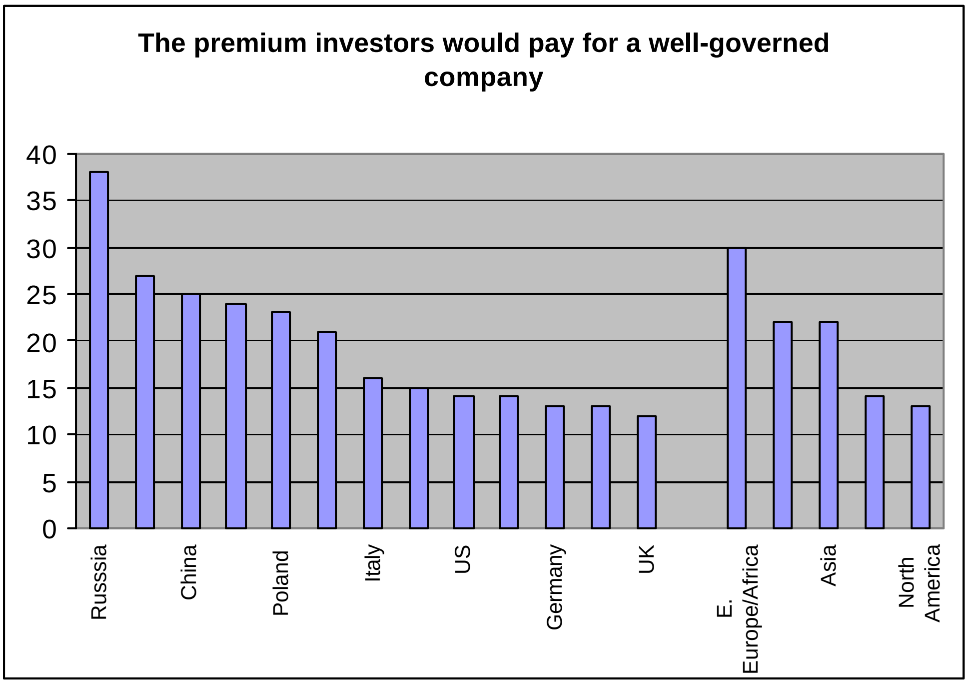
Figure 24 – Importance of Corporate Governance



Source: McKinsey Global Investor Opinion Survey on Corporate Governance, 2002

Consistently with the above figure, 77 percent of investors are willing to pay a premium for a well-governed company[41]. The figure below depicts the quantitative estimates of the premium for a well-governed company in selected countries and regions. Again we can see that that the premium is much higher in emerging than in mature markets. For example, the premium for Poland is about 23 percent while the average in Western Europe is 14 percent.

Figure 25 – Corporate Governance Premia

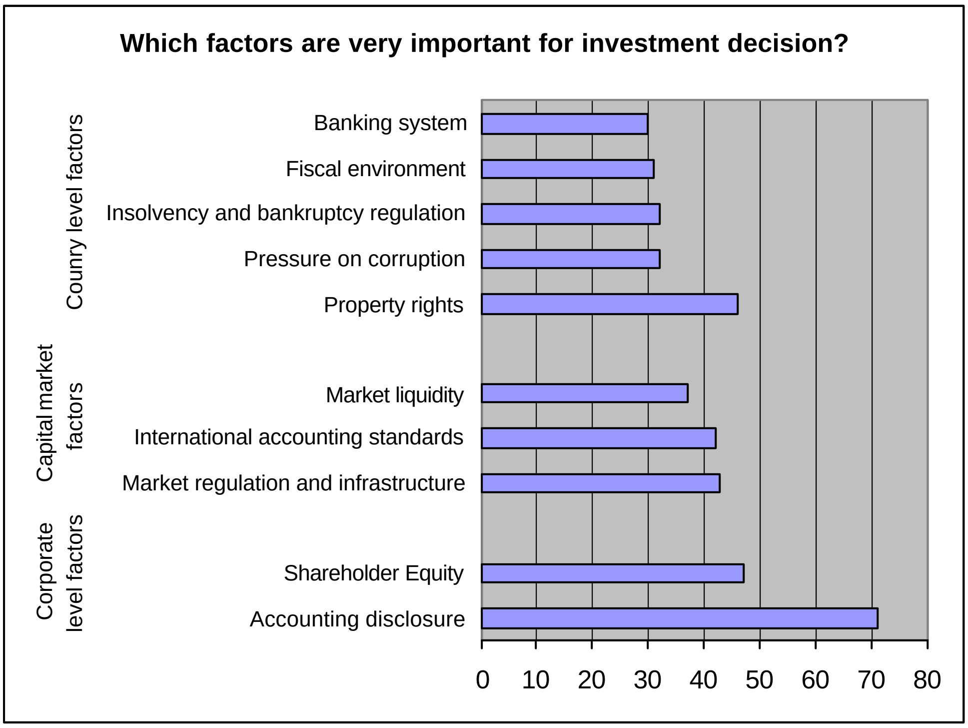


Source: McKinsey Global Investor Opinion Survey on Corporate Governance, 2002

The final graph from the McKinsey survey shows which factors are crucial for investment decision. The figure reveals that accounting disclosure is critical for investors.

[41] A well-governed company is defined as the one with majority of outside investors, with independent outside directors, with directors possessing significant shareholdings and with partial stock-related pay, with formal director evaluation pay, and the one responsive to investor requests for governance issue information.

Figure 26 – Key Factors for Investment Decision



Source: McKinsey Global Investor Opinion Survey on Corporate Governance, 2002

In the Survey the investors were also asked to propose priorities for the policymakers regarding corporate governance. The answers have shown that institutional investors saw top reform priorities in strengthened shareholder rights, improved accounting standards, and more effective disclosure.

The Survey results have provided evidence that institutional investors find corporate governance very important and in most of the cases equally important as financial results. The investors would even pay a significant premium for a well-governed company. From the survey results it also follows that the less mature is the market in the country of the company's origin, the more important the company's governance is. This implies that governance in the Czech companies is relatively more important for investors than governance in, for example, Germany. It has been also shown that the investors put extra emphasis on disclosure, shareholder rights, and accounting standards.

In my opinion, the findings of the Survey are very beneficial and should motivate companies that are looking for extra funding to pay good attention to corporate governance issues. The only potential shortcoming of the survey is that no evidence is provided showing that the institutional investors actually act in a way they responded in the survey.

5.2 Legal Framework of Corporate Governance in the Czech Republic

The previous section has shown that corporate governance is very important for investors. Therefore, in this section I would like to examine the current Czech institutional framework, because it crucially affects corporate governance as has been shown in previous chapters. First, I will briefly review the main codification regarding corporate governance and then I will compare the Czech legal framework to the framework in other countries with the help of studies conducted by international institutions.

5.2.1 Overview of Czech Legal Framework with Regard to Corporate Governance[42]

The Commercial Code is the main source of law addressing corporate governance in the Czech Republic. It regulates issues such as corporate bodies or shareholder rights. Securities Act also sets a number of corporate governance rules including disclosure rules, insider trading rules, etc. Several other laws and regulations such as the Securities Commission Act, the Stock Exchange Act, the Bankruptcy and Composition Act or Listing Rules of the Prague Stock Exchange also relate to corporate governance.

The main traits of the Czech law regulation related to corporate governance are as follows.

Board System

The corporate governance of a joint-stock company is based on a two-tier system, where the board of director acts as an executive body (day-to-day operation) and the supervisory board as a supervisory body (supervision of the board of directors' performance and the company's business). A person cannot

[42] this overview is mainly based on information that can be found at internet address http://www.gettingthedealthrough.com/main_fs.cfm?book=CorporateGovernance and on information provided in SEC's Corporate Governance Code 2004 with commentaries

be concurrently a member of both boards in a single company. All members of the board of directors and the supervisory board are obliged to proceed with due managerial care. There is no minimum number of non-executive and independent directors required by the law (the Commercial Code does not distinguish between executive and non-executive members; in practice, executive members make up the majority of directors in Czech companies). The law does not prohibit and does nor require the CEO duality (the separation or joining of the functions of CEO and board chairman). Nevertheless, it is common to join the roles of CEO and the chairman of the board of directors.

No supervisory board committees (such as audit or remuneration) are required by the law and there is no minimum number of board meetings per year. Remuneration of directors must be endorsed by the general meeting. Listed companies must disclose all transactions with their management and board members in the annual report.

There are also a few rules concerning employees in the role of stakeholders. If the number of employees exceeds fifty, at least one third of the supervisory board members have to be elected by the company's employees (codetermination). There are also certain disclosure duties of the company to it employees.

As you can see, there are not many requirements to be executed by the boards. However, the articles of association often provide for a certain number of meetings per month or year. Usually, the meeting of the board of directors is conveyed at least once a month; the supervisory board meets less frequently.

Disclosure

A company is required to disclose certain data, such as location of its registered office, composition of its boards, or the structure and amount of registered capital. Joint-stock companies are also required to publish audited annual reports; listed companies are also obliged to publish (among other data) semi-annual reports and price-sensitive information.

European Union

Since the Czech Republic's accession to European Union, the Czech institutions also have to reflect to acquis communautaire. The European Union became more active in the area of corporate governance recently. The Action Plan entitled "Modernizing Company Law and Enhancing Corporate Governance in the European Union - A Plan to Move Forward" was adopted in May 2003. As part of the implementation of this Plan, the European Commission published Recommendations on the role of independent directors, on increasing the transparency of director's remuneration, and on the strategy to prevent financial and corporate malpractice. According to the press release of the European Commission (see European Commission (2004)), the Commission will also propose amendments to Accounting Directives to establish the collective responsibility of the board members and to increase disclosure of certain transactions and off-balance sheet arrangements. It should also require listed companies to include a corporate governance statement in their annual reports.

5.2.2 Evaluation of the Czech Legal Framework in the International Context

After briefly reviewing the basic aspects of the Czech codification concerning corporate governance I will now use the studies conducted by EBRD and Oxford Analytica to put the Czech corporate governance legal framework into international context. I have decided to use this approach to review the Czech legal framework, since these studies are the primary source of information for international investors who contemplate investments in the Czech Republic.

EBRD's Assessment

The European Bank for Reconstruction and Development (EBRD) – a major lender and investor in the companies from Central and Eastern Europe – stresses the importance of corporate governance for transition economies.

EBRD published a set of guidelines "Sound business standards and Corporate Practices" already in 1997. Various other corporate governance publications have been published by the Bank since.

The annual Corporate Governance Assessment (first published in 2002) of countries of operation is a part of EBRD's corporate governance project. The Assessment (carried out with the assistance of legal advisors Lovells and Ernst & Young) evaluates the status of corporate governance related laws and regulations in each of the countries. The Assessment attempts to objectively assess the valid laws and regulations in relation to international corporate governance standards, particularly to OECD's Principles of Corporate Governance. Thus, the focus is on the legal framework rather than on actual implementation and practices of individual companies. The Assessment is conducted using a detailed checklist – consisting of 89 Yes/No questions – focused on five basic corporate governance issues, namely the rights of shareholders, the equitable treatment of shareholders, the role of stakeholders in corporate governance, disclosure and transparency, and responsibilities of the board.

Figure 27 – EBRD Rating

A – Very High Compliance	
B – High Compliance	Armenia, **Hungary**, Kazakhstan, Latvia, Lithuania, Macedonia, Moldova, Poland, Russia
C – Medium Compliance	Albania, Bulgaria, Croatia, **Czech Republic**, Estonia, Kyrgyz Republic, Serbia and Montenegro, Slovakia, Slovenia, Uzbekistan
D – Low Compliance	Bosnia and Herzegovina, Georgia, Romania, Turkmenistan
E – Very Low Compliance	Azerbaijan, Belarus, Tajikistan, Ukraine

Source: EBRD Country Assessment 2003

According to the Assessment results, the compliance of the Czech Republic's legal framework concerning corporate governance is slightly lagging behind some other Central and Eastern European countries. The study identifies that – in comparison to Poland and Hungary – the Czech law is not so strict about disclosure and transparency (for example disclosure of key performance issues to stakeholders, disclosure of information concerning foreseeable material risk, or employment history of individual board members and key executives).

Oxford Analytica's Assessment

Another similar legal assessment has been executed by Oxford Analytica (2004) that prepared a study "Shareholder and Creditor Rights in Key Emerging Markets 2003" for the leading institutional investor CalPERS. As the title implies, this study examined only shareholder and creditor rights rather than the all the law concerning corporate governance. 27 emerging market economies, one of which was the Czech Republic, were surveyed. The study again indicated a few weaknesses in the Czech shareholder rights treatment, namely the disallowance of proxy by mail and the lack of provision for cumulative voting.

I would also like to mention, that the protection of minority shareholders has to have certain limitations as well, since number of cases of greenmailing (abuse from minority shareholders) have taken place recently in the Czech Republic.

5.3 CG Code and the Czech Securities Commission

The Czech Securities Commission (SEC) is apparently the most important institution with regard to corporate governance in the Czech Republic and therefore can be counted as one of the main corporate governance drivers in the country. The SEC is also the central corporate governance advocate in the country. The Czech parliament established the Commission (through a special act) in April 1998 as an independent and professional authority, which would supervise the capital market[43]. Some of the characteristic corporate governance issues constitute the SEC's central objectives, such as protection of investors or market transparency. Thus SEC established a working group that, in cooperation with experts from the United Kingdom, prepared the first Czech Code of Corporate Governance which was published in February 2001.

In 2004 the SEC published a revised Code of Corporate Governance reflecting upon revisions in the OECD principles and that is not so biased towards Anglo-Saxon approach to corporate governance (i.e. towards widely held model from Chapter 2 that has some quite different policy implications than the Blockholder model that prevails in the Czech Republic). The structure of the new Code is the same as the structure of the 2004 version of the OECD Principles, however, the Code also contains elements proposed by the European Commission in its document "Modernizing Company Law and Enhancing Corporate Governance in the European Union - A Plan to Move Forward" published in May 2004.

The adoption of the Code by companies is voluntary, but already in 2002 the SEC asked listed companies for the application of the Code and for voluntary compliance declaration. I will comment on this in the following section.

[43] recall that it replaces the unsuccessful Office of the Ministry of Finance as described in Section 3.3.1

5.4 Corporate Governance and Czech Listed Companies

Eventually, I proceed to the analysis of probably the most obvious corporate governance drivers – the firms themselves and their attitude to corporate governance. So how seriously do the Czech listed companies take corporate governance? I performed some research in order to answer this question.

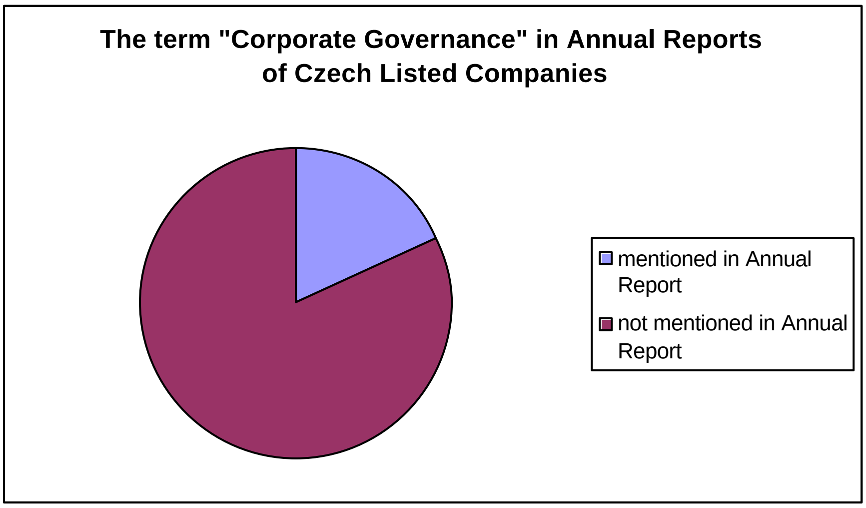
First, I examined the online investor relations in the similar way as East West Management Institute in their survey "Investor Relations Online: Survey of the Websites of the 10 Largest Listed in Eleven Central and Eastern European Countries"[44]. However, instead for 10 companies I did it for all listed companies on the Prague Stock Exchange and 22 companies from the A List on Budapest Stock Exchange (the companies listed on the B List of Budapest Stock Exchange usually do not have own websites). My primary finding was that 41 of the 55 companies from the PSE did have – although in some cases of limited extent compared to their Czech version – an English version of their website (all Czech listed companies except for one had a functioning website at least in Czech). Among companies listed on BSE's A List there was only one (out of 22) that did not have an English version of the website. 36 of the Czech and 18 of the Hungarian companies also had an investor relation section (or something resembling to it) on their website. When looking for information about the board members I have found that among the Czech companies, 12 offered details about individual board members and other 24 at least listed the names of the board members. The numbers for Hungary were 10 and 3 respectively. I have found the biggest difference between the Czech and Hungarian websites when I searched for corporate governance section. I have found only 2 Czech companies (CEZ and an international website of Philip Morris) with corporate governance section and as many as 7 in Hungary.

Someone may now argue that since most of the companies also have their annual report for download on their websites, corporate governance information

[44] see East West Management Institute (2004)

can be found there and no section on the website is therefore necessary. For that reason I had also examined the 2003 annual reports. The results for the Czech companies were very disappointing. Only 10 companies mentioned the term ‘corporate governance’. 6 of these companies had a whole chapter about corporate governance in their report. But probably the most disappointing is that only 2 companies (Ceský Telecom and Západoceská energetika) also published the declaration of compliance with the governance code. This finding shows that the Czech Securities Commission has not so far been very successful with its Code. The situation among Hungarian companies is better since the declarations are published on the BSE’s website. 8 of 22 companies submitted their ‘explain or comply’ declaration.

Figure 28 - Corporate Governance in Annual Reports



Source: Annual Reports of the Czech Listed Companies

The last corporate governance characteristic that I examined was whether the companies reported their financial statements also according to international accounting standards (International Financial Reporting Standards - IFRS). I have done it because - if you recall the finding from Section 5.1 - institutional investors considered global accounting standards very important. I have found that 15 Czech as well as 15 Hungarian companies (plus 1 that reported in American GAAP) reported in accordance with IFRS. I have to note that since

2005 all listed companies in the European Union will have to report according to IFRS.

Overall, my general impression is that the Hungarian companies pay much more attention to corporate governance and investor relations. This finding is consistent with the fact that the ownership concentration in Hungarian A List firms is much lower than in Czech listed companies.

6 Conclusions

The thesis has revealed a lot about issues concerning corporate governance and ownership concentration in the Czech Republic. In Chapter 3, it has been demonstrated that the combination of rather unorthodox privatization method and underdeveloped institutional framework had a crucial impact on the Czech capital market and corporate governance as a whole. One of the consequences was the process of ownership concentration in the post-privatization period, facilitated by the involvement of investment privatization funds. The other consequence, as shown in Section 3.3.2, has been very poor corporate governance in the second half of the 1990s resulting in the emergence of serious moral hazard problems.

These difficulties were naturally reflected in the poor performance of the Czech capital market and contributed to the fact that its current role is rather limited. In Chapter 4, it has been shown that only very few companies are really traded (seven companies that are traded using SPAD trading system), while most of the listed firms are “dormant” with virtually zero trading activity. However, certain signs of revival have been witnessed in the form of rapid growth among the seven bluechips. In 2004, Zentiva was the first successful IPO in the history of Prague Stock Exchange, followed by another IPO (Orco) in the beginning of 2005.

Analysis in Section 4.4 provided evidence that the current level of ownership concentration among the Czech listed companies has become extremely high with vast majority of the firms having an owner controlling over 50 percent of the voting rights. The average and median sizes of the largest voting blocks for 55 companies listed on the Prague Stock Exchange were found to be 74,88 and 77,60 percent respectively at the beginning of 2005. These figures substantially exceeded the values in both – mature and emerging – economies that have examined. A detailed analysis of the largest voting blocks among Hungarian and

Polish listed companies confirmed that the concentration among the Czech listed companies is exceptionally high.

Such a high ownership concentration has important policy implications for corporate governance as has been shown in Chapter 2. Bearing these implications in mind, Chapter 5 revealed that there are still numerous deficiencies in the Czech institutional framework in comparison to other countries, such as limited protection of minority shareholders (no proxy voting by mail, etc.), although significant improvements have been achieved in recent years.

Somewhat surprising and disappointing findings were discovered when the attitude of Czech firms towards corporate governance was examined. It was revealed that only a fraction of the companies commented on corporate governance in their Annual Reports and only two Czech listed companies published a declaration of compliance with the Corporate Governance Code.

The above mentioned facts suggest that although substantial improvement in corporate governance (institutional framework, better supervision from Czech Securities Commission, etc.) has taken place, the situation, especially among the listed firms themselves, is still far from optimal. Consistent with my hypothesis from Chapter 1, I am convinced that further improvement in corporate governance of the Czech companies would lead to improved functioning of the Czech capital market.

Therefore, it will be interesting to follow the developments in the years to come, since factors like globalization, EU convergence, further rise of institutional investors, etc. will put more pressure on the Czech companies to improve their corporate governance standards in order to become more competitive.

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Websites of the Czech and Hungarian Listed Companies

Appendix

Companies Listed on the Prague Stock Exchange

				Shareholders		Internet				Ann Rep		
		MCAP	TrValue	**Largest**	2nd	Boarc	En	IR	CG	CG in A	IFRS	
Ceská námorní plavba	1	479,9	0	**85,86**	5,40	0	0	0	0	0	0	www.cos.cz
Ceská Pojištovna	1	30347,5	112,412	**97,70**	0,10	1	1	1	0	0	0	www.cpoj.cz
Ceská zbrojovka, a.s.	1	794,1	0,534	**84,19**	3,53	0	1	0	0	0	0	www.czub.cz
Ceské radiokomunikace, a.s.	1	13719,6	9216,29	**94,32**	0,10	1	1	1	0	0	1	www.cra.cz
Ceskomoravské doly, a.s.	1	1063,9	0,512	**80,23**	0,10	1	0	1	0	0	0	www.cmd.cz
Ceský telecom, a.s.	1	118915,6	121040,2	**51,10**	4,98	2	1	1	0	1	1	www.telecom.cz
CEZ, a.s.	1	201766,2	108047,3	**67,60**	1,01	2	1	1	1	1	1	www.cez.cz
Enegoaqua, a.s.	1	542,1	0	**91,80**	0,10	0,5	0	1	0	0	0	www.enegoaqua.cz
Erste Bank	1	286592,7	31141,87	**97,97**	0,10	1	1	1	0	0	1	www.csas.cz
ISPAT Nová Hut, a.s.	delisted in 2004											
Jihoceská energetika, a.s.	1	3039,4	0,35	**98,71**	0,10	0	1	1	0	0	1	www.ice.cz
Jihoceská plynárenská, a.s.	1	773,9	0,012	**46,66**	12,87	2	0	1	0	0	0	www.jcp.cz
Jihoceské mlékárny, a.s. - Madeta	delisted in 2004											
Jihoceské papírny, a.s. - JIP	1	141,8	2,934	**38,90**	12,31	0	1	0	0	0	0	www.jip.cz
Jihomoravská energetika, a.s.	1	6572,3	0,086	**99,00**	0,10	0	1	1	0	1	1	www.jme.cz
Jihomoravská plynárenská, a.s.	1	3931,8	0	**50,12**	43,73	2	1	1	0	0	0	www.jmpas.cz
KABLO Elektro Vrchlabí, a.s.	delisted in 2004											
Komercní Banka	1	124368,2	149252,8	**60,35**	5,76	1,5	1	1	0	0	1	www.kb.cz
KOTVA, a.s.	1	252	0,004	**55,70**	14,10	0	0	0	0	0	0	www.od-kotva.cz
Lafarge Cement, a.s.	1	2434,5	0,327	**96,40**	0,10	0	0	0	0	0	0	www.lafarge.cz
Lázne Teplice v Cechách, a.s.	1	209,8	0,015	**69,00**	0,10	0	1	0	0	0	0	www.lazne.teplice.cz
Lécebné lázne Jáchymov	1	315,9	0,012	**71,46**	12,03	0	1	0	0	0	0	www.laznejachymov.cz
Meopta Prerov, a.s.	delisted in 2004											
Metalimex, a.s.	1	2442,4	0,682	**96,71**	0,10	2	1	1	0	0	0	www.metalimex.cz
nkt cables, a.s. (KABLO Kladno, a.s	1	288,5	0,193	**91,42**	0,10	0	1	1	0	0	0	www.kablo.cz
OKD, a.s.	1	11593,3	8,346	**95,89**	0,10	1	0	1	0	0	0	www.okd.cz
Paramo Pardubice, a.s.	1	1424,5	1,381	**73,52**	7,99	1	1	1	0	0	0	www.paramo.cz
Philip Morris CR, a.s. (Tabák, a.s.)	1	32104,2	29238,12	**77,60**	1,23	2	1	1	1	0	1	www.philipmorris.com
Plzenská teplárenská, a.s.	delisted in 2004											
Pražská energetika, a.s.	1	7883,7	0,009	**50,78**	34,00	1	1	1	0	1	1	www.pre.cz
Pražská plynárenská, a.s.	1	2347,3	0	**50,20**	49,24	1	1	1	0	0	0	www.ppas.cz
Pražské služby,a.s.	1	1307,1	0	**77,00**	15,70	1	0	ar	0	0	0	www.psas.cz
RM-S Holding	1	1486,5	64,458	**96,52**	0,10	2	1	1	0	1	0	www.pvt.cz
Setuza, a.s.	1	480,3	0,007	**49,92**	38,30	0	1	1	0	0	0	www.setuza.cz
Severoceská energetika, a.s.	1	5701,9	2,79	**56,93**	29,16	1	1	1	0	0	0	www.sce.cz
Severoceská plynárenská, a.s.	1	1968,8	0	**51,82**	25,62	1	1	1	0	0	1	www.scplyn.cz
Severoceské doly, a.s.	1	11124,4	44,013	**55,40**	37,20	2	1	1	0	1	1	www.sdas.cz
Severomoravská energetika, a.s.	1	8413,6	1,874	**89,38**	0,10	2	1	1	0	0	0	www.sme.cz
Severomoravská plynárenská, a.s.	1	3851,5	0,003	**58,15**	41,17	1	1	1	0	0	0	www.smpas.cz
Severomoravské vodovody a kanali	1	353,7	0,056	**98,37**	0,10	1	0	1	0	0	0	www.smvak.cz
SLEZAN Frýdek - Místek a. s.	1	322,3	0,122	**49,95**	31,98	0	1	0	0	0	0	www.slezanfm.cz
Sokolovská uhelná, a.s.	1	5235,4	30,92	**90,71**	0,10	0	1	ar	0	1	0	www.suas.cz
Spolana, a.s.	1	598,5	0,718	**81,78**	9,76	0	1	1	0	0	0	www.spolana.cz
Spolek pro chemickou a hutní výrob	1	833,9	0,961	**53,72**	12,00	1	1	1	0	0	0	www.spolchemie.cz
Stavby silnic a železnic, a.s.	1	3465,5	8,591	**92,06**	1,37	1	0	1	0	0	0	www.ssz.cz
Stock Plzen	1	735,6	72,837	**95,21**	0,10	2	1	1	0	0	1	www.stock.cz
Stredoceská energetická, a.s.	1	5554,5	1,439	**97,72**	0,10	1	1	ar	0	1	0	www.ste.cz
Stredoceská plynárenská, a.s.	1	1885,9	0,026	**51,19**	30,96	2	1	1	0	0	0	www.stp.cz
Škoda Praha, a.s.	1	256,4	0,022	**93,16**	0,10	does not work			0	0	0	www.skodanet.cz
TARMAC SEVEROKÁMEN a.s.	delisted in 2004											
Teplárna Ústí nad Labem, a.s.	1	1284,4	0,429	**58,68**	34,22	1	1	1	0	0	0	www.teplarna-ul.cz
Teplárny Brno, a.s.	1	1024,7	0	**95,48**	10,38	1	0	1	0	0	0	www.tepl-brno.cz
TOMA, a.s.	1	608,6	0,204	**65,56**	9,83	0	1	0	0	0	0	www.tomaas.cz
Unipetrol, a.s.	1	17807,1	14064,25	**62,99**	2,22	1	1	ar	0	0	0	www.unipetrol.cz
United Energy, a.s.	1	1886,8	0	**85,16**	5,42	0	1	1	0	0	0	www.ue.cz
Východoceská energetika, a.s.	1	5003,9	0,079	**98,84**	0,22	2	1	1	0	0	1	www.vce.cz
Východoceská plynárenská, a.s.	1	2292,5	0	**50,05**	18,83	1	1	1	0	0	0	www.vcp.cz
Wienerberger cihlárský prumysl, a. s	1	1672,2	0	**86,10**	2,86	0	0	1	0	0	0	www.wienerberger.cz
Západoceská energetika, a.s.	1	5510,5	0,095	**99,13**	0,10	1,5	1	1	0	1	1	www.zce.cz
Západoceská plynárenská, a.s.	1	1870,3	0	**50,12**	47,90	1	1	1	0	0	0	www.zcp.cz
Zentiva	1	28892	17023,44	**53,90**	0,10	1	1	1	0	1	1	www.zentiva.cz
ŽDAS, a.s.	delisted in 2004											
	55		**Mean**	**74,88**	**11,19**	**49,5**	**41**	**38**	**2**	**10**	**15**	
			Median	**77,60**	**3,53**					**18,2%**	**27,3%**	

Source: PSE, SEC, Annual Reports

Largest and Second Largest Voting Blocks in the Most Important Hungarian and Polish Listed Companies

HUNGARIAN A LIST	Largest	2ng Largest
ANTENNA	73,71	10,17
BCHEM	23,43	2,00
DANUBIUS	30,77	21,67
DEMASZ	60,91	2,00
EGIS	50,91	2,00
FHB	53,20	2,00
FOTEX	17,46	14,40
GLOBUS	25,45	16,67
GRAPHI	26,78	10,82
IEB	85,87	9,99
LINAMAR	58,63	2,00
MATAV	59,49	12,35
MOL	16,34	12,43
NABI	54,06	8,54
OTP	3,00	2,00
PPLAST	11,16	5,11
RABA	11,52	11,52
RICHTER	25,04	22,39
SYNERGON	10,29	10,23
TVK	44,31	15,99
ZKERAMIA	89,70	2,00
ZWACK	50,00	26,00
HU A List Mean	**40,09**	**10,10**
HU A List Median	**37,54**	**10,20**

POLISH GOLDEN COMPANIES	Largest	2ng Largest
PKNORLEN	17,30	10,80
PKOBP	62,30	3,00
TPSA	47,50	9,98
PEKAO	52,93	3,30
BANKBPH	71,24	4,04
KGHM	44,28	5,04
AGORA	36,40	9,99
BZWBK	70,50	3,00
NETIA	7,76	6,37
PROKOM	11,96	11,73
BRE	72,16	3,00
STALEXP	16,72	7,10
KETY	8,49	8,44
GTC	50,93	8,76
SOFTBANK	25,00	9,75
COMPLAND	9,60	7,43
SWIECIE	71,30	3,00
ORBIS	35,58	5,89
POLIMEXMS	49,99	5,48
DEBICA	59,87	9,48
PL Golden Companies Mean	**41,09**	**6,78**
PL Golden Companies Median	**45,89**	**6,74**