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Costin Alexandru DAN

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Privatization and FDI in Central and Eastern Europe - The influence of ERSTE Bank and OMV AG on the Romanian economy

Author: Costin Alexandru DAN

Coordinator: Univ.-Prof. Dr. Josef Windsperger

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ABSTRACT

This thesis reviews and evaluates the development of privatization within the CEE region during the last 25 years. The author wishes to reveal the critical success factors that shaped the performance of privatization, by describing the motives and determinants that encouraged the process and by underlining the unique contextual characteristics that varied across the major transition economies (e.g. Czech Republic, Hungary, Poland, Romania), Accordingly, the legislative and political frameworks, early acceptance of FDI inflows, privatization techniques, and the competitive strength, are several aspects that influenced the early implementation and success of a powerful private sector. In order to confer a better understanding with respect to the privatization model advanced by the Romanian governments, the author investigates the impact of the Austrian FDI on the national economy, by examining two representative case studies. Firstly, the ownership transfer of the Romanian Commercial Bank (BCR) to ERSTE Group. Secondly, the acquisition of the oil company PETROM by OMV AG. In this regard, the study enhances the insights and findings of other relevant works that focused on the privatization process in CEE and especially in Romania.

ABSTRACT (GERMAN)

Diese Arbeit überprüft und beurteilt die Entwicklung der Privatisierung in der Zentral- und Osteuropäischen Region während der letzten 25 Jahre. Der Verfasser möchte die kritischen Erfolgsfaktoren, die den Prozess beeinflusst haben, aufzeigen und die Motive, Determinanten sowie auch die einzigartigen Kontextfaktoren der wichtigsten Übergangswirtschaften (z.B. Tschechien, Ungarn, Polen, Rumänien) analysieren. Dementsprechend sind die rechtlichen und politischen Rahmenbedingungen, die frühe Akzeptanz von ausländischen Direktinvestitionen, Privatisierung Techniken und die Wettbewerbsstärke, mehrere Dimensionen, die eine zeitige Annahme und Erfolg des Privatisierungsprozesses bestimmt haben. Um ein besseres Verständnis in Bezug auf das rumänische Model der Privatisierung zu bekommen, untersucht der Autor mit Hilfe zweier Fallstudien die Auswirkungen der österreichischen Direktinvestitionen auf die rumänische Wirtschaft. Erstens, die Übertragung des Eigentums zu Erste Group im Falle der Rumänischen Kommerziellen Bank (BCR). Zweitens, die Akquisition des rumänischen Ölunternehmens Petrom von OMV AG. In diesem Zusammenhang fördert die Studie die Erkenntnisse und Ergebnisse anderer relevanten Arbeiten die sich auf das Thema der Privatisierung in Zentral- und Osteuropa und insbesondere auf Rumänien hervorgehoben haben.

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Table of Contents

PART I: Introduction, Theory and Literature

Chapter 1 – Introduction

1.1 Background……………………………………………………………………………1
1.2 The objectives and research question……………………………………………..2
1.3 Methodology, limitations and assumptions………………………………………..3
1.4 Organization of the thesis…………………………………………………………4

Chapter 2 - Theoretical aspects of privatization

2.1 The concept of privatization………………………………………………………5
2.2 Motives and objectives of privatization……………………………………………6
2.2.1 The macroeconomic perspective (host country) ……………………………….6
2.2.2 The microeconomic perspective (company level)………………………………7
2.3 The choice of privatization methods………………………………………………9
2.3.1 Mass-privatization vs. case-by-case privatization…………………………...11
2.3.2 The Management-Employee Buyout (MEBO) method…………………………...13
2.3.3 Coupon (voucher) privatization……………………………………………..13
2.3.4 Direct sale to nationals or foreigners (FDI) …………………………………...14
2.3.5 Restitution…………………………………………………………………..15
2.3.6 Other privatization techniques……………………………………………15

Chapter 3 – Foreign Direct Investment as a dimension of the privatization process

3.1 Definition of FDI and the modes of market entry………………………………...17
3.2 Motives, determinants and limitations of FDI in Central and Eastern Europe………19
3.3 The role of FDI in the privatization of SOEs and its benefits……………………….21
3.4 The political and institutional environment – two critical success factors…………..25

PART II – Models of privatization in the CEE region

Chapter 4 – Privatization in the former communist countries

4.1 Privatization in the Czech Republic………………………………………………28
4.2 Privatization in Poland……………………………………………………………...29
4.3 Privatization in Hungary…………………………………………………………30
4.4 Privatization in Bulgaria…………………………………………………………31
4.5 Privatization in other CEE transition economies……………………………………32
4.6 Results and outcomes of the approaches in the CEE region…………………………33
4.7 Limitations and barriers of the privatization process………………………………..35

Chapter 5 – The Romanian privatization model

5.1 The mass privatization programs……………………….……………………….……………...38
5.2 The influence of the PEEST environment on the privatization program…………….41
5.3 Competition and privatization………………….……………………….…………………45
5.4 Discussion………………….……………………….……………………….…………………46

Part III – Empirical research

Chapter 6 – Case Studies

6.1 The privatization of the Romanian banking system………………….……………...48
6.2 The analysis of the modern Romanian banking sector………………………………50
6.3 The privatization of BCR (Romanian Commercial Bank) by ERSTE Group……….52
6.4 The acquisition of PETROM SA by OMV AG………………….…………………..54

Chapter 7 – Conclusions and implications………………….……………………...59

Bibliography………………….……………………….……………………………...63

Appendices………………….……………………….……………………….………………70

List of Figures and Tables

List of Figures

Figure 3.1 – MNCs motives and triggers to initiate alliances or acquire SOEs…………20

List of Tables

Table 2.1 – Dominating privatization methods………………………………………..16

Table 3.1 – Results of the UNCTAD survey on FDI and privatization (1999)………….21

Table 3.2 – The share of the private sector in GDP (%) (2010)…………………………28

Table 5.1 – Privatization results in Romania 1993-2001………………………………...40

Table 5.2 – Labour force (thousands) in Romania 1990-2010 (2011)…………………..43

List of abbreviations

BCR – Romanian Commercial Bank
BVB – Bucharest Stock Exchange
CEE – Central and Eastern Europe
C.S.F.B. – Credit Suisse First Boston Ltd.
EBRD – European bank for Reconstruction and Development
EU – European Union
EUR – Euro
FDI – Foreign Direct Investment
IFC – International Finance Corporation
IMF – International Monetary Fund
INF – Investment National Fund
LSE – Large Scale Enterprise
NAP – National Agency for Privatization
NIF – National Investment Fund
OPEC – Organization of the Petroleum Exporting Countries
PEEST- Political, Economic, Environmental, Social, Technological
ROA - Return of Assets
ROE - Return of Equity
RON – Romanian national currency
SOE – State-owned enterprise
SOF – Savings Investment Fund
SME – Small & Medium Enterprise
SRI – Romanian Information Agency
UN – United Nations
UNCTAD – United Nations Conference on Trade and Development
WB – World Bank

Chapter 1

1.1 Background

Privatization still represents a complex matter in Central and Eastern Europe (CEE) even if the process started over 20 years ago in all transition countries. The self-destructive communist regime kept the property in its hands more than half a century. In countries like Romania or Bulgaria it was almost impossible and illegal to run a private business or to own a number of real estate in that time. For CEE countries the transition period has been more difficult than expected; consequently, the implementation of the free market principles often appeared to be inconsistent and slow.

There are several motives that differentiate the privatization process conducted by the former communist countries from the developed European or Asian countries. First of all, the policymakers faced difficulties in successfully providing a powerful legislation and competent institutions to assist the denationalization, several countries even rushing to initiate the process without considering these circumstances (Godoy & Stiglitz, 2006). Secondly, the high number of state-owned enterprises (SOE) that had to be privatized demanded new methods in order to rapidly transfer the ownership and to create a strong private sector (Pohl et al., 2007). Furthermore, the poor political and economic environments delayed the willingness of strategic foreign investors to consider these countries real market opportunities.

The foreign direct investment (FDI) has been an important source of capital (Hamm, King & Stuckler, 2012), which contributed to the formation of the private sector, firstly in the Central European countries and later in the Eastern part, postponement was owing mainly to several factors: the aversion of the government, the perceived low market attractiveness, high uncertainty and great psychic distance, specific to the Eastern countries.

The thesis will confront various theories and insights that have been presented in the literature in the last three decades by detailing the elements that contributed to the privatization process within the CEE region. The theoretical part also reveals the different procedures and methods used by the governments during the multiple stages of ownership transfer, by analyzing distinctively several of the most important European transition economies (e.g. Czech Republic, Hungary, Romania, etc.). Furthermore, the author will portray the Romanian privatization model by analyzing the situation of the companies Petrom S.A. (oil extraction & selling) and B.C.R. (credit institution), which have been acquired by two Austrian global corporations. The last chapter concludes the main arguments and insights of the study, but also outlines the implications for the officials and other researchers. Additionally, several meaningful future directions of research that might interest other researchers have been advanced.

1.2 The objectives and research questions

The central theme studied in this paper is the implications and consequences achieved by privatizing the state-owned enterprises (SOEs) within the CEE region. Accordingly, the first subject that will be examined is related to the performance and outcomes of transferring the ownership of these companies to the private sector. Hereby, the author will discuss the benefits and disadvantages specific to each of the group of actors involved in the process (i.e. the host country, privatized company, foreign investors).

Secondly, the author will examine the influence of contextual factors and different ownership transfer methods (e.g. case-by-case vs. mass-privatization, MEBO, auctions, etc.) on the effectiveness of the various national privatization programs and the performance of the newly privatized companies. Thirdly, the importance of the FDI dimension for the denationalization program will be revealed. Next, a comparison between the privatization approaches conducted by the main transition economies will enhance the understanding vis-à-vis the critical success factors and the determinants of the process.

Furthermore, the study will examine the achievements of the Romanian privatization model by thoroughly investigating two cases of the most important strategic acquisitions – the privatization of the oil company Petrom and the Romanian Bank of Commerce (BCR) by the Austrian corporations OMV and ERSTE Group. Herewith, the study aims to convey a whole picture of the achievements resulted in the last 25 years by the CEE countries and discuss the effects of the process for the Romanian economy.

1.3 Methodology, limitations and assumptions

The study investigates a vast body of empirical studies, reports and investigations published in the scientific literature throughout the last two decades. The author's desire was to diminish the cultural and ideological bias of the paper, by including various investigations conducted by academics with different backgrounds. However, the writer observed the tendency of scholars to heavily criticize the domestic privatization model in the cases when the unit of analysis is their own country of residence. This issue might be the result of two distinct classes of stimuli. Firstly, the exposure to the local media and domestic debates, that principally transmitted a populist message with respect to the overseas investors and their disputable implications for the national wealth, in the first years of transition. Secondly, the possibility of accessing a greater amount of information compared to the foreign researchers who had to wait for the translations of the documents, which conferred a better understanding of the domestic privatization process.

Another limitation arises due to the multiple contradictory opinions advanced by scholars with respect to the efficiency and performance achieved by the newly privatized firms. Additionally, the implications of the ownership transfer in respect to the macroeconomic indicators seem to be diverse. The author assumes that some of the confounding variables that influenced the countries' economic performance and not been included in the statistical models, have been held constant. However, this approach makes the identification of the real influencing variables that affected the performance to be extremely difficult.

The thesis uses the research methodology of case studies. The privatization context of the Romanian oil company Petrom and the bank BCR, which have been acquired by two Austrian conglomerates, are two examples that reflect stimulating insights for the reader. However, the findings and suppositions specific to these examples cannot be generalized to the entire industry or to other countries. Nevertheless, other researchers might expand the judgments commenced within this paper, by conducting empirical studies across a larger sample of companies that have lately been privatized in Romania or in another transition economy. Additionally, an interesting approach would be to compare these corporations to other ones that have been privatized by the means of alternative methods (e.g. mass-privatization).

1.4 Organization of the thesis

This paper is organized in 3 parts and 7 chapters. Part I introduces the preliminary thoughts and the background of the privatization in CEE. Furthermore, it exposes the research question and the main objectives of the study (Chapter 1). The second chapter deals with the theoretical aspects of privatization, the motives of conducting the process and its main methods. Chapter three reveals the importance of FDI for the formation of the private sector and the growth of the economy.

Next, Part II details the privatization models used by the main transition economies and projects the results, outcomes and the limitations of these approaches. Chapter 5 details the consequences resulted from the Romanian privatization model by thoroughly examining its stages, determinants and contextual factors.

Part III brings into discussion the two case studies that have been examined, outlining the empirical part of the study (Chapter 6). The last chapter summarizes the main findings and insights and reveals the main implications of the thesis.

CHAPTER 2 – Theoretical aspects of privatization

2.1 The concept of privatization

In the literature, scholars and practitioners define privatization differently, depending mainly on their background and research interest. The ownership level is primordial in Estrin's (1997, p.2) definition "…[privatization represents] the transfer of the **controlling interest** from the state to private owners.". On the contrary, Pohl et al. (1997) consider, in their empirical study, that the majority of stake is not essential, but a "…firm as one that has more than **1/3 of its shares** transferred to private investors." (p.2). Moreover, authors like Megginson & Netter (2000) have misinterpreted the idea of privatization by offering a definition that excluded several post-communist markets, "…the deliberate **sale** by a government of state-owned enterprises (SOEs) or assets to private economic agents." (p.2). Typical for the CEE region, private property has been largely built by transferring, freely and without any fees, the shares to the nationals (e.g. voucher method). More accurately, authors such as Kogut & Macpherson (2004, p.4) considered that "[p]rivatization is the distribution of state-owned assets to private owners.", by several means (e.g. mass-privatization, managerial buyouts (MEBOs), stock markets, etc.).

Other authors, mostly from the Western economies, had a distinctive understanding of the phenomenon, being strongly influenced by the British practice. They defined the concept as a linkage of several governmental policies aimed to promote the private management, competition and deregulation (liberalization) (Hartley & Parker, 1991; Vickers and Wright, 1988). The transition economies represented in the last 25 years an important architect of the theory and practice of property transfer, by challenging the existing theories. Therefore, scholars who researched the matter of privatization after the 1990' revised their considerations vis-à-vis privatization. Nowadays, after more than 20 years of the initiation of privatization in all the post-communist countries, one might acknowledge that privatization in the CEE region did not occur sometimes concurrent to the market liberalization and an adequate institutional framework. In order to gain further insights, the possible methods of privatizing a company and the prospective outcomes will be thoroughly discussed in the next chapters.

2.2. Motives and objectives of privatization

2.2.1. The macroeconomic perspective (host country)

In the situation of the former communist countries, transferring the public property, which sometimes was almost equal to all the major assets (e.g. companies, factories, buildings, etc.) to private ownership, has been a requirement for establishing a free market economy.

There are many reasons why governments incline to support the idea of privatizing the state-owned enterprises (SOEs). Spicer, McDermott & Kogut (2004) indicate the advantage of revenues obtained from the assets that are being sold, the superior performance of the private management and that international agencies like the International Monetary Fund (IMF) and the World Bank, demand as a prerequisite of attaining their support, the private ownership. According to Vickers & Yarrow (1995, p.157), the aims of the British privatization program, which has also been relevant for the case of transition economies, have been the following: "improving efficiency, reducing the public sector borrowing requirement, reducing government involvement in enterprise decision making, easing problems of public sector pay determination, widening share ownership, encouraging employee share ownership and gaining political advantage".

While the targeted outcomes may differ among countries, time periods or governments (leftist or rightist), the motivations of privatizing the economy might be diverse: economic (e.g. strengthening the industries by adopting the free market economy and the competitive framework), financial (e.g. reducing the public expenditures), managerial (e.g. performance and efficiency gains), political (e.g. receiving the support of the EU), and social (e.g. retrocession of the assets to the previous owners). Nellis (2007, p.11) considers that privatization may represent "… an opportunity for governments to put their fiscal houses in order, and redirect expenditure from non-productive subsidization to more socially beneficial uses."; however, this was not the case in some post-communist countries, such as Bulgaria or Romania (Bojicic-Dzelilovic & Bojkov, 2007; Earle & Telegdy, 1998).

2.2.2 The microeconomic perspective (company level)

In general, empirical studies conducted in the CEE region conclude that companies that are privately held achieve higher productivity levels, a better performance in terms of profits (Megginson & Netter, 2001), and a superior product or service quality compared to SOEs (Nellis, 2007). It is believed that the input gained through FDIs, technological advancements and the change of the foreign top-management, fostered the productivity of companies (Koutsomanoli-Filippaki, Margaritis & Staikouras, 2008). Additionally, ownership reforms are followed by "…access to credit [that] facilitates performance improvements and investment growth…" (A. Knyazeva, D. Knyazeva, Stiglitz, 2009, p.1815).

The pure economic objectives of privately owned enterprises (i.e. profit-oriented on the short-term, expansion prospect on the long-term), are superior in terms of efficiency, managerial autonomy and performance, compared to the objectives of a SOE, which often are a mixture between economic, political and social purposes. For instance, in Romania, the president Ceausescu decided to build factories in underdeveloped regions in order to reduce the local unemployment rate and improve the prosperity of the residents - a social-centered motive detrimental to financial reasons (e.g. higher investment costs, poor infrastructure). Nowadays, such an action is known as social entrepreneurship (Hira & Ferrie, 2006; Wempe, 2005).

Moreover, the goal to maximize the wealth of shareholders/owners is contradictory to the government's long-term objectives. Managerial reengineering and restructuring activities, which are mostly crucial for efficiency gain, lead to expenditure reduction through employees' layoff procedures, divestments and elimination of unprofitable commercial activities. Accordingly, many individuals changed rapidly their opinion towards privatization after being directly or indirectly affected by the negative consequences of the reorganization procedure. However, in the majority of transition economies, the speed of restructuring was slower than expected due to the unions' strikes, large dimension of the privatized organizations (Schroeder, 2000), cultural differences (in the case of foreign investors), lack of managerial know-how (local investors), legislation issues and other country specific reasons.

The empirical study by Lee (2010, p.30) highlights the influence of social support and democracy towards industrial restructuring in CEE, and insinuates that "…higher quality of democracy and concomitant social dialogue carried out at the level of the sector with union organizations that are autonomous of the government in power (…Czech Republic and Poland), are associated with greater restructuring and with support for privatization to strategic foreign investors." On the contrary, the other two countries, Romania and Slovakia, scored a weaker level of democratic quality and a poorer autonomy of organizations, being far more reluctant to reforms (e.g. foreign privatization, restructuring). Nevertheless, on the average, the GDP (in real terms) and the inflation level specific to these four countries have not been subjective to the willingness of unions to support the reengineering of the former SOEs; By 1998, Slovakia and Czech Republic reached the level of the 1989 real GDP, Poland exceeding it by 18%, whereas Romania recovered only 78% of the value (Schroeder, 2000, p.5). Hereby, there are additional determinants that influenced the performance of the private economy and the macroeconomic indicators, which will be discussed more extensively on a country-by-country basis in the 4th chapter.

Pohl et al. (1997) describe restructuring as a complex and continuous process aimed to respond to the technological progress and competition, leading to a higher productivity and growth prospects. The privatization development in Romania (only 20% representing the private sector in 1995) advanced slower than in the Czech Republic (87%) or Hungary (82%), causing terrible results compared to other transition economies (e.g. only 24% of the Romanian companies were profitable compared to 73% in the Czech Republic or 70% in Hungary by 1995). In terms of operating cash flow, labor productivity growth and export sales, Romanian companies scored lowest (Appendix 1, 2).

2.3 The choice of privatization methods

The case of the CEE transition countries was different from the privatization practice previously used in the UK, Latin American or the Asian countries. The transition appeared to be far more complex due to the enormous number of SOEs that had to be privatized and the desirability of the new administration to promptly create a free market economy. Hereby, new methods of privatization had to be applied, such as mass-privatization or the MEBO.

There are basically two schools of thought that advanced different methodologies to conduct the privatization procedure, "…one advocating shock therapy [mass-privatization] and the other supporting gradual change [case-by-case privatization]." (Godoy & Stiglitz, 2006, p.2). The supporters of the speedy approach, adepts who have been influenced by Milton Friedman's neoliberalism, believed that the institutional framework is not a prerequisite for the well functioning of the privatization process, and will derive from the demand for such organizations, idea that has never occurred in practice. This neoclassical philosophy considered as granted the macroeconomic stability and price liberalization (Pejovich, 2005). The adepts of the alternative, the gradualists, suggested that the absence of legislation and the lack of suitable institutions would cause an uneven and concentrated wealth distribution, which will be problematic to be corrected in the future due to the financial power and monopoly of the initial winners. Sometimes it is more sensible to wait for the establishment of a proper legislative and institutional framework. Nevertheless, it is really promiscuous to encourage the idea that a certain method is superior to another. Countries from the CEE region used a bunch of methods and each of them did not rely entirely on a single method. There are many factors that should be considered before analyzing and discussing the various methods of managing the privatization. It depends on the privatization stage (foreign investors were reluctant to involve at the beginning of the transition period within the CEE region), firm size (large enterprises being privatized firstly by the means of the coupons and later by direct sales, auctions, public tenders, etc.), investors' proposal, and many more.

The speed and the starting point of the privatization process represented two tough and complex assessments for the governments of the former socialist countries. In the literature, authors advanced distinct opinions regarding those two elements. Bonin, Hasan & Wachtel (2005, p.2156) affirmed that: "…both the method and the timing of privatization matter to performance;", efficiency within the banking industry being higher for the cases of financial institutions that had been privatized earlier. The scholars conclude that countries that started to denationalize the financial sector immediately after the fall of communism, such as Poland and Czech Republic, performed superior than Romania or Bulgaria, which postponed the transfer of the public property. Hence, according to Benett, Estrin & Urga (2007, p.661), mass-privatization confers a superior success compared to case-by-case methods, speculating, "…voucher privatization may have been effective because of the speed with which links between firms and the state were served."

On the contrary, Godoy & Stiglitz (2006, p.1) revealed, by conducting a survey that captured more than 4,000 privatized companies in 23 transition economies (including non-European markets), that "…the speed of privatization is negatively associated with growth.", Correspondingly, among other transition economies, gradualist policies confer superior privatization results in Slovenia and Poland. Furthermore, according to Koutsomanoli-Filippaki, Margaritis & Staikouras (2008), banks with a massive FDI (foreign direct investment) outperformed state-owned or newly formed local credit institutions. On the opposite, studies that focused mainly on the industrial sector of Central and Eastern European economies revealed that the two distinct privatization methods, mass-privatization and case-by-case buyout, did not significantly influence the efficiency or post-privatization performance of the analyzed companies (Pohl et al., 1997).

Nellis (2007, p.3) catalogs the variety of privatization methodologies, "…ranging from outright sale of government's entire stake, to partial sale, to concessions, leases, and management contracts, to the hiving off and sale of non-core business activities…", MEBO, coupon or voucher privatization, national investment funds, and also other techniques that have not been prevalent for the privatization process within the CEE region. (Appendix 3)

The vast range of privatization methods can be analyzed in conjunction with the buyers of the SOEs. The ownership mode had a salient importance on the degree of shareholders' concentration, restructuring operations and firm performance. Firstly, insider privatization (e.g. managers, employees) is a joint method that confers the knowledge advantage and is considered a concentrated ownership. Secondly, the acquisition by domestic investors was used in a few cases during the phase of the second buyout of the previously privatized companies. Thirdly, the situation in which domestic funds or banks acquire the control of state-owned companies signifies the institutional method. Although, the last approach can sometimes create a conflicting interest - banks being at the same time the owner and the lender of a company. Other ownership alternatives might be through the foreign investors (FDI), but many local politicians and economists did not accept them at the beginning, due to nationalistic considerations (Hamm, King & Stuckler, 2012), and the voucher privatization, in which citizens become the shareholders (Schroeder, 2000).

2.3.1 Mass-privatization vs. case-by-case privatization

Mass-privatization was a frequently used method by the transition governments of some CEE countries. The method conferred them the possibility to build a strong private sector by rapidly increasing the share of private ownership in the economy (Appendix 4). Accordingly, it is a manner to transfer a quantity of shares to the private sector within a short time period of time, through vouchers or giveaways. Benett, Maw & Estrin (2005, p.567) defined it as "the distribution of state assets at a zero or nominal price.".

In the situation when large investment funds or holdings control the majority amount of shares in the companies (institutionalization approach), mass-privatization favors the ownership concentration. Frequently, the owners of these funds were domestic banks, which caused a conflicting dual role – a bank was the owner and lender of a company at the same time. However, this position did not automatically affect restructuring: "…both concentrated ownership and ownership by bank-controlled funds encouraged restructuring in the Czech Republic." (Pohl et al., 1997, p.14).

The results obtained by the case-by-case method that favors selling to strategic investors was highly argued in the first phase of the transition period (1990-2000). Simoneti et al. (2005) found out that "…firms that were sold to strategic owners (foreign or domestic) by the government are performing better, than firms sold by mass privatization participants.". Additionally, "…the major objectives are more likely to be achieved by fully privatized former SOEs [compared to a mixed state-private ownership]." (Cox et al., 1998). Godoy & Stiglitz (2006) discuss the importance of the institutional framework and the rule of law, determinants that made the difference between success and failure in mass-privatization policies. Unfortunately, countries like Romania or Bulgaria failed to do so, by commencing the mass-privatization and MEBO activities without accurate regulations. On the other hand, the case-by-case privatization demands an individual privatization program for each of the companies or assets the state wants to sell, being much more time-consuming compared to the voucher privatization. Consequently, by means of this method, the simultaneous ownership transfer in hundreds of firms is unmanageable.

For instance, the Czech Republic firstly used mass-privatization in 1991 by transferring in less than 3 years the ownership of more than 1,600 companies. On the contrary, Poland privatized only 10% of the SOEs by using this technique (Pohl et al., 1997). Hereby, Hoff & Stiglitz (2005, p.24) demonstrate by using a mathematical model that "…there is a strong presumption that big bang [mass] privatization would have been inferior to the gradual privatization strategy that Poland adopted, [as it also has been in Russia].".

2.3.2 The Management-Employee Buyout (MEBO) method

In the situation of a management and employee buyout (MEBO), the workforce of the company acquires the shares or its assets and forms a new privately held company. "The number of shares bought by each person can vary according to length of service, position and pay. The pricing of shares may be market-based or privileged." (Sutela, 1998, p.20). Theoretically, the advantages of this privileged method are: motivation of insiders, a superior productivity, knowledge and know-how advantages, and control through a high degree of ownership concentration. However, in the Romanian and Russian case, lots of companies have been liquidated or destroyed shortly after being privatized by means of MEBO. Consequently, it was considered an uneven wealth distribution method that favored the enrichment of a few insiders.

Sutela (1998) describes the progress of MEBOs in various transition economies. He believes that except the accumulation of property rights by the personnel, it was not a viable option for the privatized companies or for the national economy. It is believed that the method is "…associated with higher levels of future corruption." (Kaufmann & Siegelbaum, 1996, p. 17). As an example, in Poland more than 2,500 SMEs have been privatized through MEBO (Pohl et al., 1997).

2.3.3 Coupon (voucher) privatization

The voucher method consists in offering for free, or at nominal price, tradable coupons that can be converted into shares at a prospect moment. Hereby, citizens had the possibility to invest directly in public companies or buy stake in investment funds. The advantages specific for this method are many: the high velocity of the privatization process, commonly it represents an equal distribution of vouchers (all citizens over 18 years old receive free coupons), the absence of an institutional framework is not so harmful compared to other methods (e.g. MEBO) and promotion of a popular capitalism. (Sutela, 1996). However, the coupon-method was a great opportunity for pyramid schemes once people wanted to convert their vouchers into shares. For instance, in the Czech Republic, the "Harvard Capital and Consulting" investment fund promised a 1000% ROI (return on investment) and turned out to be only a scheme that went bankrupt

(TU Dortmund, 2008). Similarly, in Romania, the "National Investment Fund" (NIF), a corrupt investment system that enjoyed favorable publicity and trust at the inauguration, rapidly transformed itself into a harmful loss for many novice investors and a huge reward system for its schemers/owners.

2.3.4 Direct sale to nationals or foreigners (FDI)

A method conducted by administrative institutions or commissioned agencies (e.g. Treasury, State Property Agency, privatization agencies, etc.), aimed to transfer the public property to individuals or private entities. One of its main advantages represents the possibility to sell small companies without an initial public offering (IPO), this method being more cost-effective. Nevertheless, an auction might be arranged for this kind of privatization method. In order to be effective and reduce the tendency of corruption or immoral actions, a structured stock exchange, powerful institutions and a competitive business environment might be appropriate.

The direct sale model was first introduced in Britain and later successfully implemented in several Latin American countries (e.g. Chile, Argentina), although, often characterized by high transaction costs (Vickers & Yarrow, 1998). In the CEE region it recorded modest application results in Poland, Czech Republic or the Eastern countries. By contrast, it was the primary method used by the Hungarian government, country that has not conducted voucher activities (Sutela, 1998). After the stabilization of inflation and improvement of the economic, political and legal environment, the majority of CEE countries recognized the great opportunity of foreign investments (e.g. capital inflows, managerial performance, technological improvement, etc.). Consequently, governments promoted the acquisition through direct sales.

According to Bjornskov & Potrafke (2011, p.214) "…[the] government ideology was a significant determinant of privatization efforts…", the right-wing being more tolerant with respect to the foreign investors. At the beginning of the 21th century, also laggards like Romania and Bulgaria adopted the method of direct sale, by privatizing strategic industrial corporations from the metallurgic sector, oil industry, and financial system (Sitnikov & Bocean, 2012; Bonciu & Williams, 2006, Roman, 2012).

2.3.5 Restitution

One argument of favoring this method was to repair the mistakes and injustice done by the communist regime that had confiscated the private property decades ago. Nevertheless, the method was more suitable in case of small private assets (e.g. houses, small factories) than large production units, factories or commercial companies, in which the state invested a large amount of money during the period when it was the proprietor. Sutela (1996, p. 17) states that "[t]he arguments against restituition were both ideological, economic and practical. Ideologically, the fairness of restitution could be challenged, as most citizens would not be compensated for the injustices suffered under socialism. Economically, restitution of assets that might be sold is a fiscal loss (…) Practically, it was argued that any decision on what to restore and what not, is always arbitrary." The successors of former proprietors have often not been able to prove in the court their ownership rights due to incomplete records, lack of documents or other reasons. In many transition economies, restitution still remains a difficult and arguable issue. Hereby, some governments are unable to find a suitable manner to conduct it (Poland), others are against it (Czech Republic) and only few restituted a small percentage of the state property back, for instance, 10% in Estonia (Sutela, p.1998). Now, a law is being discussed in the Romanian Parliament, so as to establish a fair restitution of property for the remaining percentage of cases (approximately 10.000 unsolved cases).

2.3.6 Other privatization techniques

Initial Public offering (IPO) is another alternative to privatize a SOE by splitting its worth in shares, priced at a par value. Sometimes, the government keeps a majority stake in corporations from key sectors (e.g. railroads, airports, etc.) in order not to lose control. The IPO differs from the direct sale method in terms of operationalization, requiring more steps that the latter one.

Another mode of privatization is through **public tender**, in which the government submits a public invitation to the strategic investors who are willing to acquire a SOE. Privatization through state-owned **National Investment Funds**, which are constituted to control many entities from one or several industries and can be administered by politically named or by private management contracts. In this case, investors can hold a portfolio of shares by investing directly in the funds.

Liquidation is another form to reduce the state-owned property, pointed to sell the remaining valuable assets of those companies that generated huge losses and have been unable to be restructured in a profitable manner (TU Dortmund, 2008). Kaufmann & Siegelbaum (1996, p.16) consider it a corruption reducer, "…as a result of its thorough reshuffling of asset ownership and the severing of control rights that implies.".

Even if the practice confers a great amount of models and privatization methods, typically, the majority of CEE countries, placed their attention on three main methods: direct sales, MEBO and vouchers (Table 2.1)

Table 2.1 – Dominating privatization methods

Country	**Primary Method**	**Secondary Method**
Bulgaria	Direct sales	Vouchers
Czech Republic	Vouchers	Direct sales
Hungary	Direct sales	MEBO
Poland	Direct sales	MEBO
Romania	MEBO	Direct sales
Slovak Republic	Direct sales	Vouchers
Slovenia	MEBO	Vouchers
Russia	Vouchers	Direct sales
Ukraine	MEBO	Vouchers

Source: Privatization Methods and Economic Growth in Transition Economies (John Bennett, Saul Estrin, James Maw, Giovanni Urga Cass)

CHAPTER 3 - Foreign Direct Investment as a dimension of the privatization process

Attracting Foreign Direct Investment (FDI) is a vital task that was first understood by the Central European countries, which have been even from the start the allies of oversees capital inflows. The practice shows that the administration from several countries, especially in the Eastern part of the region, did not concentrate on approaching foreign investors due to several reasons (e.g. ethnocentrism, nationalism, fear of opening the investment barriers, hostility and the usage of other methods that favored local investors). "[F]oreign direct investment has not been the dominant form of privatization [in CEE], although, according to the findings…, [it] seems to have made a positive contribution to the improvement of efficiency and corporate governance in the framework of economic transition." (Kalotay, Hunya, 2000, p.39), productivity enhancement, innovation and technology transfer (Kornecki & Raghavan, 2011). In spite of the reluctance of the majority of governments against foreign investors and MNC companies in the 1990s, FDI represents today the engine of the economic growth in the CEE region, sustained also by the EU membership position that most of the former collectivist countries hold.

3.1 Definition of FDI and the modes of market entry

FDI is defined by the World Bank as: "… the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor." (data.worldbank.org, 2013) Such an investment can be acquired through various methods: (1) Greenfield investments (new facilities), (2) mergers and acquisitions over an existing company and/or (3) joint-ventures (partnership).

The literature is vast in exploring the ownership advantage, risk, knowledge, know-how, development, market opportunities, and other benefits or threats of these 3 market entry modes. Hence, the more risk-averse MNCs preferred to enter the transition markets through partnerships, joint ventures or alliances; the aggressive corporations used the acquisitions, and later Greenfield operations modes (Schuh, 2012).

In general, MNCs have chosen to enter transition economies by starting new strategic alliances with local newly privatized or still state-owned companies, or by acquiring partial (joint-ventures) or full stake (acquisitions) (Rondinelly & Black, 2000). However, "During more recent years, there has been [an] increased interest in Greenfield investment in the CEE. For example, nearly 60% of Polish FDI inflows during 2006 are attributed to Greenfield investment." (Kornecki & Raghavan, 2011, p.540).

In most former communist countries, enterprises controlled by the public administration were not properly managed due to several reasons such as internal instability created by frequent changes of the board of directors, lack of proper motivational and control systems, poor expertise and competences of the executives and personnel surplus (low productivity). Furthermore, the shock of competing in a free market economy caught most of the SOEs unprepared for the new market conditions (e.g. changes in customers' behavior, deteriorating exports, global competitors, etc.). Many corporations operated before under a strict control of politics, that influenced significantly their previous performance. For instance, many Romanian manufacturing units received external orders as a result of interstate friendship, for example between Romania and the Middle East or the Soviet Union, facilitated by a strong presence of the Romanian economic counselors from the embassies abroad. Furthermore, the factories and the commercial units had a production schedule that was commanded by the National Communist Party and not by the customers (push production). Hereby, Keynes' invisible hand, which is the self-regulating power of the free market, represented a new concept for the ex-Marxist countries. Therefore, the benefits of accepting FDI, by opening the borders, have been enormous in terms of economic vision and managerial rationality.

The differences in terms of managerial styles, organizational culture, and corporate governance of the former SOEs and global MNCs, made alliances or joint ventures between them to seem unbearable or unprofitable. According to Rondinelly &

Black (2000), only 60% of the established alliances have been successful in the CEE region.

3.2 Motives, determinants and limitations of FDI in Central and Eastern Europe

The triadic character of a foreign investment (i.e., foreign investor, host company, host government) must be considered when analyzing the FDI concept. Motives between the three parties need to be congruent in order to reach an agreement, for instance, the successful privatization of a SOE. Marinova, Marinov & Yaprak (2004) suggest that the first phase (pre-privatization), during which the negotiations are conducted, is the most important step for a potential successful cooperation. Furthermore, the advantages and benefits for each of the actors, the buyer, host government and privatized firm, are described.

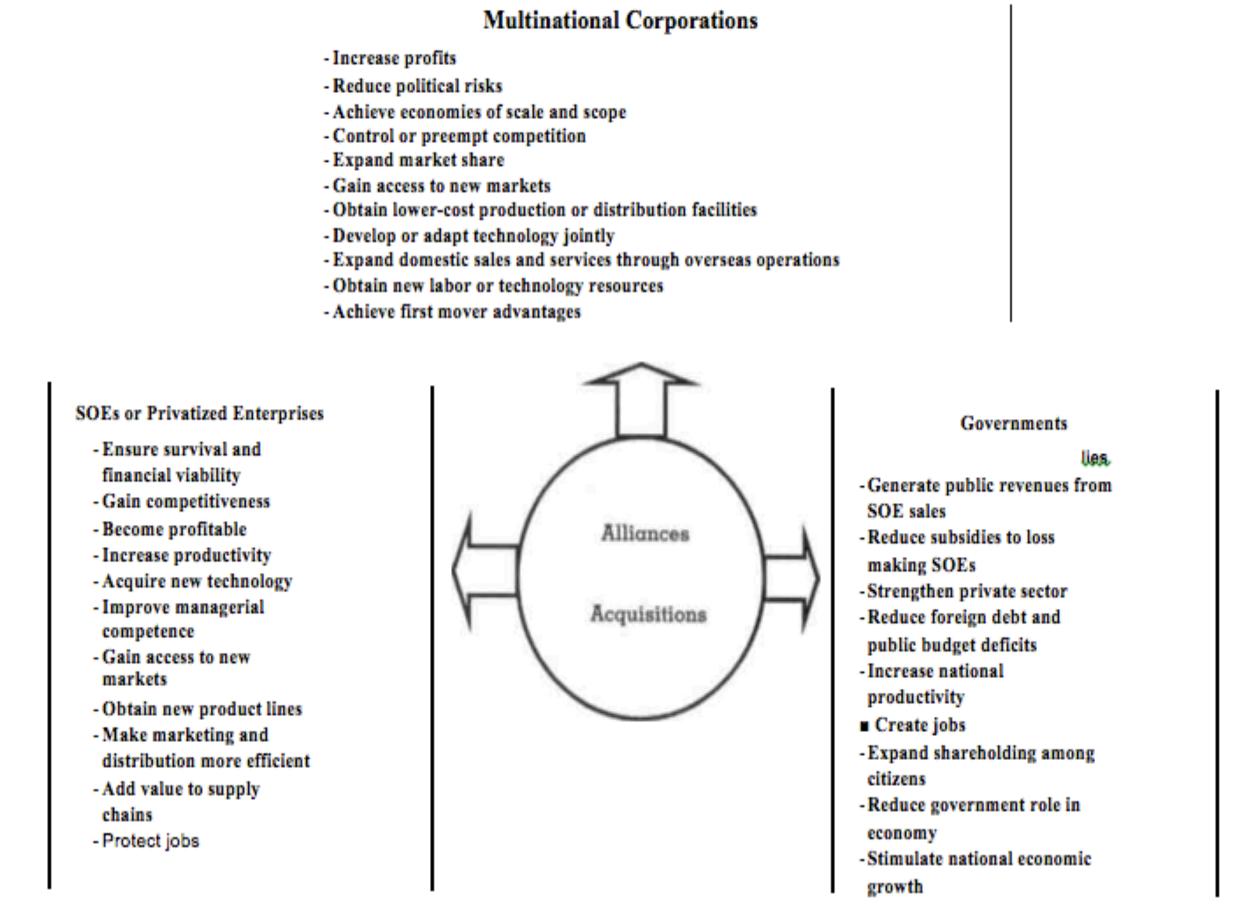
First of all, the companies that invested in the CEE gained important advantages such as: access to new markets with great potential (e.g. market share and awareness), inexpensive and skilled work force, acquisition of strategic assets, first-mover advantage (Kalotay & Hunya, 2000; Kornecki & Raghavan, 2011), knowledge, reduction of the psychic distance through market presence (Hollensen, 2011), proximity, natural resources (Shuh, 2012), accessibility and government favoritism. Secondly, the host government seeks to benefit from capital inflows, technological and managerial improvements, international credibility, and job creation.

Moreover, Marinova, Marinov & Yaprak (2004) enumerate also the potential to fund the external debt and/or the government spending and the encouragement of competition. Thirdly, the privatized firms might benefit from capital inflows, strategic business reengineering, improved corporate governance, technological and managerial developments. Furthermore, the empirical studies conducted in the last two decades outlined the advantages of privatization by means of FDI. According to Kalotay & Hunya (2000, p.45), “Most of the studies on privatization have found that, from the point of view of efficiency and corporate governance, FDI is one of the best performing modes of privatization."

In spite of these advantages, multinational companies (MNCs) and foreign investors who decided to enter the transition economies encountered difficulties such as cultural and psychic distances, poor infrastructure, absence of legislation and political and economic uncertainty. Furthermore, conflicts of interests between the three parties involved (government, investor, firm), such as the dilemma between job protection and the reduction of production costs through layoff procedures, have been an impediment for efficiency and performance.

In Romania, many SOEs acquired by important international players (e.g. Timken – roller bearing industry, Mittal – steel industry) needed to be restructured due to productivity and modernity reasons. In order to increase the performance, managers took drastic decisions, like firing hundreds of workers, which had a negative impact for the host country (e.g. increasing the unemployment rate and budgetary compensation) and also within the organization (e.g. affecting the moral of employees, trust issues, etc.). Hereby, strikes and riots disturbed the expansion of the economy and living conditions.

Figure 3.1 – MNCs motives and triggers to initiate alliances or acquire SOEs



Source: Rondinelly & Black (2000), Multinational strategic alliances and acquisitions in Central and Eastern Europe: Partnerships in privatization

3.3. The role of FDI in the privatization of SOEs and its benefits

In spite of its importance, FDI through hybrid (joint-ventures) or acquisitions reached a modest percentage in the majority of CEE countries until 1998, with a higher percentage in Hungary (48%), Poland (20%), and the Czech Republic (15%) compared to the levels from Romania (3%) or Bulgaria (1%), the public sector still being prevalent in the latter two countries. In the first phase of the transition period, governments were interested to keep their stake in the key assets and to offer to the inhabitants the possibility to be proprietors through mass privatization or MEBOs (Kalotay & Hunya, 2000).

Starting with 1998, the newly elected governments in Eastern countries such as Bulgaria or Romania started to change their foreign policies by opening the borders to foreign capital. This decision should be seen more as a reaction of the politics to the high budgetary deficit and negative current account (Bojicic-Dzelilovic & Bojkov, 2007; Ahrens & Zweynert, 2012).

The importance of foreign investors in the CEE region is much more noticeable in the late 20th and early 21st century. Acquisitions contributed to important transformations of the manufacturing process, technology input, decision-making process, competences and know-how. The sectors that have been first privatized through FDI differed between countries (e.g. the automobile industry in the Czech Republic and Romania, public utilities and telecommunications in Hungary). Accordingly, the companies that were earlier privatized, boosted their turnover and integrated into global networks, which resulted in a higher exports rate and a sustainable advantage over the competitors (Kalotay & Hunya, 2000). However, these results were obtained mostly in the cases when foreign MNCs acquired the entire stake in a SOE.

The scholars discuss the example of the Hungarian company Tungsram, a light bulbs and electron tubes manufacturer, sold to General Electric. Firstly, the global player had to reorganize its activities by using rationalization, downsizings and termination of those activities that were not profitable. These actions elevated the unemployment rate and the level of discontent in Hungary. However, on the long-term, General Electric invested substantial capital in R&D and transformed the former SOE in a European production hub.

Another example is the gradual investment of Renault in the Romanian automobile company Dacia. The Romanian company was back then the Romanian market leader in terms of sales, but had a deplorable international market presence. Today, Dacia Renault Group supplies the European markets with approximately 240.000 vehicles (world's exports reaching 312.000 units, ten times more than the local market) in 2011 (Dacia Group, 2012). The company concentrates mainly on the international brands

Logan (MCV, Sedan, etc.), Duster (SUV category), and Sandero. Dacia's core competitive advantage is the price to value ratio, which facilitated it to enter the European low-cost market segment before the crisis. Moreover, the Romanian company increased its market share and global awareness during the financial meltdown, when the reevaluation of the high-involvement decision-making process determined the customers to be more cautious concerning their spending. Rondinelly & Black (2000, p.6) confirm the massive inflow of capital in the region, primary from the Western global companies "In the late 1990s, more than 50 percent of all foreign manufacturing by German firms was in Central and Eastern Europe because the contractual arrangements offered easy exit if economic or political conditions changed."

The role of privatization in the economy was confirmed by an empirical study conducted by UNCTAD (United Nations Conference on Trade and Development) in 1999 over a sample of 22 privatized companies by the FDI method in CEE countries (Croatia, Czech Republic, Poland, Hungary, Latvia, Romania and Slovenia). The main objective of the research was to analyze the pre- and post-privatization performance.

Table 3.1 - Results of the UNCTAD survey on FDI and privatization, 1999

Indicator	**Pre-privatization growth (2 years), percent**	**Post-privatization growth, percent**
Capital investment	27.9	36.6
Total assets	6	3.3
Nr. Of employees	-4.6	-3.3
Total output	7.1	30.2
R & D expenses	22.8	13.6
Revenue from sales	11.1	42.8
Labour productivity	12.3	34.6

Source: UNCTAD survey on FDI and privatization, 1999

For almost all the indicators, the performance measured by using indicators like output, turnover and labour productivity, increased in the SOEs after the acquisition. The R & D expenses were higher in the pre-privatization phase, which means that companies had already started the modernization before the takeover. A notable exception to the belief that privatization means decreasing the number of the personnel is noticed in the survey, less employees being fired in the post- (-3.3%) than the pre-acquisition period (-4.6%). Moreover, the turnover and output on assets ratios improved after the transfer of ownership to foreigners. Accordingly, the efficiency of using the company's assets increased sharply. Therefore, this study contrasts the idea that privatization produced a massive unemployment rate in the host countries.

On the other hand, it confirms the belief that private foreign ownership had a positive impact on the performance and efficiency of the former state-owned enterprises. However, the UNCTAD study has several limitations. Firstly, the short time frame of only a couple of years that was analyzed may lead to biased results. It is known that large enterprises that had a high exposure before 1990 to the Soviet market lost a lot in exports, strongly affecting the business. Several companies successfully reoriented to the Western markets, but some of them have never managed to be efficient enough to achieve the pre-transition financial results. Secondly, the sample size of the privatized companies (n=23) from 7 transition economies is believed to be too small to obtain significant statistical results or to generalize a comparative study (Field, 2011; Douglas & Craig, 2011).

All in all, the transfer of firms to foreign investors was a strategy that amplified, on average, the competitiveness of the economy and the performance of the former socialist enterprises. Authors like Kalotay & Hunya (2000, p.62) believe that "…an optimum policy on privatization sales to foreign investors should focus on two basic criteria: on the price offered by an investor and on the reputation and business plan of the investor." Although, even if the advice sounds theoretically simplistic, sometimes the practice showed the opposite. Factors such as lack of transparency in the process of privatization, asymmetric information, moral hazard, political instability, unprofessionalism, corruption, but also the foreigners' unwillingness to invest in risky or uncertain markets, made FDI to seem almost unmanageable at the inception of capitalism in several transition economies, especially in Eastern Europe. However, the last 15 years demonstrated that FDI is an important trigger for the business environment. After a period of disorientation that lasted longer in the Eastern Europe (e.g. Bulgaria, Romania) compared to Central Europe, FDI, throughout its all market entry modes, represents today a trigger of mutual performance, economic growth and wealth of nations.

3.4 The political and institutional environment – two critical success factors

This chapter revealed the most important motives and determinants that influenced the private investors' willingness to transfer capital to the CEE region. Two important factors that assisted the privatization process have been first, a powerful institutional framework and secondly, the support conferred by the elected political parties. In many cases, politicians assisted by economists or other influential people, were those who decided the course of action regarding the denationalization of SOEs.

Though, the transition economies have been prone to a number of political risks (Hollensen, 2011, p.207) such as import restrictions, local-content laws, exchange controls (often conducted in the past in Romania), market control, price controls, tax controls, labour restrictions, change of the government party, nationalization (not a concrete risk for the CEE region). Moreover, trade barriers like tariffs, quotas, and administrative delays have been used by transition economies to gain pecuniary advantages or to protect the domestic industry. However, these trade barriers do not represent anymore an issue for the CEE countries that are members of the EU. Hereby, building relationships with the administration represented a complicated task for the majority of foreign investors, mostly in the Eastern European countries. Lobbying, which is the activity of influencing the local lawmakers and politicians, was rather a common activity in the region. “Their [lobbyists'] ultimate goal is getting favourable legislation passed and unfavourable legislation rejected.” (Hollensen, 2011, p.212). A more aggressive way of achieving the desired scopes is corruption and bribery of the officials, which were a large-scale practice in some transition economies.

The lacks of a powerful regulatory, political and financial institutional framework in transition countries like Russia or Ukraine have been a decisive cause of failure. Such countries preferred to adopt a rapid mass privatization immediately after the fall down of the communist authority, called by Stiglitz (2004, p.753), the “Big Bang” method. In Russia, a remarkable uneven wealth distribution among the rich and poor has been produced in only a few years from the dissolution of URSS. The Soviet country privatized 70% of its industry in less than 4 years. Furthermore, due to ownership dispersion, abusive control of the managerial board was possible. Besides, the absence of the legislative support, framework that is a very important prerequisite of a successful privatization (Godoy & Stiglitz, 2006), favored immoral practices that produced losses for many Russians who placed their investments in worthless vouchers (Nellis, 2007).

Hamm, King & Stuckler (2012) also confirm the theory that the method of mass privatization was not beneficial due to the lack of the legislative power and a modern institutional framework, issues that privileged corruption and immorality. Moreover, by conducting a research across an impressive number of companies (n=2869) in 26 transition economies, Li & Ferreira (2010, p.371) discovered that “…[an] ineffective regulatory system, underdeveloped financial system, and government corruption are strong determinants of firms’ reliance on informal channels for financial capital [non-contractual & non-regulated relationships such as family ties, friends, affiliation connections].” The same authors also evidenced that small companies are more vulnerable to failure and SOEs are more prone to corruption.

To conclude with, the literature signifies that FDI is an important method that generated in the past positive results for the host countries. In practice, many motives determined the market entry choices used by MNCs in order to enter the CEE region. Time is one element that unlocked the hidden boarders of those states that did not accept FDI in the first stage of privatization (e.g. Bulgaria, Romania). Furthermore, politics and the institutional structure were two important determinants that were underestimated by scholars and practitioners in the 1990s. However, more novel studies indicate their importance concerning the performance of privatization and its consequences.

PART II

CHAPTER 4 – Privatization in the former communist countries

The entire Europe witnessed the massive privatization process started in the CEE countries more than 20 years ago, after the decay of communism. The willingness to adopt a free market economy and to create the private sectors was vast. Hereby, the privatization process conducted in these countries has many unique facets. First of all, in many transition economies, almost the entire economy was state-owned and needed to be rapidly transferred to the private ownership, which was impossible without rapid mass privatization (voucher system) or MEBOs. Secondly, the political and economic crises overlapped. Power struggles between different parties in many transition economies and a poor economy generated hyperinflation, negative economic growth, undervaluation of the local currency and many other impediments for a lean development. Furthermore, some politicians, who considered the neoliberal theories not suitable to be applied immediately, misjudged the philosophy and values of capitalism.

In countries like Romania and Bulgaria, the transition period lasted longer than for their transition counterparts Hungary, Czech Republic or Poland. Hereby, the proximity to the Western culture might be the variable that encouraged the achievements of privatization.

In this chapter, the author will examine the privatization events in several transition economies, by focusing on the Romanian denationalization case. At the end of the chapter, the outcomes of privatization in the region will be interpreted in order to confer a reasonable answer to the question – Was privatization in CEE a success or a disappointment? After more than 20 years, the privatization process has almost been completed in the majority of transition economies. Hereby, the following table reveals the degree of privatization.

Table 3.2 – The share of the private sector in GDP (%)

Country/Year	BG	CZ	HU	LT	PL	RO	SI	SK
1990	10	10	25	10	30	15	15	5
2009	75	80	80	75	75	70	70	80

Source: EBRD, Structural Change Indicators, 2010

4.1 Privatization in the Czech Republic

Even if Slovakia and the Czech Republic were a single country at the inception of the privatization process, in 1992 they declared their independence. The Czech Republic continued the establishment of the private sector and achieved a successful privatization process. Accordingly, by 1995 the country had already privatized a large number of state enterprises (Mitrofanskaya, 2011), 22,000 small businesses and 1,302 large enterprises (Torok, 2011). For instance, the German company Volkswagen purchased the majority stake in the auto manufacturer Skoda, which is believed to be one of the most important inputs for the Czech economy (Battaglio, 2005).

In order to sell the SOEs, the government used an auction-based or public tender system (for SMEs), procedures which favored the domestic investors, but did not restrict the FDI inflows. Moreover, the state used a voucher system (mass privatization for the LSEs) to empower the citizens (Schroeder, 2000), by which half of the entire privatized value has been transferred (Torok, 2011). Therefore, the government relied both on a speedy mass privatization (big enterprises) and the case-by-case direct sales methods (SMEs). According to Torok (2011), the Czech Republic transferred through coupons nearly a value of $12 billion to private ownership. Although, the economist states that "…72% (4.7 million people) of those requesting coupons sold their vouchers, with minimum profit or even at a loss, to privatization investment funds. This poor decision indicates the citizens' limited willingness and/or unpreparedness of becoming classical capitalist owners (minority shareholders) in commercial companies. Consequently, the realizable property value of approximately 35,000 CZK (approximately 1,200 dollars) from exchanging a coupon booklet did not mean a significant growth of wealth for the citizens.", which expanded the property inequalities (p. 85).

To conclude with, the Czech administration chose a democratic process that did not favor certain groups of people (e.g. workers, managers). Furthermore, the country was an early adopter of transparent free market principles that headed to successful denationalization achievements.

4.2 Privatization in Poland

Like all former communist countries, straight ahead the fall down of the communist regime, Poland suffered from macroeconomic instability, such as hyperinflation (585% in 1990) and GDP deterioration by10 percent, unemployment, and the appreciation of the foreign currencies (McCourt, 1996). The main privatization methods used by the government were the insiders' acquisition (MEBOs) and the distribution of vouchers (EBRD, 1997).

The tough liberalization policy and the "shock therapy" facilitated a rapid privatization process and the development of the private sector. Furthermore, a proper legislative and institutional framework assisted the country towards the process of EU integration and FDI attraction (Battaglio, 2005). A number of 500 large corporations have been transformed in stock companies and distributed freely (10% to the workers), at an underestimated price, in the form of vouchers, to the citizens, and at a par value to the banks and private investors (Mitrofanskaya, 2011). Moreover, 2,100 SMEs were privatized by the MEBO method or direct sales transactions, and another 1,700 liquidations, as a consequence of their poor economic performance (Ministry of Treasuray, Poland, 2002). It is believed that Poland is a half winner, ranking behind Czech Republic and Hungary in terms of efficiency, productivity and amount of successful transfers of the privatization process (Pohl et al., 1997).

4.3 Privatization in Hungary

Hungary built its private sector during three main stages. In the first years as a democracy (1990-1994), the government focused on the companies that were facile to be sold, therefore, favoring the employee and management buyouts. The second stage that followed in the next 3 years aimed the denationalization of the strategic LSEs from the energy, financial and telecommunications sectors, by offering them to strategic investors. Starting with 1997, the capital market methods (i.e. stock exchange, direct sales) were principally used (Hungarian State Audit Office, 2001).

The readiness to build a powerful private sector was shaped by the relaxed economic strategy of the former communist regime concerning the private sector, government that allowed an operational private economy of 20 percent. Additionally, capitalism began with an accurate privatization program and relevant supporting policies such as involvement of strategic domestic or foreign investors, gradual privatization procedures, transparency and accountability (Canning & Hare, 1996). However, "In 1994, Hungary generated only $300 million from privatization that was only 20% of the target set." (Svitek, 2002, p. 30). Correspondingly, the new government was required to accelerate the transfer of ownership to the private sector. By the end of 1997, "…the private sector generated 75% of the GDP." (p. 31), which represented more than one third of the total output and half of its profit (Voszka, 1999).

In contrast to other CEE markets that used the voucher system (e.g. Czech Republic, Romania), Hungary situated it at a marginal position, preferring instead the gradualist methods like direct sales, auctions, restitution and other market-based methods. The privatization program for SMEs, which lasted 10 years (1990-2000), provided more than 65 million EUR, for the national budget. Furthermore, the government facilitated preferential credit conditions for employees and managers in order to buy stock or participations in the companies they had worked for in the past. This technique contributed with 245 million EUR to the entire privatized value (Hungarian State Audit Office, 2001). All in all, Hungary was one of the few transition economies that started with a case-by-case privatization and continued with a hastened approach. The Hungarian strategy was suitable for instituting a functional legislative and institutional structure, which aided the further waves of the denationalization process.

4.4 Privatization in Bulgaria

Bulgaria is one of the countries that had an overall negative privatization program due to many reasons like political and economic instability, personal favoritisms and corruption, lack of a robust legislative and institutional framework and the absence of a clear privatization strategy. These issues produced untrustworthiness vis-à-vis the administration, weakened the country's international transparency ranking and affected the people perceptions concerning the benefits of a free market economy. According to Li & Ferreira's (2010), in such a context, businesses will search informal channels of financing their operations, which are often illegal, activity that also happened in Bulgaria.

Bojicic-Dzelilovic & Bojkov (2005, p.77) discuss the power of personal informal networks, "These networks were the most visible representatives of national capital that no Bulgarian government afford to antagonize. Although competing with each other they all shared one overarching concern and preference, which united them – to deny entry to foreign investors that could easily buy out most of the state-owned enterprises." The same authors uncover the strong relationship between the elected political party and the program of privatization. There has been no clear direction concerning the strategy and the methods used, the various governments testing different privatization models, like vouchers, MEBO, restitution or sales to foreign investors. These have been practices that dominated short periods of time, depending mostly on the political party that was in command.

Marinova, Marinov & Yaprak (2004) contribute with arguments for the poor FDI inflows during the first decade of the transition: the low market attractiveness for foreign investors, political and economic instability, limited natural resources, poor infrastructure, requirement of an important market commitment (resources) in order to make the transaction internationally effective (e.g. improve the productivity level). Furthermore, the government made investments mistakes with respect to the destination of the capital acquired by means of privatization. Bulgaria, for instance, used the monetary surplus to reduce its external debt or the budget deficit, compared to other economies that distributed it to productive investments in order to increase the welfare of the country (Nellis, 2007). By means of this, the Bulgarian privatization case was not a suitable model for an effective system and unprofitable for the market economy.

4.5 Privatization in other CEE transition economies

Slovakia started, together with the Czech Republic, the first privatization stage and after only 2 years continued the process as an independent country. The elected governments adopted a variety of methods, including vouchers, MEBOs and direct sales, depending on their political view, privatizing the majority of SOEs by 1998, though, without reforming them. Initially, they offered a preferential position to the domestic investors, which favored a strong national powerful business community. However, Rakova (2006) condemns the corrupt system and the privation of potent institutions that caused minimal revenues for the government, restructuring delays and instability.

According to Simoneti et al. (2005, p.1608), **Slovenia** distributed the privatized amount throughout four means: (i) “Transfer of 40% of shares to para-state funds”, (ii) “Internal distribution of shares to employees in exchange for vouchers (this was limited to 20% of company’s shares), (iii) “Internal buy-out of shares (at 50% discount)” and (iv) Public offerings. On the average, the companies sold to domestic or foreign strategic owners performed better than those that remained controlled by the state or that have been privatized through the voucher-based system.

Furthermore, **Ukraine** is one of the countries that delayed privatization, relying in the first years only on MEBOs in order to transfer ownership of the small enterprises. In 1994 the government started a slow and inefficient mass privatization program (Schroeder, 2000).

Russia is known for one of the most uneven and unethical privatization agendas among the transition economies (Hamm, King & Stuckler). Firstly, the government implemented the shock therapy by introducing a voucher program. Additionally, MEBO was a heavily used method that resulted in an excessive managerial control over the shareholders, due to a great dispersion of ownership. The insiders have been reluctant to accept foreign investors and hindered the restructuring and layoff procedures (Hoff & Stiglitz, 2004). Hereby, the accelerated privatization approach increased the private sector from 5% to 70% by 1999 (Sprenger, 2011), though, the inequality of income and wealth distribution continuously expanded in Russia, the world's leader in terms of inequality (Treisman, 2012; Global Wealth Report, 2012).

4.6 Results and outcomes of the approaches in the CEE region

Nellis (1997) suggests that the degree of success that privatization realized in post-communist countries was lower compared to the program conducted, for instance, in Britain or other Western economies. Moreover, industries, where natural monopolies are frequent (e.g. utilities, infrastructure services, even banks and insurance companies, due to the rule-setting and supervising role of the government) have been predisposed to negative privatization outcomes. Accordingly, the strategy of waiting for the establishment of a proper legislative and institutional framework might assist the countries to achieve a superior privatization effect, compared to the situation of rapidly engaging in the creation of a private sector without the adequate prerequisites.

Hamm, King & Stuckler (2012, p.295) advanced 3 main arguments that they believe to make the difference between the positive and negative outcomes of privatization: "(1) successful countries rapidly implemented neoliberal policies; (2) failures were not due to policies but to poor institutional environments; and (3) policies were counterproductive because they damaged the state." The degree of corruption and its influences on the results of privatization are extensively analyzed by Kaufmann & Siegelbaum (1996). One of their findings suggests that corruption differs among various privatization methods, MEBOs and spontaneous privatization being more favorable for it, compared to voucher-based or capital market-based privatization. The dominant perspective in the literature and practice regarding corruption is negative and averse.

However, “On first consideration bribery is both unethical and illegal, but a closer look reveals that bribery is not really a straightforward issue.” (Hollensen, 2011, p.676).

An important body of studies has recently uncovered the positive effect of bribery and corruption. Although, one should make the difference between corruption/bribery and lubrication, which is the activity conducted by a person, who desires to accelerate a job or process in order to enhance the efficiency. Buia & Molinari (2012, p.297) discover by constructing a mathematical model that “…a corrupt Government, that chooses to privatize only in exchange for a bribe, makes a positive selection on the private firm’s efficiency and, thus, may have a positive effect on social welfare.” However, their model is simplistic and does not include many of the influences and outcomes that are produced by a corrupt environment.

Another interesting question concerning the success of the privatization process in CEE occurs by analyzing the perspective of the amount of capital earned by the governments resulted from the selling of the public property. Hence, the pricing of the assets represents an area that was not too much researched in the scientific literature. Vickers & Yarrow (1995) divulge in their study that “the underpricing of shares in most privatizations, and especially the major ones” (p.177), was a practice that frequently materialized in Great Britain, even if the state benefited from a functional stock exchange, capitalism familiarity and a powerful legislation. Contrary to this situation, the transition economies were deficient in these advantages when starting the privatization procedure. Therefore, the matter of price valuation in the CEE region represents an interesting aspect of the process. Additionally, the asymmetric information and moral hazard have been more pronounced in the post communist countries comparing the developed nations. Therefore, asset pricing was more complex and difficult to manage, by considering the following motives: the impossibility of comparability different assets due to lack of methodology or the absence of a modern financial system (e.g. stock exchange, regulatory institutions, etc.), deficient institutional framework, corruption, immoral and also illegal activities conducted by the parties involved. Consequently, often the transactions produced a win-lose situation, harming the national interest by promoting individual interests of the private persons or the buyers. One quantifiable and visible consequence was the uneven distribution of wealth, which later had a negative impact on the population's purchasing power.

A dominant and functioning private sector has been a prerequisite to be accepted as a competitive economy on a global scale. Financial institutions like IMF, the World Bank, WTO (World Trade Organization) or political and economic unions like the EU had an essential role during the transition period in all the countries. The results of many empirical studies reveal that privatization is capable to intensify sales, achieve a superior productivity and efficiency (Claessens & Djankov, 2000). Furthermore, the FDI represents a significant trigger for the economic growth and a source of wealth for the host country.

As a conclusion of the issue of privatization results, the author concludes with the following statement: countries from the Central Europe (e.g. Hungary, Czech Republic, Poland) achieved a vaster privatization performance compared to the Eastern block (e.g. Romania, Bulgaria, Russia) due to a better application of the principles characteristic to a free market economy.

4.7 Limitations and barriers of the privatization process

The privatization process designed in the CEE region has reached its objective to transfer the majority of properties owned by the state to the private ownership by using different models. Although, there has often been a gap between the expected and obtained results, a lot of value being lost due to deliberate or unwitting mistakes and inaccuracies made by different groups of stakeholders.

First of all, Kaufmann & Siegelbaum (1996, p.16) analyzed the level of "[corruption] in the implementation of privatization transactions." that favored powerful anticompetitive positions of the new owners, who influenced the politicians and the direction of the economy in several post-communist countries. Secondly, due to the large size of the public sector in countries such as the Czech Republic, Poland, or Romania, to find new ways to privatize the public sector have been essential. However, the turmoil characteristic to a period when the political and economic crises devastated the normality and well functioning of the state, privileged immoral and unethical transactions. Thirdly, the rapid transfer of ownership through mass-privatization (shock therapy) or MEBOs destabilized the economy and caused a general unrest.

Next, maybe in some Eastern European countries, like Bulgaria or Romania, the population, the state, but also the private investors and managers may not have been well prepared for a massive privatization that led to an important change – the shift from a planned to a free market economy. Furthermore, the absence of a proper institutional framework, competitive market environment, accurate legislation including regulatory measures, and lack of a clear privatization strategy, favored incompetence, corruption and financial losses for the majority of people in some transition economies.

By analyzing the Romanian political system after the revolution, Gherghina & Chiru (2012) concluded that the two main forces, the Social Democrats and the Christian-Democratic National Peasants' Party (PNTCD) were the two powerful political groups that shaped the Romanian politics in the first two decades of capitalism, until 2000. Nevertheless, organizational and legislative issues, corruption, power thirst, the lack of vision and the absence of a clear long-term strategy rapidly demolished the ideas of building a strong democracy by following the principles of a functioning free market economy. Accordingly, the failure of the political system has been promptly transmitted to the economic sector, causing salient bankruptcies of many key economic units or factories, which later were sold only for the land value or sold well below the real market price.

Hereby, the author appreciated several limitations and difficulties typical for the privatization of SOEs in the CEE region. This chapter conferred a better understanding of the success or failure of each of the major privatization programs conducted by governments in various transition economies. Though, discussing about privatization and its approaches in general, considering only the average results attained by the countries in the region or by group of countries (e.g. Central, Eastern European), without detailing the specific variables that differed in each of the analyzed environments, increases the risk of not considering exactly those motives and triggers that made the difference between the success of a privatization program (e.g. Poland, Hungary) and a less successful one (e.g. Romania, Bulgaria).

By only looking at the differences resulted from the distinctive way of conducting the privatization process (e.g. methods, models) from one state to another and by comprising in econometric models only a small set of variables, often leads to incomplete insights and distorted findings. Additionally, by using empirical studies to obtain and analyze data from multiple countries (comparative research), without checking the validity and reliability of the research instruments, the accuracy of data and not taking into consideration the multi-item scales and constructs that differ from one culture to another, will produce biased results.

Still, the situation of ownership transfer in CEE needs to be interpreted, by using valuable observations or official statistics. Even if it is rigid and complex, offering multiple and inconsistent answers depending on the viewing perspective, privatization remains one of the most important steps that resulted in the implementation of capitalism and the free market economy by the transition economies.

Chapter 5 - The Romanian privatization model

Romania is considered to be one of the countries within the “laggard group”, by initiating the privatization process with a considerable delay. Besides, many local economists, experts and politicians, but also foreigner investors, have questioned the benefits and results of the entire denationalization program. According to Tache (2008, p.2), “…contrary to initial expectations, the [privatization] program failed to transfer assets from the state to private hands in a speedy fashion and to produce a large shareholder class.”

However, many authors who investigated this issue imply that starting with 1997, when EU started the monitoring activity specific to the integration process, the economic structural reforms and political transparency have been improved in Romania (Ahrens & Zweynert, 2012). The EBRD report presents a privatization score of 4- for the large-scale and small-scale privatization and 3- for the governance and enterprise restructuring on a scale of 1 (little or no change from a planned economy) to 4+ (standards of a free market economy) (EBRD, 2010).

5.1 The mass privatization programs

In order to transfer the state property to the private sector, 30% of the registered capital of the commercial entities (SOEs) has been freely transferred to the Romanian citizens. The first privatization law (Nr. 15 on Restructuring State-Owned Enterprises, 1990), “explicitly prohibited the privatization of a group of firms (called Regii Autonome in Romanian [Autonomous Entities]).”, until 1997, when another political party (Peasant Party) won the elections (Szentpeteri & Telegdy, 2012). By mid-1991, the Romanian democrats constituted the National Agency for Privatization (NAP), a governmental institution that had the authority to plan, organize, coordinate and monitor the privatization activities that followed. Furthermore, the State Ownership Fund (SOF) was created, as a public institution with commercial and financial attributes that owned 70% of the companies’ value intended to be privatized in the near future.

There are basically two mass privatization programs that have been conducted in Romania. The first one started in 1992 and signified the gratis transfer of 30% of the SOEs value to the citizens over 18 years with a permanent residency in Romania. "More than 15 million certificates of ownership were distributed free of charge to all Romanian adults…" (Tache, 2008, p. 5).

Due to the inconstancy of the legislative framework and the unclear policies characteristic to the Privatization Agency and SOF, the conversion of the vouchers into shares was not supported. The owners had the possibility to trade them, but the price was below the par value. Hereby, one may consider several motives why the people rushed to sell their vouchers. Firstly, it was very difficult or irrelevant for the average people to determine the real or potential value of the vouchers because they did not pay for them. Secondly, the private property was banned in the communist regime; consequently some citizens did not feel confortable or did not understand the benefit of owning stake in some important LSEs. Thirdly, the poverty started to spread after 1991 due to factors such as a high inflation rate, soaring unemployment rate and the depreciation of the local currency, which forced them to sell in order to receive a short-term pay.

The second mass privatization program started in 1996. The state distributed free vouchers "…to all the adult Romanian who did not use up their certificates in buying shares during previous privatizations. (…) The new vouchers were nominative and could not be transferred or sold [in 1995 the citizens had a period of 3 months to exchange their vouchers to shares]" (Tache, 2008, p.7)., in order not to favor the speculative actions common for the first mass privatization program. Consequently, the voucher privatization method apparently succeeded, 93% of the holders becoming shareholders in about 5000 former SOEs. Although, Earle & Telegdy (1998) discovered that only nearly 19 percent of the stake was transferred (5.5% of the entire SOEs value) throughout the voucher method. In order to clarify the situation by the end of the first 10 years of transition, the privatization results offered by the Romanian Privatization Authority (from 2001 called APAPS) are presented in the following table.

Table 5.1 – Privatization results in Romania 1993 - 2001

	1993	1994	1995	1996	1997	1998	1999	2000	2001
Number of companies in SOF/APAPS portfolio, beginning of the year[5]	5937	6291	7602	9010		5554	4330	3149	1444
Number of companies privatized during the year	265	604	648	1388	1304	1267	1854	1341	127
By size[6]									
-Large	2	12	30	25	35		82	24	19
-Medium	24	110	268	238	150		589	247	19
-Small	238	472	322	984	978		1183	1070	89
By privatization method									
-MEBO	261	519	43	14					
-Direct negotiations	4	85	605	1006	1064	244	1337	1235	19
Auctions				455	231	991			92
-Sales on the capital market					9	32	64	106	16
Sold share by year in constant prices (1995 prices), bn lei	144.3	471.4	1840.0	920.4	603.3	741.3	824.3	525.9	617.8
Companies sold to foreign investors	1	1	5	4	44	96	83	38	
Proceeds from sale to foreign investors - $ mn	2	3.9	15	15.5	403.8	608.1	57.1	7	

Source: State Ownership Fund, APAPS.

5.2 The influence of the PEEST (Political, Economic, Environmental, Social and Technological) environment on the privatization program in Romania

The Iron Curtain bequeathed Romania completely unprepared for the implementation of capitalism and its free market principles (Calcagno, Hefner & Dan, 2006). Tache (1998) names only several of the adverse circumstances that followed: (i) poor results of the companies (low dividends for the shareholders), (ii) lack of confidence in financial institutions and intermediaries (financial schemes like Caritas or FNI (National Investment Fund), or the bankruptcy of several important banks over a short period of time 1999-2002 (e.g. Bancorex, Bankcoop, International Religion Bank, etc.). Furthermore, (iii) lack of a stable and well-defined privatization policy and (iv) no possibility to appreciate the market price of the shares (the stock exchange resumed its activity in 1995), (v) lack of transparency concerning the financial results of each of the companies.

Besides the two mass-privatization stages and the MEBO, the government used other methods like direct sale, auctions, public tenders, or liquidation, in order to create a private sector. In general, the state privileged the insiders (e.g. employees, managers), by offering them a discount of 10% to buy extra stocks within the companies they have been working for (Fusea & Ciuncan, 2008). However, opposite to the initial belief, the MEBO method did not serve as an efficiency promoter. It delayed the reforms, prevented the strategic changes at the top-management level and the modernization of the production facilities (Earle & Telegdy, 1998). After the first stage of privatization (1995), Romania (22%) lagged behind Czech Republic (87%) or Poland (55%) in terms of transferring the state property to private investors (World Bank, 1997). A possible reason for the slow privatization program might be the low level of FDI attracted by the Romanian economy, compared to the regional results, for the period 1990-2002 (0.14% of GDP in 1991 and slightly over 1% by 1995) (Luca, Verez & Leunig, 2008).

Agreeing to the findings of other empirical studies, Valsan (2001, p.101) implies that “Overall, the evidence presented suggests that institutional (possibly foreign) outside stakeholders are more likely to foster restructuring and increase the likelihood of survival of newly privatised firms in Eastern Europe." By conducting a survey over 109 newly privatized SOEs, he confirms that privatization through MEBOs meant an inferior managerial and financial performance compared to the FDI method. Although, "[during] the first political cycle most privatizations were Management Employee Buyouts, in which an organization established by the management and the employees of the firm had the right of first refusal in most of the cases, and they received loans with negative [real] interest rates from the government to pay for the shares." (p.101). Furthermore, other researchers postulate that the Romanian government inclined to privatize those companies that were big and inefficient and protected those entities that were disposed to a heavily restructuring program, including downsizing (Szentpeteri & Telegdy, 2012, p.303).

Although, after a period of 7 years of unfulfilled objectives, imposed by the external stakeholders like the International Monetary Fund (IMF) and the World Bank, the government adopted a radical position and introduced by 1997 a comprehensive package that improved the situation of the economy and boosted the reorganization activities within the companies, in the following years. "The government phased-out many of the price controls, direct subsidies and preferential credits that existed previously." (Asaftei & Parmeter, 2010, p.345). Subsequently, after the banking crisis and the currency depreciation from 1999-2002, Romania had a vigorous economic growth, a solid disinflation rate, an important decrease of the budgetary and trade imbalances and rising FDI inflows (OECD, 2005).

Concerning the agriculture sector, Berberoglu (2003, p.286) summarizes in his study that the privatization of land "…has led to dramatic declines in both area of cultivation and the volume of production in many of the crops…" and "…[privatization of the] agricultural land and resources in Romania over the course of the past decade has had an overall deleterious effect on the rural population and has led to massive poverty." Furthermore, the scholar also finds similar results for the animal breeding, meat and dairy production, fruit and vegetable segments, and many more. This hole within the Romanian agriculture and food processing industries created an important occasion for imports, which represented 65% of the entire food sales volume in 2011 (Ministry of Economy, 2011).

Bostan & Onofrei (2012, p.548) center their attention on the Romanian metallurgic sector that had represented an important contributor to the GDP and the balance of trade during the planned economy. “Before 1990, Romania produced around 17 million tonnes of raw steel, of which resulted 10-11 million tonnes of laminated products, a level three times higher than in 2011, which is of approximately 4,5 million tonnes.” The administration initiated a restructuring strategy in 2002 in worth of almost $600 million aiming to improve the efficiency, the labour productivity and to increase the exports (Calcagno, Hefner, Dan, 2006). Nevertheless, Roman (2012) exposes the shrinking performance of the Romanian steel production: 14 million tonnes (1989), only 6 million before the financial crisis (2007) and 4 million tonnes in 2010. Hereby, the economic breakdown reduced the amount, though, even before the crisis (2007), the production represented only 40 percent of the pre-transition period.

There are studies that discuss the improvement of productivity and efficiency in several transition economies. Brown, Earle & Telegdy (2006) state that Romania is the leader in terms of productivity enhancement (15%), which is higher even than the Hungarian rate (8%). However, the authors do not comment on the drastic reduction in output that was harsher compared to other sampled markets, including Ukraine and Russia. For instance, the Romanian output signified in 2012 only 56% of its 1992 value, compared to 87% in Hungary. Hereby, the productivity upsurge resulted from the downsizing effect, procedure that was favored by many privatized companies from various industries, manufacturing and mining being two of the most affected sectors (National Statistics Institute, 2011). Furthermore, by looking at the unemployment rate, one can observe that it soared from only 3.4% (1990) to 7.2% by 2012 (World Economic Outlook, 2012). Moreover, by looking at the active labour force indices presented in the following table, the situation is even worse – the number of employees by 2010 almost halved in 20 years.

Table 5.2 – Labour force (thousands) in Romania 1990 - 2010

Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Nb empl oyees	8142	7483	6627	6385	6438	6160	5939	5597	5369	4761	4623
Year	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	
Nb empl oyees	4619	4568	4591	4469	4559	4667	4885	4806	4595	4400	

Source: National Statistics Institute, 2011

A demoralized juridical system that failed to be independent and the corruption that reached its highest levels in the first decade of transition, favored the power groups and informal networks, which have controlled the majority of the key resources in Romania (Braileanu, 2005).

In the last 15 years, many "businessmen", who controlled the politicians, accumulated important possessions, at first without restrictions and later with minor barriers imposed mainly by the mass media. According to Fusea & Ciuncan (2008), the lack of vested interests by industries, those power groups that are aimed to protect the various areas or industries (e.g. agriculture, oil, automotive), which could have been beneficial to the Romanian society, preferred the unethical and immoral actions by following their personal interests.

Lobbying and pressure groups have a tradition of hundreds of years in democracies and are a necessity in a modern free market system. However, the lack of a strong opposition (e.g. environmentalists, labour activists, etc.) ruins the social values and fails to protect the national interest. This phenomenon can easily be discovered in infant democratic countries with ambiguous or innocent legislative and institutional systems. Disappointingly, once settled in Romania, this negative effect was very hard to be defeated, which was extremely profitable for a well-defined group of people, including politicians, businessmen and their families. For instance, Fusea & Ciuncan (2008) divulge the mechanism that favored such people even in the case of open auctions with call. For instance, the transaction of a SOE took place only in the 3rd stage of an auction, when there is not anymore a barrier for a minimal price. This practice was possible throughout several ways: lack of competition, prices that exceeded the just value during the first two stages of the auction, or illicit agreements between participants. Furthermore, there were also cases when the new owners were exempt of paying the company's accumulated debt. The officials responded that by not doing so, it would have led to even greater destructive consequences for the Romanian economy. Another way of altering the privatization results exposed by Fusea & Ciuncan (2008) is to employ the civil servant, who monitored the privatization, in the new privatized company, as a reward for manipulating the process. Thus, the interpretable and inconsequent legislation favored sometimes this kind of immoral activities

5.3 Competition and privatization

Asaftei & Parmeter (2010, p.341) introduce in their study the importance of competition with respect to the stimulation of firm performance in the transition economies. They argue that "…increases in markups [price-cost difference] are due to privatization in sectors where product market concentration is high [a small number of firms control a large share of the market] and due to import penetration [little or no import restrictions] where product market concentration is low."

Konings, Cayseele & Warzynski (2005, p.124) reveal in their empirical research, conducted across a sample of more than 3500 Romanian and Bulgarian manufacturing companies, that: "Privatization is associated with higher price-cost margins. It also suggests that privatized firms reduce costs rather than increase prices, as in highly competitive markets firms are more likely pricetakers." Accordingly, transferring the ownership from the public to the private sector without creating a competitive environment might have a dreadful consequence for the consumers. For instance, by selling strategic resources and factories from the oil or gas industry to a single private company, without the entrance of foreign competitors or by imposing price restrictions, the dominant position will lead to a high degree of inelastic demand and a substantial bargaining power of the company in relation to the stakeholders (e.g. government, customers, etc.). However, empirical evidence insinuates that under the conditions of a proper institutional background, privatization is beneficial for the corporate governance and the firm's efficiency, the latter depending on the method employed (Megginson & Netter, 2001; Anderson et al., 2000).

Romania established a competitive environment and its institutional regulation body (e.g. Competition Council) in 1996. Additionally, the government adopted the free trade agreement with the EU, promising to eliminate the trade barriers (tariff and non-tariff) in the following years in order to become a EU member. The private sector rose spectacularly from only 800 companies owned by domestic or foreign investors in 1996 to more than 4000, a quarter being owned by foreign investors (Asaftei & Parmeter, 2010).

5.4 Discussion

The evidence suggests that the mass privatization program conducted by the Romanian government in two stages had a poor result, transferring less (18.7%) than the aimed amount (30%). The first 10 years of privatization did not improve spectacularly the corporate governance, reengineering procedures, the establishment of the private sector, productivity levels, and managerial mentality.

In the second part of the transition period (2000-2010), the newly elected government improved the conditions of the PEEST environment, by allowing the entrance of massive FDI and completing the procedure of integrating Romania into two important international organizations, NATO and EU. The ownership change, from the public to private (domestic or foreign), and the loose international trade policies, brought the country into the group of attractive emergent European markets. However, many economists and elites question the methodology and the circumstances specific to some of the acquisitions conducted by overseas companies. There was chiefly the same pattern a priori to the privatization in several companies – to deteriorate the financial performance in order to start the insolvency procedure of the SOE, afterwards, to transfer the ownership to the private investors (e.g. Petromidia (oil refinery), Timken (roller bearings), Sidex (steel industry), and many other small companies). Remarkably, after only a short period of time and without massive capital injections, profitability has been once again realized.

To conclude with, Romania is one of the countries, specific to the majority of Eastern countries, including Bulgaria, Russia, Ukraine, which regardless of the adopted privatization method, steered an overall poor privatization program.

PART III

Chapter 6 – Case Studies

6.1 The privatization of the Romanian banking system

Previous to the revolution (1989), the Romanian banking system was highly concentrated and highly dependent on the dual role of the Romanian Central Bank: that of National Bank and commercial bank at the same time. The financial sector had to be fundamentally restructured, focusing on the three main functions of a modern system.

First of all, the monetary role that is crucial in a free market economy, which supports the exchange relations and the stability of the local currency. Secondly, the income redistribution and the capital allocation that are controlled by the Ministry of Finance and the National Bank. The last function has connections with the monitoring activity and the control of the financial system, steered by the official financial institutions (Dudzinski & Szymkiewics, 2003). Among other scholars, Stubos & Tsikripis (2007) point out the importance of a powerful financial sector for a successful privatization program. However, in Romania, like in other transition economies, the development of the banking sector was subsequent to the privatization of the majority of SOEs. The mass privatization and the MEBOs programs have been conducted with the support of an unrecovered and incoherent financial system that injected in the economy toxic credits, which rapidly endangered the entire economy and created the massive banking crisis of the late 1990s.

Isarescu (2006, p.193), the governor of the Romanian Central Bank (BNR), considers that the Romanian banking reform commenced in 1990, consists of two main stages:

(i) the period between 1990 and 1997, which represented the foundation of the Romanian banking system and the first legislative acts (Law nr. 33/1991, 34/1991 and 83/1997, regarding the organization and privatization of the banks.)

(ii) the time frame after 1997, when the National Bank supported the banking legislation and its alignment to the European standards. Furthermore, 1998-2006 was the period known for the major privatizations of institution of credits.

Pohl et al. (1997) acknowledged about the importance of the banking system for the business development in the transition period. In early years, the banks were pressed by the governments to finance the operating losses of companies generated manufacturing activities that did not cover the full costs or the extensive personnel expenditures. Additionally, many poor managerial decisions caused huge capital losses. Principally, governments hindered restructuration in order not to cause imbalances on the labour market. However, the pressure of the politics on the financial sector generated poor lending decisions by the banks, which later caused resounding bankruptcies. A more novel study that examines the implications of access to financing outlines the insight that "Bank lending in particular is key to growth in investment, capacity, output, and profitability among recently privatized enterprises." (A. Knyazeva, D. Knyazeva & Stiglitz, 2009, p.1815).

The second stage of the privatization of the Romanian banking system began after the issuing of the first privatization law (1997), which stated that banks can be denationalized in three different ways (Fusea & Ciuncan, 2008):
a) Liquid equity injection through a public offer or private placement.
b) Selling shares to private investors or enterprises (foreign or domestic), with the prerequisite that the enterprises are privately owned (the majority of stock).
c) A combination of the two enumerated methods.

The Romanian Central Bank (BNR) introduced in 1999 a modernization process that aimed to solve the situation of the fragile banks. The program included the improvement of the banking quality, the introduction of a rating system to measure the banks' performance and the enhancement of the legislative framework. Similar to other transition economies, the Romanian financial system was highly concentrated, with the dominance of the state-owned banks. Nonetheless, the number of institutions of credit increased by 8 times until 1997, to 47 institutions. The capital of the foreign banks was still very low, representing only 11 percent. Though, important foreign banks played an important role for the Romanian banking system, by extending the portfolio of banking products/services and improving the efficiency. Between 1996 and 2001, the Romanian banking system entered a difficult time, which ended with the bankruptcies of several banks. Due to bad lending practices (non-performing loans representing 58.5% in the total credit amount, 1998), poor legislation, ineffective monitoring activities, and absence of reforms, banks such as Columna, Dacia Felix, Credit Bank, Bancoop or Bancorex and others smaller institutions, reached the stage of insolvency (Isarescu 2006). The reorganization process was unable to redress or save them from bankruptcy, the most feasible solution being to move the deposits to other stable banks. Furthermore, the Guarantee Fund for Depositors had to recover the huge losses suffered by many of the creditors and the government to back up the remaining accounts that had not been withdrawn with treasury bonds (e.g. Bancorex). Consequently, the banking crisis turned very quickly into an economic and administrative crisis.

The causes that led to this unfortunate situation for the Romanian banks are manifold and complex. One reason is the general slowdown of the economy, especially of the main productive sectors (e.g. constructions, heavy machinery, metallurgic, etc.) that led to the accumulation of enormous companies' debt towards the state and suppliers. Secondly, the modest supervision and control of the banking sector conducted by the financial authorities (Isarescu, 2006, p.221). Furthermore, the lack of reforms and reorganization plans concerning the strategic SOEs or even the newly privatized companies - bad managerial practices including poor lending decisions and the falling productivity rate triggered the underperformance of the Romanian financial and productive sectors.

6.2 The analysis of the modern Romanian banking sector

As a result of the reforms and reorganization process, at the end of 2009, "42 credit institutions were operating in Romania" and only two were majorly owned by the state, CEC Bank and Eximbank. Moreover, 25 banks were foreign-owned, the Greek

(26.6%) and Austrian (16.9%) stake represented almost half of the entire banking ownership (Apetri, Mihai & Mihalciuc, 2010, p.109).

According to the finding by Bonin, Hasan & Wachtel (2005, p.2155), "…foreign-owned banks are most efficient and government-owned banks are least efficient.". For instance, comparing the metrics Return of Equity (ROE) or Return of Assets (ROA) of the Romanian banks, on average, both of them enhanced in 2005 (13%/1.7%) compared to 1998 (1%/0.1%) (Stubos & Tsikripis, 2007). Furthermore, scholars discovered that within the CEE region, foreign-owned banks scored a higher productivity compared to domestic banks (Koutsomanoli-Filippaki, Margaritis & Staikouras, 2008). Both studies agree that the type of ownership does not significantly influence the efficiency level. This finding remained constant across time, novel studies like the one conducted by Andries & Capraru (2013), on an impressive sample of banks from the CEE, found the same insignificant result. Additionally, the scholars discovered that "…Central and Eastern European countries with higher level of liberalization and openness are able to increase cost efficiency and finally to offer cheaper services to clients." (p.8). Nevertheless, the Romanian banks with a majority of state-owned capital have mainly two advantages: exclusive partnerships with the government and local authorities and still represent the main business partner for the remaining SOEs. With respect to the domestic banks, these represent only a small fraction of the banking sector in Romania, counting considerably a lower capitalization compared to the foreign-owned banks.

To conclude with, the privatization of the Romanian banking was delayed by the authorities and started in the second period of the ownership transition. The first legislation that made possible a transfer of the banking state-owned capital to the private sector was issued by 1998. After a period of banking instability that generated resonant bankruptcies, proper legislation and the transfer of ownership to foreign powerful banks, improved the Romanian banking system. Nowadays, 24 out of 39 institutions of credit are majority owned by foreigners (Stubos & Tsikripis, 2007).

6.3 The privatization of BCR (Romanian Commercial Bank) by ERSTE GROUP

BCR represents today one of the most important credit institutions in Romania. The bank maintains its leading position by absorbing almost 21% of the market share in terms of loans and deposits (bcr.ro, 2011). The bank's history began in 1990, when BCR took all the commercial functions of the National Bank. In a survey conducted by the Romanian financial magazine "Capital" in 2002, BCR and BRD (the 2nd largest bank in Romania) held together a market share of 66% of the private depositors segment (Capital.ro, 2002).

The privatization of BCR started in 2003, when the International Finance Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD) each acquired 12.5 percent stake. Furthermore, the majority of ownership was transferred to the private sector in 2005, when the Austrian Erste Bank AG became the principal owner with 25.8% ownership level (Stubos & Tsikripis, 2007). During the following years, Erste Bank continued its acquisition process, owing 62% of the shares by 2006 and almost the entire bank (93%) by 2013 (bcr.ro, 2013).

At the beginning of the 21st century, Erste Group initiated its massive internationalization process by strengthening its presence in the CEE region. Subsequently, it has rapidly become the market leader in the Czech Republic and Romania and serving almost 17 million customers worldwide, 10 times more people compared to 1997 (erstegroup.com, 2013). At BCR, the Austrian management reduced the expenditures and improved the ROI and ROE very quickly. In 2008, the bank registered the peak of its net profit from the beginning of the ownership (almost 500 million EUR), an increase of 118% compared to the fiscal year 2007 (Financial Situation BCR 2008, 2009). The impact of the financial crisis, which also reached Romania in 2009, ended the projections of a positive trend. The bank was obliged to close more than 500 subsidiaries and to fire thousands of employees in the previous few years (Financial Situation BCR 2012, 2013). In 2012, the BCR Erste's financial board, presented to its stakeholders for the first time subsequently the acquisition a loss of almost 280 million EUR.

In the context of a diversified international banking market, characterized by a rapid TTM (time-to-market) of new products and services, BCR Erste Bank had to improve its functional and technical capabilities, and to enhance the abilities, skills and know-how of the personnel. According to Voinea & Moldoveanu (2009), two key members of the bank, the key competences of employees have been improved by improving the management by objectives, the quality of the process and the customer satisfaction. Accordingly, the management introduced a standardized system of evaluating the competences and skills of the employees, in order to strengthen the performance of the personnel and assist the human resources department.

Another study conducted by Matis & Bonaci (2011, p.63), aimed to test the clients' perceptions and reactions regarding the reformation process of the bank and the impact of the financial crisis on the overall performance, insinuates that "…the financial crisis oppressed some of the potential positive effects of the restructuration process…". However, the major loss suffered by BCR Erste Group in 2012 forced the board to rethink the reform advancements, by planning a cost-cutting strategy for 2013 to regain the positive growth trend.

The acquisition of BCR by Erste Group represents one of the fewest successful denationalization cases in Romania. Under the Austrian private management, the bank essentially contributed to the economic growth and the stability of the Romanian financial sector. Despite of the entrance of other major international banks, which reduced the concentration level of the Romanian banking system, BCR still remains the market leader in terms of deposits and credits, with an overall market share of 19.3% in 2012 (ZF, 2013). Contrasting to other industries (e.g. mining, steel, agriculture machinery, etc.), the banking sector emerged in the last 2 and a half decades, by becoming a system in which the state and its institutions only regulate and monitor the privately owned credit institutions, without imposing any harmful interferences and/or controls.

6.4 The acquisition of PETROM SA by OMV AG

The privatization of the Romanian oil company took place in a demanding international context like sinking oil reserves, soaring prices of the oil barrel and OPEC's trade barriers strengthening. These factors have significantly influenced the denationalization process and the post-acquisition evolution of S.N.P. Petrom. At the beginning of the XXI century, the company represented a key strategic resource of the Romanian government and one of the vital industrial engines.

Petrom S.A. was established in 1997, being the most important local player in petrol extraction, processing and selling of fuel and its derivatives (petrom.ro, 2013). The ownership structure was the following: the Finance Ministry (81.3%), Ministry of Labour and Social Solidarity (10.2%) and other private investors (1.4%) (SRI, 2007).

At the beginning of the 2000s, due to managerial issues and the external negative influences, the company faced a lower productivity and a negative growth rate in some segments. However, in 2002, the company registered an impressive turnover of $2.76 billion and a cumulated profit of $173 million and no public debt to the state's budget (SRI, 2007). Accordingly, the insecurity of the executive and the international context have been the triggers that initiated the discussion about a possible privatization in 2003. The next year represented an important moment for the Romanian oil industry and for Petrom S.A., when the Austrian OMV Aktiengesellschaft acquired 33.34% of the equity for approximately 669 million EUR and additionally released new stocks by increasing the future capital of the company, which made the MNC the major owner (51%).

The subsequent 10 years were prolific for Petrom OMV in terms of growth and profitability. In 2012, the company registered a turnover of slightly more than 3 billion EUR and almost 700 million EUR profits before taxes. Furthermore, its market capitalization value on the Bucharest Stock Exchange in April 2013 was approximately 6.11 billion EUR (1 EUR=4.3 RON) (BVB, 2013).

The context of the privatization of the oil company

In order to expand the private sector, which was a condition imposed by the EU Commission and the international financial institutions such as IMF and the World Bank, the Romanian Government initiated the privatization procedure of several companies, including the oil company Petrom.

In early 2002, the Ministry of Finance selected, from a large number of privatization consulting companies, the British subsidiary of Credit Suisse First Boston (C.S.F.B.) – ING Barings Ltd, as the legal advisor. Accordingly, several methods of privatization have been considered: open auction, shares selling on the Bucharest Stock Exchange, the acquisition by a strategic investor or a fusion with a powerful regional oil company. Consequently, the consulting company decided that the acquisition by a reputable global player would be the best choice for the Romanian state and the future of Petrom. At the public auction, besides the winner OMV, many corporations such as MOL (Hungary), Glencore Internation A.G. (Switzerland), ENI (Italy), British Petroleum (UK), Gazprom (Russia), and others, presented their willingness to purchase the oil company (SRI, 2007).

The Romanian Senate's Investigation Committee called the privatization of Petrom into question in 2007. Following the thorough evaluation of the contract and the methodology of the privatization process, the experts underlined several unjust aspects. First of all, they questioned the clause expressing the responsibility of the state to compensate OMV Petrom in case of material prejudices caused by polluting actions prior the privatization (2004) for a period of 15 years. Additionally, the government had the obligation to reimburse all the financial claims concerning abandoned, retired or disposed off assets for the next 30 years. These two arguable items facilitated OMV Petrom to receive from the government 363 million EUR in the next couple of years. Secondly, the option to acquire facilities and terrains at the nominal value, situated below the market price, enabled OMV to strengthen its balance sheet and caused at least 2 billion EUR loss for Romania. Furthermore, one of the most important benefits for the buyer was the cancellation of the previous debts accumulated by the company, which was also used to calculate the net present value of the company ($1.56 billion) by the time of the privatization. Hereby, this distorted the real value of the oil company, by reducing the price per share value and obliged the state to cover the debt (The Investigation Committee of the Senate, 2007). Additionally, the percentage of the royalties from the oil extraction and selling (between 3.5%-13.5%) received by the State are lower compared to other similar situations from other countries (e.g. France). Moreover, the contract stipulates that the standard price of an oil barrel used to calculate the royalty fees (2003), must remain unaffected from the current market price for a period of 10 years, in spite of the fact that the market price rose sharply after 2004, by all these years exceeding the contractual price (SRI, 2007, OPEC, 2013).

The public debate initiated by the Romanian Senate, that aimed to change the rigid contractual aspects, remained futile. Contrary to the opinion of the Committee, other scholars or experts advance different opinions regarding the privatization of the oil company Petrom. The author Hunya Gabor (2007), who wrote a book about the disputes concerning the privatization of Petrom, believes that it was difficult for the consulting company that advised the Government to project the remarkable escalation of the international oil price. Furthermore, the Supervision Committee, the EU or other managerial bodies like the Romanian designated authorities, did not witness any irregularities during or after the transaction.

Even if the methodology of evaluating the value of the assets or the contractual specifications might be arguable, Romania, as a minority shareholder (40% of the value), gained lately from the appreciation of the overall market value of Petrom OMV (e.g. dividends, taxes, share price). Hereby, as a result of the managerial skills and competences, new technologies, business process reengineering and know-how of the Austrian investor, OMV Petrom enhanced the efficiency and the financial performance (Gabor, 2007), representing in 2013 the company with the highest net profit (almost 900 million EUR in 2012) and the biggest tax payer (approximately 1.8 billion EUR) in Romania (petrom.ro, 2013).

Sitnikov & Bocean (2012) explored the importance of the assimilation of the performance-based culture specific to the Austrian company (e.g. insertion of the Management by Objectives system), which shaped the sustainable development at Petrom OMV after the privatization. Like many companies that have been privatized in Romania (e.g. Sidex Galati, Romtelecom, Dacia, etc.), the labour productivity and the efficiency of using the resources have been considerably improved over a short period of time. Although, a frequent means to achieve these improvements is by conducting layoff procedures, which reduced the occupation rate and increased the costs with unemployment compensation for the administration.

All in all, almost after 10 years from the acquisition, the inside story of the privatization has, by far, not been elucidated. The public debates conducted in the Romanian Parliament or the media improved the awareness of the case, but failed to offer concrete answers or solutions to the issue. The documents presented by the Romanian Information Agency including the 400 notices that were intended to assist the Romanian body, commonly remained unreturned by the authorities.

The privatization of Petrom still remains a discussed subject in Romania, especially by the group of people who is against it. They consider that the value of the company was deliberately underestimated and that the transaction was unbeneficial for the country, by generating losses over $1 billion. According to the belief of the author, a management contract would have been more appropriate to restructure the company and improve its financial performance. Therefore, Romania could have kept the ownership of the oil reserves, extraction, processing and distribution of petrol, strategic activities that certainly would have created a superior wealth for the nation and a more powerful international bargaining power. Contrary to what happened in Romania, in 2008 the Hungarian oil company MOL rejected the offer of OMV to acquire 51% of stock, even if the price per share was higher compared to the market price (budapestaanalysis.hu, 2008). Also the response of the EU Commission differed from the Petrom case, being against the unsolicited offer initiated by the Austrian corporation, considering it harmful for the EU common market, the competition and the international oil industry.

Chapter 7 – Conclusions and Implications

Privatization proved to be, in general, a lengthy and complicated process in the case of the majority of the former socialist countries within the CEE region. This paper examined the major motives and benefits sought by the states and the private investors when involving in such a transaction.

There is still a major debate between the supporters and opponents of denationalization. In order to judge the outcomes of privatization, one must carefully consider the gainers and losers, the advantages and limitations, the context and the results. Hereby, distinguishing between the involved parties and categorize them into groups could be beneficial (i.e. the government, the privatized company and its employees, the buyer and the national economy). Accordingly, some authors, economists and especially politicians, who have been exposed to the media pressure, rapidly articulated their opinions by considering only a small fraction of the entire picture. A tendency that characterizes some of the Romanian moderators, economists or elites is the one of conferring an excessive weight to the government's losses (e.g. national resources) without considering the benefits resulted from the sales growth (e.g. stronger economy, higher taxes, jobs creation, etc.), transparency, know-how and improved technical and managerial capabilities. Nevertheless, this is not the case of some former state owned companies and factories that were fraudulently sold to investors, who were only interested in shutting them down in order to eliminate the competition or to purposely destroy them. Especially in the Eastern part of Europe (e.g. Bulgaria, Romania), the lack of a legislative and institutional framework permitted such transactions, which have been characteristic by dubious conditions of transferring the ownership.

In general, the literature examined confirms the idea that private ownership is more efficient compared to state-owned proprietorship, but with several additional considerations. The insights presented by several authors including Vickers & Yarrow (1995) suggest that competition is a prominent determinant of a successful privatization program. Hereby, one reason that triggered the failure of the privatization programs in several post-communist markets was the lack of strong competitors, situation that favored a monopolistic behavior of the newly privatized companies. Furthermore, factors such as the level of corruption, influence padding, effective legislation, efficient control conducted by the monitoring institutions, capabilities and skills of the politicians, economists and other elites, have often influenced the outcomes of the process.

The preparedness for creating a private sector differed among the various CEE countries and materialized with the prevalence of the Central cluster, including the Czech Republic, Hungary, Poland, over the Eastern cluster (e.g. Romania, Bulgaria, Russia). Additionally, the methods used to sell the SOEs were found by some scholars to significantly influence the outcomes of the privatization program. The countries that did not rush to conduct mass privatization programs or to overestimate the importance of MEBO, and predominantly trusted the case-by-case methods, registered better privatization results for the national economy and the wealth of the population.

The thesis details in the last chapter two relevant case studies for the Romanian economy. Firstly, the privatization of the Romanian bank BCR is practically a model of success that wishes to analyze the banking situation and the consequences achieved by selling the majority of stock to the financial institution Erste Group. The author believes that it is probable one of the most favorable and important cases of ownership change in Romania. On the contrary, the second case study – the acquisition of the oil company Petrom by OMV, represents a controversial story that attracted a lot of interest lately, when the Senate presented the intention in the Romanian Parliament to force the renegotiation of the privatization contract. Even if Petrom OMV represents today one the most profitable companies and the biggest tax payer in Romania, the contractual agreements caused important losses for the national wealth. Among other issues, it is thought that the valuation of the transaction price was significantly lower compared to the real market price due to the omission of numerous assets or accounting errors.

To conclude with, privatization as a source of wealth remains a complex and a highly arguable matter that must be thoroughly examined. The author supports the opinion of the gradualists, the school of thought that supports the idea of firstly to elaborate an adequate political and legislative situation, including proper institutions, which have the authority and ability to monitor and control the privatization process and than to start the privatization program. Additionally, another important criterion is the consistency of the political parties of maintaining the strategy of selling the state-owned possessions, in order not to distort the message transmitted to the potential investors or to ruin the initial financial projections.

The study confers valuable information for theoreticians, economists, politicians and future investors, who have a strong interest in researching or understanding the contextual factors that influenced the privatization process in the CEE region. The thesis is a thorough representation of the privatization results achieved by the largest European transition economies after 25 years of its inception and is rich in providing different insights achieved by many scholars who empirically studied this subject. Furthermore, the author aims to exemplify the Romanian privatization circumstances by examining two companies from different business sectors, banking and oil processing, which have been acquired by Austrian global corporations.

The author believes that there are many facets of privatization that still might be stimulating to be studied. One possibility might be to further analyze the privatization results in Eastern Europe, by conducting a descriptive study in Bulgaria, Romania, Ukraine, and even Russia, and to examine the similarities and differences with respect to the outcomes of the program. Secondly, other Romanian or foreign scholars might be interested in expanding the limited existing knowledge concerning the privatization results in Romania. The previous literature is scarce in providing empirical studies with a large number of privatization cases, the majority including only a small sample size of companies within a single industry. Next, other interesting topics will be the future of the privatization program, which is by far to be ended in Bulgaria or Romania. In the case of the second country, the government wishes to initiate the privatization procedure of SOEs like the railway monopoly CFR S.A. or the Romanian Post Company. Hereby, scholars might highlight the potential differences between the former privatization stages (until 2007) and the third privatization phase, a posteriori to the EU integration.

The actual and the future EU political situation will be a source of inspiration even for the authors interested in the denationalization process. Lately, the economic situation within the European Union drastically deteriorated, especially in countries like Spain and Greece that must deal with record unemployment rates and austere recovery measures. This unfortunate situation triggered discussions concerning the limitations of the democratic and financial systems. Rupnik (2013) is preoccupied with the upcoming evolution of democracy in Europe, region that actually struggles with the deteriorating perceptions of the EU citizens with respect to the unified currency (EURO) and the capacity of the Eurozone to halt the negative consequences of the financial meltdown. The consideration of political risks such as nationalization and domestication of the private sector still might look distant and it is hard to imagine that they can affect the EU members, although, the intensifying nationalistic political view, might concern the European policymakers in the near future.

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Appendices

Appendix 1

Table 3: Industrial firms categorized by degree of profit or loss

			Unprofitable				
		Profitable	Cannot Cover Depreciation	Cannot Service all Debt	Cannot Pay all Wages	Cannot Pay all Suppliers	
	Year	A	B	C	D	E	Total
Bulgaria	1995	45	13	17	22	4	100
(828 firms)	1994	43	11	29	13	4	100
	1993	22	18	23	32	5	100
	1992	28	10	31	27	4	100
Czech Republic	1995	73	19	6	1	1	100
(706 firms)	1994	71	20	6	3	0	100
	1993	63	25	10	2	0	100
	1992	60	11	15	13	1	100
Hungary	1995	70	14	6	9	1	100
(1,044 firms)	1994	67	11	9	11	2	100
	1993	67	9	8	12	4	100
	1992	59	9	12	14	6	100
Poland	1995	49	23	15	12	1	100
(1,066 firms)	1994	45	23	16	14	2	100
	1993	40	17	12	24	7	100
	1992	37	16	16	21	10	100
Romania	1995	24	16	9	40	11	100
(1,092 firms)	1994	23	13	11	40	14	100
	1993	24	16	8	42	10	100
	1992	30	7	9	41	12	100
Slovak Republic	1995	56	27	7	10	0	100
(905 firms)	1994	57	21	9	13	0	100
	1993	51	22	12	13	2	100
	1992	48	16	13	19	4	100
Slovenia	1995	64	17	9	8	2	100
(727 firms)	1994	67	14	13	6	0	100
	1993	67	13	15	5	0	100
	1992	65	13	17	5	0	100

Source: (Pohl et al., 1997, p.6)

Appendix 2

Table 5: Measures of restructuring for industrial firms

	Firms with Positive Operating Cash Flow (1995)	*Average Operating Cash Flow as % of Revenue (1995)*	*Annual Growth in Labor Productivity (1992-95)*	*Annual Growth in Total Factor Productivity (1992-95)*	*Annual Growth in Exports in 1995 prices (1992-95)*
Bulgaria	74%	1%	-2%	0%	14%
Czech Republic	98%	14%	7%	5%	22%
Hungary	90%	8%	3%	4%	11%
Poland	87%	7%	5%	5%	18%
Romania	49%	1%	-1%	-1%	6%
Slovak Republic	90%	12%	5%	5%	20%
Slovenia	90%	10%	3%	1%	8%

Source: Pohl et al., 1997, p.8

Appendix 3

Tabel: 2.1 Methods of Privatisation

	Description of method	**Alternative term**
a)	Sale by public offering of shares	Sale of shares
b)	Closed or limited tender (sale by private treaty)	Tender
c)	Sale by public auction	Auction
d)	Leasing of firm assets	Lease
e)	Management and/or worker buyout	Insider privatisation
f)	Free (or token) distribution of shares/vouchers to population	Voucher privatisation[1]
g)	Free (or token) distribution of shares to wokers/managers	Insider privatisation
h)	Free distribution of shares to social institutions	-
i)	Restitution of property to former owners	Restitution

Source: Hare (1994), p.194.

Note:

Appendix 4

Table 2.3 Main Privatisation Methods per Country (Status 1997)

	Main Mode of Privatisation	Secondary Mode
Bulgaria	Sale to outsiders	Voucher (public)
Czech Republic	Voucher (investment funds)	Sale to outsiders
Hungary	Sale to outsiders	-
Poland	Insiders (mebo)*	Vouchers (public)
Romania	Insiders (mebo)*	Sale to outsiders
Slovak Republic	Insiders (mebo)*	Vouchers (public)
Slovenia	Insiders (mebo)*	Sale to outsiders
Estonia	Sale to outsiders	Insiders (mebo)*
Latvia	Vouchers (public)	Sale to outsiders
Lithuania	Vouchers (public)	Insiders (mebo)*
Armenia	Vouchers (public)	Vouchers (insiders)
Georgia	Vouchers (public)	Insiders (mebo)*
Russia	Vouchers (insiders)	Sale to outsiders
Ukraine	Insiders (mebo)*	Vouchers (public)

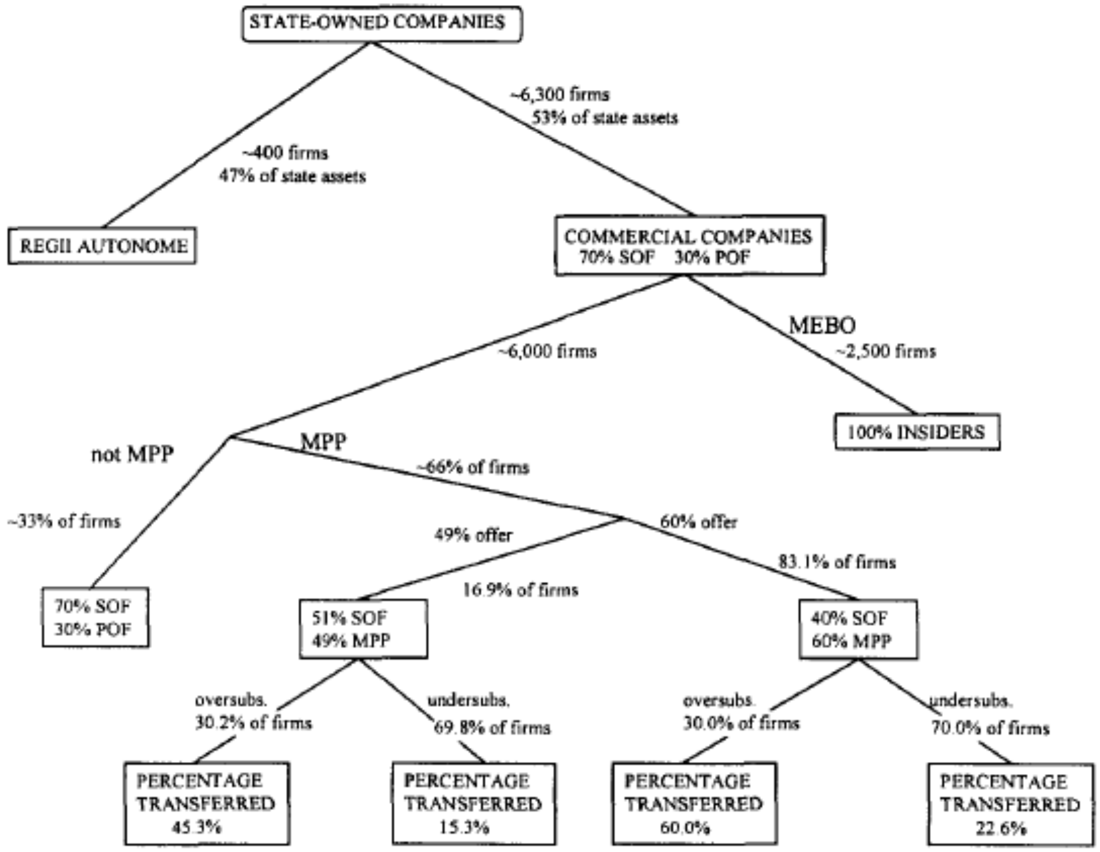
Source: EBRD (1997), p.90.

Note: Voucher (public) indicates that the general public had access to the vouchers, i.e. equal access voucher privatisation. Vouchers (insiders) indicates that significant concessions to insiders were made. All other terminology is used as defined in section 2.1.

*: management employee buy out.

Appendix 5

The privatization methods used by the Romanian government (1990-1998)



Note: MPP-mass-privatization process; SOF (Savings Investment Fund)
Source: Earle & Telegdy, 1998, p. 315

Résumé (Lebenslauf)

Personal Information:

Costin Alexandru DAN (BSc)
26.04.1989
Mob. +40724312099
E-mail. dan.alexandru89@ymail.com

Education:

- **Master of Science – International Business Administration, University of Vienna (2011-2013)**

  Specializations: International Management, International Marketing

  Master thesis: "Privatization and FDI in Central and Eastern Europe - The influence of ERSTE Bank and OMV AG on the Romanian economy"

- **Bachelor of Science – Business Administration, University of Economics Vienna (2009-2013)**
  No degree; graduated 10 courses

- **Bachelor of Science – Economic Management, University of Economic Studies Bucharest (2008-2011)**

  Bachelor thesis: "Total Quality Management in the SME sector. The implementation of the techniques in a Romanian company" (Translation from Romanian)

- **Summer University (Bucharest), "Economics and politics in a global world", University of Economic Studies Bucharest (August 2009)**

- **German College Bucharest (Goethe Kolleg) (1996-2008)**
  Specializations: Mathematics-Informatics

Work Experience:

- Business Writer, Freelancer (2012-present)
- Junior Marketing Specialist, Radar Group Export-Import Ltd. (2009-2011)

  Address: Piata Romana 9, 010372, Bucharest, Romania

- Sales Representative, Radar Group Export-Import Ltd. (part-time, 2007-2009)
- IRC Volunteer – Undernet.org Committee & Channel Helper (2002-2004)

Languages:

- Romanian (Mother language)
- German, English (fluent)
- French (intermediate)