(JPMNT) Journal of Process Management – New Technologies, International
Vol. 8, No 4, 2020.

CORPORATE GOVERNANCE AND PRIVATIZATION IN SELECTED COUNTRIES IN TRANSITION

Slobodan Marin[1], Milan Šušić[2], Nikola Nikolić [3]

[1]Orthodox priest in Banja Luka, Republic of Srpska, Bosnia and Herzegovina
[2]OMEGA INVEST, d.o.o. Banja Luka, Republic of Srpska, Bosnia and Herzegovina
[3] Doboj Medical School, Republic of Srpska, Bosnia and Herzegovina
o.slobodan@parohijapaprikovacka.com, i.susic51@gmail.com, direktor@vmsz.eu

Original Scientific Paper
10.5937/jouproman8-28999

Abstract: Research on improvements effectiveness of corporate governance mechanisms is a very complex research topic in the field of corporate governance, as well as strategic management. Different theoretical models and empirical results indicate the interdependence of corporate governance mechanisms and procedures within strategic decision-making. However, tradition and research to date indicate that a range of different approaches to corporate governance are evolving around the world. In practice, it is known that there is no single and always optimal choice of corporate governance model, as it depends on legal regulations, institutional frameworks and traditions of the country. However, all of them have in common that there is a high priority that works to increase the interest of shareholders in company, that the shareholders' funds can be used efficiently and wisely.

Practice has shown that the regulatory and legal framework of most countries in transition did not have enough time to develop and adapt to the needs of privatization, which significantly affected its course and results. With progress in implementing reform processes, transition countries have constantly innovated privatization models. At the same time, each of them has developed a relatively specific model of property transformation, in accordance with the characteristics of the economy and the political situation. The importance of the privatization process in transition countries is reflected in increasing the efficiency of the economy, building the foundations for the introduction of a market economy and increasing government revenues.

The main goal of the research, in this paper, is to analyze the results of the privatization process so far, emphasizing the advantages and disadvantages of this process, ie pointing out the positive experiences and key limitations with which countries in transition were faced during the implementation of the privatization process, which influenced the profiling of their business environment.

***Key words*:** *privatization, market economy, reforms, business environment*

INTRODUCTION

Corporate Governance is an essential part of modern corporate governance business practice. It is standard practice in countries with developed market economies, with growing markets and emerging markets. What is directly related to the effective functioning of the market, corporate governance based on appropriate principles and practices contributes to global sustainable development and growth of national economies[1]. Corporate governance defines the rights and responsibilities between various participants in the company, such as: boards, managers, shareholders and other stakeholders, and determines the rules and procedures for making decisions regarding the functioning of the company.

[1]Bulgarian National Code for Corporate Governance, October, 2007, str. 4

In this way, corporate governance also provides a structure through which the company sets goals, defines ways to achieve them and provides monitoring of the company's performance[2].

The importance of corporate governance has grown in European countries with the adoption of the common European currency, the free movement of capital, then products, services and people in the European Union. In the economies of countries in transition, corporate governance has been a significant issue that is being discussed and improved on a daily basis. Since the mid-1990s, the debate on corporate governance has focused mainly on specific issues of privatization and developments in the direction of changing legal regulations, all with the aim of providing transparent information necessary for potential investors. Problems with which countries in transition in establishing a model of corporate governance, especially in the privatization process, are related to issues: (1) changes in legislation, (2) lack of adequate staff, (3) conflicts and conflicts of interest between majority and minority shareholder, (4) underdeveloped financial market, (5) problem of state influence, (6) weak control and supervision over management in companies, etc.

In practice, two basic models of corporate governance are most present: (1) the American model and (2) the European model. The European model of corporate governance is represented today in: Italy, Finland, Spain, Norway, Greece, Belgium, France, Austria, Germany, Denmark, the Netherlands, Portugal, Ireland, Luxembourg, Hungary, Slovenia, Slovakia, the Czech Republic, Poland, Lithuania, Latvia, Estonia, Romania, Turkey and Bulgaria. In the observed countries in transition (rising): the Czech Republic, Poland, Hungary, Bulgaria, Croatia and Bosnia and Herzegovina, the processes of privatization and implementation of corporate governance are either mostly completed or ongoing. In the transition process of the above countries, certain similarities can be observed specific to all countries in transition. Numerous differences can also be noticed in terms of the success of the privatization process, the adoption of appropriate legal solutions, the establishment of the institutional framework, the emergence of financial markets and the introduction of corporate governance.

No Central and Eastern European country has used only one privatization model. The primary model was most often chosen at the beginning of the transition as a compromise solution between different political influences and economic factors, as well as respect for the social and cultural characteristics of a society. The basic models of privatization that are most often used in Eastern European countries are[3]: 1) model of mass voucher privatization, 2) model of investment privatization (such as direct sale, sale of shares through stock exchanges, initial public offers and public offers), 3) combined privatization model.

[2] Instituting Corporate Governance in Developing, Emerging and Transitional Economies – A Handbook, Center for International Private Enterprise, March 2002, str. 3

[3] Kozlik, M: Problems of reviving corporate governance in transition economies with special reference to the situation in the Republic of Srpska - master's thesis, Pan-European University, Banja Luka, 2009, p. 107

Research by the World Bank and the Organization for Economic Cooperation and Development (OECD) indicates the key characteristics, tendencies and contradictions of certain transition processes and flows in the countries of Southeast Europe in terms of privatization. Research confirms the constitution of the financial market, money and capital markets, financial infrastructure, legal regulations and systems, and the development of efficient corporate governance institutions. Privatization has had a positive impact on the development of corporate governance in almost all countries that have gone through the transition process. The intensity of the impact of privatization depended on the manner, organization and pace of change in the ownership structure. Much better effects were achieved in countries that privatized through direct sales, than was the case with countries that conducted the so-called. insider privatization. Also, the effects were better in countries that were more successful in changing legislation, organizing economic systems and creating conditions for the use of foreign investment[4]. In order to develop and maintain effective and efficient corporate governance, the most important thing is an appropriate institutional framework, which will define the behavior of actors in countries in transition (rising).

The main goal of corporate governance is to maximize the long-term value of shares by improving the decision-making process and company performance through good structuring of relations between investors, management and other participants. The same is achieved by defining rules and incentives that best serve the interests of the company, while respecting the obligations to other participants. The motive for improving corporate governance is self-interest, given the fact that adequately regulated corporate governance contributes to improving the financial performance of the company and its reputation. At the same time, it enables the reduction of information asymmetry and the reduction of the average cost of financing a company. In that way, preconditions for strengthening are created profitability and competitiveness of enterprises, but also the national economy as a whole. Efficiently set corporate governance enables the creation of efficient companies[5]. Based on all of the above, it can be concluded that corporate governance is key to strengthening the economy, ie improving efficiency and market economy.

The formation of the European Union and the introduction of the single currency (euro), as well as the transformation of certain countries such as Hungary, Poland, the Czech Republic and the like, certainly had a significant impact on the state of certain economies. This had an impact on the financial implications for investors and for companies interested in investing in development, which also affected the intensity and content of relations between individual countries and regional economic associations[6].

[4] Brcanski, B.: The problem of investing and making profits in fast-growing markets, Montenegrin Journal of Economics No 12, Vol. VI, p. 187

[5] http://www.shef.rs/marketing-i menadžment / napredanje-korporativnog-upravljanje-u-srbiji.com
available on August 23, 2019. years

[6] Brcanski, B.: The problem of investing and making a profit in fast-growing markets, Montenegrin Journal of Economics No 12, Vol. VI, p. 186

The quality of corporate governance is a significant factor in the growth of the value of the market capitalization of a company. Companies with strong management systems usually have better results, greater investor protection, become attractive for the inflow of external sources of financing, and this affects the growth of the market value of the company. In practice, companies that adhere to corporate governance in many cases achieve better results. The first reason for the above starts from the assumption that efficient and transparent management and control mechanisms are built through corporate governance, competencies, obligations and duties are specified, as well as procedures for delegating powers, rights and obligations. The second reason is based on the view that companies that have intensive procedures for the development and improvement of corporate governance create greater trust in the public, which is of great importance in defining a strategy for attracting external sources of financing.

It is necessary to point out the fact that an adequate way of introduction and impleme-ntation of corporate governance systems in countries in transition can provide the following advantages:

1) risk reduction, 2) stimulating the performance of the company, 3) improving and facilitating access to the capital market, 4) improving product sales and services, 5) improves management performance, 6) enables, and emphasizes the importance of transparency and social responsibility.

In order to give a more detailed and complete assessment of private sector development trends in transition countries, in this paper, we will address the key determinants of the privatization process in each of the countries individually. Special emphasis will be placed on the analysis of the macroeconomic environment, sources of financing, as well as institutional support for the development of entrepreneurship, ie small and medium enterprises. An integral and detailed analysis will serve us to give recommendations and indicate in which direction a strategy should be developed to promote this sector, but also how in this regard, countries in transition should improve their position and reduce the gap with European Union countries. This is especially important in a situation where most countries in the region (Serbia, Bosnia and Herzegovina, Macedonia, Montenegro) are in the pre-accession phase for membership in the European Union.

In order to give a more detailed and complete assessment of private sector development trends in transition countries (Serbia and Bosnia and Herzegovina), in this paper we will address the key determinants of the privatization process in each country individually. Special emphasis will be placed on the analysis of the macroeconomic environment, sources of financing, as well as institutional support for the development of entrepreneurship, ie small and medium enterprises. An integral and detailed analysis will serve us to make recommendations and indicate in which direction the strategy for promoting this sector, but also in this regard, the countries of Serbia and Bosnia and Herzegovina, should improve their position and reduce the gap with the countries of the European Union.

This is especially important in a situation where most countries in the region are in the pre-accession phase for membership in the European Union.

Starting from the theoretical and practical knowledge in the domain of the privatization process, different ones will be used in the paper methods, models, techniques and tools of scientific research work. Accordingly, qualitative and quantitative methodology. Within the qualitative methodology, from the basic scientific-research methods, the descriptive method, analysis and synthesis, deduction and induction, as well as comparison will be used. The aim of the qualitative methodology is a descriptive analysis of the observed problem based on the interpretation of the collected information relevant to the analysis of the privatization process in transition countries. Using certain literature and Internet sites in this area, the method of analysis and synthesis, the privatization process will be observed, both at the level of all observed countries and at the level of each country individually, presenting some general views and certain conclusions that arise from them. relate to the economic development of a wider area. In addition, the method of induction and deduction will be applied, which will enable, by considering each of the observed countries individually, to define some general conclusions, but also certain specifics of each of the observed countries. Using the method of comparison, the paper will present the different experiences of countries in transition in the implementation of the privatization process.

The scientific justification of this paper derives from the scientific knowledge that will be obtained in this paper. Scientific the contribution and originality of the research is reflected in the fact that, through the acquired knowledge, it will significantly expand theoretical basis, especially in the field of the role of the privatization process in the creation of functional market economies in transition countries (Western Balkans).

THE ECONOMY OF THE 21ST CENTURY AND SELECTED COUNTRI-ES IN TRANSITION

The economy of the 21st century is characte-rized by economic, social, cultural and other changes conditioned by the appearance of information and communication technologies. The changes that have occurred are a consequence of: a) informatics, b) privatization, c) deregulation and d) globalization[7]. One of the most important characteristics of the economy of the 21st century is the fact that competition no longer takes place on the domestic, local markets, but on the world (global) market. The essence of this form of competition is knowledge, where intellectual capital occupies a dominant share in the total capital of the company and becomes the most important form of property.

The resulting changes in today's economy have, observed at the microeconomic level, affected a large number of industries in transition countries (retail trade, financial services, transport, etc.). Managerial information systems have contributed the most to labor productivity in the observed countries.

[7] Ilić, B .: Perspectives of development of countries in transition, Ekonomski anali br. 165, Faculty of Economics, Belgrade, April - June 2010, p. 186-187

Also, the positive trends and effects observed in the development of countries in transition are the rapid development of electronic banking, electronic commerce, Internet portals and the like. When it comes to the application of the Internet, ie e-business, both by the population and by companies, in the observed countries in transition, the greatest progress has been made in the Czech Republic, Poland and Hungary.

The Washington Consensus policy has been the dominant development approach since the 1980s. This approach has adapted to developing countries, and since the "fall of communism" has become "conventionally" accepted in transition economies. This approach is characterized by three areas:

1) privatization and deregulation,

2) macrostabilization through low inflation and fiscal deficit,

3) liberalization through the opening of economies to the world.

This consensus emphasizes the transition from a state-led policy to a market-oriented policy. It is necessary to point out the fact that in countries in transition, the accumulation of traditional factors of production (investments in physical capital) and to a lesser extent in human capital, has gained much greater importance than in developed countries. Accordingly, traditional factors of production will long be and remain the main drivers of economic growth in countries in transition. At the same time, we should not lose sight of the demands of the modern global economy. This means that countries in transition should first develop physical infrastructure, then invest in labor education and enable the development of new institutions. Prospects for the development of countries in transition are listed in Table 1.

Table no. 1 Transitional Recession Overview[8]

State	Consecutive years of output decline	Cumulative output - reduction	Real GDP in 2000 (1990 = 100)
Albania	3	33	110
Bulgaria	4	16	81
Croatia	4	36	87
Czech Republic	3	12	99
Estonia	5	35	85
Hungary	4	15	109
Latvia	6	51	61
Lithuania	5	44	67
Poland	2	6	112
Romania	3	21	144
Slovakia	4	23	82
Slovenia	3	14	105

According to the author N. Genova from Bulgaria, the essence of the transition refers to the adaptation of global trends in economic, technological, political and cultural areas. Accordingly, the author offers an overview of the so-called. systemic dimensions of Eastern European transition (Table 2):

[8] Peev, E.: The Political Economy of Corporate Governance Change in Bulgaria: Washington Consensus, Primitive Accumulation of Capital, and Catching-Up in the 1990, CEI Working Paper Series, No. 2002-1, Center for Economic Institutions Working Paper Series, 2002. godine, str. 36

Table no. 2 Systemic dimensions of Eastern European transition[9]

Subject	The task	Potencijalni efekti
Technological restructuring	Informatization	Adaptation to global information technologies
Economic restructuring	Marketing	Adapting to global markets
Political restructuring	Democratization	Adapting to global policy rationalization
Cultural restructuring	Universalization	Adapting to global innovations in culture

Most countries in transition belonging to Central and Eastern Europe believe that the most important thing is to achieve accession to the European Union, in order to, eventually, provide the conditions for economic progress and sustainable economic growth and development at rates that would reduce the gap between them and economic developed countries of Western Europe. Post-socialist countries are leaving the command economy and moving to a market economy and a democratic society. At the same time, a large number of authors emphasize that the perspective of future development is a combination of mild market regulation and moderate state interventionism[10]. Following modern world trends and perspectives in development, countries in transition should define a development strategy based on their own strengths, but also by creating and innovating world achievements.

DETERMINANTS OF CORPORATE GOVERNANCE IN SERBIA

Following the adoption and implementation of the new Law on Enterprises in 1996 and the Law on Property Transformation in 1997, some progress has been made in implementing the privatization process. The practice of applying workers 'shareholding continued, and the basic models of privatization, according to this Law, were the sale of shares for the sale of capital (with or without discount), sale of shares for raising additional capital or recapitalization (with discount) and conversion of debt into creditors' shares (with a discount). What was a novelty in this Law was that in addition to domestic investors, foreign investors also had the right to purchase and that the privatization of state capital was enabled[11].

„Enterprises intended for privatization were divided into three groups - public companies that are privatized with the consent of the state, companies that are transformed on the basis of a special program of the Government (large companies of strategic importance with a large number of employees) and small and medium enterprises and carry out privatization“ (Stojanović, 2000, 173). The privatization process took place in two rounds. In the first round, shares were registered, ie free distribution of shares to employees, pensioners and farmers (the unemployed and those who gained work experience in private companies were not entitled to free actions). Priority in the distribution of shares of a certain company was given to the employees in that company, and only the unallocated part of the shares could be allocated to other employees. At the same time, only 60% of the estimated value of the company's capital could be privatized through free distribution of shares.

[9] Ilić, B .: Perspectives of development of countries in transition, Ekonomski anali br. 165, Faculty of Economics, Belgrade, April - June 2010, p. 198
[10] Ilić, B.: Perspektive razvoja zemalja u tranziciji, Ekonomski anali br. 165, Ekonomski fakultet, Beograd, april – jun 2010. godine, str. 206

[11]Veselinović, P., 2002. Institutional determinants of the privatization process in Serbia. Economic topics. no. 1-2, Nis: Faculty of Economics

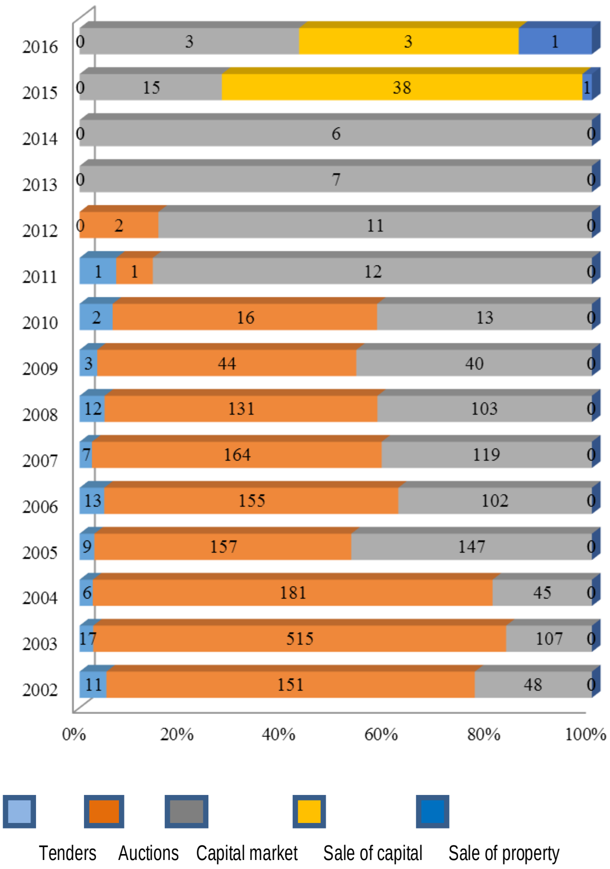
Privatization according to this model was started in 428 companies, but was completed only in 18. What contributed to such a slow privatization process was insufficient determination of the state to quickly and efficiently implement the ownership transformation (since privatization was optional), but also inadequate model of privatization, which did not improve the performance of privatized companies, because employees, as co-owners of companies, in making decisions, guided by their own interests, which were often opposed to achieving long-term development goals of the company.

When defining the new concept of privatization within the new Law on Privatization (2001), the competent state authorities were guided by the following goals: creating an open economic and ownership structure, maximizing investment in the real sector, social and political acceptability, establishing a clear ownership structure and corporate governance mechanisms based on it.

The new Law on Privatization was adopted in 2001, formally creating the regulatory framework for privatization. However, privatization under the new law could begin only after the adoption of accompanying legislation and the establishment of the Privatization Agency. For this reason, no companies were privatized during 2001, but the following year, 2002, after creating all the necessary regulatory and institutional conditions, significant progress was made in the privatization process. By applying the direct model sales privatization was intensified, especially in the period from 2002 to 2004, which resulted in numerous positive effects on the functioning of the real sector and the economy in general - the participation of the private sector in the economy grew, private owners made significant profits, workers were satisfied with the new working conditions and wages, budget revenues from privatization grew, budget deficits and public debt decreased continuously, etc.

In order to further accelerate the privatization process, the National Assembly of the Republic of Serbia passed the Law on the Right to Free Shares at the end of December 2007, by which all adult citizens of the Republic of Serbia did not exercise their right to shares without compensation transformation from 1997 or the Law on Privatization from 2001, acquired the right to free shares of state-owned companies in the amount of 15% of the total number of shares of these companies. In doing so, the former employees of state-owned companies were given the right to, before the privatization, receive a certain number of shares of the company free of charge in the amount of 200 euros per year of service.

Bearing in mind that most of the companies, which were the subject of privatization, were over-indebted and were not had a positive value of capital, and restructuring measures were defined, which referred to the conditional debt write-off and conversion, ie conversion of the company's debts into a permanent investment. These measures were aimed at achieving a positive value of capital, in order to attract the interest of investors.



Graph 1**:** Number of sold companies in Serbia in the privatization process (Source: Ministry of Finance of the Republic of Serbia, (2017), Bulletin of Public Finance, Ministry of Finance, Belgrade, p. 35.)

The application of different legal regulations and different conditions in which the privatization took place, led to the fact that the effects of privatization varied over the observed periods. The number of privatized companies and revenues from privatization have recorded significant oscillations, and there have been numerous changes in their structure.

„Within the companies privatized by auction, the largest number of privatized companies, as many as 65.7%, operate in the manufacturing sector, while the remaining 34.3% of them operate in the field of construction (10.2%), agriculture, forestry and water management (9, 3%), transport, storage and communication (6.5%), wholesale and retail trade and repairs (4.6%) and real estate and renting activities (3.7%). In the case of auction methods, the structure of privatized companies is much more diverse, although in this case, too, companies from the processing industry have a dominant share (32.1%). In addition to this activity, a significant number of companies have been privatized in the field of wholesale and retail trade and repairs (17.1%) and construction (12.5%) “[12].

In addition to the tender method and the auction method, in the process of privatization of socially - owned enterprises, it was also used method of selling shares on the capital market. These methods were not equally important for implementation reform proce-sses in this area. The largest number of companies was privatized using the auction method (1517 companies), slightly less or 763 companies by selling shares on the capital market, and only 81 of them were sold using the tender method.

Analysis of data by year indicates that the auction method was the dominant sales method until 2010. At the same time, the difference between the number of companies privatized by this method and the method of selling shares on the market has been decreasing over time, so that the second mentioned method will become dominant from 2011. It should also be mentioned that during 2015 and 2016, all companies were privatized using the method of selling shares on the capital market.

[12] Nikolić, I., 2016. Some open questions of the current course of privatization. Industry. no. 3, Belgrade: Institute of Economic Sciences

The consequences of the transition process, carried out in this way, were: among other things: privatization of large systems, mergers and acquisitions, formation of management power, sale of majority stake to investors (privatization was carried out by selling 70% stake to once to the investor, which affected the structure and the type of management to be in favor of the majority owner who appoints and controls the management[13]), massive inflow of foreign capital, etc.

In countries in transition, the most common form of informal institutions refers to the concentration of ownership that allows majority shareholders to obtain the necessary information and have control over management. However, in conditions of concentration of ownership, majority share-holders can act against the interests of minority shareholders, so the problem of corporate governance arises in the relationship majority-minority shareholders.

In market economy countries, corporate governance is of particular importance, as it can help achieve multiple goals, such as strengthening investor confidence, encouraging foreign and domestic investors, increasing the added value of companies, increasing productivity and reducing the risk of systemic financial failures of the country concerned.

Where exactly are we in relation to other countries in transition in Serbia? The data from the European Bank for Reconstruction and Development (EBRD), which has been monitoring the situation in transition countries almost from the very beginning, can help us in this, developing a database on reforms in those countries *(transition indicators*).

Data on reforms according to the same methodology were monitored from 1989-2014, in 6 important areas: privatization of large and small enterprises, foreign trade and exchange rate policy, antitrust policy; price liberalization and corporate governance. The situation in these areas was assessed on a scale from 1 to 4+, where a score of 1 indicates no shift from a centrally planned economy, and a score of 4+ situations similar to the situation in developed market economies. Each area has a separate description of the grades, which are given next to the graph for a better overview. Grades can also carry a - or + sign, which brings or takes 0.33 points, so the highest possible grade can be 4.33.

The following Table no 3 shows the transition EBRD indicators of privatization of large and small enterprises for Serbia and certain countries in transition.

From the table no 3 and Figure numbers 1.and 2., it can be concluded that Serbia lags far behind the successful countries in transition, such as Poland, the Czech Republic, Estonia, and even those less successful, such as Croatia, Romania and Bulgaria. For a better overview, we divided the countries in transition into three regions: Central and Eastern Europe (CEE5: Poland, Hungary, the Czech Republic, Slovakia and Slovenia), then the Baltic countries (Baltic3: Estonia, Latvia, Lithuania) and the countries from the region that entered in the EU (SEE3: Romania, Bulgaria, Croatia), but we did not process the earth Western Balkans (Albania, Macedonia, Montenegro) focusing on Serbia and Bosnia and Herzegovina.

[13] http://www.sef.rs/marketing-i menadzment / unapredjenje-korporativnog-upravljanja-u-srbiji.com available on 23.8.2019. years

Table 3.: Privatization of large and small enterprises - transitional EBRD indicators (Author 2019.)

Country	2001		2002		2003		2004		2005		2006		2013		2014	
	A big	Small	A big	Small	A big	Small	A big	Small	A big	Smal	A big	Smal	A big	Smal	A big	Smal
Serbia	2,00	3,00	2,00	3,00	2,50	3,00	2,50	3,50	2,50	3,50	2,50	3,50	2,70	2,70	2,70	2,70
Bosnia and Herzegovina	2,33	2,67	2,33	3,00	2,33	3,00	2,33	3,00	2,33	3,00	2,33	3,00	2,45	2,50	2,45	2,50
Croatia	3,00	4,33	3,00	4,33	3,33	4,33	3,33	4,33	3,33	4,33	3,33	4,33	3,33	4,33	3,33	4,33
Hungary	4,00	4,33	4,00	4,33	4,00	4,33	4,00	4,33	4,00	4,33	4,00	4,33	4,00	4,33	4,00	4,00
Bulgaria	3,67	3,67	3,67	3,67	3,67	3,67	4,00	3,67	3,67	4,00	3,67	4,00	4,00	4,10	4,00	4,10
Czech Republic	4,00	4,33	4,00	4,33	4,00	4,33	4,00	4,33	4,00	4,33	4,00	4,33	4,00	4,33	4,00	4,33
Poland	3,33	4,33	3,33	4,33	3,33	4,33	3,33	4,33	3,33	4,33	3,33	4,33	3,33	4,33	3,33	4,33

In the area of privatization of small enterprises, Serbia had a much higher score than in the countries of real socialism (of course, other former Yugoslav republics had the same high score). But while other countries made rapid progress in the early 1990s, Serbia increased its score only after 2002, but not enough, so at the end of the observed period (2014) it is far below the score of other countries. At that time, Serbia had the value in this segment that the Baltic countries had in 1994, and the CEE countries in 1993.

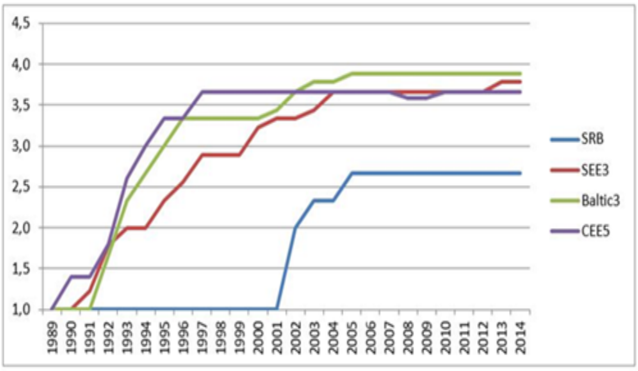


Figure 1: Privatization of small enterprises (Author 2019)

In the area of privatization of large companies, Serbia is much behind the Baltic and Central European countries, with the score that these countries had in 1994. Again, in this area, Serbia did not have a better starting position, but started from the same position as other socialist countries.

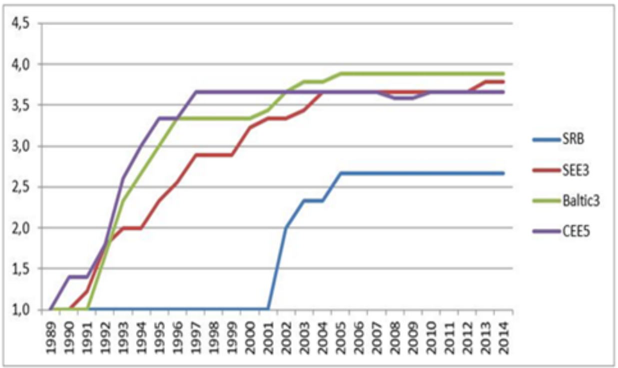


Figure 2: Privatization of large enterprises (Author 2019)

Even in the case of business management (Figure 3), Serbia did poorly. Reforms start only after 2000, but do not progress in any special way, given the stagnation after the initial start. In this area, Serbia is at the level of CEE and the Baltic countries in 1993.

Score 1 - Soft budget constraint (relaxed lending and subsidy policies undermine corporate financial discipline); few other reforms that promote corporate governance.

Score 2 - Medium restrictive lending and subsidy policy, but weak implementation of restructuring legislation and weak activities in the field of strengthening competition and corporate governance.

Score 3 - Significant activities to introduce a tight budget constraint and to promote effective corporate governance (for example, privatization combined with restrictive lending and subsidizing policies or restructuring policies).

Score 4 - Significant improvement in corporate governance and new investments at the enterprise level, including minority ownership by financial investors

Grade 4+ - Standards and performance characteristic of developed industrialized economies: effective corporate control is exercised through domestic financial institutions and markets, encouraging market
restructuring.

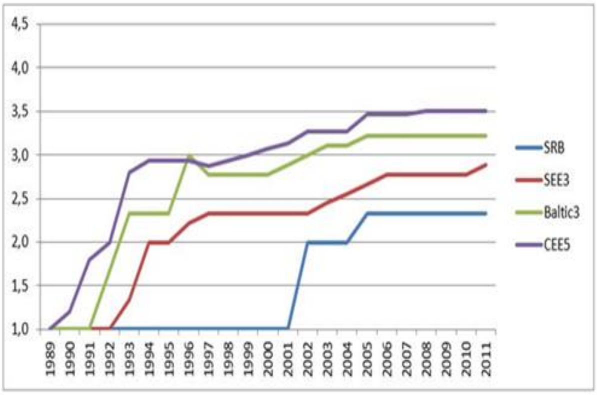


Figure 3.: Business management (Author 2019.)

Even in the case of managing companies, Serbia did badly. Reforms start only after 2000, but do not progress in any special way, given the stagnation after the initial start. In this area, Serbia is at the level of CEE and the Baltic countries in 1993.

If the value of the EBRD transition indicators is below 4.00, it indicates incomplete privatization and a low level of corporate governance. Well-established corporate governance reduces market sensitivity to economic and financial crises, strengthens property rights, reduces transaction and capital costs, and leads to capital market development. It is characteristic of corporate governance that it has been adopted by the international financial community as one of the twelve basic standards that are best applied in practice. When it comes to this transitional indicator for Serbia, at the end of the observed period, the index for privatization of small and large enterprises is below the defined standard (4.00). This indicates an unfinished privatization process, as well as the low quality of corporate governance.

According to a 2014 EBRD report, Serbia has made some progress over the previous years. The main shortcomings observed in the case of Serbia relate to the issue of disclosure and transparency of information, with the legal framework being improved within international standards.

The Republic of Serbia has developed a good institutional environment that can offer an effective legal framework for the development and implementation of corporate governance principles. However, the basic problems arise in their implementation, which, therefore, cannot ensure the effectiveness of the system.

Accordingly, although Serbia needs to continue to improve its regulatory framework, major efforts need to be focused on implementing legislation in concrete practice.

CHARACTERISTICS OF THE PRIVATIZATION PROCESS IN BOSNIA AND HERZEGOVINA

The first laws on privatization in the entities were passed in 1997, but only with the adoption of the Framework Law on the privatization of enterprises and banks at the level of Bosnia and Herzegovina (1998), imposed by the Office of the High Representative in BiH, created the legal framework for initiating the privatization process. This Law introduced the rule that property found in the territory of one entity is privatized according to the laws in force in that entity, provided that the entities had the obligation to harmonize the laws governing the issue of privatization. As the final decision on the status of the Brcko District of Bosnia and Herzegovina was made in 2000, the privatization process in the District, as a separate administrative unit in BiH, related to the principles of the Law imposed by the High Representative in BiH, was based on legislation adopted by the Assembly. Brcko District.

The Law on Privatization of State Capital in the Republika Srpska was passed in 1998, and was amended in 2002, 2003 and 2005. In 2006, the Republika Srpska passed a completely new Law on Privatization of State Capital in Enterprises (51/06), which was amended once in January 2007. The 1998 Law on Privatization defined privatization as the sale and transfer of state capital in Republika Srpska-owned companies, owned by domestic and foreign individuals and legal entities, from the point of view that the basic principles of privatization are publicity and equality of participants[14].

The Law on Privatization of State Capital in the Federation of BiH was adopted in 1997 and was amended or supplemented 9 times. Starting from the constitutional structure of the Federation of BiH and the divided constitutional competencies in the field of economy, in general, between the Federation of BiH as an entity in BiH and the cantons in the Federation of BiH, the privatization bodies were, in addition to the Privatization Agency of the Federation of BiH, ten cantonal privatization agencies. which are established by special, cantonal laws. The privatization of the company was done by sale shares and assets, and the methods of privatization were public sale, public bidding and, alternatively, direct contract. The means of payment in the privatization process were: certificates based on receivables natural persons to the Federation, certificates based on claims of legal entities to the Federation for compensation for property subject to restitution, securities, money and funds stated in foreign currency military books and certificates of members of the Armed Forces of BiH.

According to the Law on Privatization, there was a so-called small privatization, which referred to the obligation to privatize companies with share capital of up to 500,000 KM and up to 50 employees, as well as companies whose main activity is trade, catering, services and passenger transport.

---

[14] Divjak, B., Martinović, A., 2009. Privatization of state capital in Bosnia and Herzegovina. Sarajevo and Banja Luka: Transparency International BiH

The sale of state capital in small-scale privatization was carried out with the obligatory payment in cash of at least 35% of the agreed sale price, and for each amount paid in cash over 35%, an 8% discount could be granted. Privatization of the company, which was carried out by privatization of parts of the company, created by dividing the company into several parts, as independent techno-economic units, it was considered a sale in a major privatization.

The Government of the Federation of BiH, at the session held on June 18, 2015. year, reached a conclusion by which it adopted the information on the application of the Decree on the exercise of authorizations in companies with the participation of state capital from competencies of the Federation of BiH and according to which it divided companies into three categories: strategic business companies, companies with business difficulties and companies with state capital for privatization.
With the same conclusion, she instructed the Privatization Agency in the Federation of BiH to prepare the Privatization Plan, with proposals for models and methods of privatization for eight companies from the third category, in which include companies with state capital for privatization.

During the development of the Work Program of the Privatization Agency in the Federation of BiH with the privatization plan for 2017. year, the Agency was guided by the Reform Agenda for BiH for the period 2015-2018. year, Action Plan BiH for the implementation of the reform agenda for BiH for the period 2015-2018. years. Privatization Agency in The Federation of BiH has formed a register of 1450 companies with a valid amount and capital structure.

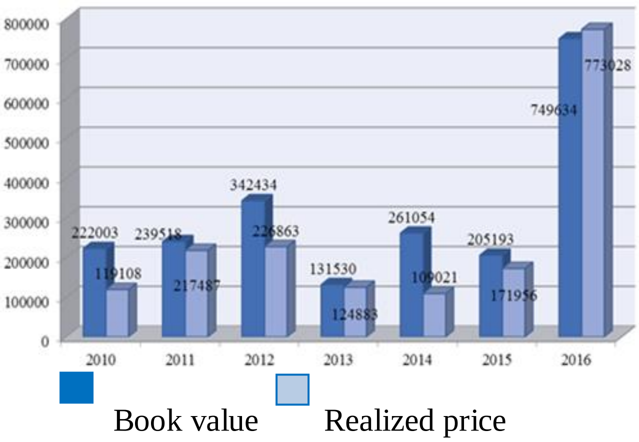
Table 4: Results of privatization in BiH expressed in terms of value as of 31.12.2016. years[15]

State capital committed to privatization	6.1902 billion euros
Privatized state capital and property	2.956 billion euros
Realized income in certificates	4.338 billion euros
Realized income in "cash"	0.329 billion euros
No capital has been privatized	3.937 billion euros

Results of privatization in BiH, expressed through the number of privatized companies on 31.12.2016. is was[16]: (Divljak, Martinović, 2009,5)

- number of privatized companies in the Agency's register 1450;
- 278 companies were privatized by the method of small privatization;
- 356 companies were privatized through a large-scale privatization tender;
- the remaining state capital in 3 companies was privatized through the stock exchange;
- 747 companies were fully or partially privatized through public sale of shares;
- total completed privatization for 1088 companies (74.8%)

[15] Privatization Agency, (2017), Work Program in the Federation of Bosnia and Herzegovina with the privatization plan for 2017, Federation of Bosnia and Herzegovina, Sarajevo, p.5.
[16] Divjak, B., Martinović, A., 2009. Privatization of state capital in Bosnia and Herzegovina. Sarajevo and Banja Luka: Transparency International BiH p. 5.



Graph 2: Overview of realized sales results in relation to the offered capital in BiH[17]

The general assessment of the privatization process in BiH shows that privatization has not met expectations. There are numerous reasons for this: the delay of the process itself, the lack of transparent and clear rules and criteria, especially in the privatization of the so-called companies of strategic importance, unequal treatment of potential investors that has led to a significant reduction in market capital, both in the Federation of BiH and in the Republika Srpska, disrespect for corporate governance, lack of rule of law, conflicts of interest of public officials involved in the privatization process, etc...

CONCLUSION

One of the basic postulates of a market economy is private ownership of the means of production, which is why the privatization of socially-owned and state-owned enterprises is one of the key transition processes. In practice, private property has proven to be far better than other forms of ownership, primarily because it encourages more rational asset management, development of innovations, continuous monitoring of market changes and rapid response to them, so the countries of Serbia and Bosnia and Herzegovina sought appropriate reform processes increase the participation of the private sector in GDP creation, with the aim of making it dominant over time. Along the way, they have implemented appropriate privatization programs based on different methods and the pace of this process. As a result of the implemented programs, certain ownership structures were formed in privatized companies, which conditioned various effects of privatization and pointed out that the transformation of ownership does not in itself mean the realization of the mentioned advantages of private ownership.

The analysis of the privatization process in the Serbia and Bosnia and Herzegovina and their effects on economic development unequivocally indicates that the countries that managed to create a favorable environment for business activities of economic entities have achieved numerous benefits in the form of accelerating economic development, export competitiveness and inflows. investment. However, even in the economies that have gone the furthest in this process, there is still a lot of room for improvement in the coming period.

One of the key problems that countries Serbia and Bosnia and Herzegovina have faced, to a greater or lesser extent, is the fact that this process, in none of these economies, has been completely completed.

[17] Privatization Agency, (2017), Work Program in the Federation of Bosnia and Herzegovina with the privatization plan for 2017, Federation of Bosnia and Herzegovina, Sarajevo, p. 5.

And while in a number of countries the so-called small privatization completed, in each of them there are still large state-owned companies that rely to some extent on state support. The partial failure of the privatization process in the countries Serbia and Bosnia and Herzegovina was caused by the fact that privatization was an end in itself and was carried out regardless of the consequences, ie no general consensus was reached on the concept of privatization. Workers were largely excluded from the privatization process. The most important goal was budget revenue, not the growth of living standards based on the growth of production, employment and exports. For these reasons for the failure of the privatization process, we can conclude that there is no fair method of privatization, and that one goal must always be sacrificed, in order to achieve another goal. This only shows that the privatization process needs to be approached in a complex way, considering all relevant factors and indicators, as well as the experiences of other countries. As much as it seemed that the solution of privatization was possible and clear, and that the existing practice was exactly the final and good solution, there are several reasons for careful checking. Many warn that everyone in Serbia and Bosnia and Herzegovina is still far from a market economy with dominant private ownership and free private property.

REFERENCES

[1] Bulgarian National Code for Corporate Governance, October, 2007, str. 4

[2] Instituting Corporate Governance in Developing, Emerging and Transitional Economies – A Hand- book, Center for International Private Enterprise, March 2002, str. 3

[3] Kozlik, M: Problems of reviving corporate governance in transition economies with special reference to the situation in the Republic of Srpska - master's thesis, Pan-European University, Banja Luka, 2009, p. 107

[4] Brcanski, B.: The problem of investing and making profits in fast-growing markets, Montenegrin Journal of Economics No 12, Vol. VI, p. 187

[5] http://www.shef.rs/marketing-i menadžment / napredanje-korporativnog-upravljanje-u-srbiji.com available on August 23, 2019. years

[6] Brcanski, B : The problem of investing and making a profit in fast-growing markets, Montenegrin Journal of Economics No 12, Vol. VI, p. 186

[7] Ilić, B.: Perspectives of development of countries in transition, Ekonomski anali br. 165, Faculty of Economics, Belgrade, April - June 2010, p. 186-187

[8] Peev, E.: The Political Economy of Corporate Governance Change in Bulgaria: Washington Consensus, Primitive Accumulation of Capital, and Catching-Up in the 1990, CEI Working Paper Series, No. 2002-1, Center for Economic Institutions Working Paper Series, 2002. godine, str. 36

[9] Ilić, B.: Perspectives of development of countries in transition, Ekonomski anali br. 165, Faculty of Economics, Belgrade, April - June 2010, p. 198

[10] Ilić, B.: Perspektive razvoja zemalja u tranziciji, Ekonomski anali br. 165, Ekonomski fakultet, Beograd, april – jun 2010. godine, str. 206

[11] Veselinović, P., 2002. Institutional determinants of the privatization process in Serbia. Economic topics. no. 1-2, Nis: Faculty of Economics

[12] Nikolić, I., 2016. Some open questions of the current course of privatization. Industry. no. 3, Belgrade:Institute of Economic Sciences

[13] http://www.sef.rs/marketing-i

menadzment /unapredjenje-korporativnog-upravljanja-u-srbiji.com available on 23.8.2019. years

[14] Divjak, B., Martinović, A., 2009. Privatization of state capital in Bosnia and Herzegovina. Sarajevo and Banja Luka: Transparency International BiH

[15] Privatization Agency, (2017), Work Program in the Federation of Bosnia and Herzegovina with the privatization plan for 2017, Federation of Bosnia and Herzegovina, Sarajevo, p. 5.

[16] Divjak, B., Martinović, A., 2009. Privatization of state capital in Bosnia and Herzegovina. Sarajevo and Banja Luka: Transparency International BiH p. 5.