Janez Prašnikar, Polona Domadenik, Matjaž Koman

The introduction of self-management in the early 1950s placed the former Yugoslavia on the world map, demonstrating a third path of socioeconomic development between market-based and centrally-planned economic systems. Social property was defined as the property of all and none. It was managed by employees on the principle of one employee, one vote. Until then, economic democracy had not been introduced on such a large scale, and so the Yugoslav economy soon attracted research attention from around the world. At the microeconomic level, this literature was marked by a paper by Ward (1958). Although the introduction of self-management in Yugoslavia was first and foremost a political project, it clearly had a significant impact on the behavior of firms and the economy.

The aim of our paper is to investigate whether the transition from a self-managed economy to a market economy – which took place in the countries of the former Yugoslavia almost two decades ago and was characterized by the liberalization and openness of economies and implementation of difficult and complex market-oriented and structural reforms, including the transformation of ownership – had a positive effect on firms' behavior and can therefore lead to future growth.

The issue of privatization and efficiency of firms in post-privatization period is closely linked to question of restructuring. The firms that achieve higher profitability in the period under study are supposed to undergone deep restructuring in the past. On the other hand, loss-making firms tend to be grouped among firms that didn't adjust sufficiently (see Pinto et al. (1993) for example). Evaluating the extent to which restructuring has been successful and the determinants of the desire and ability to restructure is crucial to the people and policy-makers in CEE economies. Recent theoretical and empirical studies highlight managers as the key agents of restructuring. Under these circumstances, managerial incentives may be the dominant influence on whether or not restructuring occurs.

In this study we analyze post-privatization firm behavior and restructuring in former Yugoslav republics, more precisely in Macedonia, Montenegro and Slovenia in the in the frameworks of Prasnikar et. al (1994) and Roland (1996 & 2000). Our analysis is focused on early phase of transition and also on late phase of transition. This enables us on one hand to see how transition process affects the firm behavior in a given country and on the other hand allow us to make comparisons between countries.

The analysis of firm behavior is based on a co-operative non-symmetric Nash bargaining solution concept. The model is a modified version of Prasnikar et al. (1994) and reflects the objectives of all decision-makers in a firm as well as their strategic interactions. It assumes that the polices of firms are jointly determined by the workers, managers and external owners. Since firm behavior is probably different if the majority owners are insiders (managers and workers) compared to majority owners being outsiders, we have to distinguish between the two types of firms.

In order to study the restructuring, we adopted Roland (1996 & 2000) model. We divided restructuring process of transition firm into two stages: defensive (cost-related) and strategic (revenue-focused) restructuring. While the first – defensive restructuring – deals with loss-making activities, the second includes investment in developing firms' main capabilities to gain comparative advantages. Studying the defensive restructuring would provide an answer to a question of how fast the firms adjust number of employees with respect to changes in wages and sales. The second part, the strategic restructuring, crucially depends on firms' investment in fixed (buildings, equipment) and 'soft' capital (research and development, marketing, management, human resources).

The empirical analysis is based on the questionnaires, supplemented by financial statement data. In Macedonia, the basis of our analysis consisted of 1,167 companies privatized in the 1994-1999 period and which had sent their financial statements data to the Macedonian Agency of Privatization. Due to inconsistencies in the data, and unwillingness to response, we ended up with panel of 510 companies for 1994-1999 (early transition period) and 160 companies for period 2004-2007 (late transition period). In Montenegro, the basis of our analysis consists of 225 firms that were planned for mass voucher privatization (MVP) in year 2000. For them, we were able to acquire relevant information for the period 1998-2000 (early transition period). However due to liquidation, bankruptcy and other reasons only 127 firms were still operating in year 2008. Out of these firms 60 firms were chosen according to their size and importance for the Montenegro economy. Since some of them were not willing to participate we ended up with 55 companies. For them we collect information for 2004-2007 period (late privatization period). To study early transition period in Slovenia (1991-1995) we collected data from 458 companies, who had permission by the Agency of Privatization to start implementing privatization. The analysis of late transition period in Slovenia (1996-2000) is based on 157 largest Slovenian companies that were privatized in the 1993-1995 period.

The key results of our research are as follow.

1) Investment in Slovenian firms in early phase of transition strongly depended on the availability of internal sources (demand-side factors) and were independent from supply-side factors (as neoclassical and accelerator model of investment claim). For companies that opted for predominantly insider ownership, the availability of internal sources is an important factor for investment, while the choice for "more" investment and "less" wages is also obvious. The bargaining model for Slovene firms in early phase of transition reveals that a part of the surplus goes for wages and the part for investment. This holds especially for the companies that opted for predominantly insider privatization and in partially privatized companies. Wages in companies with predominantly insider privatization model can be partially financed from

depreciation. This is even more pronounced in companies with outsider privatization, where wages are set mainly based on alternative wages. Alternative wages also substantially determine wages in companies, where managers established bypass companies.

2) Slovene companies are actively changing employment based on changes in market parameters. Their adaptation of employment is defensive (short-term) and strategic (long-term). Their behavior is in the second stage of transition is guided by the profit motive regardless of privatization model (predominantly insider or predominantly outsider), while the ownership share of the employees and employee participation have no statistically significant influence on the intensity of company responses. The more export-oriented the companies are, the more intensive is hiring. Restructuring of Slovene companies in the late phase of transition through investment is proceeding based on the profit motive. Dependence of investment on the availability of internal funds is present for all kinds of investment, which points at imperfect functioning of financial markets. There is no appropriation of internal funds for higher wages, such as market wages (alternative wages), when speaking of investment in fixed capital and training, but there is a choice for "more" for wages and "less" for "soft" investment (investment in R&D and marketing). Employee ownership and the presence of employee representatives in supervisory boards have no significant impact on company restructuring, and the same goes for export orientation of companies. Even companies that opted for predominantly outsider privatization show no significantly different behavior when investing in fixed capital and in training. This influence is positive for investment in marketing, while it is negative and barely significant for investment in R&D. The results of analysis of defensive and strategic restructuring of Slovene companies in the studied period show that the key factor is inclusion of a company in the world competitive framework, while companies with different structures and institutional characteristics behave in a similar way.
3) The behavior of the Macedonian companies in the early phase of transition is closer to the income per worker hypothesis than to profit maximization. Companies which opted for predominantly insider privatization behave in this period similarly as the companies that opted for outsider privatization, although the evidence shows that the latter used strategic restructuring to a larger extent, while the former used mainly defensive restructuring.
4) In the late phase of transition the process of restructuring in Macedonian firms continued and resulted also in the behavior changes. Our data show, that in this period behavior is closer to profit maximization.
5) The behavior of the Montenegro companies in the early phase of transition is closer to the income per worker hypothesis than to profit maximization, regardless of the ownership. At that stage very limited signs of defensive restructuring are observed

6) In the late stage of transition the data reveal that Montenegro companies made on average the step ahead. Mainly they were able to reduce the number of employees (defensive restructuring) which contributed to the growth of the productivity in a large degree. The process of strategic restructuring was based mainly on investment in physical capital, while there is almost no investment (with few exceptions) in soft capital. This is pointing the transitional nature of restructuring in these companies and is accordance with the theory (Roland, 1996, 2000) which stress that in the conditions of incompletely developed financial markets and transitional "ownership", the companies will take care of urgent investment, that will enable the renewal of existing physical capital stock, which is needed for uninterrupted production (on going concern), and not for new investment.

JEL: C33, D01, L2, 031, P2,