# Corporate Restructuring and Governance in the Era of Globalization

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Bratislava, March 18, 2004

# Starting from scratch

- Is there any need to teach people in post-communist economies market behavior?
- Are Slovaks less or more entrepreneurial than other nations?
- Are Slovaks more pessimistic than other nations?

# No need to teach market behavior

- Market forces, or “market behavior” are present in all societies, irrespectively of their ideology
- Legacy of socialism
  - Written rules do not matter much and their enforcement is weak – there are “other ways”
  - Short term investment horizon
  - Soft budget constraints, rent-seeking behavior
  - Fraud is always good, nothing gets lost

# Entrepreneurial spirit exists

- The quality of regulations and governance explains how entrepreneurial talents are utilized
  - Lack of entrepreneurial spirit? Change rules!
- Corporate restructuring, as a mechanism of adaptation to expected development in regulations, indicates quality of regulations and governance

# Restructuring often went wrong

- Experience in Slovakia shows that corporate governance was inadequate and fraud was usual
  - Restructuring often went wrong, because regulations went wrong (e.g. Revitalization act)
  - Soft budget constraints – “call the bank to get a credit”
  - Unclear roles of (co-)owners, managers and other stakeholders
  - Unpredictable environment - returns expected in the short run

# Fraud was usual and legally O.K.

| IPF in 1999 | No. of investors | Assets (SKbn) |
|---|---|---|
| Operates | 107,655 | 5.1 |
| Transformed to ordinary join stock c. | 1,313,934 | 42.9 |
| Liquidated | 46,276 | 1.9 |
| License withdrawn | 188,017 | 6.6 |
| Total | 1,655,882 | 56.5 |

# New challenges

- Legislation is being improved, but
  - WB and IMF: supervision boards are weak, protection of the shareholders is inadequate, FMA's capacity and position is weak
- Foreign Direct Investment changes ownership structures and culture
  - Future FDI may require more sophisticated governance framework /application of global standards
- Pension and other reforms rely on the good corporate governance framework
  - WB: current private pension funds and FMA weak

# Corporate governance: a priority

- Growth and meeting Maastricht criteria are the main engines of reforms
- But sustainable growth is impossible without having good general framework for governance (public and corporate sectors)
- Lessons from other Slovak programs: pessimism can be overcome quickly

# Thank you!

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