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Ownership and Corporate Governance in Hungarian Large Enterprise Sector

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Introduction

Privatization of the post-socialist economies, including the transfer of state assets to other proprietors, new start ups and green field investments has produced a wide variety of ownership structures in Central and Eastern Europe. One of the main question discussed in recent years concerns the basic characteristics of the post-socialist ownership. Are the new structures peculiar as compared to recent Western market economies, as several researchers argue (Stark 1996, Earle and Estrin 1997, Andreff 1998)? Is the dominant form some kind of recombinant property, i.e. a mixture of state and private ownership, dominated by inter-organizational (corporate) shareholders (Stark 1996, Stark and Kemény 1997)? Or we face a model of managerial capitalism, as Szelényi-Eyal-Townsley (1996) suggest?

This paper analyses the Hungarian case that seems to be rather special in comparison to other post-socialist countries - but not peculiar in comparison to some other market economies. We will argue that the basic features of the ownership structure in big enterprise sector are not dominated by specific institutional solutions. If there are some specific features, they include mainly quantitative aspects (like the concentration of assets, outputs and ownership positions, the predominance of foreign investors) instead of qualitative ones.

We have to underline that these hypotheses are formulated for and tested in the big enterprise sector, more precisely the 100 largest Hungarian firms, ranked by sales. Of course this group is not representative statistically for the economy as a whole but it's performance is decisive for macro economic indicators like growth and trade balance. "Top 100" gave more than the third of sales and profits, the half of the exports in 1997 (Figyelő 1998).[1]

The paper first gives a picture of the Hungarian formal ownership structure in general and in "Top 100". The second section describes the origins of this structure and interpret the recent situation as a consequence of the starting conditions, the economic policy and the privatization methods applied. The third section goes beyond the quantitative features and tries to sketch a picture of some corporate governance issues. The paper applies here a rather narrow concept of corporate governance, based on principle-agent approach. We concentrate on the relationship between owners and managers. Summing up the findings, we outline some hypotheses about the main characteristics of the Hungarian ownership structure.

1. General features of Hungarian post-privatization ownership structure

As privatization is coming to an end in the late 1990's, the basic characteristics of the enterprise sector like strong concentration, high proportion of foreign investors and the marginal role of

[1] The starting point of the analyzis is the list of "Top 100" publised by the business weekly Figyelõ for the year 1997. David Stark, who's analysis on the Hungarian case is the most insightful and perhaps the most well-known, also draw his conclusions on "recombinant property" from the top 200 companies (and 25 big banks).

"special" owners seems to form a rather stable ownerhip system. This does not mean, of course, the lack of changes on the level of individual firms, including mergers and split-ups as well as further concentration of shares.

The first criterion in describing post socialist countries is the change in the role of state as proprietor. During the last decade, the proportion of state assets has been reduced significantly. Private sector in Hungary expanded via green field foreign investments, domestic start-up firms and privatization. The selling of state firms has not refrained from strategic sectors either. Private share in telecommunication, banking and energy sector (oil, electric power plants, electricity and gas suppliers) has grown to a high level even by West European standards.

As Table 1. indicates, the proportion of private ownership in registered capital reached 80 per cent by the end of 1998 in the group of all firms with double bookkeeping. Slightly more than the half of it is foreign investment. The largest group of domestic owners consists of domestic companies. Insiders in forms of ESOP organizations and co-operatives owned 0,4, 1,6 per cent, respectively. The 20 per cent state ownership covered central government with ten per cent, local governments with seven and other organizations (including non private social security funds, state development bank, foundations, etc.) 2,4 per cent.

Thus, the first characteristic of the Hungarian ownership structure is the relatively small proportion of the state and a high stake of foreigners in comparison to other Central East European countries. The second main feature is that the role of indirect state ownership (para-state institutions) is not widespread. Most Hungarian firms recorded by official statistics as privatized, are really in hands of individuals or privately owned companies. The main exception to this rule is foreign investment. This category is considered by Hungarian statistics as private, although several foreign firms themselves were state or municipally owned at the time of their investments, mainly but not exclusively in energy sector.

The second question concerning ownership structure is the concentration of shares. Hungarian ownership structure can not be evaluated as a dispersed one. Analyzing a sample of firms with 100 to 2000 employees, Ábrahám (1996) and Tóth (1998) found that in 80 per cent of the population there was one majority owner, holding more than the half of shares in 1995 (Table 2). On an other sample of big firms (with more than HUF 200 billion turnover) Kovách and Csite (1998) found 85 per cent of firms with one majority owner for 1997. Thus, in most companies there is one dominant owner or a block shareholdings.

The ownership structure of the "Top 100" is similar to the general picture in several respects. Analyzing the big firms, we registered six groups of owners: foreign investors (firms and institutions, not including financial ones), state organizations[2] (central and local governments and others like state social security funds[3], Treasury), domestic corporations, financial institutions, individuals and employees-management.[4] The registration of the presence of these six groups in

[2] State ownership is defined here as direct involvement into the ownership structure. Indirect ownership via publicly owned firms or financial institutions is not registered in this category. We will show later that this type of shareholding is not really widespread among the "Top 100".

[3] Emerging private pension and healthcare funds have a marginal role on Hungarian capital market recently. They are authorised to trade shares of firms listed on the stock exchange, so they might become minority owners of companies. Their investments are included in the cateory "domestic institutional investors" or "other units with legal entitiy".

[4] In order to interpret our findings correctly we have to admit that the list of owners obtained is not equally detailed for all firms. In several cases we have categories like "domestic investors", "domestic individuals" or just "others". All these owners are typically in minority position, with a marginal stake each. The imperfection may influence the data on the presence of different types of owners in the population, especially the role of individuals, employees and domestic corporations. In all cases where we had "other Hungarian legal entities" or "domestic investors" in general, we presumed the involvement of domestic firms and in the latter case the presence of Hungarian small investors, too. Nevertheless, the data concerning

the firms, the major players of owners are foreign investors. They hold a stake in three quarter of big firms. The state is placed second with 37 per cent and domestic corporations are the third with 27 per cent (Table 3).

The ownership structure of the "Top 100" is highly concentrated. Table 4 shows that there is only one owner in 50 per cent of the firms. On the other hand, there are more than three shareholders in 44 per cent, but in 18 of them there is also one majority owner. Thus, nearly the three-quarter of the firms are dominated by one shareholder.

Having now an overview of owners and the concentration of their holdings, let us combine these two dimensions.[5] Presuming that ownership position near to a "single player" situation (with more than 90 per cent of shares) might have special consequences on corporate governance, we made a distinction between majority near to 100 per cent stake and that of 50 to 90 per cent. According to these considerations, we define six ownership types: subsidiaries of foreign firms (where the owner holds more than 90 per cent of the shares), foreign dominated companies (where the owner holds 25 to 90 per cent of the shares with a dominant role), state dominated firms, "cross ownership" with the dominant position of an other domestic firm[6], dispersed ownership (with no investor holding more than 25 per cent of shares) and employee-management ownership.

As Table 5 indicates the ownership structure of the "Top 100" in 1997 was dominated by foreign companies.[7] The largest group of big Hungarian enterprises consisted of subsidiaries of multinational firms (44 per cent). The weight of domestic corporations as dominant owners was rather small (nine per cent), concerning mainly state owned units. Although state ownership has decreased dramatically during the past decade, central and local governments as majority shareholders were still present in 14 per cent of the "Top 100". Special types of owners (like para-state owners and employees-management) did not play a decisive role.

Our data on the big enterprise structure differ from David Stark's results at several points. Considering that the two basic elements of the concept "recombinant property" are intercorporate holdings (networks, cross ownership) and some combination of state and private control (Stark 1994, Stark and Kemény 1997), let us show the differences according to these two points.

Stark found the presence of domestic firms as shareholders in the group of the largest 200 firms and 25 banks in 40 per cent for 1993, with a majority position in half of them (Stark 1994). In the second stage, working with the data from 1996, the presence of other firms as shareholders expanded to 77 per cent and in 40 per cent all (top twenty) shareholders were other firms, both proportions growing in the two years period examined (Stark and Kemény 1997).

Several publications had already questioned the dominance of this ownership structure, showing the high proportion of isolated firms (i.e. companies not owned by and not holding stake in any other company), the limited role of domestic firms as majority shareholders and that of ownership networks in among big Hungarian enterprises[8], similarly to our data on "Top 100".

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minority positions, included in this kind of tables (first of all Table 3 and 4) can be interpreted as minimum proportions.

[5] In Table 5 we introduced first an additional category of majority ownership. If an investor holds less than the half of the shares but it is the largest owner of the firm concerned, it's position is similar to the formally majority shareholder and might be considered as a dominant owner. We also added a category of majority shareholders besides the tree groups analyzed before, namely employees-management. They are dominant shareholders only in six cases, nevertheless, they are present on the screen.

[6] Here we follow the categorization of David Startk (1994). This definition does not mean a real "crossing" in ownership structures in all cases, i.e. the shareholder company is not neccessearily owned by the firm in it's portfolio at the same time.

[7] According to estimations, the weight of foreign capital in big enterprise sector might approximate 70-80 per cent, while it was 35 per cent for all units with double bookkeeping.

[8] Tóth (1998) found that 77 per cent of all firms with double bookeeping were isolated in 1995. The list of owners included at least one domestic company only in 15 per cent of the firmss. In a sample of larger firms

The picture is much different if we put all corporate shareholdings in one group, covering both domestic and foreign firms as owners, like Stark and Kemény did at the second stage of their research. In this case the proportion of the firms in the "Top 100" with at least one domestic and/or foreign company on the list of owners is 90 per cent, holding majority position in 71 per cent. As we have seen, however, most of them are foreigners.
As for the role of the state, governmental and municipal organizations are present in more than one third of the "Top 100", but mainly in minority position. This is partially rooted in privatization laws and methods. Local governments received a fargment of shares in privatized firms due to the legislation and HPSHC often put it's shares on the market in smaller packages. State ownership is decreasing steadily. Three firms with dominant state ownership in 1997 were privatized next year, and minority shares were also sold on Stock Exchange or to strategic investors. Especilly foreign investors are active in this field. They tend to buy shares up to hundred per cent if possible.[9]
Before turning to the question about the differences in corporate governance according to the ownership types, let us see, how and why this ownership structure emerged.

2. Origins of the ownership structure

The characteristics of the recent Hungarian ownership structure are influenced on the one hand by the inherited economic and social structures, on the other by the economic and privatization policy applied during the last decade.
Although economic reforms under planned economy were neither consistent nor unidirectional[10], some of their consequences proved to be favorable from the point of view of transformation. First, private activity had been allowed in Hungary as early as in the 1960's, mainly in agriculture. From 1980's on new legal and regulatory frameworks have given impetus to the expansion of small private business, albeit restricted both in size and in the field of activity. The mushrooming of small entrepreneurships proved to be important not so much from the point of view of accumulating capital but accumulating experiences and business contacts.
The second factor is the formal and informal position of state enterprises. The basic idea of Hungarian reforms beginning form the 1960's has been to increase the firms' autonomy. The process meant the gradual decentralization of property rights from central bureaucratic organizations to the enterprise management. After the abolishment of compulsory plan targets, several groups of firms achieved an informal but strong bargaining position against governmental organizations in setting the targets and improve their financial position, independent from market performance. The last step of decentralization was the introduction the so called self-governing forms in 1985. The enterprise councils, established at two-thirds of economic units, consisted from insiders only and were practically dominated by the management. These controlling bodies obtained the rights to determine the organizational structure, to appoint the chief executive, to decide on mergers and splitting up and to found of joint ventures and other companies involving state assets. Thus, the inheritance of the planned economy in Hungary was not a strong and

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(with 100 to 2000 employees) the proportions were 50 and 27, respectively. Most of these contacts, however, represented minority shareholdings.
Analysing the ownership structure of the 500 largest Hungarian firms Vedres (2000) found that nearly three-fourth of them were isolated in 1997. Altough domestic companies stood on the second place if we count omly their presence among the owners, in most cases they were minority shareholders. (One third of their investments did not reach one per cent in capital.) They were in majority position in 23 per cent of big firms, including six per cent were they held hundred per cent. 14 per cent of the firms may be considered as members of ownership networks, forming six groups in the population.

[9] From 1997 to 1998 four foreign investors reached majority position and an other ten increased their ownership stakes in firms where they had already been dominant owners before.

[10] For the details see for instance Antal (1985)

stable state ownership, but a dispersed model, where the property rights were divided between enterprises and party-state organizations.

Third, several market institutions had been introduced before the political turnover parallel with significant liberalization and deregulation. To mention only some examples, the possibility of foreign investment dated back to the 1970's. The administrative control over founding joint ventures was loosened eased and preferences were extended in several stages during the next decade. As a reform of taxation, the personal income tax was introduced, the system of turnover tax simplified and the profit tax became uniform for all firms. Social insurance was (at least formally) separated from the central budget. In the late 1980's government sharply cut subsidies, liberalized foreign trade and eased the rigor of price-and wage regulation. A new company law was enacted in 1988, giving a legal framework for share companies and other limited liability forms. In this period the mono-bank system was abolished by allowing for foreigners to open branches in Hungary and by founding state commercial banks. The law on reopening the Budapest Stock Exchange was passed in the first months of 1990.

The last government of the mono-party system tried to introduce a decisive change also in economic policy in order to harden the budget constraint of state firms. In the late 1980's it cut sharply budgetary subsidies. The first signs of the Comecon crisis, the starting recession on the domestic market and the quick liberalization of foreign trade shrinked the market and sharpened competition for most firms to an extent never experienced before.

The widening possibilities on the one side and the growing pressure on the other created the motivation and the compulsion for enterprises to look for their own way of survival, without the help of the government. This way out for many of them was the so called spontaneous privatization. It was initiated mainly by enterprise management, on the legal basis of self governing forms and the new company law. With their markets lost, debts spiraling and state subsidies cut back, several dozen big enterprises broke up themselves into a group of companies. The intention was to separate loss making units, to give a chance for the rest to find new owners and markets or to offer debt-equity swaps to banks and other creditors. As a general rule, at the first step enterprise center remained the majority shareholder of the new companies formed from the factories of the big firm. Although these enterprise centers often called themselves holdings, they preserved the traditional socialist enterprise form and remained in state ownership. In the lack of private capital involved, this basic type of "spontaneous privatization" was not privatization. It was rather a change in organizational form (called "corporatization" or "commercialization"), that might be considered as the first step towards selling the shares.

The first freely elected government went on with liberalization and and deregulation but intended to to stop "spontaneous privatization" and reestablish a stable state ownership. Having centralized privatization decisions to the central privatization agency, the government concentrated all ownership rights in 1992 to the State Property Agency. The method was the compulsory transformation of all state enterprises into company form in 1992, that meant the abolishment of enterprise councils.

On the other hand, the government stuck to the intention of it's predecessor to harden the budget constraints of state owned firms. Privatization policy claimed that the best way of state asset management was selling the enterprises without prior centrally financed restructuring.

Neither concentration of ownership rights and privatization decisions, nor tight fiscal policy proved to be consequent during the last decade. The managers of state companies maintained their influence on forms and timing of privatization and sometimes even on choosing the owners.[11] The informal influence turned into formalized channels in some special programs, as we will see. State subsidies and preferences did not disappear either. Besides the case by case bailing out certain firms, several packages of restructuring were introduced like the preferential treatment of the "dirty thirteen" big companies and the waves of credit, debtor and bank

[11] Several examples are given for instance in Antalóczy (1999), Mihályi (1998), Voszka (1997)

consolidation. (Only this last measure cost 400 Bn. billion HUF before 1994, more than all privatization revenues up till then.)[12] Following the second parliamentary elections in 1994, redistribution continued, partially from state budget, partially from the central privatization agency in forms of increasing capital and credit from the owner. In 1996-97 state holding, the legal successor of SPA spent on reorganization 15 to 35 per cent of privatization incomes, just like in the first half of the 1990's. In 1998 these expenditures jumped to an unprecedented height, exceeding privatization revenues.[13]

Nevertheless, old-fashioned redistribution of incomes in favor of big enterprise sector as a comprehensive mechanism of state corporate governance was not reestablished. Under these circumstances for most state companies the way out form shrinking markets spiraling debts and the need of reorganization was the involvement of new owners.

The initial stage of selling state firms by a case-by case approach proved to be very slow. Of the twenty firms listed in the First Privatization Program in 1990, only two were sold during one and a half year. Having realized the failure and the pressure of different political and managerial groups, governmental policies turned into two directions in 1992-94: to decentralization of decision making mechanisms instead of centralized approach and to free or preferential distribution of assets instead of selling for cash.

The first intention was reflected in the so called self privatization program. Involving nearly 500 small and medium size enterprises in this special project, the SPA reserved only controlling functions and delegated rights and responsibilities of selling to consulting firms. These firms had well defined incentive scheme. Their fees depended on price and speed of selling. As a result, most enterprises involved into the program, were privatized. There was a possibility for the employees, to buy their firms, mainly in an ESOP construction, financed with preferential credit.

Free distribution and preferential selling in 1993-94 aimed at strengthening the financial autonomy of several institutions (local governments, social security, churches, several foundations) and at creating a broad and vigorous proprietary middle-class in Hungary. Instead of maximizing revenues, the government gave priority to social and political goals, taking into account the forthcoming parliamentary elections, too.

The main method of free distribution concerning certain groups of individuals was restitution, a special mode of reprivatization in Hungary. Compensation notes in value of 220 Bn. HUF were given to two million citizens, deprived of their properties or specific human rights during Word War II. and the decades of socialism. The free tradable notes could be used in auctions for agricultural land, could be converted into shares of state firms on stock exchange or solved as a substitute for cash in paying the price of privatized companies.

Existence loan was the most widespread tool of preferentail selling. The long term credit with a five year grace period and an interest rate much lower than inflation, could be used only for buying state assets from SPA. E-loan played a role in more than 400 transction in value of 68 Bn. HUF between 1990 and 1998 and contributed to employee and management buyouts. Besides that, employees of all enterprises could buy shares in their company on preferential terms up to ten per cent of the assets, even if the firm was sold to outside investors. Other preferential methodes were used rather rarely, privatization leasing for instance appeared in 27 cases in value of 6 Bn. HUF.

As an attempt of quasi-free distribution to every citizen, similar to the Czech coupon-system, the Small Investor Share Program was implemented. The first phase of program, started right before the parliamentary elections in Spring 1994, involved only two companies. The new government did not continue the project. Moreover, it announced new privatization policy, reflected also in a new privatization law in Spring 1995.

The main motivation of the turnover in goals and methods was the unavoidable introduction of a stabilization program. The balancing of central budget required not only cut back in expenditures

[12] See Várhegyi (1998), Balassa (1996), Karsai (1993)

[13] This was the consequence of one consolidation measure, concerning a partially privatized commercial bank.

but also increase revenues, including privatization incomes. Considerable sums could be expected from selling firms in energy sector and infrastructure. Within one year, majority shares of 13 firms (gas and electricity suppliers along with power plants) were sold to foreign strategic investors for more than 400 Bn. HUF, nearly the double of the total cash privatization revenues realized up till than. Besides that, the first share packages of the largest retail bank were introduced to Budapest Stock Exchange. This was the overture of involving private capital into the banking sector. By 1997 the proportion of the state in the registered capital of banks decreased to 21 per cent, while foreigners owned more than 61 per cent (Várhegyi 1998).

The success of the stabilization program improved the conditions for privatization on the stock exchange. Initial public offerings played an increasingly important role in selling state shares, involving foreign and domestic capital, as well as institutional and small investors. Besides well performing companies, the privatization agency tried to get rid of big loss-making, subsidized firms. Some of them were sold in this period far below their nominal value, with the obligation of the buyers to repay debts or increase capital. In the second half of the 1990's privatization went on with centralized, case-by-case selling, mainly for cash.

To sum up, privatization methods, targets and priorities as well as legal and institutional frameworks have been changed several times during 1989 and 2000. Hungarian privatization might be characterized as an unstable and mixed process. In a final evaluation, however, it is distinguished in Central East European context by the predominance of standard selling methods rather than special solutions or free distribution. [14]

This privatization approach explains directly the specifics of the recent ownership structure in East-Central European comparison and it's similarity to some West European structures. Because of the predominance of selling methods, instead of distribution, there are real, personified owners, who, as a general rule, risked their own financial resources. Because of the lack of mass privatization in Hungary, there are significantly less para-state owners, quasi-privatized firms than in other post socialist countries. Investment funds or mutual funds are not present as owners. Para-state institutional investors like local governments or social security funds are not listed as private owners and in many cases they have begun to put their shares on the market to cover their current expenditures.

Other beneficiaries of free or preferential privatization behaved similarly. These methods helped accumulating domestic private capital, but not in the intended scale and not necessarily for the social strata targeted. As it turned out soon, many of the beneficiaries were either unable or unwilling to maintain the owners' position for the long run. Most primary holders of compensation notes sold the papers even low below the nominal value. Hard-pressed either by lack of additional capital or by debt, the new entrepreneurs like ESOP organizations often sold their shares to outsiders.[15] This process might be interpreted as competition for ownership positions and market selection of the proprietors.

T sum up, the scarcity of domestic capital, along with the priority of selling for cash resulted in the dominance of foreigners in big enterprise (and banking) sector. Most Hungarian citizens and firms could become shareholders of large companies only on the Stock Exchange, of course in a minority position.

The attitude towards foreign capital has been one of the most stable elements of Hungarian economic policy. Foreign firms and individuals have been welcomed as green field investors and have been allowed to participate in all privatization transactions.[16] Nevertheless, the successful

[14] This is reflected in the structure of privatization incomes: more than the tree-quarter was cash and 60 per cent of the total sum was paid in foreign currencies. The proportion of compensation notes was 11 per cent and preferential E-loan did not reach 5 per cent.

[15] As Table 1 indicates, the proportion of ESOP organizations in the capital decreased shaprly during the last years.

[16] The exception to the rule is the so called small privatization, the sale of retail trade, shops and restaurants. This was the only program applying market restrictions: auctions were not open to foreigners.

attraction of foreign investors goes beyond the scope of privatization policy. It is due to the rather stable political environment, the relatively developed legal framework and the more and more promising general economic situation. Foreign direct investment exceeded 20 Bn. USD in 1999. This capital, along with new markets and management skills brought in by multinational firms contributed to restructuring and increasing competitiveness of the economy. After several years of recession, the growth of GDP in Hungary exceeded four per cent between 1997 and 1999. Deficits of foreign trade, balance of payment and state budget are moderate, while inflation and (registered) unemployment is decreasing.[17]

3. The impact of ownership structure on corporate governance

Having outlined the origins and the main characteristics of Hungarian ownership structure, now we turn to the question how this structure works. Based on the results of an empirical research in the group of "Top 100"[18], we can formulate some hypotheses about the influence of ownership structure on corporate governance. The investigation focused on five issues, namely the representation of owners in the firms, the interests of the owners, the formal position and interest of the management, the incentive mechanisms, decision-making and control.

3.1. Owners and their representatives

All members of "Top 100"are organized in share company (részvénytársaság, rt.) or limited liability company (korlátolt felelősségű társaság, kft) form. According to Hungarian legislation, share companies have a dual board system. Boards of directors (igazgatóság) are composed from the delegates of shareholders and may but not necessary do include managing director (CEO) or some other members of the management [19]. Boards of directors are supposed to prepare decisions and control the managers, and they also might be authorized to make certain decisions. Supervisory boards (felügyelő bizottság), consisted of the deputies of shareholders and employees (the latter group in minority position, involved only in large enterprises) exercise general control, without executive rights. In limited liability companies there is only one body, called supervisory board.

Boards of directors in our sample are outsider dominated without exception but the executive director (CEO) is a member of the board. In four cases (one in state hands, two widely held, one management dominated) one or two other representatives of the management are also involved. If the dominant shareholders are firms or the Hungarian Privatization and State Holding Company (HPSCH), they often delegate their employees on the boards. In widely held companies owners like investment funds might be also present on boards, but most members are independent persons.

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[17] For more detailes see for instance Financial Research Ltd. (2000)

[18] I gratefully acknowledge the support of Research Support Scheme Grant (No. 1588/1042/1998) to the empirical research.
Having formed the six ownership types, according to the nature and concentration of the shareholders, we choose a random sample of firms, representative for ownership types in "Top 100". The sample consists of 15 companies with different fields of activity. We made structured interviews with leading personalities, chief executive directors or their deputies. To reveal the behavior an attitudes of the owners went beyond the scope of the recent research. The only exception is the group of state owners (central and local governments) where we collected information even at this stage.

[19] The last modification of the Company Law made it possible not to set up this body at all share companies. "Board" without any attribute will refer to board of directors in this paper.

The formal decision-making power and the real influence of boards of directors cover a wide range even in our small sample. The committees have to discuss business plans and market strategies, evaluate their fulfillment and the performance of the management. They often decide on major investments and organizational changes, too. Moreover, they may interfere into day-to-day decisions and act as management bodies. The frequency of board meetings may be considered as an indicator of the real influence and operativity of the committees. The most widespread practice of our firms is the once-a-month meeting, reflecting a medium strength of the board. On the one extreme we found a state owned company with serious financial, organizational and management difficulties, where the board sits every week or fortnight The other extreme is the management dominated firm, where board members meet “a few times a year”.

In these cases boards can hardly control management. It is even more widespread that members of the board are double-minded, confusing at a certain decision that they are representing the interest of the owners or that of the firm. As some interviews indicate, they often tend to become agents of the management (or the firm), instead of controlling them.

This might be one reason to simplify ownership representation. One method is the dissolving of board of directors even in share companies, as it happened at a big firm of our sample. The other solution is choosing the more simple limited liability form, designed originally for smaller units. 34 of the “Top 100” are organized in this way. As the bulk of them, 28 firms are subsidiaries, we presume that this framework serves as a tool to avoid setting up the board of directors, to eliminate one hierarchical “agency” level and to avoid the involvement of outsiders.

Besides formal bodies, in at least three cases in our sample there are informal representatives of the owners, called “coordinators” or “traveling consultants”. They are not in a superior position in the hierarchy but have a decisive role in running business.

An other solution of owners’ representation by intermediaries is the establishment of a special organization for controlling several investments in Hungary. The two holdings of this type in our sample took over from the mother company the ownership rights, including the delegation of board members to the affiliated firms. In an other version of funding new hierarchical levels, Hungarian subsidiaries might be acknowledged as regional holdings. As the company in the sample being a subsidiary of a multinational firm itself indicated, this arrangement meant the owner’s position for it with direct controlling rights over other subsidiaries in Central and Eastern Europe.

State ownership has some specialties in this respect.. According to the interview with a prominent personality of Hungarian Privatization and State Holding Company, the state shareholder’s representation became more organized during the past years. The votes of delegates to the general assembly are prescribed in details by the board of the HPSHC. The board members appointed by the holding, partially influenced by direct political considerations, have a free vote but they tend to follow the official “guidelines” in order to keep their position. They regularly consult the person in charge to each company, who holds the permanent contact with the management and has the most information about the firm. In case of majority stake the managing director of HPSHC, responsible for the firm, often visits the board meetings of the company and the CEO-president of the holding meets the CEO of the firm regularly.

The system of corporate governance on local level is even less structured. The ownership rights are divided between the general assembly (the Parliament of the local government), the major and his deputies, the ownership committee and other committees and the several departments of the apparatus. This constellation makes the instruction of the board members rather confused. Representatives of local governments are appointed by the parties involved into the local government and the proportion follows their prevailing power relations - possibly in each company. (It is one of the important reasons why the number of board members increases after the elections in many companies concerned, including their representative in our sample.)

3.2. Interests of the owners

The main target of the owners, as it is formulated by them and interpreted by the managers, seems to be much more independent form the ownership structure than representation of the owners. The ultimate goal for every type of shareholders is gaining and increasing profit.
The concrete formulation of targets is closely related to the starting conditions of the investment. If shareholders purchased a company with poor financial and market conditions, what was often the case in privatization transactions, the first goal was to minimize losses. In order to turn around the company, new owners started reorganization with considerable additional investments, including the repayment of loans or capital raising as well as restructuring production, market and organizational frameworks. The latter usually meant the concentration on core business, the outsourcing of peripheries, reducing the hierarchical levels inside the firm, introducing new systems of accounting and controlling like SAP in order to increase transparency and to adapt standards and procedures of the mother company.
As for most green field investments, the first aim was the introduction of the trade mark and the increase of market share. This was sometimes put as “achieving a dominant market position”, sometimes more definitely, as for instance catching up with the market share of the mother company or other subsidiaries.
Having taken these steps or in cases of originally well-functioning firms, “the owners are interested in the right bottom corner” of the balance sheet. Profit before taxation or profit per income are the most common tasks, precisely defined in yearly business plans. Shareholders of listed companies are interested in good preconditions of exit, i.e. high prices on the stock exchange. The aims declared as to increase quality or to meet customers’ demand on the highest level are to be interpreted in context of increasing turnover and incomes. The profit task, formulated on a general level, however, opens the field for discussion with managers about the appropriate methods to be applied.
There is only one type of owners, who’s openly declared interests are more complex than profitability. State majority shareholders on governmental and local levels alike, might consider special issues.[20] Our interviews confirm that the traditional approach, well known from planned economy, the so called “responsibility for supply” has not disappeared. It concerns mainly public services in monopoly position. In most of these segments prices are controlled, sometimes by the owner itself. High quantity and quality, no subsidies and low prices or, as a manager summarized the task of the local government, “zero profit and peace”. In several other cases state ownership is maintained in order to achieve goals like controlling strategic points of the economy or reserving some elements of natural, industrial or historical heritage of the country. These considerations may obviously cross profitability. The differentiated and conflicting targets open a wide range of maneuvering for the state firms’ managers.

3.3.Position and interests of the top management

The key person of the management in corporate governance context, independently from the ownership structure, is the chief executive (or managing director). S/he is the “main agent” of the owners, supposed to mediate their intersts to the organization. At the same time s/he is the representative of the management, often sitting on the board of directors. In addition, s/he sholuld act on behalf of the firm as a whole, enforcing his own personal interests as well. Standing in the focus of multiply interest, CEO *per definitionem* has to fulfil a delicate role.
Most directors interviewed formulated the main goal of the management as the stability and constant development of the the company. Concret aims differed of course according to the

[20] State organizations in minority position of majority privatized firms may be interested first of all in profits or share prices, similarily to other owners.

firm's position, ranging from overcoming current financial crisis to creating a regional multinational firm.

Growth of the company in terms of assets, market shares or turnover seems to be a general goal of the managment. "If the moon is not waxing than it is waining" - explained a CEO. In some cases not only fiancial or small investors but strategic owners may consider the management's growth plans hasardous. Nevertheless, the opposite case seems to be more widespread. Taking profits and return as a starting point, owners urge quick growth, while management prefers moderate, steady rates. "We are like squeezed oranges" - commented a director the decision of the owner firm to halve the periode of return. The intention of managers is to minimize riks and efforts.

Conflicts of interests concern not only rate but also preconditions of growth. Management fights for more recources, for more investment. In case of multinational firms with numerous subsidiaries in several countries, this conflict often appeares as the competition among daughter companies or the conflict of interest of the individual firm and the group controlled by the same owner. The reallocation of incomes and investment funds inside the group may cross the basic task of profitability on the level of individual firms.

The other tipical disagereement, the determining the dividends has not been very sharp up till now. The reason is obviously the undisputable need of reinvesting profits into new operations or state enterprises acquired before reorganization.

The interviews confirm the general aspiration of the managers to widen the room for maneuvring and for autonomous decisions. This may concern the value limit of underwriting, the number and location of new units, the selection of business partners, the organizational structure of the firm, etc. The centralization of decision-making rights throughout the multinational group, including the Hungarian subsidiary, proved to be a reason for divorce for one of the CEO interviewed.

During the past few years changes in the top management (chief executives and their deputies) concerned nearly the half of the companies in our sample. Positions were preserved for the long periods, sometimes independently from ownership changes, if the firm's performance is good. Former professional contacts and reputation plays also a part. The position of directors seems to be the most unstable in subsidiaries. According to general assumption, dispersed ownership gives the less chance to change the guard but it may happen also under these circumstances. At one of the biggest listed companies this shareholding structure did not protect either the chairman (and several members) of the board or the CEO. Considering the presence of the state as minority but realtively large shareholder and the timing of the fireing, direct political influence should not be excluded. Minority shareholders also are able to form a coalition against incumbent management. In a widely held firm with employee-management domination the market and financial crisis led first to debt-equity swap and thus to banks' domination, then to changing the management.

In this latter case Hungarian CEO was succeeded by a foreign citizen with domestic origin, a well-known person as former top manager of an other member of the "Top 100". The opposite direction, the change of foreigners to Hungarians after a few years, seems to be more widespread. The "import of managers" at starting the operation is due to lack of sufficient information about possible domestic candidates and due to special targets in the period of founding or acquiring the firm, like reorganization and massive dismissals. Having set the new framework and made acquinted with domestic market of managers, however, the foreign directors are often replaced, at least partially, by Hungarians. The replacement is partially motivated by the attitudes of the visitors, since "they always have an eye on their home country". On the other hand, domestic directors seem to be rather well-trained. Out of the ten companies in the sample where foreign owners are present, at least in five Hungarian directors have had experiences with other foreign firms and/or had some formal or informal training abroad. This may include post-gradual studies as well as working at other firms of the owner in several countries.

The general impression of the interviews was that directors were rather reserved in declaring their aims or the interests of the firm other than that of owners. [21] The reason behind the more general carefulness is obviously the unstable position of the directors and consequently loyalty to the owners. There is a sharp competition on the market of top managers in Hungary. It is difficult to get inside the circle and there is too much to loose in terms of income, prestige and other forms of compensation.

3.4. Incentive mechanisms and compensation

The main tool of the owners to solve the principle-agent problem, i.e. to induce the management to act according to the shareholders' interest is the system of incentives and sanctions. Some of the firms visited, mainly subsidiaries, had no well-defined incentive scheme at the beginning. Salaries and bonuses of directors were not connected to any indicator. This meant uncertainty for the CEOs and probably a rather ineffective solution for the shareholders. By the second half of the 1990s all firms in our sample applied some sort of calculable incentive mechanisms.

The compensation system ususally consits of three elements: a fixed monthly salary, a bonus or premium and non-cash compensation. The flexible elements include comprehensive indicators like the fulfillment of yearly plan, the volume or the rate of profits, the level or the growth of turnover, often supplemented with more detailed tasks like decreasing costs, stocks or introducing new standards.

The proportion of fixed and sliding elements vary widely in our sample. The most common solution is the bonus ranging form three to five month salary. On the other extreme, this goes up to the one year salary in a state owned company. On the other extreme, at a privatized firm with a dominant foreign strategic investor the original system of combining the two factors is replaced with fixed salary only. The consideration of owners might be that the responsibility of the subsidiary's manager is the fulfillment of the business plan under strict control, thus special incentive mechanisms are superfluous.

A relatively new attempt to fit the managers' tasks to those of the owners is the option for shares. Both widely held quoted companies in our sample apply some kind of share option. To overcome the problem of price fluctuations independent from the firm's results, one of them bound the system to the medium term increase of share prices. The other one takes into account as a basis of comparison the average stock exchange index (BUX) and to the trends of other companies of the same branch, listed on leading financial markets.

The third package of compensation, namely non-cash forms like cars, insurance, pension and healthcare contribution. An important element of these forms is "the prestige of the company", the possibility to work with a large, often worldwide known firm. As a general practice, the commitment is strengthened by the owners with the invitation of the subsidiary's management to the headquarters or the annual meeting of directors, often to exotic places. "These meetings have the atmosphere of celebration. Not all top managers are invited, only who has deserved it. Who is not present on these occasions, may not feel himself favored by the owners". The rather widespread attitude of directors employed by multinationals shows the dominance of hierarchy and respect of authority, that holds mainly for young experts.

The specialty of state ownership in compensation mechanisms is rooted into the differentiated goals with contradicting elements. In order to cope with the difficulty, state proprietary organizations attempt to set the goals as detailed as possible. CEOs often have a so called management contract every year, including numerous qualitative and quantitative targets and bonuses connected to them. As well-known from the period of compulsory plan targets, the more concrete the indicators are, the better is the chance to fulfill them at the expense of neglecting other fields, omitted from the contract.

[21] The exception to the rule were the CEOs socialized under planned economy, some of them still working in state enterprises. They are more used to this type of research situation and more willing to criticize their bosses.

After many years of confusion, Hungarian Privatization and State Holding Company is working now with well-defined categories and rules, concerning management compensation. Companies in majority HPSCH ownership are categorized according to their size, that solves, among others, as a basis of ranking salaries of the CEOs. As some directors indicated, the upper limit of salaries is influenced “by the envy of state bureaucrats”: incomes of industrial managers have to correspond to those of civil servants. The upper limit of bonuses is officially maximized in fifty per cent of yearly income. Local governments have less general rules, they tend to set up incentive schemes for the firms individually. Both local owners and the managers of their enterprises keep one eye on practice and income level applied by central state orgaizations.

3.5. Decision making and controlling systems

The central element of decisions and control, just like that of compensation schemes, is the yearly business plan. It is approved by the shareholders on the general assembly, but the management also takes part in preparation. Drafting the plan is the most important period of enforcing interests of both sides, that is bargaining between owners and executives.

Empirical evidence underlines the intensive communication in preparatory period between owners' representatives and the managers, mainly on informal level or by the board of directors. Boards do not make real decisions in case if they are dominated by independent members, because of asymmetry of information. Board members are also aware of their constraints, thus they tend to be rather cautious. “They often postpone decisions, indicating that they do not have sufficient information. We handle this problem by personal negotiations before or after the meetings with each board members”- one CEO told us.

Major decisions, not included into the yearly plan are generally divided between owners, boards and managers. The allocation is often formulated in terms of value limits. In most cases limits for CEOs go up to 100 million HUF. On the one extreme we found two subsidiaries with autonomous decisions of 10 million, on the other a state firm with 500 million. As a tendency, higher sums are affiliated to widely held and employee-management dominated companies, while low limits to subsidiaries and other foreign owned ones.

The main method of controlling, applied in all firms visited, is the regular report about fulfilling yearly plan. Reports differ according to the frequency and their content. In three cases (two subsidiaries, one state owned in crisis situation) detailed documents have to be produced every week. In more than the half of the sample management writes monthly reports. They may include some important indicators like turnover, income, expenses, or 15 to 20 tables reflecting all fields of activity, including non-financial indicators. Companies on the stock exchange are obliged and other widely held firms usually are allowed to report about their performance every quarter of the year.

Frequency and content of regular reports seems to be a sensitive indicator for centralization of decisions. There are examples for loosening the control at some subsidiaries and firms owned by an other domestic company, mainly after the stabilization of their performance and good personal contacts with the management. The main tendency, however, was strengthening the control over the past few years. This is the first reaction of owners in critical situations, but it may reflect the acquisition by new owners or the overall change in the mother firm's controlling system. In one of the subsidiaries quarterly reports were changed to weakly ones, following the centralization wave all over the multinational group.

Similar steps are being taken by HPSHC. Concentrating more on asset management than on sales and intending to establish comprehensive methods of exercising ownership rights, the holding is setting up a new controlling system. Companies majority held by HPSCH have to send now a detailed report every month instead of every quarter. A stake between ten and fifty percent means the obligation of quarterly reporting, while firms with less than ten per cent state shares have to present their yearly balance sheet. Controlling Department compiles a summary of

reports every three month, drawing the attention of boards and directors of the holding to firms in trouble.
Most managers interviewed complained about frequent and detailed reporting. It means a lot of paper work but owners often do not use the information collected. Thus, reports might be more or less formal, nevertheless they give the possibility for shareholders' representatives to intervene (or exit) any time. Owners, however, have to be (and state owners certainly are) aware of the fact that more centralization on the formal level does not necessarily mean increasing the effectiveness of control.
This is one of the reasons why many owners tend to supplement written sources with personal presence. In several cases this means the regular visit of the owners or their representatives. At one company recently acquired by an other Hungarian firm, the managing director of the latter is in practice continuously present in the subsidiary. At listed companies analysts of investors come to see the firm day by day. "Business discussions" and "informative meetings" even abroad are held regularly, just like "phone conferences".
As a contact person, a "person in charge" is delegated to all companies in majority ownership of HPSCH. S/he is in position to get daily information about the enterprise, thus to advice s/he's bosses and colleagues in controlling department or on boards of the firm. Nevertheless, they tend to become the representatives of the companies after a while. Partially this is because specialist on the departments concerned are changed rather frequently, although replacement causes losses in information and experience.
Besides reporting and personal presence, several owners introduce organizational changes in order to strengthen control. As we have indicated before, one of methods is the setting up a holding to control all investments in Hungary. The other method, applied at several multinational is the so called "functional directorate". According to this system directors and departments of the subsidiary are directly subordinated to the persons in charge of the headquarters. (For instance, the Hungarian financial director reports to the financial director of the mother company abroad.) Under these circumstances the role of the subsidiary's CEO becomes marginal.

4. Conclusions

To sum up the lessons from the empirical analysis, some elements of corporate governance seem to be basically independent form ownership structure. They include the formulation of the managers' goals and the owners' interest (with the exception of the state as majority shareholder). Other elements investigated are more or less influenced by the type and position of proprietors.
First, firms with strategic investors in a stable majority position tend to minimize formal intermediaries of owners' representation. They choose the limited liability form lacking board of directors, or even dissolve these bodies in share companies. Where boards do exist, they are composed form a few members, majority delegated form the mother firm. The principle of "to be as close to the management as possible" is sometimes reflected in setting up Hungarian holding companies or building up informal but stable channels of personal presence at the subsidiary. On the other hand, both state owned and widely held companies tend to have a large board of directors with more independent members, not employed in the shareholders' apparatus. State ownership involves political criteria in nominating committee members and often shows informal influence on different levels. Firms with dispersed ownership often have a board, containing more than one representative of the management. This is also characteristic for the employee-management dominated firms, where board of directors tend to be a rather formal controlling body.
Second, the position of the management is rather stable, even independently from ownership changes, if the firm's performance is satisfactory. Former professional contacts and reputation of the directors plays also a part, mainly in firms owned by an other domestic company. Decreasing results or a financial crises leads to firing even in widely held (listed or employee dominated)

firms. Besides that, in case of state owned companies political considerations are important, too. The position of directors seems to be the most unstable in subsidiaries, often independently from the performance.

Third, the level and the proportions of the three main incentives, monthly salary, bonuses and compensation differ according to the ownership types. In subsidiaries and foreign dominated firms the level of income is higher than in state and other domestic owned companies and the bulk of it is fixed salary. Sliding elements are connected go some more or less general indicators. Average bonuses range form three to five month salary but they may go up to one year salary, too. Higher figures are characteristic for state owned and widely held companies. Share options are also present in Hungarian firms, mainly in case of listed companies.

Fourth, centralization of decision-making and controlling mechanisms might be characterized among others by the preparation of the yearly plan, the frequency and the content of reporting, the limits of autonomous decisions of the top management, channels and organizational frameworks of control. According to all indicators, subsidiaries and other foreign dominated firms show strong centralization. Just all of them consider themselves as strictly subordinated units to the owner companies. On the other extreme there are widely held and employee-management dominated companies, where owners vote with exit or coincide with executives. Firms owned by an other Hungarian company fill up the middle of the scale, together with state dominated units. The need of restructuring and crises induce more centralization in all types of ownership structure.

According to our limited empirical evidence, most elements of corporate governance are similar in subsidiaries and other foreign dominated companies. Thus, in contrary to our hypothesis, near to hundred per cent stake does not make a big difference. If owners of this type have a stable majority, they tend to behave as exclusive proprietors, even if there are several minority shareholders. Nevertheless, they often intend to increase their ownership stake. Consequently, even the formal shareholding structures tend to get closer to each other, resulting in highly centralized governance systems. .

On the other end of the scale we find management-employee dominated and widely held companies, where most important decisions are made by the managers. From the point of view of strength and methods of ownership control two groups of companies stand in the middle: firms dominated by the state or by an other domestic company. Their controlling system and decision making mechanism are much dependent on preconditions other than ownership structure, like performance of the firm and the importance attributed to it by the proprietor, personal contacts between the owners' representatives and managers, the intended durability of shareholding position, etc.

What are the consequences of these findings on the specialties of the Hungarian big enterprise sector, first of all on the decisive role of the managers and the dominance of "recombinant property"?

Although employee-management ownership means the domination of the management in all decisions[22],. the bulk of big companies were not legally owned by the management in the second half of the 1990's. Moreover, this group of the Hungarian "Top 100" shinked considerably.[23] The wider concept of "managerial capitalism" may include the informal position of the executives, their decisive influence on the firm's operation, independent from the formal (legal) ownership structure. We found that this kind of influence does exist but it is not a general feature for all big firms. The autonomy of the management is strongly influenced by the ownership type: it's degree is high in widely held and in some state owed companies

[22] See also Boda-Neumann (1999)

[23] From 1997 to 1998 only two or the six firms with employee-management domination preserved their position. Three others fall out form "Top 100" and one had to make a debt-equitiy swap, resulting in banks' domination in the owenrship structure.

Similarly, the concept of "recombinant property" defined by David Stark, also holds for a smaller group and in a special sense for the late 1990's.
The differences in the basic data, shown in Chapter 1, are partially due to the period analyzed. The first formulation of the concept goes back to the early 1990's when several dosen state enterprises transformed themselves into groups of companies, with majority shares of the former enterprise centre remaining in state hands. "Recombinant property" describes these really special structures insightfuly. During the last decade, however, many of the conglomerats shrinked or disappeared. Because of the critical fiscal and market positions and the restricted favorable effect of the transformation method applied, most firms fall into pieces and/or were closed down completely. Enterprise centers were forced to sell or swap their shares in order to cover debts and finance the shrinking production. Thus, the firms lost their big enterprise status, were privatized piece-by-piece or liquidated.[24] In other cases, when groups of companies were sold to a single investor, new (mainly foreign) owners usually started to simplify the organization by selling the units with non-core production, outsourcing several activities or abolishing the legal entity of smaller units. These steps also often put an end to networks and the coegxistance of state and non-state property within one company.
The second questionable element of Stark's analysis, as other researchers (Tóth 1998) pointed out, the registration of the presence of different shareholders, without considering their ownership stake. Thus, even complicated networks might prove "empty". Minority or even fragmental shareholders, like state organizations or domestic companies in many cases, do not excercise influence on the firms in their portfolio..
The third and decisive reason of divergence in the findings is the differnece (and the shift) in the content of "intercorporate holdings" Stark's first analysis concentrated on the role of domestic firms. In the second stage of the research Stark and Kemény (1998) put domestic and foreign companies in one category. Considering the dynamics of privatization, it is the increase of foreign investment why the proportion of companies in shareholding position jumped up between 1993 and 1996. According to our empirical results, however, Hungarian and foreign companies as proprietors belong to different groups from the point of view of most corporate governance issues.
As a consequence, "recombinant property" as a network structure holds for the largest companies in a special sense. Most big Hungarian firms really belong to networks: they are subsidiaries of multinational companies. (The combination with state is not characteristic for this ownership type.) That means that the "special" post socialist networks, characteristic for the late 1980's and the early 1990's, were replaced by the dominant role of "intercorporate holdings", based on foreign ownership.
This model, as a result of acquisition or other forms of foreign direct investment is well-known all over the word . It is not a special Hungarian or more broadly, post-socialist arrangement. The new ownership structure of big firms might be characterized as a version of the continental, with few listed companies and the dominance of intercorporate holdings. It's specialty is the high concentration of ownership stakes and the high proportion of foreign investment. This structure is rooted partially in economic and privatization policies applied, partially in trade of shares resulting in changes of ownership types. As far as these changes are due to market selection of proprietors, indicating that less effective owners (like post-socialist enterprise centers, othe para-

[24] We do not have comprehensive data on these type of transformation. There are data only about 49 big firms, the group of the so called preferred under socialism enterprises. Out of them 19 formed a group of companies and eleven former enterprise centers did not hold any share in subsidiaries by mid 1990's. In three of these eleven cases almost all production was closed down, however, in the remaining eight at least some of the independent new organizations survived as medium sized firms. The big enterprise status, however, disappeared (see Voszka 1997).

state owners or employees-management) are replaced by their competitors, this tendency might occur in other Central East European countries as a "secondary privatization" process.

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Ownership Structure of Companies
(per cent in registered capital)

Owner	1992	1993	1994	1995	1996	1997	1998
Hungarian individual	9,8	11,9	12,3	12,4	11,6	11,3	12,0
Domestic company	12,4	14,2	17,1	19,9	20,5	24,1	27,2
Co-operative	2,8	2,6	2,6	2,0	1,8	1,6	1,6
ESOP organization	0,1	0,3	0,9	0,9	0,8	1,2	0,4
Total domestic private owners	**25,1**	**29,0**	**32,9**	**35,2**	**34,7**	**38,2**	**41,2**
Foreign owners	10,1	16,1	18,9	28,4	31,5	35,3	39,1
Total private ownership	**35,2**	**45,1**	**51,8**	**63,6**	**66,2**	**73,5**	**80,3**
Central government	58,9	48,4	40,4	29,5	22,4	15,8	10,4
Local governments	5,1	5,8	6,6	5,9	10,2	8,9	6,9
Other	0,8	0,7	1,2	1,0	1,2	1,8	2,4
Total state and other	**64,8**	**54,9**	**48,2**	**36,4**	**33,8**	**26,5**	**19,7**
Total	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**

Firms with double bookkeeping
Source: Pitti, Zoltán (1998)

Table 2

Big and Medium Size Firms[x] According to Number of Owners and Majority Ownership (1995)

per cent

Number of owners	Proportion of firms	Proportion of firms in the given category which have majority owners[xx]
One	19,0	19,0
Two	31,0	29,0
Three	25,2	19,0
Maximum three	75,2	66,2
More than three	24,8	14,8

x Number of employees between 100 and 2000
xx One owner with a stake more than 50 per cent
Source: Ábrahám (1996)

Table 3

The Presence of Different Types of Owners in „Top 100”
(1997)

Owners	Number of firms	Per cent of firms (N=100)
State 1/	**37**	**37,0**
Foreign investors 2/	**75**	**75,0**
Domestic corporations 3/	**27**	**27,0**
Financial investors	**12**	**12,0**
Individuals	**30**	**30,0**
Employees and management	**14**	**14,0**
T o t a l		**100,0**

1/ If there are several representatives of state organizations (central government and local governments) in one company, they are counted only once.
2/ If there are several representatives of foreign owners (companies and financial investors, excluding banks) in one company, they are counted only once.
3/ Not including banks

Table 4

Number of Owners and the Presence of Majority Shareholders

Number of owners	Number of firms	Per cent of firms (N=100)	Number of firms with one majority owner[1/]	Per cent of firms with one majority owner (N=100)
One	50	50,0	50	50,0
Two	5	50,0	5	5,0
Three	1	1,0	0	0,0
Maximum three	56	56,0	55	55,0
More than three	44	44,0	18	18,0
Total	**100**	**100,0**	**73**	**73,0**

1/ With more than 50,1 per cent of shares

Table 5

Ownership Types of „Top 100" According to the Owners and Ownership Concentration (1997)

Per cent of ownership stake/ Type of dominant owner	25,01-50,0% as a do-minant stake	50,01-90,0%	90,1-100%	Total	Per cent of regis-tered firms (N=100)
Foreign firm	13	6	44	63	63,0
State	0	3	11	14	14,0
Domestic firm	3	1	5	9	9,0
Employees and management	3	3	0	6	6,0
No dominant owner				8	8,0
Total	**19**	**13**	**60**	**100**	**100,0**