EFFECTS OF PRIVATIZATION AND RESTRUCTURING ON MANUFACTURING INDUSTRY: THE EVIDENCE FROM SERBIA

Ivan STOŠIĆ¹, Ivana DOMAZET¹, Hasan HANIĆ²

¹ Institute of Economic Sciences, Belgrade, Serbia ² Belgrade Banking Academy, Belgrade, Serbia

Key words: privatization, restructuring, manufacturing, Serbia

Abstract: The privatization and restructuring of state or socially owned enterprises is one of the key requirements for enhancing business performances of the transition economies. However, the effects of these processes have not always led to the desired results. The evidence from privatization and restructuring of Serbian manufacturing industry points out that, besides certain results, the most of anticipated outcomes have not been achieved. The studies conducted in this paper, provide that as a result of the methods used in performing privatization and restructuring processes in Serbia, neither has the new industry structure been established, nor has the significant progress in production and exports been achieved, thereto this was also followed by the increased unemployment rate in the country.

1. INTRODUCTION

The aim of this paper is to present a short evaluation of privatization and restructuring impact on the Serbian manufacturing industry during the period of transition. The paper focuses on searching for the answers: what kind of effects privatization and restructuring had on the volume, structure and performance of Serbian manufacturing industry. Topics discussed include: analysis of characteristic trends in privatization and restructuring, the problems in companies undergoing privatization and restructuring and most of all impact of privatization and restructuring on Serbian manufacturing industry performance.

This paper contributes to the overall perception of the impact of the privatization and restructuring have on economy and particular manufacturing industry. Lessons learned from implementing privatization and restructuring processes in Serbian manufacturing could enable the creation of adequate framework to mitigate possible negative effects of further structural changes as the mistakes of the past would not be repeated.

2. MATERIAL AND METHODS

Since the beginning of transition from earlier communist to market economies the privatization has been extensively studied. Many authors were focused on numerous aspects of this process: the theory of privatization, the privatization models, the agency problem, the welfare effects of privatization, the effects of privatization on the company’s business performance, the issue of restructuring within the privatization process, the differences between state and private owners and between different types of private owners, the post-privatization outcomes…

There are several outstanding articles that discuss the theory of privatization and review the literature on that topic (e.g. O. Havrylyshyn and D. McGettigan [1], Nellis [2], W. Megginson and J. Netter [3]). Many of authors stress the importance of privatization noting that privatization moved from novelty to global orthodoxy in the period of two decades and often arguing that the success of privatization is indisputable (e.g. W. Megginson and J. Netter [3]).

In the early 1990s privatization was widely considered one of the foundations of the entire transition process. The policy arguments were based on successful experience in developed economies. The so called Washington Consensus emphasized privatization and belief that private ownership together with market forces would ensure efficient economic performance. However, it was also frequently recognized that privatization on its own might not be sufficient and that structural transformations and policy reforms were more important precondition for successful transition changes (e.g. O. Blanchard, R. Dornbusch, P. Krugman, R. Layard, and L. Summers [4]).

The early transition literature hypothesised that institutional changes would be sufficient incentive for enterprises to engage in restructuring (e.g. W. Carlin et al. [5]). However, some case studies from this and later period have challenged this view, suggesting that additional incentives and pressures may be needed to motivate enterprises to restructure (e.g. S. Commander and J. Svejnar [6]).

The studies on restructuring in transition literature were focused on various issues. In some studies, the authors have focused on activities undertaken by enterprises to survive in transition environment and investigated what factors influence these activities or how these activities affect the performance or competitiveness of enterprises in the short and long run. There are also studies that attempt to establish a relationship between forms of enterprise restructuring and its outcomes (e.g. L. Halpern and G. Korosi [7], W. Carlin et al. [8]). In some other studies the authors have investigated the outcomes of restructuring in context of its determinants. S. Djankov and P. Murrell in 2002 [9] applied a meta-analysis to the findings from a large number of diverse early studies of the transition economies. In this study they examined the effects of privatization, the importance of different types of owners, the effects of foreign and domestic competition, the consequences of soft budgets, and the role of managerial incentives and managerial human capital, on enterprise restructuring. Their survey provides new insights into the relative effectiveness of different policy reforms, and into how this effectiveness varies across regions. The empirical evidence on the impact of competition on enterprise restructuring has been ambiguous. On the one hand, there is evidence of positive impact of intensified competition on productivity of enterprises and their
motivation to introduce new products [8]. On the other hand, in some studies foreign rivalry was found to negatively influence restructuring of enterprises [9].

A certain number of researches and studies have been focused on firm-level impact of privatization. The extant firm-level empirical researches on the change in productivity and employment around the world (e.g. Megginson [10]) show that privatization usually results in increased productivity but also leads to a decline in employment. There is also strong evidence that privatization to foreign investors’ results in higher productivity gains. S. Guryev and W. Megginson [11] suggest that privatization can deliver substantial benefits. The empirical studies show that privatization to foreign owners usually results in a rapid improvement in performance of companies, while performance effects of privatization to domestic owners are less impressive and vary across regions, coinciding with differences in policies and institutional development. Employee or collective ownership generally does not have a negative effect.

There are some papers focused on post-privatization effects. A 2006 survey of 28,000 individuals in 28 post-communist countries (e.g. I. Denisova, M. Eller, T. Frye and E. Zhuravskaya [12]) reveals overwhelming public support for the revision of privatization. A majority of respondents, however, favours a revision of privatization that ultimately leaves companies in private hands. Authors identify which factors influence individuals’ support for revising privatization and explore whether respondents’ views are driven by a preference for state property or a concern for the fairness of privatization. Authors find that human capital poorly suited for a market economy with private ownership and a lack of privately owned assets increase support for revising privatization with the primary reason being a preference for state over private property.

Some authors studied the impact of privatization on certain industries. A. Badulescu and D. Badulescu [13] reanalysing the literature regarding the role and results of privatization, as they were explained in the 1990s, the expectations of the privatization programs - which included, in various forms, metallurgy sector, the development of privatized companies or those who remained on state ownership, find that the results of privatization and the establishment of new corporate governance rules have been considerably more complex and nuanced than expected, or enthusiastically proclaimed at the beginning of privatization. Furthermore, J. S. Earle, Á. Telegdy [14] investigated privatization methods and productivity effects in Romanian industrial enterprises and Y. Perevalov, I. Gimady, V. Dobrodey [15] evaluated privatization methods and productivity effects in Romanian industrial enterprises in Russia.

The various aspects of privatization have been also extensively explored by Serbian authors. Some of them have been focused on theoretical aspects of privatization, arguing that private ownership is superior to public ownership and stress the importance of prompt and efficient completion of the privatization (e.g. B. Bogović et al. [16]).

A large number of authors are focused on privatization models (e.g. B. Drašković [17]), as well as the effects of privatization on economic growth and society (e.g. P. Djukić [18], B. Čerović [19], M. Kovačević [20]). Most of the authors are very critical on the results of privatization in Serbia. B. Drašković indicates that privatization has been inefficient for being based on wicked access, whereby the state income was preferred, while the economic development and maintenance of rate of employment were sacrificed. M. Kovačević argues that the privatization in Serbia failed in general, creating a number of unfortunate economic and social consequences.

As time goes by the centre of analysis among Serbian authors has been transferred on some effects of privatization. However, unlike the practice in other transition countries where certain numbers of empirical researches have been performed, these kinds of studies are relatively rare in Serbia. Conversely, there is a lack of research on privatization impact on certain economy sectors and industries. Little is known about effects of restructuring on business performances, volume of production, export performance or other competitiveness indicators. Some effects of that kind have been made by V. Mičić, M. Zeremski [21], S. Radojević, Z. Veljković [22], and Lj. Savč [23], I. Domazet, I. Stojić, J. Žubović [24], etc. V. Mičić and A. Zeremski stress that the economic structure of Serbia was changed to the benefit of the service sector, partly due to process of privatization. This movement led to a process of deindustrialization of the Serbian economy. With the outbreak of the global economic crisis, problems of economic growth and development have become more pronounced and more visible.

This paper contributes to the overall perception of the impact of the privatization and restructuring have on Serbian economy and particular manufacturing industry. The methodology applied in this paper is based on the combination of different qualitative research methodologies. Trends in privatization and restructuring, as well as in manufacturing industry in Serbia are reviewed through quantitative data analysis. In addition to this, the method of case study and empirical research, especially when it comes to opposing the privatization and restructuring as well as privatized firms performances, has been applied (qualitative data analysis and cross-sectional study of micro data analysis).

Last but not least, the paper is based on the observations of authors who have participated in more than 50 cases of enterprise privatization and restructuring in Serbia (“case” studies). Starting from the authors’ experiences in different processes of privatization and restructuring, as well as the specific empirical research and experience of authors, this paper seeks to highlight the key effects it had on the Serbian manufacturing industry.

3. RESULTS

The privatization in Serbia was conducted by several different laws and basically by two models. Initial model (so-called “insider” privatization or “model of distribution”), which was applied during 1990s, has been based on combined free distribution of shares to employees and sale (to employees by priority) with discount even up to 60%. The model has initiated privatization, but it has not been massive in that period. The reasons for absence of mass privatization lie in the fact that the domination of private property in enterprises did not suit to many enterprises and therefore they preferred the initiation of privatization procedure. Furthermore, former authorities were not propitious about privatization, for that process was mitigating their influence on the economy. Nevertheless, around 800 socially-owned enterprises were privatized by this model, among which some being with the top performance.

The model of so-called “insider” privatization was replaced by new model in 2002, so-called “model of sale”. The introduction of “model of sale” of social and state-owned capital was justified by weaknesses of “insider privatization”. Namely, it was considered that “insider” model based on free distribution of shares or their sale with the discount (where employees have the priority), lead slowly to superior corporate managing, because majority ownership in enterprises was achieved only upon secondary sale of shares [25]. Furthermore, revenues from sale of socially-owned capital and their productive use were emphasized as a reason for introduction of this privatization model.

By this “model of sale” 70% of socially-owned capital has to be sold, up to 30% (in case of sale via public auction of smaller enterprises) or up to 15% (in case of sale via public tender of larger or more significant enterprises) have to be distributed free to employees, whereas 15% has been reserved for free distribution to all citizens.

This model affected on privatization processes in Serbia to be intensified. Efforts in privatization were initially directed to the most attractive parts of the industry (tobacco, beverages, medicines, rubber, construction materials, then sugar refineries, chemical industry, etc.) and successful enterprises. Concerning the attractiveness of these enterprises (large market and/or significant property), a greater number of investors (a lot of them foreign) were interested in buying them, which influenced that the results of privatization to be usually very favourable.

However, in 2004, a certain slowdown in privatization became evident. To a significant extent this was caused by the fact that the corpus enterprises attractive for privatization were visibly decreased. For majority of remaining so called “business controversial” enterprises as N. Dondu or some other enterprises, there were no great interest from potential investors. For those reasons, by the middle of 2005, the amendments of the Law on Privatization [26] were introduced, with which a new incentive was given to the process of privatization. By the amendments of the Law on privatization, basically, the
government and public enterprises have written of their debts towards non-privatized enterprises. In that way, indebtedness has been reduced considerably and remaining socially owned enterprises have been made more attractive to potential investors. Besides, the government has taken over to finance the redundancy on its own, resulting in a reduced number of employees, thus making a certain number of enterprises more attractive for potential buyers. These legislative changes resulted in a certain stimulus for privatization processes.

On the basis of “model of sale” privatization of socially-owned capital more than 2,400 enterprises were overall privatized in Serbia - around 100 via public tender, around 1,600 via auctions and more than 700 enterprises via “capital market”.

The results of privatization of enterprises in the manufacturing industry by this model are more favourable than for the economy on the whole. In the manufacturing 878 enterprises were privatized – 60 via public tender, 515 via auction method, and 303 via capital market. By privatization of enterprises in the manufacturing industry, the revenue of €1.5 billion (55% of total privatization revenues) and investments in value of €955 million (73% of total investments) were realized.

### Table 1. Privatization of the manufacturing industry in period 2002-2010

<table>
<thead>
<tr>
<th>Sector/number of enterprises</th>
<th>Privatized</th>
<th>Restructured</th>
<th>Contracts cancelled</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing industry</td>
<td>878</td>
<td>58</td>
<td>258</td>
</tr>
<tr>
<td>Food products, beverages and tobacco</td>
<td>202</td>
<td>3</td>
<td>48</td>
</tr>
<tr>
<td>Textile and textile products, leather and leather products</td>
<td>91</td>
<td>7</td>
<td>44</td>
</tr>
<tr>
<td>Wood industry and paper</td>
<td>144</td>
<td>4</td>
<td>58</td>
</tr>
<tr>
<td>Chemical products, rubber and plastics</td>
<td>66</td>
<td>6</td>
<td>17</td>
</tr>
<tr>
<td>Products from other minerals</td>
<td>77</td>
<td>4</td>
<td>23</td>
</tr>
<tr>
<td>Metals and metal products</td>
<td>116</td>
<td>6</td>
<td>24</td>
</tr>
<tr>
<td>Other machines and devices</td>
<td>40</td>
<td>4</td>
<td>10</td>
</tr>
<tr>
<td>Electrical and optical devices</td>
<td>68</td>
<td>6</td>
<td>10</td>
</tr>
<tr>
<td>Means of transportation</td>
<td>38</td>
<td>17</td>
<td>16</td>
</tr>
</tbody>
</table>

Source: Republic institute for Development (based on data of the Privatization Agency)

Although, according to available data by the end of 2010, around 40 enterprises (or about 4% of initially anticipated total number) from manufacturing industry remained to be privatized, their number is considerably larger. Namely, due to non-meeting their contractual obligations (before all non-payment of instalments for sales price, non-keeping continuity of production and disrespect of social programme, disposal of assets contrary to provisions of sale contract, etc.) 258 sale contracts were cancelled (44% of total terminations, i.e. 29.4% of all concluded contracts in this activity). Accordingly, by the end of 2010, and after 20 years of conducting privatization, still 34% of business subjects remained non-privatized in Serbian manufacturing industry. Considering that extremely modest results were realized in privatization in 2011 and 2012 (for which there are no data about sector structure), it can be stated that this percentage has not been significantly changed.

By the Privatization Law from 2001, the privatization of socially-owned enterprises in Serbia should have been completed by the end of 2008. It was prescribed by this Law that the procedure of enforced liquidation will be initiated for all enterprises with socially-owned capital for which the sale of capital would not be announced by the end of 2008. Meanwhile, global recession and lack of investors’ interests, and problems in conducting of privatization influenced that this process slows down. Even in the beginning of 2013 this has not been completed. At the same time, mostly for social and political reasons, procedures of mass enforced liquidation were not initiated.

The restructuring before the privatization of certain number of enterprises was anticipated by the law in case when the Privatization Agency estimates that the enterprises cannot be sold in a standard procedure via public tender or public auction because its organizational form is unsuitable, or its immense debts or some other reasons. For such enterprises, the Agency has to take a decision on restructuring, by which they get a specific formally legal status – an enterprise “in restructuring”.

Basic strategic directions of restructuring before the privatization were: a) financial restructuring (to restore the financial health through debts released, and even write-off, of debts by priority towards the state and public enterprises in state ownership); b) labour force restructuring – downsizing the number of employees (mostly based formerly on so-called passive labour market policies, in which severances and monetary compensations financed by the state, were the main instrument of solving problems of redundant persons and c) organizational restructuring (mostly fragmentation and individual sale of parts of enterprises or property together with employees, and spin-off of “non-core” activities) [27].

For enterprises “in restructuring” by applicable Privatization law investments the substantial restructuring are not anticipated, to create the conditions for viable long-term economic growth. It is left upon a buyer of an enterprise, i.e. investing into enterprise is done within post-privatization restructuring. Mostly modest results were realized in the field of restructuring. The Government i.e. the Privatization Agency has been trying to prepare a certain number of once large and/or significant enterprises on local level for privatization and more successful business operating. Unfortunately, at around 60 business subjects, which found themselves initially in the restructuring process, this process was completed with successful privatization in a very small number of enterprises, and major part of them has been in this status for many years now.

The processes of privatization especially of large industrial enterprises and those in “in restructuring” status, are burdened by substantial business problems. Although great differences exist from an enterprise to an enterprise, numerous mutual problems are characteristic for all these enterprises, which can be systematized to presented SWOT matrix:

### Table 2. SWOT matrix of large non-privatized enterprises in difficulties

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long tradition and production experience</td>
<td>Loss of traditional markets</td>
</tr>
<tr>
<td>Experienced and trained labour force</td>
<td>Lack of profitableness</td>
</tr>
<tr>
<td>“Cheap“ labour force</td>
<td>High indebtedness and chronic lack of own working capital for carrying a normal activity</td>
</tr>
<tr>
<td>Large surface of land and building facilities</td>
<td>Obsolete technologies and equipment</td>
</tr>
<tr>
<td>Significant production capacities</td>
<td>Old-fashioned production programme and lack of marketing concept</td>
</tr>
<tr>
<td>Vicinity of EU market</td>
<td>Low energy efficiency</td>
</tr>
<tr>
<td></td>
<td>Overstaffing, inadequate qualification and age structure of employees</td>
</tr>
<tr>
<td></td>
<td>Insufficient investments in R&amp;D</td>
</tr>
<tr>
<td></td>
<td>Numerous court disputes</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>Written off debts or swapping of debt for equity</td>
<td>Negative effects of global financial crisis</td>
</tr>
<tr>
<td>Implementation of redundancy programmes</td>
<td>Intensification of competition by smaller private domestic and big foreign producers</td>
</tr>
<tr>
<td>Improvements in the efficiency of production through investment</td>
<td>Liberalization of import regulations</td>
</tr>
<tr>
<td>Improvements in the quality of products and changes in product mix</td>
<td>Misunderstanding of creditors for existing situation</td>
</tr>
<tr>
<td>Changing organizational and management structures</td>
<td>Inefficient legal system</td>
</tr>
<tr>
<td>Possibilities for increase of sale on domestic and European market through privatization by strategic partners</td>
<td>High share of “grey“ economy in production and trade</td>
</tr>
<tr>
<td></td>
<td>Import dependency</td>
</tr>
<tr>
<td></td>
<td>Slow process of country’s accession to EU</td>
</tr>
<tr>
<td></td>
<td>Political instability</td>
</tr>
</tbody>
</table>

According to the EBRD estimates [28] the level of transition indicators for Serbia in the field of privatization, although improving...
since 2001, is not quite satisfying. The EBRD in Transition report 2012 estimates that 80% of privatizations obtained in small scale privatization with the mark 4+ (on the scale from one to 4+, where one represents little or no change from a rigid centrally planned economy and 4+ represent the standards of an industrialized market economy), in large-scale privatization with the mark 3- and in governance and with the mark 2+. These estimates point out that the process of privatization and restructuring in Serbia is still incomplete and a lot of additional efforts has to be done “on the road of transition”.

4. DISCUSSION

Attempts to determine correlation between privatization process and basic economic trends in Serbian manufacturing with different statistical methods of have failed. Namely, the number and revenue of sold enterprises in the privatization process is not in statistically significant correlation with trend of production or number of employees, or export of manufacturing industry, neither this analysis indicates to statistically significant at confidence level. Therefore, it could be stated that economic trends in manufacturing industry were determined by impact of a greater number factors, among which the privatization is not of statistically significant impact.

However, it does not mean that the privatization process did not have impacts on operating of business subjects in Serbian manufacturing industry. Contrary to some countries of Central Europe that have had relatively efficiently implemented market reforms, as well as the processes of privatization, restructuring and modernization of industry, such tendencies were not recorded in Serbia.

Reasons for absence of satisfactory positive effects of privatization on industry of Serbia on the whole and industrial enterprises are numerous. One of the basic ones lies in models of privatization of enterprises and the fact that the process has been lasting too long. The privatization has been initiated in early 1990s, and hasn’t been yet completely by the of 2012. Non-privatized socially-owned enterprises that were operating in that period were not restructured and developed. Numerous enterprises during this long-lasting process lagged behind in development and their business and resources were to large extent devastated. They invested and adapted to the market only to the extent necessary to survive, i.e. to be able to pay wages to employees.

Additionally, neither the implemented privatization has directly produced a pronounced very positive effect on the development of industry in Serbia. The experiences in regard of effects of performed privatizations and restructurings in Serbia are different and in wide range from unfavourable to favourable effects [30].

In a significant number of firms privatization has been unsuccessful. A number of “annulled privatizations” in which purchase contracts were cancelled due to the method of business operating of new owners is increasing and by the end of the year 2012 it is more than 30%. The unfavourable circumstance is that enterprises with terminated sale contracts are, by the rule, devastated and in even worse state than before (cancelled) privatization. That reduces their chances for successful privatization to a significant extent, particularly in conditions of global crisis.

However, a number of enterprises, in which even after implemented privatization there were no visible improvements of performances, are much higher. In a certain number of enterprises, the privatization was mainly motivated by speculative reasons, in the first place by the acquisition of property that those socially owned enterprises possessed. Therefore, new owners and management are not interested in enhancement of the business performances, but to buy (and sell) the property. The new owners frequently create conditions, with different measures (before all low wages and introducing rigorous working discipline), for employees to give notice and leave enterprises (in spite of social programme of adopted plan). In these cases the existing property remains on disposal of new owners, while the result after the term of privatization (with a ban of alienation of privatized enterprises’ property) for sale on the market (probably at considerably higher prices in comparison to those at which they had bought the capital of those enterprises).

Some new owners, not in rare cases, with any experience in managing in some specific activity, were not capable to provide functioning of bought enterprises. Consequently many of the privatized firms are “closed” or reduced their activity to a minimum without major looks at the revival of business, employees do not receive salaries not paid their contributions... Particularly difficult situation is in some places in central Serbia, where in fact “doing nothing” and where as a result of privatization of “lost” a large number of jobs.

- In some privatized enterprises changes were mainly directed towards rationalization of the number of employees and transformation of obsolete organizational structure. Activities were mainly directed to lay-off of redundant employees, and most often less skilled and administrative workers were left jobless. Thanks to that, overall operating costs were decreased and productivity increased. Nevertheless, that has strong impact on the total number of employed and the raise of unemployment.

- The visible effects of implemented restructuring processes and their “preparation” for privatization were not noticeable. Substantial strategic restructuring of enterprises in Serbia, business-programme and financial, was left jobless. New owners, upon privatization. However, negative consequences of holding enterprises with status “in restructuring” reflect in kind of conservation of these enterprises and their resources. Financial losses in these enterprises are vast by rule, they are not capable to meet their obligations, and the state has the state has allocated through different stimulations significant funds until recently. Besides, some of these enterprises, which employ a large number of employees, pay relatively low wages and irregularly, which, among other things, creates social tensions.

- Nevertheless, in a certain number of companies, mostly privatised by international owners, the important improvements have occurred, which are reflected in complete change of *“anatomy and physiology”* of operating analogue to the world standards. Business portfolio was significantly improved and innovated, investments in modernization of production technology were made, operating is more based on marketing concept, and these enterprises are more and more oriented towards export, firstly towards adjacent markets and other markets as well.

By analysing key indicators of basic economic trends in manufacturing industry for the last around ten years, the following can be stated:

- The period 2002-2012 was characterized by high oscillations and basically low growth rate of industrial production. Average growth rate of industry was around 0.5% in this period and was lagging to a great extent behind leading countries in transition. For the sake of truth, until the global financial crisis and especially in period 2004-2008, dynamical growth was realized and in 2008 the production level of manufacturing industry of Serbia was higher for 13% than in 2002. However, in 2009, under the impact of negative effects of global financial crisis, a substantial decline of production volume occurred (-16.1%) and the level of manufacturing industry production volume was still lower in 2012 than before the outburst of crisis.

- Serbia is lagging behind majority of countries in restructuring of enterprises. Reforms and restructuring in industry are slower than it is necessary. This is affecting the manufacturing industry of Serbia to be characterized by: technologically backward majority of capacities, low level of capacity utilization, non-satisfactory level of quality of products and services by world standards, high import dependency, low level of marketing management and managing, lack of sufficient direct foreign investments, etc. Existing technological structure of manufacturing industry is unfavourable. Observed by technological groups, the major share in the structure of manufacturing industry are the groups with low technological (49.9%) and medium-low (25.6%) technological intensity [25]. The trend of changes in the structure of technological intensity was dissatisfactory in analysed period and besides mild oscillations low technology industry still has dominant share in overall structure of manufacturing industry.

The production of food products, beverages and tobacco, production of chemicals and chemical products and production of
basic metals and metal products have major share (60%) in the structure of manufacturing industry. Namely, in these countries, new and competitive industrial structure was created. Thanks to own investments, but also to significant inflow of foreign direct investments (partially through privatization processes and restructuring), Serbia has become bearers of the development.

5. CONCLUSION

The privatization and restructuring of enterprises is not the aim by itself, rather this processes represent the means for improvement of business performance and of entire economy. These processes should result in an increase of production volume, competitiveness, export, inflow of foreign investments and increase of employees’ incomes, etc. In fact, thanks to the success of the implementation of these processes in the advanced transition countries after a period of so-called transition crisis, an increase in competitiveness and dynamical growth of industrial sector, which has become the main factor influencing the growth of GDP, was realized. Namely, in these countries, new and competitive industrial structure was created. Thanks to own investments, but also to significant inflow of foreign direct investments (partially through privatization processes and restructuring) and transfer of industrial capacities from developed

EU countries, the significant growth was recorded in industries (in period 2001-2008 about 26% to 40%).

In Serbia, generally observed, effects of companies’ privatizations and restructurings performed up to now, besides certain isolated results, are unsatisfying, followed by many undesirable effects, which include, among others, “cutting” the number of employees and closing of numerous non-propulsive sections of an enterprise, etc. Furthermore, numerous controversies related to new owners and their behaviour are apparent. Besides, resources from privatization were not directed adequately and sufficiently into investments, crediting development and export projects in the industry and restructuring and revitalization of bearers of the development.

As a consequence, large-scale deindustrialization has taken place since 2001. The share of industry in GDP was 15.8% in 2010, was 22.5% in 2001, and was 44.4% in 1990 [29], which indicate the range of downturn trend and gravity of problems that challenge the industry. Average share of industry in more advanced transition countries is in range from 24.5% up 38.4% GDP [25].

Too long privatization process, together with unfavourable general economic conditions, especially upon the outbreak of the global economic crisis, have resulted in sub-optimal effects of privatization and restructuring in Serbia. But the privatization and restructuring of the firms in manufacturing of Serbia is inevitable. Without implementation of intensive processes of restructuring and leaving archaic industrial configuration and obsolete method of corporate operating, successful results of business operating cannot be achieved.

ACKNOWLEDGMENTS

This paper is a part of research projects: 179015 (Challenges and prospects of structural changes in Serbia: Strategic directions for economic development and harmonization with EU requirements) and 47009 (European integrations and social and economic changes in Serbian economy on the way to the EU), financed by the Ministry of Education and Science of the Republic of Serbia.

6. REFERENCES


[16] B. Begović et al.: Four years of transition in Serbia, Centre for liberal and democratic studies, Belgrade, 2005

Correspondence to:
Ivan STOŠIĆ
ivan.stosic@ien.bg.ac.rs
Institute of Economic Sciences, Belgrade
Ivana DOMAZET
ivana.domazet@ien.bg.ac.rs
Institute of Economic Sciences, Belgrade
Hasan HANIĆ
hasan.hanic@bba.edu.rs
Belgrade Banking Academy, Belgrade