

## **Separation of Ownership and Control in Transitional Economies**

*Dr. Evgeni Peev,*

Institute of Economics, Bulgarian Academy of Sciences  
3, Aksakov str. 1040 Sofia, Bulgaria

This research was undertaken with support from the European Commission's Phare ACE Programme 1995 Project P95-2178-R. The author would like to thank Saul Estrin, Xavier Richet, Mitko Dimitrov, Ioan Bratu, George Zaman, Ilir Gedeshi, Genc Chelo, Stoyan Totev for discussions. I am also grateful to Svetoslav Petkov, Emil Mitrev, Mitko Nikolov, Nikolay Nenovski, Diana Dimitrova, Antonia Mladenova for assistance and help in obtaining the data. Financial support from the European Commission is gratefully acknowledged.

## 1. Introduction

The economic phenomenon which is being researched here is known in the literature as 'separation of ownership and control'. How complex this phenomenon is, can be seen from the on-going debates in the Western economic literature and the controversial conclusions about its influence upon firm efficiency and strategic development. Its fundamental importance for the so called transitional economies is proved by the central orientation of reforms towards privatisation, flow of foreign active investors, efficient firm management.

The subject of the study is south-east Europe, a region which is still insufficiently studied. In the course of the study (1996 - 1997) the region saw political unrest which led to change of the Romanian government in November 1996, pre-term change of the Bulgarian socialist government in April 1997 and the forceful change of the government and pre-term general elections in Albania in June 1997. In spite of the unrestful environment a questionnaire survey of 305 firms was carried out successfully. Such kind of survey of 305 industrial enterprises in Bulgaria, Romania and Albania based on separation of ownership and control **has been done for the first time in the region.**

Section 2 focuses on the general theoretical framework of study. Section 3 discusses the research model and main hypotheses. Section 4 describes the data collection. In the next two sections the paper presents practical evidence of separation of ownership and control in different countries (section 5) and cross-country study (section 6). Section 7 concludes with typology of inefficiency based on separation of ownership from control and policy implications.

## 2. Conceptual Approach and Theoretical Obstacles

*Conceptual approach.* The issue of separation of ownership and control between owners and managers is studied in its different aspects in the developed economic theory. (The problem is defined as separation of decision and risk-bearing functions (Fama & Jensen, 1983) or separation of control rights and cash flow rights). The starting points of our study are the property-rights literature, managerial theories of the firm, agency theory and Bearle-Means thesis testing literature. As an additional connecting element we also included the X-efficiency literature.

The aim of the study is **systematic characteristic** of the separation of ownership and control phenomenon through its different aspects, ownership structures, types of control, mechanisms for disciplining managers (governance structures), managerial discretion based on these structures, managerial behaviour and firm performance.

In order to achieve this aim, the common research model of the study was based on an integral theoretical approach.

We used the *property-rights approach* in the study of **ownership and control structures** of business organisations in the surveyed countries, *agency theory approach* -

in the study of basic **governance structures** for disciplining managers, *managerial theories of the firm* - in the study of **managerial discretion and managerial behaviour**, the literature dedicated to *empirical study of the relationship between ownership and performance* - in the study of the relationship between **ownership, control and performance**.

At the core of our analysis of business behaviour does not lie profit maximisation but the **utility-maximisation hypothesis** about individual choices, made by managers, workers and owners under transitional institutional constraints. In economies in transition, *managerial behaviour* is influenced by the specific semi-market environment, characterised by high political uncertainty, macroeconomic instability, strong fluctuation of input and output prices and financial performance measures. The inefficient behaviour of *owners* (observed in the mixed economy, too) is much more typical of transitional economies because of the particularities of the arising economic system of primary accumulation of capital.

We used X-efficiency as an indicator of firm performance (Leibenstein, 1966), the concept of shirking (Alchian & Demsetz, 1972) and managerial opportunism (Williamson, 1985) while studying managerial behaviour.

In our study X-efficiency, the degree of managerial discretion and shirking potentials are considered a function of ownership structures, control structures, governance structures, market structures and other constraints.

*Theoretical obstacles.* The study, as any other similar research work, encountered several significant theoretical difficulties.

A. “*American theory*”. The developed theory on separation of ownership and control is based only on the American experience and few other developed market economies (Shleifer & Vishny, 1996) There is a big gap between this practice and the reality of transitional economies.

B. *Limited theoretical knowledge in transitional context.* Despite the fundamental importance of the issues on ownership and control, they still remain insufficiently studied in transitional economies. There are only few systematic studies on the relations of ownership rights, types of control, governance mechanisms, manager behaviour, and firm performance (Among recent studies, see the theoretical analysis of Earle & S.Estrin (1995), the study of 439 firms in Russia in Earle & Estrin (1997).

C. *The Bearle-Means thesis and the system of primary accumulation of capital at the end of 20<sup>th</sup> century.* It is known that there is no theoretical model of development of the economies in transition yet and the new science Economics in Transition is still to be developed. A specific economic system, non-planned and non-market, exists and underestimating that trivial fact may lead to serious misunderstandings and failure of policy-makers and potential investors.

We attempt to adapt the utility-maximisation hypothesis to particular features of this system. Some of them are the following: first, lack of, or undeveloped institutional constraints such as property-rights, governance structures, market institutions. Second,

post-socialist rent-seeking culture. Third, economic agents are quasi-state officials, quasi-owners, quasi-managers with a short-term existence. Fourth, the objectives of new owners of privatised enterprises are not profit-maximising. Fifth, winners in the specific transitional competition are these persuading objectives to assets - stripping, export of capital, 'life abroad'.

We suggest that these features characterise an economic system, that can be described as system of **post-totalitarian primary accumulation of capital**. Under its rules the utility-maximisation of owners, managers, workers and state officials agents is directed against efficient enterprise development.

But if this inefficient behaviour is typical of all the ownership structures, is there a essential difference between traditional state-owned and corporatised state enterprises, privatised and private firms *de novo*? How does it concern state, insiders and outsiders-controlled enterprises? How do corporate governance structures constrain this behaviour?

The study was looking for answers to these fundamental questions.

### 3. Research Model and Hypotheses

The most general research model in our study is based on utility-maximisation hypothesis to owners and managers in transitional economies, according to which, managers in enterprises with different ownership, control and governance structures and different other institutional constraints - market competition, regulated industry, budget constraints, industry, size structures, have different level of managerial discretion at decision making, managers pursue different strategies of restructuring and firms have different performance. This model is shown in Figure. 1.

Figure 1.

INSTITUTIONAL CONSTRAINTS  
BEFORE MANAGERIAL  
UTILITY-MAXIMIZATION

MANAGERIAL DISCRETION,  
ENTERPRISE BEHAVIOR

---

*Main structures:*

O - ownership structure

C - control structure

G - governance structures

*Other structures:*

M - market structure

R - regulated industry

GI - government influence

I - industry sector

S - size structure

MDES - managerial decision  
making

MANSTR - managerial  
strategies

P - firm performance

The main steps of the research model analysis are described below.

#### *A. Managerial discretion and enterprise behaviour.*

The inclusion of managerial objectives in the theory of the firm leads to relating aims and behaviour by the notion of managerial expense preferences. (Williamson, 1963; see also Glassman & Rhoades, 1980, where salaries and benefits per employee, premises, furniture, fixtures expenses as percentage of total assets are considered managerial expense preferences).

The degree of managerial discretion is measured by expense preferences. Unfortunately, in the transitional economies prices and costs are arbitrary, very flexible and reported data of them are unreliable. This means that at this stage of study it is impossible to use Williamson notion for more sophisticated econometric data analysis.

The degree of managerial discretion is also considered a function of the above mentioned institutional constraints and is characterised by X-efficiency. On the other hand, however, the *nominal* ownership does not automatically determine who has *real* decision-making authority in a given company. That is why as another indicator of managerial discretion we use managerial influence on decisions concerning enterprise affairs. It is measured by subjective indicators based on responses to questions on the survey of firms.

Preliminary methodological studies show that in a transitional economic context it is better to use the utility-maximisation hypothesis instead of the profit maximisation hypothesis. In transitional contexts there are serious market failures and it is unreasonable to use profitability measures. (See for analysis Earle & Estrin, 1997).

Under transitional conditions, it is more relevant to use X-efficiency as an indicator of firm performance. (Leibenstein, 1966). This is efficiency due to workers' and managers' motivation to work productively and depends on the constraints before utility-maximising behaviour of managers and workers. (De Alessi, 1983)

Workers and managers tend to maximise their own utility which does not always coincide with profit-maximisation behaviour. On the contrary, this aim creates a potential of shirking (Alchian, Demsetz, 1972) and managerial opportunism (Williamson, 1985). The realisation of this potential depends on constraints before utility-maximising behaviour. These constraints are institutional restrictions (property rights and others) and the transaction costs going with them.

In our research, we consider X-efficiency a function of ownership structures, control structures, governance structures, market structures and the other constraints (See Figure 1).

The rising of X-efficiency is usually related to the decreasing of shirking on the part of workers and managers and their taking a working position that is more productive for a firm. That is why X-efficiency is measured by different productivity indicators: sales per employee ( Boardman & Vining, 1989), nominal sales per employee, real output per employee ( Earle & Estrin, 1997), value added per employee (Hill & Snell, 1989).

As suitable specific indicators for measuring firm performance in transitional context we also use indicators of managerial strategies for enterprise restructuring. However, their basic deficiency is that they are based on subjective judgement. (See Earle & Estrin, 97).

Without going to extremes, we still should express reasonable scepticism about the possibilities of econometrical analysis of firm performance at the current stage of development of transitional economies. The very concept of X-efficiency has considerable deficiencies and needs additional theoretical illumination (De Alessi, 1983). On the other hand, the studied phenomenon of separation of ownership and control is very complex and even the choice of different indicators of firm performance only can lead to opposite results in the analysis. (See e.g. different conclusions made by Demsetz & Lehn (1985), who used mean accounting profit rate as an indicator of firm performance, and Hill & Snell (1989) - respectively, productivity).

The basic methodological approach to data in our research *is summary statistics and analysis of numerous measures* of managerial discretion and firm performance of *each one of the questions* of the questionnaire survey. These measures are summarised according to the basic institutional structures in our common theoretical model: ownership structures - four basic types, control structures - three basic types, industrial sector, size structure and market structure. The other two - governance structures and government influence are dealt with in separate questions. A summary about each country is done separately, too.

#### *B. Ownership structures: state and private sector*

From the point of view of the property-rights theory, state officials are characterised as having exceptionally concentrated control rights but insignificant cash-flow rights because the latter are distributed among the whole of the population. This means that in *the basis* of the ownership structure in state enterprises there is 'separation of ownership and control' (Shleifer & Vishny, 1996).

**The first main hypothesis** is that state-owned firms should perform less efficiently than private firms (property-rights hypothesis).

Comparative empirical studies of firm performance in state firms, in comparison with private firms, encounter a serious difficulty in measuring the results. This is due to the fact that state firms pursue specific socio-political objectives. These objectives may lead them to smaller profits. They do not represent lower efficiency but rather social outputs. These social benefits are external for the state enterprises and very difficult to measure.

In the transitional economies there exists yet another peculiarity due to the specific political role of the prevailing state sector. It is an economic basis for political power. That is why one of the basic objectives of the political reform is defined as 'depoliticisation' (Earle, Estrin & Leshchenko, 1996) .

Another feature of the existing state sector is its interrelationship with private economic structures, which additionally complicates the precise comparative analysis.

Because of the above stated reasons, we have to be very careful in our analysis not to jump to conclusions, for example about the greater efficiency of the privatised enterprises compared to the ones remaining state-owned.

**The significant difference in the existing basic structures of ownership in transitional economies can be found in their different origin.** Under this criterion the four basic ownership groups are studied: in the state sector - traditional state-owned enterprises (SOE) and corporatized state-owned enterprises (CE), in the private sector -

privatized enterprises (PRE) and private enterprises established *de novo*. (This classification is used in other studies (See e.g. Belka, Estrin, Schaffer & Singh, 1995).

The difference in the origin of the studied enterprises presupposes **a difference in their starting positions, and not so much in their behaviour**, which in a short term may show similar features because of the common market environment, connected with the adaptation to the specific economic conditions. In a middle term, (which is outside the scope of this study) significant differences are expected to appear between the separate groups of enterprises.

Our study is for the period 1990 - 95 but since the surveyed enterprises from the private sector were founded in different years during this period the basic method of analysis is *cross-section analysis*. The interrelations studied are not factor-result relations but specific summarised characteristics of the different types of ownership.

### *C. Control structures: management-controlled and owner-controlled firms*

In private firms the existence of an property-rights structure, in which ownership is dispersed among a lot of shareholders and there is not one party which can have enough assets to determine the members of the Board of Directors and the strategic development of the firm, leads to weak constraints on pursuing managerial objectives. Managers maximise their utility function, which, as is shown above, does not always coincide with maximisation of firm efficiency.

The **second main hypothesis** is that interests of managers and owners diverge and management-controlled firms are less efficient than owner-controlled firms (Berle-Means thesis).

The results of the testing of this hypothesis are contradictory. (Peev, 1996). The basic problem confronting empirical research work is the quantitative determination of the qualitative division of the firms as management-controlled and owner-controlled. The usual indicators of the type of control are percentage of stocks owned by the single largest owner of stock, (a tradition started by Berle and Means (1932), see. Larner (1966), Kamershen (1968), Herman (1981)), stock concentration, (Demsetz & Lehn (1985), Hill & Snell (1989), percentage of *voting* shareholding (represents *control rights*.)

A dominant ownership stake by some individual or group is presumed to yield absolute control of the firm. The basic deficiency of this approach is that the *formal ownership* of a block of company shares is only one of the relevant indicators and does not automatically determine who has *real decision-making* authority in a given company.

Another problem of the empirical surveys is that they usually focus their analysis on 200 or 500 largest firms. However, the group of the analysed firms considerably affects the results. (See Glassman & Rhoades, 1980).

The more important criteria for the type of control in enterprises in the transition economies are qualitative ones. The property-rights approach, considering such problems of ownership and control structures as who owns company assets, who is the bearer of the residual risk, who is the decision-maker, who nominates the members of the Board of Directors etc., and the idea of managerial discretion in relation to different types of control provide some useful points which are used in our study.

In the economies in transition, the dichotomy of insiders-controlled and outsiders-controlled firms is used as a basic distinction of the control structures in the private sector.

It is used in our study, too. ( Of course the criticism and doubts about the rather relative nature of the distinctions made between workers and managers and moreover insiders and outsiders, are justifiable. They are usually described as groups with distinctive interests. But in fact, within these groups there are significant differences - between young and old workers; between top and other managers. Besides, there exist wheels within wheels type of interests of the top managers and outsiders which are informal and frequently mean evading the law and that is why difficult to detect. Such kind of examples can be given from Bulgarian economy. These methodological weaknesses are inevitable for the stage of development of the transitional economies, as is the state of our understanding of them).

#### *D. Governance structures: internal and external*

The main incentive mechanisms which discipline managers to behave efficiently and are constraints before managerial opportunism are internal (managerial ownership (Jensen & Meckling, 1976); board of directors, (Fama & Jensen, 1983); managerial compensations (Finkelstein & Hambrick, 1988) and external (capital and managerial labour markets (Fama, 1980); markets for corporate control (Manne, 1965).

In the transitional economies the specific semi-market environment, characterised by high political changeability, macro-economic instability, high fluctuation of input and output prices, has a marked influence on managerial behaviour. Capital and managerial labour markets are just emerging.

The **main hypothesis** is that internal governance structures are more efficient than external ones under semi-market conditions (governance hypothesis).

The comparative study of governance mechanisms in state and privatised enterprises faced specific difficulties. After privatisation the new owners will probably have inefficient governance mechanisms for monitoring managers. Under conditions of semi-market environment different institutional constraints requiring lower transaction costs are likely to be introduced: secondary concentration of ownership in large blocks, secondary consolidation of shareholding by proxy battles, new systems of peddling managerial compensation directly to shareholders' returns, strengthening the role of the Board of Directors and other mechanisms to give shareholders more power over management.

However, this process of improvement of ownership rights structures and governance is still ahead and is beyond the scope of our cross-section analysis of privatised enterprises. That is why the emphasis here on the specific characteristics of governance mechanisms is greater than on their comparative analysis of types of ownership.

The study of the whole system of mechanisms for corporate governance in the state and private enterprises in the transitional economies is a task that goes beyond the framework of our study. Here an attempt was made to characterise the basic ones of them: the Board of Directors, voting rights, capital markets and others. A special part is devoted to the influence of the existing semi-market environment in the different enterprises. However, managerial compensations were not included in the questionnaire because previous surveys had shown that on the enterprise level reliable information was not likely to be received.



The proposed common hypothesis is tested in a modified version because we do not have complete information about all internal and external mechanisms. Managerial ownership and the Board of Directors are included from the internal mechanisms. Here the *assumptions* are the following:

There should be a positive relationship between managerial ownership and firm performance.

There should be a positive relationship between active influence of Board of Directors and firm performance.

The specific semi-market environment of unfair competition and gray economy is examined as a peculiar external governance mechanism. The precise measurement of its share in the economy of each country is very difficult. We use subjective managerial estimation as an indirect indicator of this share. The *assumption* is:

There should be a positive relationship between pessimistic estimation of semi-market environment and firm performance.

#### *E. Owner objectives*

The study of the phenomenon of separation of ownership and control comes to its logic finalization in this part with representing owners' motives and objectives in firm behaviour. The central axiom in managerial theories of the firm is that shareholders are wealth maximisers but managers maximise a utility function. The practice of modern western economies shows, however, that owners can also have discretionary behaviour and that the contradiction is actually between large and small shareholders (Schleifer & Vishny, 1996).

To a larger extent inefficient behaviour of owners is typical of transitional economies because of the specific nature of the economic system of primary accumulation of capital, which was described above.

The **hypothesis** is that owners maximise their utility under institutional constraints (owner utility-maximisation hypothesis).

The factors stimulating owner discretion are: outside large investor with minority owner control, (Schleifer & Vishny, 1996), absence of legal protection of small shareholders, external representation of Board of Directors, (Williamson, 1963; Herman, 1981), absence of product market competition, regulated industry, soft-budget constraints.

The absence of protection of small shareholders and external representation of Board of Directors are factors which in a transitional context are very changeable, and in the case of the Board of Directors ambiguous in their influence.

## **4. Data collection**

The information collected was of two main kinds.

First, statistical information which is regularly collected by the central statistical offices in these countries.

Second, data for enterprises which are not collected in a centralized way and which include information on issues such as: (a) ownership and control of enterprises, (b) specific governance structures for settling the conflict of interests between owners and

managers, (c) different extents of influence exerted by different economic actors on the decision-making process regarding sales, employment, investments, etc., (d) different aspects of enterprises behavior, including sales, employment, exports, etc. This data was collected by doing a questionnaire survey.

During the period August - December 1996 a questionnaire survey of 305 enterprises was carried out in Albania, Bulgaria and Romania. The target of the survey were industrial enterprises, the selection criterion being the number of the personnel to be over 50 people. (In the course of the survey firms with a smaller number of personnel were included. E.g. in Bulgaria most of the newly-founded industrial firms have personnel under 50 people).

The survey comprised four major groups of firms, classified according to the type of ownership: state-owned, corporatized state-owned, former state-owned firms which have been privatized, and private firms established *de novo*.

A basic difficulty while collecting the data was the unwillingness on part of the managers to provide information and their lack of competence to answer some questions. These difficulties were encountered both in the private and public sectors.

In Bulgaria the difficulties were overcome by creating an interviewing network covering all the regions of the country and made of people with authority or ambitious people with personal relations in the enterprises. The basic value suggested to the interviewers during their training was the clear and honest position that this is a theoretical research that will be used for academic purposes for the welfare of the three countries. This value, together with the professional training and the personal contacts of the interviewers in the enterprises, were the main factors that helped to overcome the potential managerial negative dispositions to participation in the survey. Due to the atmosphere of trust some unique data about the firm performance and behaviour was gathered in some of the enterprises.

In Albania a similar approach was used. One of the principal participants in the Bulgarian study was sent there in order to consult and help in the collection of data from the Albanian enterprises.

In Romania the established contacts with enterprise managers by one of our Romanian research assistants proved to be of invaluable help.

It should be emphasized that the data gathered was from firms the managers of which answered two preliminary conditions: 1) readiness to share their managerial experience and their understanding of the economic process in the country; 2) competence and ability to distinguish between the significant and the insignificant in the economic reform on the enterprise level.

A brief summary of the basic outcomes in countries, their comparative study and policy implications are presented below.

## **5. Country Studies**

*Note.* In this section the author has used some comments concerning the Romanian and Albanian economy written by Ioan Bratu and Ilir Gedeshi as partners in ACE research project P95-2178-R.

**Bulgaria.** Corporatised enterprises prevail in the state sector. Untransformed traditional state enterprises have an insignificant share and are actually of no importance for the development of the national economy.

*a. Corporatised state-owned enterprises* are characterised by an unestablished property-rights structure. The only nominal owner is the government. The control rights are to be exercised by the Board of Directors, but the survey shows that the managers have the most active influence on decision-making. There exists *separation of ownership and control*, which, however, is of a *specific 'transitional' type*. This is due to the inefficient behaviour of the state in transition which withdraws from the control of enterprises, gives great managerial discretion and allows post-totalitarian accumulation of capital at the expense of the enterprises.

The Board of Directors cannot fulfil its functions of a disciplining mechanism to potential managerial behaviour because it consists of people (including representatives of the private business) who have interests definitely different from the interests of the enterprises.

Corporatised state-owned enterprises show passive managerial strategies to restructuring in all spheres of economic activity in general management.

These enterprises have the lowest performance indicators measured in profit/sales ratio, and productivity in comparison to the firms with the other types of ownership structure. Their turnover and personnel number are the highest because the prevailing part of them are large-sized firms. A feature of corporatised state-owned enterprises is their oldest structure of equipment.

*b. Privatisation* rate in Bulgaria till 1995 was low. The privatised enterprises are small and medium-sized and are characterised by varied ownership structure. Enterprises with dispersed ownership were surveyed as well as ones with a more concentrated ownership. The latter are prevailing. From the point of view of control structure, the enterprises under outsider control are prevailing over the ones under insider control.

The institution of the Board of Directors in these enterprises is characterised by the most active behaviour in comparison to the behaviour of the Board of Directors in enterprises with other forms of ownership. On the whole, in privatised enterprises at decision-making in the spheres of production and personnel, the highest influence have the managers while in the spheres of managerial employment and compensation and the financial sphere - the Board of Directors.

In privatised enterprises under *worker* and outsider nominal majority control, managers-owners have the basic influence at decision-making. In the first case, the

supposition is that there is *separation of ownership and control*, in the second case the supposition is about merging of interests between managers-shareholders and outside large investors.

A specific case of coincidence between the dominant nominal owner and the real decision maker in the firm are enterprises under the control of a *foreign investor*. In these enterprises *there is not separation of ownership and control*. On the contrary, we observe a very strong owner control and owner participation in the management of the enterprises typical of property-rights structures during early capitalism.

Privatised enterprises are characterised by efficient managerial strategies to restructuring, the most active being the enterprises under foreign owner control.

Privatised enterprises have better performance (profitability, productivity, age of capital) in comparison to state-owned enterprises, and worse performance according to the same indicators in comparison to private firms de novo. Privatized enterprises under outsider control have better performance compared to those under workers' control and worse compared to enterprises (privatised and private de novo) which are under insiders' control.

c. *Private firms de novo* have a more concentrated ownership structure than privatised firms. The dominant owner has a majority (50-80% of assets) or private control (over 80%). A typical dominant owner in them is the manager-owner, which is typical of the property-rights structure in the so called 'classical capitalist firm' in the capitalism of the 19<sup>th</sup> century. In this ownership structure *there is not separation of ownership and control* and a most efficient managerial behaviour is expected.

From the point of view of market economy, these enterprises have the most efficient ownership structure. Probably, that is why they suffer the most from the shadow side of the economy in transition. These firms give pessimistic estimation of the general semi-market environment. According to them the average share of illegal economy in the country is about 58% (privatised firms - 51%, corporatised state-owned firms - 51%).

The newly founded private firms show passive strategies to enterprise restructuring, which is explainable taking into consideration their origin.

Private firms de novo show the best performance (profitability, productivity, age of capital) compared to all the other firms. This indicates that in spite of the unfavourable semi-market environment their ownership structure creates life-giving incentives of adaptation.

d. After the *mass privatisation* in 1996-97 about 1 000 new enterprises were privatised in Bulgaria. The typical ownership structure which was formed was dispersed ownership with managerial or minority owner control exercised by the privatisation funds. Here *separation of ownership and control* emerges. If there is a lack of governance structures, inefficient behaviour of managers and minority owners might be expected.

e. A *stage in the evolution* of property-rights structures which began at the beginning of 1998 is the fight between minority owners after the mass privatisation and outside participants for the acquisition of efficient control over the enterprises. This

process will objectively lead to concentration of ownership (though not necessarily to higher efficiency). Because of insufficient development of the capital markets, both the stock exchange and OTC markets, the basic way to compete for corporate control are proxy fights.

f. In Bulgaria there exists *corporate culture of post-totalitarian primary accumulation of capital*. The share of the grey economy is assessed to be about 40% of GDP. In our study 70% of the firms in the sample estimate the share of the underground economy to over 50%. There exists corruption which determines the unhealthy business climate. All these factors predetermine more specific owner objectives, which in the future may not be directed to development of the enterprises but rather to their decapitalisation and short-term use.

**Romania.** Enterprises were surveyed according to the basic groups of ownership structure: in the state sector - autonomous state enterprises and corporatised (commercialised) state-owned enterprises, and in the private sector - privatised and private de novo enterprises.

a. *Autonomous state enterprises* are characterised by unestablished property-rights, monopoly or oligopoly positions and *specific 'transitional' separation of ownership and control*. A nominal owner in them is the government, the Board of Directors has formal control, but managers exercise the real considerable influence at decision-making. The residual risk of decisions is taken mainly by managers, however, its material expression is symbolic.

The effect of governance structures is inefficient. The Board of Directors as a basic governance mechanism has a passive role. The managers are employed under the pressure of trade unions and informal groups.

Managers have a high degree of managerial discretion but their strategies to restructuring are passive.

Surprisingly, however, the performance indicators of autonomous state enterprises in comparison to the other ownership structure enterprise groups are good. They are characterised by the highest turnover and personnel number, a higher profit/sales ratio and productivity in comparison to corporatised state-owned and even privatised firms, and the lowest export/sales ratio. However, the basic part of their equipment is old and outdated. A possible explanation of their performance could be that these enterprises have a big size structure, natural monopolies and practice monopoly prices, and are oriented mainly to the domestic market.

b. There is no significant difference in ownership, control, governance structures and enterprise behaviour between *corporatised state-owned enterprises* and the autonomous state enterprises described below. Corporatised state-owned enterprises are also characterised by *'transitional' separation of ownership and control*. In them, nominal owners are the State Property Fund and the Private Property Fund, which owned at the

beginning 70%, respectively 30%, of the firm assets, managers and employees, outside shareholders. The main shareholder - the State Property Fund exercises formal control on the enterprises through a Board of Directors, General Meetings of Shareholders and governance mechanisms. However, confusion and lack of transparency over ownership rights have led to degradation of state enterprises patrimony. State representatives in the various governance bodies assume risks to an insignificant extent and the risks assumed by enterprises are minimal as compared to the consequences of the decisions adopted. Risks of managers and employees stay in cancelling the management contract, loss of positions and work places.

Compared to autonomous state enterprises, some differences can be discovered in the more limited managerial discretion and the more active managerial strategies to enterprise restructuring. The corporatised state-owned enterprises have also worse performance results for turnover, productivity, rate of return, but the highest level for export rate among all groups of enterprises according to ownership structure.

c. The rate of privatisation in Romania is low. By the end of 1995 the basic part of *privatised enterprises* had been small and medium-sized. In the surveyed enterprises during this period the ownership structure is dispersed. The basic shareholder possesses under 20% of the shares or between 20% and 50% (minority control). Insiders (mainly employees) are with a dominant stake. However, at decision-making managers-shareholders are the most influential. Here, there is separation of ownership and control, which allows managers with a small share of enterprise ownership to have a high degree of managerial discretion.

The Board of Directors as a basic governance mechanism against potential managerial opportunism cannot efficiently play its role because about two thirds of its members are the top managers themselves.

However, privatised enterprises are characterised by active managerial strategies to restructuring. Their performance indicators (profit/sales ratio, productivity) are better than those of corporatised state-owned companies. This shows that in spite of everything, the change to the potentially inefficient ownership and control structure described above has had a positive effect on enterprise behaviour.

d. *Private firms de novo* are characterised by a more concentrated ownership structure than privatised ones. The basic owner usually possesses over 50% of the assets of the enterprise (majority control). Moreover, in most of the cases this dominating owner are managers. There is no separation of ownership and control here.

These firms are characterised by best performance results (with the exception of export rate) in comparison to the others. The efficient property-rights structure leads to efficient results. An important factor here is the prevailing new equipment which private *de novo* firms own and which distinguishes them from the other firms.

e. After the *mass privatisation* in 1995-96, when about 4 000 companies were privatised, a dispersed ownership structure was formed which was the basis of *separation of ownership and control* and managerial discretionary behaviour.

f. A consecutive stage in *the evolution* of property-rights structure in the Romanian industry will be the struggle for corporate control over enterprises. It will lead to a higher concentration of ownership. The role of the stock exchange and OTC markets is to accelerate this process rather than function as conventional governance mechanisms.

g. The *general economic framework* is characterised by corporate culture of post-totalitarian accumulation of capital. The share of the grey economy is about 38% of GDP. One fourth of the surveyed enterprises define the share of the underground economy to over 50%, and the prevailing part of the enterprises define it between 20 - 50%. The most pessimistic are private firms de novo, followed by privatised firms and then state-owned ones. Corruption is also maintained by the fact that, so far no normative acts regarding the liability of ministers and public clerks status have been adopted. It is necessary to create and enforce an efficient mechanism for fighting against speculative-parasite activities in Romania.

**Albania.** a. *State enterprises.* The prevailing part of enterprises in the state sector are traditional state-owned firms. Corporatisation as a process of transformation of state enterprises into enterprises acquiring the form of joint-stock or limited liability companies started in April 1995. A specific feature of corporatised state-owned enterprises is the quick privatisation of most of them through mass privatisation. Another peculiarity of the enterprises in the state sector is that part of them were out of operation or were operating at minimum capacity and the dominant part of equipment was aged over 15 years.

The state is a sole owner in the traditional state enterprises and has absolute control in corporatised state-owned companies. The state enterprises are led by the Board of Directors (Directing Board). According to the survey, the Board of Directors takes the high residual risk of the enterprise activities. Managers follow them. While the minister and his deputy, the Government and the directors of the departments in ministries take a smaller risk in a falling gradation in the order mentioned above. Under the lack of control mechanisms and motivation, the Board of Directors in public enterprises is characterised generally by passive behaviour and applies a short-term strategy.

In the surveyed enterprises the degree of CEO turnover is very high in CE, then in SOE and finally in PRE. While in POE the circulation of top managers is zero. These data give indications about the high degree of insecurity in the public sector enterprises and privatised enterprises.

In these enterprises the Board of Directors has always the power of making any kind of decision, especially related to managers and profit distribution. They are followed by the state and managers. They are not influenced by employees and Trade Unions.

It cannot be stated unambiguously whether there is *separation of ownership and control*. Managers do not have a high degree of discretion, but it does not necessarily mean that the country, not somebody else, has real control over the state enterprises.

Managerial strategies to restructuring in state enterprises are very passive.

In spite of the small number of public enterprises at the end of 1996, public sector enterprises yielded nearly 80% of the industrial production. However, performance indicators show that except for the turnover and personnel number the state-owned enterprises have worse performance compared to private enterprises according to profitability, productivity, export rate. Inside the state sector, corporatised firms have better performance than traditional state ones.

*b. Privatised enterprises.* The rate of privatisation in Albania is low. The first phase (1993 - April 1995) includes privatisation through auction of small and medium enterprises of production and services. Only 10% of the enterprises were sold through auction. The second phase (May 1995-1997) includes the privatisation of not yet privatised strategic and non-strategic large and medium enterprises. It started in May 1995. Characteristic for this phase is the implementation of mass privatisation techniques.

After the first stage of privatisation different ownership structures have been formed. About 40% of enterprises have dispersed ownership under employees' control. The rest of the firms have more concentrated ownership under outsiders' control. Their new owners are former owners, former politically prosecuted, sole proprietors and legal persons.

After the mass privatisation during the period 1995 - October 1997, the ownership structure is more dispersed. The enterprises are under state control, insiders' control, outsiders' control, including foreign control. The dominant type is outsiders' control. Only in a few enterprises there is a concentration of shares in the hands of one owner (individual or firm).

Privatisation of enterprises by managers is not characteristic of Albania. The foreign investor participation in the privatisation is insignificant.

Typically, in the privatisation in 1993-95 the owners are top-managers of the enterprise. *There is not separation of ownership and control*. In these enterprises the Board of Directors is an institution with real influence on strategic and operative decisions.

While in enterprises privatised through mass privatisation techniques, which started in 1995 and have a dispersed ownership structure, managers may not be necessarily the main shareholders. In enterprises under insiders' control and workers' control the influence of the Board of Directors on decision-making is the strongest. In these enterprises there is *potential for separation of ownership and control*. In enterprises under outsiders' control, outside institutional owners have the strongest influence on decision-making and in enterprises under foreign control - foreign owners through managers-owners. In this group of enterprises *there is not separation of ownership and control*.

As far as managerial strategies are concerned, there are no specific types of behaviour from the point of view of ownership and control structures.



Privatised enterprises as a whole have better performance compared to enterprises in the state sector (profitability, productivity, export rate), but worse performance indicators compared to private firms de novo in reference to profitability and productivity.

Enterprises under outside control have more modern equipment while those under state control and inside control have much older equipment.

*c. Private firms de novo.* These firms are characterised by concentrated ownership. In these enterprises dominant owners are local or foreign owners who have invested their capital in the creation of the enterprises. The participation of foreign investors, mainly Italians and Greeks in the creation of private enterprises de novo is characteristic of Albania. Typically, foreign investors have private and majority control. The impact of the Board of Directors on strategic and operative decisions is higher in private firms than in public enterprises. In private firms it is higher in private firms de novo than in privatised ones. The maximum influence of Board of Directors on the strategic and operative decisions in private firms de novo shows that the power is concentrated in the owners-managers. Here, *there is no separation of ownership and control.*

Private firms de novo have the best performance compared to all the firms with a different ownership structure. Their basic performance indicators (turnover, profitability, productivity, export rate) are better than privatised firms. The age structure of equipment is most favourable in private firms de novo.

d. There might occur concentration of property *after mass privatisation* aiming at more efficient exercising of control rights by the new owners. However, there is a specific feature here, related to the emerging corporate culture of post-totalitarian accumulation of capital. Even now there is concentration of shares in the hands of one owner. Firms like VEFA, Gjallica, Kamberi, Silva, Cenaj & Co. etc., who perform deposit-taking activities with high monthly interest rates, have purchased privatisation vouchers at 6-25% of their nominal value in the free market and used them to purchase stakes of public assets. But even in these cases there is no restructuring or quality management of privatised enterprises because these firms are more inclined to speculative actions than profit-making economic activities.

*e. General economic environment.* Unfair competition, corruption, black economy, non-payment of taxes, contraband of the import goods, avoidance of social security payment, etc., are very high in Albania. These phenomena deteriorated especially during 1997 as the result of the political collapse which embraced Albania after the collapse of pyramid schemes. The existence and deterioration of these phenomena penalise the effective enterprises that obey the rules of the game. Under these circumstances, private owners can hardly state whether the poor results of the firm are because of the bad management or because of the economic environment where they operate. Nearly half of the enterprises studied assess the share of underground economy between 20-50%. While 35% of all enterprises assess this share between 50-80%. In this respect private de novo firms are more optimistic (average share of the illegal economy -37,5%), then privatised firms (44,82%) and corporatised state-owned firms (46,67%). While traditional state firms are the most pessimistic (55,28%).

## 6. Cross - Country Study.

Some basic results are presented in Figure 2.

Figure.2 *Separation of ownership from control and firm performance*

	<b>Bulgaria</b>	<b>Romania</b>	<b>Albania</b>
<b>SOE</b>			
ownership	- 1)	unestablished	unestablished
managerial discretion	-	high	low
separation of o. and c.	-	yes	unclear
<b>CE</b>			
duration of existence	long	long	short
ownership managerial discretion	unestablished	unestablished	unestablished
separation of o. and c.	high	high	low
	yes	yes	unclear
<b>PRE</b>			
speed	slow	slow	slow
1 <sup>st</sup> phase 2)			
ownership control 3)	concentrated outsiders	dispersed insiders	concentrated outsiders
separation of o. and c. by dominant owner:			
employees	yes	yes	unclear
managers			4)
outsiders			no
foreign			no
<b>Bulgaria</b> <b>Romania</b> <b>Albania</b>			
2 <sup>nd</sup> phase 5)			
ownership	dispersed	dispersed	dispersed

control	managerial minority	managerial	outsiders insiders
fighting for control	yes	yes	

**POE**

ownership	concentrated	concentrated	concentrated
dominant owner- managers	yes	yes	yes
foreign investor	no	no	yes
<i>separation of and c.</i>	no	no	no

**Capital market**

<b>development</b>	medium	medium	low
<b>Grey economy</b>	medium	medium	high

**Managerial  
strategies 6)**

SOE	low	low	low
CE	low	medium	low
PRE	high	high	
POE	low		

**Performance 7)**

SOE	4	2	4
CE	3	4	3
PRE	2	3	2
POE	1	1	1

**Performance**

workers control	2	2	2
outsiders control	1	1 8)	1

Notes.

- SOE - traditional state-owned firms
- CE - corporatised state-owned firms
- PRE - privatised firms
- POE - private firms *de novo*

- 1) SOE are an insignificant number in Bulgaria.
- 2) Property-rights structures after the first phase of privatisation and before mass privatisation.
- 3) Typical control structures
- 4) Managers are not typical dominant owners in Albania
- 5) Property-rights structures after mass privatisation
- 6) Managerial strategies to enterprise restructuring
- 7) Ranging from 1 = best performance, to 4 = worst performance. Performance indicators: turnover, profitability, productivity, export rate, personnel, age of equipment.
- 8) Firms under outsider's control have better performance than under workers' control in Romania, but profitability is an exception.

a. *State firms.* Traditional state-owned firms continue to exist in Romania and Albania while in Bulgaria they constitute a small number and do not have real significance for the economy. A specific feature of their ownership structure in Romania and Albania are the unestablished property-rights. In Romania there is '*transitional*' *separation of ownership and control* and high managerial discretion. In Albania managers do not have discretion and it is not clear who exercises control rights

b. *Corporatisation.* State enterprises transformed into corporatised state-owned firms at the beginning of the reform in the 90ies still exist in Bulgaria and Romania. There is '*transitional*' separation of ownership and control, a specific phenomenon in the process of post-totalitarian primary accumulation of capital. Enterprises are characterised by unestablished property-rights and a high degree of managerial discretion. Unlike these two countries, in Albania corporatised state-owned firms have a short life, unestablished property-rights and low managerial discretion.

c. *Privatisation.* In each of the three countries the privatisation is carried out in two phases: phase one - privatisation of small and medium-sized enterprises by cash, and phase two - mass privatisation by vouchers. After the first phase a more concentrated ownership structure with prevailing outsider control was formed in Bulgaria and Albania, while in Romania - more dispersed ownership and dominant insider control. *Separation of ownership and control* was discovered in enterprises with an employee dominant owner in Bulgaria and Romania, and was not discovered in enterprises under foreign control (Bulgaria) and under outsiders' control (Albania).

After the second phase of privatisation (mass privatisation), ownership is more dispersed in the three countries, and the typical kind of control in Bulgaria and Romania is managerial and minority control. There is *separation of ownership and control* in them, and in Albania it was discovered in enterprises under insiders' and workers' control (but not in enterprises under outsiders' control and foreign control).

d. *Private firms de novo.* In the three countries the newly founded private firms have concentrated ownership, with the dominant owner - the managers and there is no *separation of ownership and control*. Typical only of Albania is the active participation of foreign investors in the creation of private firms de novo.

e. *Post-privatisation ownership concentration.* In Bulgaria and Romania after the mass privatisation a fight for efficient corporate control started. In Bulgaria, it is mainly by proxy fights while in Romania capital markets have started to take part actively.

f. *Governance structures.* In the three countries external market governance mechanisms are undeveloped. The stock exchange and OTC capital markets are relatively more developed in Romania, then in Bulgaria, and the least developed in Albania. There exists grey economy in the three countries and what is more important a specific corporate culture of post-totalitarian primary accumulation of capital has been formed. The most pessimistic estimation of its share is given by private firms de novo in Bulgaria and Romania, and traditional state-owned enterprises in Albania.

g. *Managerial strategies and firm performance.* The most pessimistic managerial strategies to restructuring exist in state enterprises in the three countries, and the most active - in privatised enterprises in Bulgaria and Romania.

Private firms de novo show the best performance in the three countries, followed by privatised enterprises (Bulgaria and Albania) and autonomous state enterprises in Romania. Third come corporatised state-owned enterprises (Bulgaria and Albania) and privatised enterprises (Romania). The worst performance is shown by state enterprises - corporatised state-owned enterprises (Romania) and traditional state enterprises (Albania).

Enterprises under outsiders' control have better performance than enterprises under workers' control.

The hypothesis that state enterprises should have worse performance and higher managerial discretion than private ones (*the property-rights hypothesis*) was confirmed according to the performance indicators. State enterprises with unestablished property-rights and separation of ownership from control, however, does not automatically mean higher managerial discretion in transitional context.

The *Bearle and Means thesis*, that dispersed ownership and lack of dominant owner control lead to high managerial discretion and worse firm performance than more concentrated ownership structure is confirmed in relation to newly found private firms and privatised enterprises under outsiders' control. However, privatised enterprises with dispersed ownership and a lack of a dominant owner do not differ significantly from those with more concentrated ownership. Separation of ownership and control does not lead to higher managerial discretion.

The hypothesis that internal governance mechanisms such as managerial ownership and the Board of Directors should have a positive influence on firm performance (*governance hypothesis*) in privatised enterprises was not confirmed. Managerial ownership is positively connected only with managerial discretion.

## 7. Types of Inefficiency and Policy Implications

Conventional research of separation of ownership and control takes it as an axiom that owners of capital are economic agents interested and concerned with firm viability, and that managers have discretionary behaviour.

The research reveals that in a transitional context, separation of ownership and control has two manifestations. One is conventional, known from the practice of market economies.

The other one characterises separation of ownership and control as a specific form of post-totalitarian primary accumulation of capital. Its specific features are: a) *a disintegrated state institution*, which withdraws from control of enterprises and gives them pseudo-autonomy and non-owners discretion (for example, corporatised state-owned enterprises in Bulgaria and Romania); b) *owners with specific corporate culture*, aiming not at developing, but at plundering the enterprises (for example, large share holders in privatised enterprises in Albania).

With these owner objectives, concentration or dispersion of ownership, majority owner control or managerial control, the board of directors and other internal governance mechanisms are not a reliable institutional basis of prognoses and rational assessment of investors for firm efficient or inefficient behaviour.

Aiming at creating a more systematic orientation of policy-makers and businessmen in the manifestations and development of such an important phenomenon as separation of ownership and control is, some basic results of the study are summarised in the typology presented below.

*Typology of basic types of inefficiency based on separation of ownership and control in the evolution of state enterprises in transitional economies (Bulgaria, Romania and Albania)*

Type A. *State-owned enterprises with transitional separation of ownership and control.* These are corporatised state-owned enterprises. In them, the owner - the government has withdrawn from control, and managers and other non-owners have discretion to decapitalise the enterprises in their favour. The efficient evolution of these enterprises is: from control based on unestablished property-rights to fighting for explicit corporate control and **privatisation**.

Type B. *Privatised enterprises with transitional separation of ownership and control.* These are privatised enterprises with dispersed ownership. In them, the inefficient behaviour is due not only to managers but also to new owners. They are not entrepreneurs and do not have owner market motivation. The evolution of these enterprises is to ownership concentration and new objectives of owners. **Secondary privatisation** is due through internal mechanisms or capital markets.

Type C. *Concentrated ownership structure with inefficient owners and managers behaviour.* These are privatised enterprises, whose ownership is concentrated, but their owners have post-totalitarian corporate culture and pursue inefficient strategies. The efficient development of these enterprises requires **secondary privatisation** (it can be through liquidation, too) and change of owners.

Type D. *Dispersed ownership structure and conventional separation of ownership and control.* These are privatised enterprises with dispersed ownership whose inefficiency is

due to big managerial discretion. Ownership concentration and introduction of *governance mechanisms* for disciplining managers, known in market economy, are due.

Type E. *Concentrated ownership structure with market-oriented owners behaviour*. In these enterprises the behaviour of large shareholders is directed towards their development. Here, the basic problem is not the contradiction between owners and managers, but rather between large and small shareholders. *Governance mechanisms* for protection of small shareholders are to be developed.

The described different types of inefficiency give initial systematisation necessary for establishing the priorities of the national industrial policy. They lead to three basic conclusions about the industrial policy in the three countries at the stage of transition they are at the beginning of 1998:

1) *two sectors* have been formed in the economy - one with the characteristics of market economy (type D and E enterprises), and the other one with transitional characteristics (type A,B and C enterprises, and the whole grey economy);

2) efficient industrial policy should include *active state intervention*;

3) unlike the set views that after the privatisation, the state is 'freed' from its responsibilities, it turns out that its tasks in some cases will become even more complicated after privatisation. Privatisation will not be a one time process. Until 'normal' owners appear, the state should carefully monitor the development of privatised enterprises. Establishment of institutions for *post-privatisation monitoring of enterprises* is recommendable.

## References

Alchian, Armen A., and Demsetz, Harold. Production, Information Costs and Economic Organization, American Economic Review 62, December, 1972, pp.777-95.

Belka,M.,Estrin,S.,Schaffer,M.,and I.Singh, Enterprise Adjustment in Poland: Evidence from a Survey of 200 Private, Privatized, and State-Owned Firms, CEP, Discussion Paper 233, April, 1995.

Berle,A.,and Means, G.The Modern Corporation and Private Property, 1932.

Boardman, A., and A. Vining, Ownership and Performance in Competitive Environments: A Comparison of the Performance of Private, Mixed, and State-Owned Enterprises, Journal of Law & Economics, Vol. XXXII, April, 1989.

De Alessi, L., Property-Rights, Transaction Costs, and X-Efficiency: An Essay in Economic Theory, American Economic Review, Vol. 73, No. 1, March, 1983.

Demsetz, H., and K. Lehn. The Structure of Corporate Ownership: Theory and Consequences, *Journal of Political Economy* 93, 1985, pp. 1155-77.

Earle, J., Estrin, S., and L. Leshchenko, Ownership Structures, Patterns of Control, and Enterprise Behavior in Russia, A Joint Conference of the World Bank and the Ministry of Economy of the Russian Federation, June 12-13, 1995.

Earle, J., and S. Estrin, Employee Ownership in Transition, paper presented to the World Bank-Central European University Conference on Corporate Governance in Central Europe and Russia, December, 1994 (revised February 1995).

Earle, J., and S. Estrin, After Voucher Privatization: The Structure of Corporate Ownership in Russian Manufacturing Industry, draft, June, 1997.

Fama, Eugene F., Agency Problems and the Theory of the Firm, *Journal of Political Economy*, vol. 88, No. 2, April, 1980, pp. 288-307.

Fama, E., and M. Jensen. Separation of Ownership and Control, *The Journal of Law and Economics*, XXVI, June, 1983, pp. 301-50.

Finkelstein, S., and D. Hambrick. Chief Executive Compensations: Synthesis and Reconciliation, *Strategic Management Journal*, 9, pp. 543-558.

Glassman, Cynthia, and Rhoades, Stephen, Owner vs. Manager Control Effects on Bank Performance, *Review of Economics and Statistics*, May, 1980, pp. 263-70.

Herman, E., *Corporate Control, Corporate Power*, Cambridge, 1981.

Hill, Charles W., and Snell, Scott, Effects of Ownership Structure and Control on Corporate Productivity, *Academy of Management Journal* vol. 32, No. 1, 1989, pp. 25-46.

Jensen, M., and W. Meckling. Theory of the Firm: Managerial Behaviour, Agency Costs and Ownership Structure, *Journal of Financial Economics* 3, October, 1976, pp. 305-60.

Kamerschen, David, The Influence of Ownership and Control on Profit Rates, *American Economic Review*, June, 1968, pp. 432-47.

Lerner, Robert J., Ownership and Control in the 200 Large Nonfinancial Corporations, *American Economic Review* 56, September, 1966, pp. 777-87.

Leibenstein, Harvey, Allocative Efficiency and X-Efficiency, *American Economic Review*, 56, 1966, pp. 392-415.



Manne, H. Mergers and the Market for Corporate Control, 73, Journal of Political Economy 110, 1965, pp. 110-20.

Peev, E., Separation of Ownership and Control after Corporatization in the Industry of Bulgaria, Ph.D. thesis, 1996.

Schleifer, A., and R. Vishny, A Survey of Corporate Governance, NBER Working Paper 5554, April 1966.

Williamson, Oliver, Managerial Discretion and Business Behaviour, American Economic Review, December, 1963, pp.1032-57.

Williamson, Oliver, The Economic Institutions of Capitalism, New York, London, 1985.