Scientific Annals of Economics and Business
65 (4), 2018, 427-442
DOI: 10.2478/saeb-2018-0027

A Survey of the Autonomy, Accountability, Effectiveness and Governance of Slovak State-Owned Enterprises

Zuzana Brinčíková[*], Marek Kálovec[**], Colin W. Lawson[***], Eva Muchová[§]

Abstract

Fourteen Slovak state-owned enterprises were studied, using published data and structured interviews with management. A novel methodology is used to assess SOE autonomy, effectiveness, accountability and governance. Variations in operating conditions reflect different government objectives and different ownership models. Mixed state-private firms performed more like competitive firms than did wholly state-owned SOEs. This information was fed into an assessment of Slovak SOEs' compliance with the 2015 OECD Guidelines on SOE Corporate Governance. There are many differences between Slovak practice and the Guidelines. This may reflect a choice to favour government interests, rather than the OECD's inclusion of a wider group of stakeholders. One cost is foregone efficiency gains. Another is the perception that the present highly opaque governance system hides corruption.

Keywords: state-owned enterprises; corporate governance of state-owned enterprises; accountability; effectiveness; principal-agent.

JEL classification: G30; H44; L32; L33; P23.

1. INTRODUCTION

The role of state-owned enterprises (SOEs) in advanced market systems has long been debated in economics. After all, why create an SOE, rather than subcontract production to a private firm (Lawson, 1994)? From the 1980s the economic case for SOEs was increasingly questioned by advocates of privatisation. However, while SOEs became less common outside of the network industries of transport, energy, and telecommunications, they continued to be of substantial importance. For 2008-2009, Christiansen (2011) estimated that SOEs and partly state-owned listed companies in OECD member states were valued at

[*] Department of Economics, University of Economics in Bratislava, Slovakia; e-mail: *zuzana.brincikova@euba.sk.*
[**] Department of Economics, University of Economics in Bratislava, Slovakia; e-mail: *marek.kalovec@euba.sk*.
[***] Department of Economics, University of Bath, United Kingdom; e-mail*: hsscwl@bath.ac.uk* (corresponding author).
[§] Department of Economics, University of Economics in Bratislava, Slovakia; e-mail: *eva.muchova@euba.sk*.

3 trillion US$, and had six million employees. This pattern and scale of importance of OECD's members' SOEs was confirmed for the end of 2015 (OECD, 2017).

The end of central planning in Central and East European economies (CEE) in the early 1990s was accompanied by rapid, often mass privatisations, and the standard advice of international agencies and their consultants was not to retain any significant SOEs. The advice was in part politically motivated, springing from a fear that such SOEs would provide an economic base for a return to authoritarian politics and a directed economy. In the former Soviet Union, save for Ukraine and the Baltic states, this fear was realised.

In CEE SOEs survived, though on a much smaller scale than under central planning. For example, in 2012-2014, defining SOEs as firms having at least 50.1% state ownership, Böwer (2017, p. 7) records that they generated 12% of Slovenia's GDP, 7.5% for Poland, 6% for Bulgaria, and 2% for Slovakia. However, this restrictive definition of SOEs grossly underestimates their importance to the economy, as we will see below.

As states have continued to retain SOEs, especially in what they see as key areas of their economies, the debate has moved from justifications for their existence to assessment of their performance, and developing policies to improve it. For example, see Florio (2014), Florio and Fecher (2011), European Commission (2016), and Böwer (2017). Prominent amongst those policies is improved governance, which "benefit firms through greater access to financing, lower cost of capital, better performance, and more favourable treatment of all stakeholders." (Claessens and Yurtoglu, 2013, p. 1).

Recognising the continuing importance of SOEs, the OECD developed and published its Guidelines on Corporate Governance of State-Owned Enterprises in 2005, and later updated them (OECD, 2005, 2015a, 2015b). The Guidelines 'are recommendations to governments on how to ensure that SOEs operate efficiently, transparently and in an accountable manner. They are the internationally agreed standard for how governments should exercise the state ownership function to avoid the pitfalls of both passive ownership and excessive state intervention.…[They] provide advice on how governments can ensure that SOEs are at least as accountable to the general public as a listed company should be to its shareholders.' (OECD, 2015a, p. 5).

It is clear from the wider literature on SOEs that there are two key requirements for achieving an efficient and effective SOE sector. First, the state must set clear objectives, and allow SOE management the operational flexibility to achieve them. Second, the SOEs' corporate governance system must encourage efficiency, and be accountable to all of its stakeholders, including the public, the ultimate owners.

Section two provides a brief summary of Slovak SOEs' operations and governance. Section three sets out our methodology for assessing accountability, and applies it to a reasonably representative sample of fourteen Slovak SOEs. Section four provides an assessment of Slovak SOE governance measured against an internationally recognised OECD template. A brief conclusion summarises our results.

To gather data, it was necessary to agree to SOE informants' requests for anonymity. So, while it is possible to make limited generalisations across different industries and ownership models, we cannot provide obviously identifiable individual company level examples. When a specific company is mentioned the information noted is publically available, and did not come from an interview. If a Slovak SOE is named it should not be assumed that it was in the sample. This type of problem is, unfortunately, not uncommon in this field, and for a similar use of anonymity to facilitate investigation of SOEs, see Luke (2010).

2. RATIONALES AND IMPORTANCE OF SLOVAK SOES

'Corporate Governance of State-Owned Enterprises – A Survey of OECD Countries' (OECD, 2005), reported that Slovakia had 115 SOEs. The ratio of their asset value to GDP, at 55 percent, was the highest of all OECD member countries. Their turnover to GDP ratio was 20 per cent; they accounted for 7 percent of total employment, and 8 percent of GDP. Of the SOEs 28 per cent were wholly state-owned, 24 per cent were majority state-owned and 48 per cent were minority state-owned. If minority state-owned SOEs are excluded, the estimated contribution of the remaining SOEs to Slovak GDP drops very significantly (Böwer, 2017).

If we count SOEs covered by the state budget chapter or FNM/National Property Fund, regardless of the share of state ownership, according to The Proposal of the Consolidated Annual Report of the SR for 2015, there were 94 SOEs (Government Office of the Slovak Republic, 2016b). About 60 per cent of state-owned enterprises were controlled by a total of 13 Slovak ministries, more than 37 per cent by MH Management (formerly the National Property Fund), and the rest by other government offices. So, influences on SOE performance are spread very widely across government institutions.

By ownership type we can distinguish four distinct groups of Slovak SOEs. First are the seventeen companies covered by the State Enterprise Act of 1991. These companies are wholly owned by the state, and do not issue shares. Second are those where the state owns all of the shares. The third group comprises those where the state owns a majority of shares, and the fourth where the state has a minority shareholding.

A key change in policy towards SOEs was the July 2006 formation of a left of centre coalition government under the leadership of Robert Fico, the SMER-SD party leader. He was prime minister of either SMER-SD or coalition governments from then until his resignation in March 2018, save for the period from July 2010 to April 2012. In 2006 he cancelled the previous government's plans to privatise Bratislava airport and Cargo Slovakia, the freight part of Slovak Railways, and subsequently followed a more statist policy. For example, the most recent post-election victory Manifesto of the Government of the Slovak Republic – a statement of the new government's intent – noted that 'The incoming government is aware of the need to advocate the strategic role of the state in individual sectors…. Unlike the simplified concept [of privatisation] the Government advocates the idea of a well-managed and properly functioning welfare state…' (Government Office of the Slovak Republic, 2016a, p. 3).

The three Fico governments have renationalised parts of the energy sector, including part of Slovakia's gas utility, SPP, under the second government. However, some assets have also been privatised. For example, in 2014 Cargo Slovakia sold 66 per cent of Cargo Wagon to a Swiss company for 216 million euros, and in 2015 49 per cent of Slovak Telecom was sold to Deutsche Telekom for 900 million euros.

In contrast, Fico's third government's Manifesto promised preparations to create a national air carrier, to operate scheduled flights from Bratislava to regional airports, and to important European airports, and to use EU funds to create a national waterway carrier (Government Office of the Slovak Republic, 2016a, pp. 16-17). The first promise is intended to help improve Slovakia's notoriously limited air transport links, the second will involve developing and modernising river ports on the Danube.

The Fico governments developed and enshrined in law the concept of Strategic Companies. This doctrine underpins much of their justification for retaining, extending and creating SOEs. The legislation was first enacted in 2009 to ensure that the then acute economic crisis did not lead to the closure of companies supplying key goods to the economy, security or healthcare systems. The Economy Minister or the Finance Minister can designate a company as strategic, and this means that if is declared bankrupt then it may be bought by the state. Such companies must have more than 500 employees, and be major suppliers of energy products, telecommunications, or water and sewerage systems. The state may buy such companies and, when the crisis is past, may resell them. A designation of "strategic" may therefore inflict costs on the owners and employees of such firms. For those companies already in state hands it protects them from further privatisation. Wholly state-owned strategic companies include the Slovak gas industry (SPP), the National Lottery (Tipos), Bratislava airport, Forest Industries (Lesy SR), Slovak Post, and the Slovak electricity generation and transmission systems.

In part the post-2006 shift against privatisation and towards a view of SOEs as having key strategic or welfare functions is a reaction to earlier privatisation scandals. These were frequent and extensive (Autner, 2006). But problems with the management and privatisation of SOEs, formally owned by the National Property Fund (1991-2015), continued after 2006. This holding body was replaced in January 2016 by a new joint-stock SOE holding company, MH-Management, wholly owned by the Ministry of Economy. But individual SOEs continue to be linked to specific ministries or other government offices that oversee their production activities, and have political appointees on their boards. Therefore both wholly and partly owned SOEs are public sector institutions whose productivity is influenced by the ethos and operations of the wider public sector institutions and civil service, in whose milieu, and under whose control, they operate.

There is a clear need to improve the efficiency of the civil service. The OECD reviewed Slovak public governance and produced a series of major recommendations (OECD, 2015b). The report notes that more than half the Government Office's staff are replaced after elections. Amongst OECD countries only Turkey has such a high turnover. 'This considerably limits the Government Office's ability to guide and steer line ministries' (OECD, 2015b, p. 53). Further there is an obvious need to 'Clarify the political-administrative interface and manage senior civil servants as a group serving a 'single' government. The absence of a cohort of permanent, professional civil servants at senior or middle management levels undermines continuity in public service management and is bound to weaken impartiality as the boundary between political appointments and professional managers is unclear.' (OECD, 2015b, p. 31). And critically 'Ethics training in the Slovak public sector remains formalistic and has limited practical impact on the behaviour of public officials' (OECD, 2015b, p. 38).

Part of the Slovak government's response to these criticisms was the passage in its 2016 Manifesto, where it promised to 'professionalise the state administration and delineate political nominations and lay the groundwork for a professional, politically neutral and stable civil service (Government Office of the Slovak Republic, 2016a). We return to these issues when we assess SOE corporate management in Section 4.

3. ACCOUNTABILITY: THEORY, METHODOLOGY, RESULTS

Having decided to create SOEs the government has to ensure that they operate effectively. They can use two policies to achieve this. First, they can set limits to management powers. These might include profit objectives, subsidies for uneconomic activities, pricing policy, competition policy, freedom to alter the output mix, the labour force and wages, financing criteria, and audit requirements. This is the effective decision-making framework in which the SOE must operate. Second, they can lay out the governance system SOEs must follow. This is the wider legal framework that could include the rationales for state ownership, the state's role as owner, SOE's behaviour in the market, the treatment of shareholders and other investors, stakeholder relations, disclosure, transparency, and the responsibilities of SOE boards.

Both the decreed decision-making framework and the governance system are intended to minimise the standard principal-agent problem that arises in the divorce of ownership from control. Here we set out and apply our framework for assessing the decision-making framework facing SOEs, and in Section 4 below we discuss the wider governance system. Although the latter system diverges significantly from the OECD recommendations, we argue that it is consistent with the view that SOE behaviour should reflect government priorities, if necessary to the exclusion of any other stakeholders, save perhaps private shareholders in joint-ownership SOEs.

The theory behind removing or reducing the principal-agent problem is clear, even if sometimes the practice is not. Despite the best efforts of government to monitor performance, management has superior information about its own activities and preferences. If these diverge from those of the government there may be efficiency losses. The key step to minimise them is to make management accountable for an SOE performance that should be measured in scarcity prices. This requires incentives clearly linked to performance, and a monitoring system based on price signals that reflect opportunity cost.

Obviously SOEs' market situations must be assessed against a competitive profit-maximising solution, but one that reflects their specific situation. So realised profits have to be adjusted to reflect the degree of monopoly power, and the cost of following non-commercial policies. The latter could require using shadow prices for both inputs and outputs. If shadow prices are too difficult to calculate then an alternative is to remove any controls and use market prices. Output prices need to reflect long run marginal costs, investment appraisal should follow standard optimising techniques, and the firm should be subjected to regular management and financial audits. At every level non-commercial criteria and activities can be included, but they and their impacts on firm performance need to be precisely calculated (Lawson and Kaluwa, 1996).

Our sample design for our survey used three filters; the size of the company's equity (usually higher than 50 million €); the scale of public ownership – starting with those having almost 50 per cent state ownership; and representativeness – to reflect sectors such as infrastructure, communications and transport, health care, finance, manufacturing, and power supply. An initial selection of twenty-seven SOEs, later supplemented by replacement SOEs to maintain the representativeness of the sample, generated fourteen useable replies. The objective was to investigate the accountability, effectiveness and governance of Slovak SOEs by collecting information from their annual reports, websites and managers – the latter by using a questionnaire, administered face-to-face in 2015-16.

One of the research objectives was to collect data on a range of types of SOE: mixed-ownership joint-stock, wholly state-owned joint-stock, and wholly state-owned non-joint-stock. The aim was to include examples of small, medium and large SOEs, and SOEs from a range of network industries: power, fuel and transport, as well as from other areas such as finance and manufacturing.

In the event we experienced considerable difficulties in obtaining the cooperation of SOE managers, and we had to agree to their requests for anonymity. Thus, no informant is named and the companies are referred to by the letters A to N. Even so to get fourteen usable case studies we had to approach over thirty SOEs, and not all of the case study respondents answered the full questionnaire. Originally, the intention was to interview senior management, and for six SOEs we achieved this. In the remaining eight cases, the main informants were middle level managers, though some of them referred certain questions to senior staff.

The sample of SOEs contains five fuel or power industry firms, three infrastructure firms, two involved in finance, two manufacturers, and two in transport and communications. Three of the firms have one hundred or fewer employees; five have between 101-1000, and six have more than a thousand employees. The total number of employees in the sample SOEs was 33,496.

Table no. 1 – SOE accountability indicators: criteria for index score

Dimension	1	2	3
1. Profit objective	Maximize: few exceptions	Make profits: key exceptions	Cover costs: little concern with profits
2. Subsidies for uneconomic activities	Earmarked subsidies (or none)	General but limited subsidies	Cover overall deficits
3. Price distortion	Little or none	Moderate	Severe
4. Degree of competition	Substantial	Limited	Little or none
5. Freedom to choose output mix	Substantial	Limited	Little or none
6. Freedom to alter labour force	Substantial	Limited	Little or none
7. Freedom to alter wages	Substantial	Limited	Little or none
8. Standard investment criteria	Applied	Use limited	Not used
9. Capital borrowing rates	Market rates	Mix of market and other rates	Non-market rates
10. Internal efficiency audit	Regular	Occasional	No record
11. Independent external audit	Independent external audit	Audited by Ministry	Internal Audit Only

Notes: Dimension 3. Price distortion – if prices are set by a regulator, then score 2. Dimension 8. Standard investment criteria – assesses whether the SOE is using discounted present value or internal rate of return criteria in assessing the profitability of investment projects, or is using a sub-optimal method.

Table no. 1 shows the dimensions of accountability in which assessments were made. The model for comparison is a competitive firm operating in a competitive environment that has wide powers of independent decision making to achieve its aims efficiently. Such a firm would score 1 in all eleven dimensions. The further an SOE diverges from this pattern then the less efficient and accountable it is likely to be, with a maximum score of 3. The governance of the SOEs will be analysed after a discussion of the empirical results, which are set out in Table no. 2.

Table no. 2 – SOE accountability indicator scores

	Mixed ownership			100 percent SOEs									Non joint stock SOEs		Mean
Dimension/SOE	**A**	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**I**	**J**	**K**	**L**	**M**	**N**	
1. Profit objective	1	2	1	3	1	2	2	2	3	3	2	2	1	2	**1.93**
2. Subsidies for uneconomic activities	1	2	1	3	1	2	1	2	2	3	2	1	1	2	**1.71**
3. Price distortion	2	2	1	3	2	3	2	2	2	2	1	1	1	1	**1.79**
4. Degree of competition	2	1	1	2	1	2	2	1	2	2	2	3	2	2	**1.79**
5. Freedom to choose output mix	1	2	3	3	1	2	2	1	3	2	2	1	1	3	**1.93**
6. Freedom to alter labour force	1	1	1	1	1	1	1	1	1	1	1	1	1	1	**1.00**
7. Freedom to alter wages	1	1	1	2	1	1	1	1	1	1	1	1	1	2	**1.14**
8. Standard investment criteria	NI	1	1	3	1	2	1	1	2	3	1	1	1	NI	**1.50**
9. Capital borrowing rates	NI	1	1	3	1	2	1	1	2	2	2	1	1	3	**1.62**
10. Internal efficiency audit	1	1	1	1	1	1	1	NI	1	1	1	1	NI	1	**1.00**
11. Independent external audit	1	1	1	1	1	1	1	1	1	1	1	1	1	1	**1.00**
Mean	**1.22**	**1.36**	**1.18**	**2.27**	**1.09**	**1.73**	**1.36**	**1.30**	**1.82**	**1.91**	**1.45**	**1.27**	**1.10**	**1.80**	**1.49**

Notes: A, B and C are mixed ownership joint-stock SOEs; M and N are non-joint-stock SOEs; all others are 100 percent joint-stock SOEs. The eleven dimensions recorded in Table no. 2 naturally fall into four groups. Dimensions 1 and 2 cover the objectives of the SOEs. Dimensions 3, 4 and 5 reflect their market situation. Dimensions 6 to 9 record their ability to control their input choices, and dimensions 10 and 11 the internal and external appraisals they face. NI= no information.

In Table no. 2 the SOEs fall into the three ownership groups set out in the notes: mixed ownership joint-stock; wholly state-owned joint-stock; and wholly state owned non-joint-stock SOEs. The table suggests several findings. For individual enterprises, the average score across eleven dimensions ranges from 1.09 to 2.27. The mixed ownership group has an average score of 1.25, lower than the wholly state-owned joint-stock SOEs, which have an average score of 1.58. The non-joint stock SOEs have an average score of 1.45, but comprise one company (M) that is tasked to make profits and act competitively, and another (N) that clearly has a very different set of objectives. The small size of the sample and the large difference in the two companies' scores suggest that it would be unwise to draw conclusions about the characteristics of this subgroup without more evidence.

If we analyse the Table no. 2 results across the four groups of dimensions a richer set of results emerges. The objectives group of indicators: dimensions 1 and 2, with an overall average score of 1.82 exhibits a considerable variation from the competitive benchmark score of 1. A minority of SOEs (four out of fourteen) were instructed to maximise profits, but for half the sample there are key exceptions to this instruction. For three other SOEs profit is not emphasised as an objective.

The market situation group: dimensions 3 to 5, with an average score of 1.84 shows a deviation from the competitive benchmark of 1 similar to that for the objectives group of indicators. Five of the SOEs sell on output markets with little or no price distortion, but seven sell into moderately distorted, and two into severely price distorted output markets. Four face considerable competition, nine experience limited competition, but only one has little or no competition. The sample is split more or less equally between those that have substantial freedom to alter their output mix, those that have only a limited freedom to do so, and those that have little or no power to vary their output range.

The inputs group - dimensions 6 to 9 - shows some significant overall variations from the benchmark only in the standard investment criteria and capital borrowing rates sub-dimensions. Most SOEs use standard investment criteria, though two make only limited use of them, and two others make none. For our sample of SOEs half have to borrow finance at market rates of interest, but half manage to borrow in part or whole at non-market rates.

Finally, where we have information, and we have it for almost all cases, the appraisal group results – dimensions 10 and 11 - meet the competitive benchmark criteria. There are internal efficiency audits and independent external audit.

4. GOVERNANCE: AN ASSESSMENT USING OECD CRITERIA

A further important aspect of accountability is the governance of the SOE. There are separate arrangements for joint-stock and non-joint-stock SOEs. The latter, of which there are two in our sample, are governed by the 1991 State Enterprise Act. Their parent ministries appoint the directors and the supervisory board. The latter monitors the performance of the directors in relation to the companies' business operations. However the key controller is the ministry. Personnel tend to change when governments change.

Joint-stock companies are governed by the Commercial Code. There are three key governance institutions for such companies, the General Assembly (Annual General Meeting) of the shareholders, the Board of Directors (Management Board), and the Supervisory Board. The Board of Directors is the statutory body of the company authorised to act on its behalf in all matters and represent it vis-à-vis third parties. It manages the company's strategy and its policies to implement that strategy. It comprises the senior managers of the company.

The Supervisory Board oversees the performance of the Board of Directors and the company's business activities. There should be no membership overlap between the two boards. The Supervisory Board reports to the General Assembly. It has the right to see any documents it wishes, it controls the accounts of the company, and checks whether the company is operating in accordance with the law, its statutes and the instructions of the company's General Assembly.

The Supervisory Board must have at least three members. Two-thirds of them are elected by the General Assembly, one-third by the employees, provided there are at least fifty staff. The company's statutes can allow the employees to elect more than a third of the Supervisory Board, provided they do not exceed the numbers elected by the General Assembly. Their period of service cannot be longer than five years.

It is important to note that this two-tiered board structure differs in a critical way from the two-tiered structure used in some other European countries, for example Germany. There the supervisory board appoints the management board and so controls the company. In effect in Slovak joint-stock companies the reverse is true. A World Bank study of Slovak corporate governance concluded that 'The…board structure results in a corporate governance system with little accountability or oversight. The management board (Board of Directors) is the key statutory body. However it is identical to senior management. Thus management (or the controlling shareholder) effectively appoints itself, sets its own remuneration, hires the auditor, and takes a large number of discretionary actions…with limited shareholder influence' (World Bank, 2003, p. 12). The recommendation, to substantially increase the Supervisory Board's powers, was not accepted by Slovakia.

In 2015, the OECD issued its revised Guidelines on Corporate Governance of State-Owned Enterprises. The original guidelines were published in 2005. The Guidelines are recommendations to policymakers and public officials responsible for exercising SOE ownership powers. They are non-binding, though the expectation is that member countries will aim towards their achievement. They are demanding, not minimum standards, and the OECD admits that few countries have fully implemented them. The revised guidelines drew on a series of surveys of members' SOEs. But after 2005 Slovakia seems to have been one of the three or four, out of the then 34 members, who supplied very little information on their SOEs.

The lack of information on Slovak SOEs in these OECD reports since 2005 presumably reflects Slovak government policy. It is therefore especially interesting to try to assess how Slovak SOEs compare to the best practices set out in the new OECD 2015 Guidelines. Using the information that we collected from the 14 Slovak SOEs, and other information on this topic, we provide an assessment set out below. Given the very limited amount of Slovak official information on SOE governance and operations, and the considerable difficulties involved in gathering information, still more in acquiring SOE-specific information that can be attributed to named informants, our assessment is necessarily rather subjective.

The OECD 2015 Guidelines have seven chapters: rationales for state ownership; the state's role as an owner; state-owned enterprises in the marketplace; equitable treatment of shareholders and other investors; stakeholder relations and responsible business; disclosure and transparency; and the responsibilities of the boards of state-owned enterprises (OECD, 2015a, pp. 19-29). In the OECD text chapter, headings are followed by brief summary prescriptive recommendations which are reproduced here in italics. The Guidelines then flesh out the summary recommendation with a series of specific recommendations for each chapter. Our assessment of Slovak SOE corporate governance is based on our agreed view as to how closely these companies follow the recommendations. Our conclusions were informed by our interview material, SOE websites, annual reports and other sources, including discussions within our research group. To help us reach conclusions, for each chapter we developed a series of sub-questions, on average about ten per chapter, whose answers would lead to our judgement on the extent to which that chapter's recommendations were met. Copies of these sub-questions, along with the questionnaire used in the face-to-face interviews with SOE management, reported in section 3 above, are available on request.

4.1 Rationales for State Ownership

The state exercises the ownership of SOEs in the interest of the general public. It should carefully evaluate and disclose the objectives that justify state ownership and subject these to a recurrent review.

The Slovak state's explicit ownership policy, set out in the frequently amended State Enterprise Act and State Regulations, only covers non-joint stock companies. The Act defines the overall rationale for state ownership, explains how the policy is implemented, and sets out the roles and responsibilities of the government bodies that implement it. It covers seventeen companies, including, amongst others, thermal spas, water plants, a state mint, state forest industries and some agricultural institutes. A wider set of implicit policies for these SOEs emerge through the regulatory and procurement processes, price setting and supervision. The public can influence such policies only indirectly, through their parliamentary representatives.

For joint-stock SOEs, whether wholly or partly state-owned – the vast majority of SOEs - there is no explicit overall ownership policy. Such policy as there is, depends exclusively on the partnerships between SOEs and their responsible ministries. However, there are rationales for owning specific companies and if SOEs are tasked with achieving a particular public policy objective then such objectives are clearly set out and disclosed to the public. For example, to ensure adequate and secure energy supplies. Information on objectives is regularly accessible in SOEs' annual reports and on their websites.

Political accountability, such as it is, is managed through Parliament. Although there are no debates about SOEs in Parliament, section 54 of the Act of Procedures in the National Council allows a parliamentary committee to invite experts and other persons to appear before them, and they can require an SOE to provide a statement at a committee meeting. The creation of a specific committee on SOEs could strengthen accountability. SOE managers are required to provide an annual declaration of assets to the National Council of the Slovak Republic.

4.2 The State's Role as Owner

The state should act as an informed and active owner, ensuring that the governance of SOEs is carried out in a transparent and accountable manner, with a high degree of professionalism and effectiveness.

The operational practises of all SOEs commonly follow accepted corporate norms. However the government intervenes in non-transparent and sometimes unexpected ways, e. g. in the transport sector. Such intervention is more common the higher the degree of state ownership.

When the government, acting as a shareholder, redefines SOEs' objectives, it does so in transparent ways. But the state does not allow SOE boards to choose how they carry out their responsibilities. The government appoints to SOE boards state nominees with formal or informal links to ministers, other politicians or interest groups. The effect can be to disguise the real decision-influencers.

Overall the state is an informed and active owner, and exercises its ownership rights legally. But where the state wholly owns, or has a majority share in a company, there is no well-structured, merit-based, transparent process for nominating board members. We return to this in section 4.7 below.

The state sets and monitors the implementation of broad mandates and objectives for SOEs, including financial targets. However, it is unclear whether there are targets for capital structure and risk tolerance. There is a reporting system that allows SOEs to be monitored and audited. However, SOEs' compliance with applicable corporate governance standards is not monitored. For those SOEs governed by the State Enterprise Act, formal appointment procedures are set out, but the act does not cover management procedures.

The state has a formal disclosure policy for SOEs that identifies information that should be publically disclosed, the appropriate channels for disclosure, and the mechanisms that ensure the quality of the information. For example, from January 2011 Slovakia introduced a 'regime of unprecedented openness by deciding to have most of the public contracts published online.' (Transparency International Slovakia, 2015, p. 4). Transparency International's study concluded that the reform worked. 'Almost 8 per cent of the public checks at least one contract or receipt online every year. Coverage of procurement and public spending by the media increased by a quarter' (2015, p. 4).

But while perceptions of the scale of corruption fell and private business associations were mainly favourable to the new legislation, 'The government …. [h]ad to backtrack on contracts of state-owned companies as it faced widespread lack of compliance.' (2015, p. 7) The government then allowed SOEs to merely list the signed contracts for their core business, without providing any further details. Only for non-core business do SOEs have to provide contract details. By 2012 '…there were already 20 exemptions, from state-owned companies' core business contracts to social aid contracts, land expropriations and coin minting. State commercial interests and excessive administrative burden were the dominant reasons for limiting the original scope of the law.' (2015, p. 7).

Although the OECD recommends that the state should maintain a continuous dialogue with SOEs' external auditors, this is precluded by Slovak contract law and by the protection of private information.

Finally, there is a clear remuneration policy for SOEs boards. The questions that need answering are: do boards foster the long-term and medium-term interests of the SOEs, and can they attract and motivate suitably qualified professionals to serve on them? We later provide some evidence that may indirectly suggest answers to these questions. Here we focus on the remuneration policy.

The public interest in payments to SOE managers is covered by Constitutional Law 357/2004. The law only applies to companies where the state owns 100 percent of the shares. It thus omits significant numbers of SOEs. Where it applies, members of both the Supervisory and Management boards must annually report their earnings from public office and other income in the previous year. However, Law 357/2004 is vague and doubt often surrounds the real meaning of a public appointee's 'other income'.

4.3 State-Owned Enterprises in the Marketplace

Consistent with the rationale for state ownership, the legal and regulatory framework for SOEs should ensure a level playing field and fair competition in the marketplace when SOEs undertake economic activities.

In some, but not in all respects, Slovak SOEs and private enterprises compete on equal terms. SOEs face the same regulation as a private firm in the same market. If the stakeholders, creditors, competitors and customers of SOEs consider their rights have been infringed they can seek redress through unbiased legal or arbitration processes. The cost of SOEs' public policy activities objectives can be separated out and generally will be disclosed and funded by the state. SOEs undertaking private economic activities will generally be subject to the same laws, tax codes, prices and regulations as private firms. If they fail to honour their obligations to their private creditors then they face the same penalties as private sector firms, including insolvency proceedings.

The differences in the treatment of SOEs and private firms are in two areas. First, not all SOE projects have to generate commercial returns, most importantly if they involve European Union infrastructure funds, with co-financing from the state budget. Such funds are treated as transfers. More generally those SOEs operating in the area of public services operate more in the public interest, and are less focussed on target rates of return than are mixed ownership SOEs.

Second, and perhaps more significantly, SOEs are sometimes favoured in the award of government contracts, and this indirect financial support gives them an advantage over private competitors. When the SOE acts as a bidder or procurer in public procurement, regardless of the formal requirements, the process can be uncompetitive, discriminatory and non-transparent.

4.4 Equitable Treatment of Shareholders and Other Investors

Where SOEs are listed or otherwise include non-state investors among their owners, the state and the enterprises should recognise the rights of all shareholders and ensure shareholders' equitable treatment and equal access to corporate information.

In SOEs' non-state investors are treated equitably. All shareholders enjoy a high degree of transparency and an equal and simultaneous disclosure of information. Minority shareholders are encouraged to participate in shareholders' meetings. Only wholly state-owned SOEs produce non-market outcomes, such as free rail travel for young and retired travellers, or EximBanka's subsidised export insurance policies. Where SOEs are required to pursue public policy objectives, non-state shareholders seem to be adequately informed. Against this, while the rights of both parties are maintained in public-private partnerships, the lack of a corporate governance code in both the public and private sectors must in itself increase the uncertainty attached to such ventures, and therefore reduce the demand for private minority shareholdings in SOEs.

4.5 Stakeholder Relations and Responsible Business

The state ownership policy should fully recognise SOE's responsibilities towards stakeholders and request that SOEs report on their relations with stakeholders. It should make clear any expectations the state has in respect of responsible business conduct by SOEs.

Stakeholders' rights, whether in law or agreed between the parties are generally recognised by the state, its ownership agency and the SOEs themselves. Listed or large SOEs report on their stakeholder relations with labour, creditors and other affected parties. SOE boards have developed, implemented, monitored and set out their internal controls, ethics and compliance programmes. Nevertheless, there is little or no public information on their policies for preventing fraud and corruption. Neither has the state published its views on, nor commitment to, responsible business behaviour. Norms of business behaviour are generally more implicit than explicit. However, there is an explicit norm (Act85/2005) forbidding SOEs from helping to finance political parties or campaigns.

4.6 Disclosure and Transparency

SOEs should observe high standards of transparency and be subject to the same high quality accounting, disclosure, compliance and auditing standards as listed companies.

Slovak SOEs do not meet all of these targets. They generally provide clear public statements of their objectives, and of their fulfilment, including financial and operating results, and the costs and funding for their public policy objectives. They generally also provide statements on their governance, ownership and voting arrangements. However, there is no corporate governance code, indeed there is not even a de facto policy on this aspect of corporate behaviour.

Some SOEs, for example the Forest Industries SOE, provide clear public statements about the overall pay and expenses of board members and other key executives. But importantly they do not provide information on board members' qualifications, selection procedures, or roles on other companies' boards. There is no information on board diversity policies.

SOEs provide information on the management of material foreseeable risk factors, and on state financial assistance, guarantees, and commitments made on behalf of SOEs. Nevertheless, and importantly, there is rarely sufficient information to form a clear view of SOEs' material transactions with the state or related entities.

While SOEs usually provide information on significant issues relating to employees and other stakeholders, and they are all subject to independent external high-quality audits, the state ownership entity MH Management does not publish an annual aggregate report on its SOEs.

4.7 The Responsibilities of the Boards of SOEs

The boards of SOEs should have the necessary authority, competencies and objectivity to carry out their functions of strategic guidance and monitoring of management. They should act with integrity and be held accountable for their actions.

Of the seven areas covered by the OECD guidelines this is the one with the widest gap between Slovak practices and OECD recommendations. This raises the possibility that the narrower gaps we have noted for earlier chapters just reflect the higher potential for better relative performances in those chapters. Much of that potential may be unrealised because of the inability of the SOE boards to act independently, to consistently appoint fully qualified members, to escape potentially pervasive political influence, or to resist the influence of powerful private sector actors.

SOEs have clear mandates and ultimate responsibility for the enterprises' performance. Their roles are clearly defined in legislation, though they are not instructed to be fully accountable to their owners. The supervisory boards do not have the power to appoint or remove their SOEs' Chief Executive Officers. Not all board members are nominated on the basis of their qualifications and they do not have equivalent legal responsibilities. The appointment process is opaque and it is unclear whether there are any independent board members who do not have material interests in the enterprise, its management, other major shareholders or the ownership entity. The most reasonable working hypothesis to help explain board actions, when political influence is ubiquitous, is that independence is not a valued characteristic, indeed the reverse.

A study by Transparency International Slovakia of 30 SOEs found that within a year of a national election seventy per cent of management had been changed. On average managers stayed only two years with SOEs, compared to three years with private firms. Seventy-five per cent of SOEs refused to publish the CVs of managers. In addition, there was no evidence that managerial pay was systematically linked to enterprise profits (Transparency International Slovakia, 2014). While the OECD recommends the appointment of employee representatives who can enhance the board's skills, information and independence, there is no evidence of such criteria being used in the appointment of Slovak employee representatives.

Finally, although SOEs' annual reports may embody the results of well-structured evaluations of the boards' activities and efficiency, and efficient internal audit procedures, there is generally insufficient information to determine whether the boards have separate committees to cover audit, risk management, and pay, as best practice would recommend.

5. CONCLUSIONS

We argued that government has two key policies it can employ to minimise the adverse effects of principal-agent problems in SOEs.

The first is to make the firm and its employees accountable for its performance, by setting clear objectives, including the scale of subsidies, by determining the output and input choices it can make, and its appraisal procedures. The second is to create an effective corporate governance system, preferably drawing on best international practice on SOE direction and control.

Our analysis of the first key policy, the accountability indicators in Section 3, provided a complicated but coherent picture of the constraints that influence SOE behaviour. The SOEs operate in a range of different market situations, to achieve a variety of government determined objectives, from maximising profits to delivering specified services. As expected, mixed state-private SOEs performed more like competitive firms than wholly state-owned SOEs. SOEs faced different levels of price distortion and competition on their selling markets, and different freedoms to alter their output mix. Input constraints varied only in that some SOEs did not use standard investment criteria and could access capital at non-market rates. SOEs claimed that internal and external efficiency audits were standard.

Given the range of objectives assigned to firms with a variety of ownership patterns, some variation in SOE operating conditions was to be expected. This variation may also in part reflect government attempts to limit principal-agent problems. However, it remains unclear why private owners are willing to hold stock in joint ventures whose returns must commonly underperform private businesses. This merits further research.

The conclusion from our assessment of the second key policy, SOE corporate governance, is powerful and persuasive. The host of long-established divergences from OECD suggested best practices strongly reflects the specific preferences of successive Slovak governments. Unsurprisingly, governments want SOE behaviour to reflect their preferences, if necessary, by ignoring those of any other stakeholders, except perhaps SOE private shareholders.

For example, it could be argued that the reversal of the normally expected relative powers of the Supervisory Board and the Board of Directors in the German model of corporate governance is of no practical consequence, as the government, directly or indirectly, appoints or approves, explicitly or implicitly, all members of both boards.

Another example is the absence of a comprehensive SOE ownership policy. In effect this gives more power to the SOE management, the ministry and its political appointees. Perhaps the intention is to increase the probability that government objectives are achieved. However, as the objectives are not always clear, this must remain a conjecture.

The OECD model of corporate governance is designed to limit principal-agent problems a government would want to control, but may be unaware of. Such a model also protects the interests of a wider group of stakeholders, including employees, creditors, suppliers, and most importantly the public. The Slovak model of SOE governance emphasises government influence, but the interests of wider groups seem to receive little explicit attention. This also merits further research.

Clearly, there are many changes in the Slovak accountability and corporate governance systems that might result in greater returns on investment in SOEs. However, that would require the government to change its political priorities, and that might require a change in political culture.

Acknowledgements

This research was partly supported by the VUB Foundation. We would like to thank an anonymous referee for helpful comments on a previous draft.

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