GLOBAL DEVELOPMENT NETWORK-REGIONAL RESEARCH COMPETITION

FINAL REPORT FOR THE PROJECT:

ENTERPRISE RESTRUCTURING IN MONTENEGRO[1]

Thematic Area addressed from the list of priorities:

ENTERPRISE DEVELOPMENT AND BEHAVIOR INCLUDING CORPORATE GOVERNANCE AND RESTRUCTURING

CENTER FOR ENTREPRENEURSHIP AND ECONOMIC DEVELOPMENT
Omladinskih brigada 1
81000 Podgorica, Montenegro
Tel/fax: +381 81 620 611, 633 855
web site: www.visit-ceed.org, e-mail: cfepg@cg.yu

July, 2007

[1] The paper based on this report is submitted to several economic journals from the region.

I) BACKGROUND OF THE PROBLEM – PRIVATIZATION PROCESS IN MONTENEGRO

1. Legal framework for privatization

Privatization began in Montenegro with the adoption of the federal Law on the Transformation of Ownership and Management of Socially Owned Capital in 1989 (amended in 1994 and 1996) and carried on with the enactment of the Privatization Law in February 1999. According to the mentioned laws, there are three phases (and three concepts) of Privatization: insider Privatization phase based on worker shareholding (until 1991), transformation of industries and Privatization of small and medium enterprises phase (from 1992 to the beginning of 1999) and phase of Privatization based on mass sale of vouchers and sale to strategic partners (from 1999 onwards).

Main body responsible for conducting privatization in Montenegro is Privatization Council. The Privatization Council was established in September 1998 by decision of the Government of Montenegro, for the purpose of managing, supervising and providing for the conduct of Privatization and looking after the interests of the Republic of Montenegro in the Privatization procedure. The Agency of Montenegro for Restructuring and Foreign Investment Agency deals with technical matters on behalf of the Council.

Privatization processes conducted so far together with laws and regulations adopted in order to privatize state property resulted in establishing capital market.

2. Privatization Strategy and Principles

Montenegro is committed to the conduct of privatization policy in all areas of the economy, if private investors are interested. Domestic and foreign companies have been afforded the same rights. Montenegro was the first country in the region to abolish visas for aliens. As a small country, it is developing the open economy model.

It is being particularly insisted on an entrepreneur approach to privatization.[2] Privatization should create a good environment for entrepreneurs and the proceeds of privatization are mostly being spent on the development of new private enterprises and development of infrastructure. However, about 20% of such proceeds are going towards elimination of the consequences of privatization for social welfare.

The ownership democracy (meaning that all citizens of Montenegro should own shares) is yet another strategic objective. That is also conducive to the expansion of the economic policy and entrepreneurship fundaments. About 43% of the total capital were distributed as follows: 28% to about 450,000 citizens in the form of vouchers and about 15% to about 250,000 employees and pensioners.

The key principles of privatization are as follows:

Transparency: accessibility of information to general public and each citizen individually;

Equity: right of all citizens of Montenegro to participation, to become owners of shares;

Protection of property rights: guaranteed by the government through its agencies.[3] In the negotiations for contracts, foreign investors can opt for either domestic or foreign arbitration;

Transferability of property rights: creation of conditions for trading shares on the capital market;

Control: existence of clear Government and Parliament control mechanisms.

3. Enterprise Transformation and Privatization until 1999

The ownership-related changes began in Montenegro with the enactment of the Ownership and Control Transformation Law (1992).[4] There are two phases in that process: (1) transformation and (2) privatization.

---

[2] For example, the Development Fund has spent DEM 16 million on new Privatization projects so far.

[3] Even so, there have been many cases of private owners, domestic investors in the first place, not being accorded protection. Namely, because of strikes and for the purpose of preserving social peace, many Privatization-related contracts were broken, although the owners were performing their duties.

[4] Incidentally, according to the Constitution of the FR of Yugoslavia (established on 27 April 1992), exclusively the member-republics, Serbia and Montenegro, are competent for matters dealing with ownership transformation and Privatization. Hence the completely different Privatization laws in Serbia and Montenegro.

The preparations for **enterprise transformation** included the assessment of the enterprise's value, first, and then drafting of the transformation program. The value of the enterprises undergoing privatization was assessed by the net asset method and the reduced cash-flow method (yield method) or the two methods combined. The net asset method was used more frequently.

The enterprises undergoing transformation were bound to transfer up to 40% of the socially owned capital in their possession to their existing and former employees. Ten per cent of that had to be given to all employees free of charge, up to the value of € 2,000 per employee. The remaining 30% of the socially owned capital in the possession of enterprises were sold to their present and former employees at a discount of 30% plus 1% for each year of service in the enterprise concerned. It was made possible for all employees to buy shares up to par value of € 10,000 each, the term of payment being 10 years. The employees who did not want to buy shares at a discount were entitled to gratis shares, the value of which was at least equal to the discount they would have been entitled to, had they purchased shares (the "conversion option"). The shares offered at a discount to and not purchased by employees were offered to citizens of Montenegro, at a 30% discount and 10-year payment term. An additional 10% discount was granted to citizens who paid for the shares promptly in cash. Enterprises transferred the remaining shares to the three state funds, which were supposed to sell them within four years. However, the funds were relieved of the duty to sell these shares because of the UN sanctions.

The second phase of ownership transformation relates to **privatization** of the shares transferred to the Development Fund, Pension Fund and Employment Fund, and privatization of the public enterprise capital, which is dealt with by the Economic Restructuring and Foreign Investment Agency. Transformation and privatization went on concurrently. In the course of transformation, employees obtained shares either gratis or at a discount. In other words, the insider privatization was carried out concurrently with transformation. The gratis distribution of shares or their sale at a discount to employees accounted for privatization of 22.4% of the socially owned capital.

The following capital sale models were used until 1999: sale of controlling share blocks; sale of indivisible enterprise parts; sale by auction; and sale by tender. In 1997 and 1998, six companies were put up for sale by tender (international) and two of them were sold: Trebjesa Brewery of Niksić and Dr Simo Milošević Institute of Igalo.

4. **Privatization after 1999**

The Privatization Council was established in September 1998 by decision of the Government of Montenegro, for the purpose of managing, supervising and providing for the conduct of Privatization and looking after the interests of the Republic of Montenegro in the Privatization procedure. The first thing the Privatization Council did was to draft the **new Privatization Law**, which was enacted in February 1999. Under that law, the Privatization Council was assigned executive and controlling duties. All other bodies (Agency, Funds and enterprises themselves) were also were assigned clear authority, liabilities, rights and particularly the right to make motions. The Privatization methods provided by this Law are as follows: (1) Sale of shares; (2) Sale of enterprise assets; (3) Exchanging shares for Privatization vouchers; (4) Subscription to new shares on the basis of re-capitalization; (5) Joint ventures; (6) Debt-share swap.

New Privatization Law stresses importance of transparency and competitive procedure in privatization processes. It introduced the principle of dematerialization of shares, and establishment of share registry, created the conditions for the formation of management companies and Privatization funds. According to the Law Privatization Council adopts of the annual Privatization Plan, which includes the enterprise Privatization method and terms therefore.

Privatization lost momentum in 1999 and 2000. Although some attempts were made, no Privatization worth mentioning was carried out. Hence, the criticism addressed to the Privatization process. However, the change to a new Privatization model called for the creation of institutional conditions for Privatization and putting this process in better order than that in the past. Moreover, the various mistakes made earlier came to light.[5] The general public focused mostly on the buyers of several companies,

[5] For example, the breaking of contracts made in accordance with the model of indivisible and controlling share blocks. Of the altogether 84 contracts, 22 were broken, because of "political upsetting" in many cases, e.g., that of Nikšić trgovina, Lovćen Artisan Enterprise, Mašinopromet, Bar-bilje, etc.

particularly Merkur of Budva and Primorka of Bar,[6] in accordance with the indivisible portion model. A very heated debate took place at the Parliament of Montenegro about the Privatization of Dr Simo Milošević Institute of Igalo (33% of shares bought by ICN Galenika) and Trebjesa Brewery of Nikšić (52% of shares bought by Interbrew of Belgium).

The Privatization procedure began to be criticized intensively. Very often criticism came from parties that had taken part in most Privatization projects prior to 1999, which the new Privatization organization had excluded from decision-making for "conceptual reasons", as well as a part of the ruling political party that got "split up" in 1997. By criticizing the Privatization process, many people tended to cover up some of their activities in the previous Privatization procedure.[7] Heated debates were also provoked by some decisions rendered by the Privatization Council, with a view to bringing the field of Privatization into better order. [8] Moreover, because of the discontent shown by some local circles, rise was given to a debate about Privatization of Telecom and even more so, about the appointment of financial consultant for the Privatization of Telecom.[9] Big discussions were also provoked by

---

[6] Merkur, a private company of Budva bought six companies on the controlling share block basis. That is one of the typical cases that show concurrently the good and bad sides of the earlier Privatization model. The good side is that one of the most serious and best companies of Montenegro got involved in the Privatization process and expressed readiness to invest in the companies it had bought. The bad side is in the fact that it could not enter the premises of three companies it had bought because of unsettled relations and failure of the sellers (the government and/or funds) to do anything towards having such disputes settled, newly discovered debts of these companies, failure of the contracting parties to strictly observe the Privatization contracts and their engagement in "bilateral" negotiations.

Primorka of Bar was bought by its existing management, which was unable to perform its contractual duties. Moreover, the bank guarantee issued by Montenegrobanka was found not to be sound enough because of that bank's situation.

[7] For example, some members of the earlier management of Podgorica Aluminium Works and some people that used to be on the staff of funds and agencies before the restructuring was carried out.

[8] This applies particularly to the ban placed on a joint venture of Jugopetrol of Kotor and Lukoil of Russia, stopping the Privatization of the Durmitor Skiing Centre in accordance with the controlling share block model, stopping the conclusion of a management contract with Accor and, particularly, stopping the sale of the Mogren Hotel and the open conflict of the Privatization Council with the Budva Riviera board of directors and management.

[9] Based on that, the tender commission sent invitations to 23 companies world-wide to act as financial consultants and 6 of them responded. The domestic professional opinion was that this was not transparent enough and that it was necessary to invite international tenders for financial consultants. A lot of debates took place in the parliament with a view to discrediting the Privatization process. That was a very good public coverage for those who saw in that an opportunity either for the Privatization to be postponed and retaining their positions in firms and daughter firms or for Telecom to be bought in accordance with the so-called "Serbian model" (without tendering). The tender commission was facing a big challenge, particularly in view of the fact that in wishing to save their political careers, some of its members resigned and began to "wash their hands" of everything. This also applies to some members of the Council. However, international experts showed that the tender commission was right and that the selection of international financial consultants was transparent and fully up to international standards and practices.

the contract concerning the management of Podgorica Aluminium Works (PAW) by Glencorn, which was concluded in 1998. However, time showed that this was the only way in which the Works could survive and conditions be created for its development, by rescheduling debts for a 15-year period.[10]

The Privatization Council began to work very hard, together with international consultants, on (a) drafting laws and regulations (legal framework of capital market in Montenegro); (b) development of institutions (institutional framework of capital market); (c) staff training (people employed on capital market); (d) organization and management of Privatization; and (e) preparations for mass voucher Privatization (MVP). The Privatization Plan specifies the amount of capital and the method of Privatization for each enterprise individually and includes the list of enterprises for MVP. The Montenegrin model is based on sale (strategic partner – owner) and gratis distribution to citizens and employees.

Mass Voucher Privatization: The preparations for MVP lasted about two years. They were preceded by very heated debates. According to the accepted model, all citizens of Montenegro over 18 years of age are entitled to 5,000 Privatization points each, which they may invest in companies or Privatization funds. The first vouchers were distributed to citizens on 17 April 2001. The MVP procedure was conducted in four phases: (1) Distribution of vouchers to citizens of Montenegro. All citizens were notified that accounts have been opened for them with the Clearing and Payment Department, in which 5,000 voucher points have been entered; (2) Transfer of vouchers to Privatization funds and members of immediate family; (3) Exchange of vouchers for enterprise shares (carried out in November 2001); (4) Post-Privatization period; registration, notification of citizens and funds and inauguration of the new enterprise owners (carried out by March 2002).

The Expert Coordinating Body was established for the purpose of conducting the MVP.[11] The Privatization funds were the critical point of the MVP. The preparation of

---

The Privatization of Telecom was carried on, but with new difficulties! Credit Einstalt AG was elected as financial consultant and Linlaters & Alliance as legal consultant.

[10] Thanks to the operation of PAW, despite the state of war and sanctions, that contract served as the basis for rescheduling the PAW debts for 15 years, which will allow this company to operate normally in the years to come. The financial consultant in all PAW transactions is Credit Commercial de France of Paris.

[11] This body consisted of the representatives of all ministries and institutions involved in the MVP.

regulations dealing with Privatization funds was time-consuming and foreign consultants took part in it. Efforts were being made towards preventing the Privatization funds from playing a negative role, like in some other countries (for example, in Russia). Six funds were established, which in view of the size of Montenegro, was enough.

Sale of capital to strategic partners: The Montenegrin model places an emphasis on the importance of strategic partners (well-known foreign companies, in the first place) for thirty or so biggest enterprises. Strategic partners can be found by two key Privatization methods: (a) international tender and (b) batch-sale tender. The difference between these two methods is in the fact that the controlling share block (upwards of 51% of the value of shares) is offered for sale by international tender and the batch-sale applies to the sale of 30%-35% of shares and possible re-capitalization of the company concerned (for at least the difference between 51% and the amount of purchased shares). Re-capitalization is understood to mean the new owner's total investment in the company's revival and development. The biggest companies, such as Telecom, Electric Power Industry, Tobacco Factory, Aluminium Works and all hotel-keeping enterprises, are on the list of companies that are to be sold by tender. The motto of sale of companies to strategic buyers is: "We are not selling our companies. We are buying the good owners".[12] A set of several criteria for the selection of strategic buyers has been determined. The price is not always the prevailing criterion. The selection of strategic partners included, besides (1) price and (2) image and reputation of the buyer,[13] (3) business plan,[14] (4) dealing with the problem of redundant employees[15] and (5) ecological problems.[16] The sales by tender were carried out in accordance with the clearly set out tender rules. These

[12] The negotiating team platform was adopted by the Privatization Council as a document that provides conceptual grounds for the sale of capital to strategic partners.

[13] This criterion was set with a view to avoiding phantom companies and firms of "new tycoons" from the countries in transition in particular.

[14] The idea was to get the owner to invest in the company and enhance its developmental performances in order to avoid the cases in which market is bought with the purchase of a company and the company is closed down.

[15] Like in other countries in transition, all Montenegrin companies have more employees than required. It has been made possible for potential investors to deal with such problem on the basis of new programmes, retraining and the like, which automatically reduces the price of the company concerned, and vice versa: if the business plan makes provisions for the dismissal of employees, the government undertakes to deal with this problem using the funds coming from the higher price paid by the investor for the company.

[16] Montenegro has big ecological problems as it is. Its orientation to the expansion of tourist trade, as well as the idea of it being an ecological state, made it necessary to prevent Privatization from posing a threat to modern ecological standards.

rules essentially call for the sale to be objective to the largest possible extent and maximum avoidance of direct negotiations, thus leaving as little as possible room for corruption. The sales by tender called for the selection of international financial and legal consultants. They were selected by invitation or by international tender.[17] The involvement of international consultants raised the decision-making to a higher level of expertise and competence.

Sale by auction: Company assets and companies as a whole may be sold by auction. Price is the key criterion for the selection of buyers. Auctions are conducted by the Auction Commission, in accordance with the rules set by the Privatization Council. This Privatization method is troublesome, particularly because of the low purchasing capacity existing in Montenegro. The big discounts given in the sale of some enterprises gave rise to heated debates.

[17] The following international consultants were commissioned in Montenegro: Merrill Lynch, Deloitte & Touche, Denton Hall, Price Waters Coopers, Barents Group, KPMG, Credit Einstalt Investment Bank of Vienna, Raifeisen Investment AG and Credit Commercial de France.

I I THE GOAL OF THE RESEARCH

In Montenegro, more then 80% of the former state-owned capital has been privatized to date. The privatization program followed multiple tracks, including insurance of vouchers under the Mass Voucher Privatization (MVP) program, through direct sale via tender and auctions for the list of strategic companies, batch sales and privatization through liquidation.

Though significant privatization of state-owned enterprises has been accomplished over the years, enterprise restructuring remains far from complete and many companies privatized through the MVP continue to face significant economic and social problems.

Since the pace at which firms restructure is a fundamental determinant of economic growth, analysis of the determinants of restructuring in Montenegro sheds light on the very bases of economic progress.

This research proposal is aimed to provide insights into the relative effectiveness of reform policies, 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 in Montenegro. This approach is has never been used before to monitor and evaluate so far reform processes in Montenegro. On the other hand its main objective is provide policy recommendations.

The pre-transition enterprises were state-owned, protected from competition, shielded from failure by soft-budgets, and run by managers who were production engineers with incentives oriented toward the plan or politics[18]. The transition process changed all of this.

In Montenegro, through the Mass Voucher Privatization program, more then 200 enterprises covering about one fourth of the state-owned companies, with over 45,000 employees were privatized[19]. Six licensed privatization funds collected more than 50 million voucher points and other legal prerequisites from citizens. Today, shares of companies and investment units are traded on the two stock-exchanges, NEX Montenegro and Montenegro Stock Exchange.

Although twelve foreign banks and investment funds took part in the establishment of six privatization (investment) funds, the privatization funds were not accomplished their main task at the moment the funds were formed. The privatization funds could not function well (e.g. as mutual funds operate in the West) in part because most of the shares owned by the voucher funds had no real market. Also, the trade in shares of so many diffused owners has been slow at consolidation, making it difficult to find quickly majority owners. Restructuring has progressed more slowly than expected partly due to the much diversified ownership structure that would take time to concentrate in the process of free trade in shares. In the meantime, the transition costs to the shareholders of the companies and to the Government have been considerable.

[18] "Enterprise Restructuring in Transition: A Quantitative Survey", Simeon Djankov and Peter Murrell

[19] More than 400,000 citizens of Montenegro acquired those vouchers for free, but most exchanged them for shares of companies (29.5%) or investment in privatization investment funds (60.5%).

The lack of complete restructuring in many of the privatized companies has severely curtailed their growth, and of the private sector in Montenegro more generally. The lack of accountability among fund and enterprise managers — together with the accompanying stagnation, and de-capitalization of the privatized industrial sector—has caused slow growth of the formal business sector in Montenegro. In turn, this has limited the ability of the private sector to generate employment and growth.

Yet, there is hope that this is changing, if only painfully slowly and one of the tasks of our analysis was to check this. Currently, shares of companies and investment units privatized through the MVP are slowly being consolidated through trades in two stock-exchanges, NEX Montenegro and Montenegro Stock Exchange. This consolidation of shares into majority ownership may lead to management changes, completion of the restructuring plans, introduction of new capital and technology, and better profitability and shareholders' value of these companies. In addition, due to improved business environment, foreign investors are becoming more interested for Montenegro.

There is strong literature evidence confirming that analysis of enterprise restructuring is central in any effort to gain an understanding of the effects of the most important reform measures adopted in transition countries. With enterprise restructuring apparently more successful in some countries than others, the natural question is whether such differences relate systematically to policy.

The main questions that arise are as follows: what is the efficiency cost of diffuse share ownership relative to blockholder ownership? Which private owners are most effective, managers, workers, banks, or investment funds? Does competition promote productivity change? Does it matter whether competitive pressure comes from foreign or domestic firms? To what degree do soft budgets dull enterprise performance? Is a strengthening of managerial incentives sufficient to inspire turnaround or is replacement of managers necessary for revitalization?

Main goal of this research is to provide evaluation of the importance and extent to which different determinants of enterprise restructuring influence this process in Montenegro and with what results. Based on this, final goal is to provide policy recommendations for the decision makers.

III RESEARCH PROCEDURE

The research has been organized in four phases:

- **Survey of the empirical literature analysing the process of enterprise restructuring in transition economies**
- **Examination of determinants of enterprise restructuring in Montenegro – a base for creating questionary for the survey**
- **Selection of restructured enterprises, data collection and equation estimation.**
- **Final Recommendations**

First two phases of research resulted in creating the list of potential determinants of enterprise restructuring in Montenegro. This list served as a base for developing questionary, which has been sent to companies.

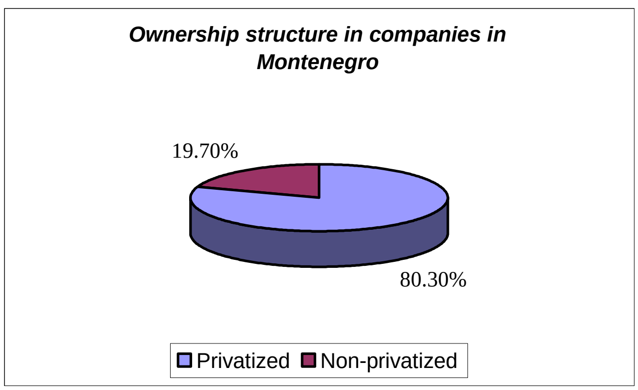
Starting point of the survey is analysis of ownership structure in shareholders companies in Montenegro. This analysis has been already finished. The source of data is Central Depositary Agency, which is central register of owners of dematerialized shares in Montenegrin shareholders' companies.

The data on ownership structure in shareholders' companies in Montenegro shows that more then 70% of all registered companies have 100% private ownership in its capital structure, while only 13 companies have more then 75% of state capital in capital structure.

Share of Private Capital in the Capital Structure	Number of registered shareholders' companies	%
100%	272	70.47%
75%-99.99%	25	6.48%
50%-75%	37	9.59%
25%-50%	39	10.10%
Below 25%	13	3.37%
Total number of companies	386	100.00%

On the other side, the analysis has shown that more then 80% of state capital has already been privatized.

Value of capital at the beginning of privatization proces - in EUR	**4,695,490,243.37**	**%**
Privatized	*3,770,342,250.77*	80.30%
Non-privatized	*925,147,992.59*	19.70%



On the other hand if you analyse the data on diffusion of ownership 171 company has a single owner that owns at least 40% of the capital of the enterprise.

Very important source in this phase of research was a book Mass Voucher Privatization – Data on Companies published by Privatization Council of the Government of Montenegro. Namely, Privatization Council as main body responsible for conduction privatization process published the book, which contains information on 225 companies dominantly privatized through mass voucher program and 16 more companies whose dominant share is to be sold on international tender, but significant portion of capital is to be privatized through MVP. The information given in the book relates to period 1998-2000, and consists of:

1. Estimated value of capital, total number of shares and number of shares that were to be exchanged for vouchers
2. Industry and main activities of the company
3. Description of land and assets of the company
4. Ownership structure at the time
5. Average number of employees in the company for the mentioned three year period
6. Average wage
7. Debts
8. Basic info from financial statements for the mentioned three year period

The book contains information on 241 companies.

Beside these companies potential candidates for sending questionaries were companies whose shares were exchanged for voucher points, but dominant privatization method was different (international tender, batch sale tender or strategic partnership). This resulted in the list of 241 companies, which had operated or still operate in Montenegro.

In order to get the list of active companies that still operate in Montenegro we compared already mentioned list of 241 companies with the list of shareholders companies registered with Central Depositary Agency. As a result we've got the list of 193 companies - potential candidates. Still this was not a final list of the companies for survey. Namely, second filter was a Commercial Court. According to the Law on business organizations companies that operate are obliged to register with the Central Register of Commercial Court and to submit their financial reports to The Court. All companies that are active are listed on the website of Central Register and access to their financial reports is provided through this website as well. Companies that are not active – do not operate any more from any possible reason – are not listed. Thus we've got a list of 105 active companies. Remaining more then 100 companies, which existed as state owned at the moment privatization process has started in 1999 (new concept of privatization) do not operate. These companies either bankrupted or sold out their property.

If we look at the literature on transition and privatization most authors claim that more firms bankrupts, the privatization is less successful. But, we should take this claim for granted. On the contrary, Boettke (2004) claims that "Ironically, one of the surefire ways to determine whether a country has adopted successful economic reforms would be seeing the number of individual bankruptcies increase. The recent financial scandals in the US are not, collective tragedies. The collective tragedy would be to not let Enron go bust, or Arthur Anderson to lose its reputation because of the political clout of its officers. A vibrant market economy is a profit and *loss* system. If firms who do not satisfy the demands of consumers are protected from going out of business, then resource allocations will not result in a manner that tends toward efficiency. Waste of resources will result and the economic system will not generate generalized prosperity. It is precisely because entrepreneurs reap profits for satisfying the demands of their fellow men, and suffer losses for the failure to do so in a cost effective way that the market system is a reliable mechanism for resource allocation. The scourge of successful reform efforts is the desire to protect people from the rigors of market discipline. This is as true for the labor force as it is for the entrepreneurial class. Persistence of inefficient organizations and patterns of resource (both capital and labor) use simply ensure that short-term pain is sacrificed for long-term misery and economic deprivation. The pattern must be broken and the creative destruction of economic change must be allowed to run its never-ending course.

So when in a reforming economy you see zero to few bankruptcies (of either old or new firms), employment concentrated in the former state-owned enterprises, and the persistence of the underground economy you can confidently conclude that *reforms have not been effectively implemente*d. "

From this point of view, the fact that more then 100 companies that have existed at the very begging of privatization process and do not operate any more is not tragedy itself. On the contrary, it could be seen as a sign that reforms are effectively taking place.

Thus, we concluded the list of 105 companies that are registered with Commercial Court and submited their financial report. Here, we are emphasizing the fact that these 105 companies are not a sample but the whole "population" of companies of interest. This means that due to the, before all, size of Montenegro (area of 13.812 km2 and population of 617.740) research team was able to conduct survey on whole "population" of companies of interest and not to make selection of the sample within population.

As the empirical literature is confirming, the most frequently used factors that influence enterprise restructuring are: ownership, competition, soft-budgets, managerial incentives, managerial characteristics, and broader institutional changes.

In some studies, the measurement of restructuring focuses directly on enterprise decisions, for example, changes in the structure of corporate governance and management (Estrin and Rosevear, 1999) or renovations of factories (Djankov, 1999), or investment rates (Grosfeld and Nivet, 1999). But more usually, the degree of enterprise restructuring has been captured by performance, with performance measured by variables that are objectives of companies in market economies and that were less important for socialist enterprises. Thus, productivity, e.g., Smith, Cin, and Vodopivec (1997) and Lee (1999), or profits, e.g., Claessens and Djankov (1999) and Estrin and Rosevear (1999), are often used.

But sales or revenue have also been used extensively, e.g., Frydman et al (1999) and Jones (1998), under the premise that the ability to hold onto customers or to find new ones is an indicator of successful change within the enterprise, especially when accomplished in the face of steep recessions (Frydman et al. 1999).

Our literature survey has shown that there is no consensus on the issue of variables that are the best measures of restructuring.

Having this in mind, the goal of the third phase of research was to collect similar data from Montenegrin companies. Examination of statistical significance of relationships between collected data should help developing a model that will describe the level and success of restructuring in privatized companies.

Before developing detailed questionnaire, draft versions of the questionnaire were discussed on the meetings of research team with managers of several companies from the list of companies to be interviewed. The goal of the research team was to develop questionnaire that contains precise questions and thus enable us to get the precise answers and further analysis of collected data.

After the draft questionnaire was developed it was first discussed and later approved by experts from Global Development Network.

Final version of the questionnaire, which was approved in middle June is given below.

The Questionnarie for Entreprises

I) General Information

1. The name of the company
____

2. Main activities of the company (if more list three activities that bring the highest revenue to the company)[20]

1. Industry, mining, and watersupply
2. Agriculture, fishery and forestry
3. Construction industry
4. Traffic industry
5. Trade
6. Hotels and restaurants
7. Financial intermediation
8. Education
9. Health
10. Public utilities and personal services
11. State administration and social insurance
12. Other __________________________

3. Number of employees__________

Note: number of full time employees

II) Information on ownership structure and methods of privatization

4. Does state (Government or state funds i.e. The Development Fund, The Employment Fund, The Pension Fund) have ownership in your company? 1. Yes 2. No

4.1 If the answer on 4. is yes, what is the share of state capital in percentage?

State ownership %	Private ownership %

5. Please list owners (whether they are individuals or legal persons) that own at least 10% of shares[21] of the company along with their % share in ownership?

Owner	**Ownership in %**

[20] List of activities is made according to the classification currently used by Statistical Office of Montenegro

[21] According to the Law on Business Organization in Montenegro owners with 10% or above share have right on representative in Board of Directors

6. Please list major foreign investors in your company (whether they are individuals or legal persons if they own at least 5% of shares of the company) along with their % share in ownership?

Owner	Ownership in %

7. Which method was used in privatization of your company? What share of total capital was privatized through each of these methods?

	Distribution of free shares to employees and shares employees bought by concessionary prices	Mass voucher privatization	Tender sales	Other methods (method used and % of privatized capital)
% of privatized capital				

III) Financial information

Please provide us information on:

	2001	2002	2003	2004	2005
1. Total assets					
2. Total debt					
3. Total revenues					
4. Profit/loss					

IV) Data on export

8.1 Does your company export product and services 1. Yes 2. No

8.2 Does your company provide services to foreign tourists? 1. Yes 2. No

9 If the answer on 8.1 or 8.2 is yes, what percentage of total sales comes from export markets (export of goods and services or foreign tourists)?

	2001	2002	2003	2004	2005
% of export (revenues from foreign tourists) in total sales					

V) Data on employees

10 Please provide data on number of employees in last five years

	2001		2002		2003		2004		2005	
Number of employees	In season	Out of season	In season	Out of season	In season	Out of season	In season	Out of season	In season	Out of season
Full-time										
Part time[22]										

11 Please provide us the data on redundant workers (if any) in your company in last 5 years.

	2001	2002	2003	2004	2005
Number of employees					

12 Average age of employees in your company? ____________________

13 Please provide us data on education structure of employees in your company? Please provide us with data on number of employees with following degrees levels:

	Elementary school and below	High School	Bachelor degree	Masters and PhD
Number of employees				

14 Have your employees attended training program of any kind (courses on computer skills, foreign languages, and professional expertise) in last five years? If yes, how many of them have attended the training?

14.1 Yes (How many?) ______________________

14.2 No (Why?) ______________________

15 Does your company invest in professional improvement and education of employees?

1. Yes 2. No

15.1 If yes please provide us with data on exact or approximate amount invested with this purpose

	2001	2002	2003	2004	2005
Investment in education of employees					

VI) Miscellaneous

16 Name of the executive director[23]?

	2001	2002	2003	2004	2005
Izvršni direktor					

[22] When said full time job in Montenegro it is 8 hours per day (40 hours per week). Part time job means 4 hours per day (20 hours per week). Employees are paid on a monthly salary basis not per hour. Salary on per hour basis is extremely rare in practice and is usually

[23] Since Executive directors forms management team the point here is that crucial changes in management team are represented by change of executive director

17 Have your company received any kind of subsidies from Government or state bodies in last five years? (1-»Yes«, 2-»No«). If yes, please provide us with data on the amount received.

	2001	2002	2003	2004	2005
Subsidies	1.________ 2.	1.________ 2.	1.________ 2.	1.________ 2.	1.________ 2.
Cash grants from state	1.________ 2.	1.________ 2.	1.________ 2.	1.________ 2.	1.________ 2.
Favorable access to foreign exchange	1.________ 2.	1.________ 2.	1.________ 2.	1.________ 2.	1.________ 2.
Energy at less then market prices	1.________ 2.	1.________ 2.	1.________ 2.	1.________ 2.	1.________ 2.
Lax tax collection	1.________ 2.	1.________ 2.	1.________ 2.	1.________ 2.	1.________ 2.
Other forms	1.________ 2.	1.________ 2.	1.________ 2.	1.________ 2.	1.________ 2.

18 Have your company change its main activity of industry within it operates in last five years?

1. Yes 2. No

18.1 If yes, please provide us with data when that happened and what was the change (*for example: Company X has started to produce umbrellas in 1999. Until 1999 it produced shoes*)

____
____
____
____

19 Have your company introduced any new product or new production line in the period 2001-2005?

1. Yes 2. No

19.1 If yes, when that happened and what was the innovation?

____
____
____
____

20 Have your company introduced any new technology in the last five? 1. Yes 2. No

20.1 If yes, when that happened?

____
____
____
____

21 When was the last renewal of equipment?

1. less then an year
2. 1 - 3 years ago
3. 3 – 5 years ago
4. more then 5 years ago
5. equipment has never been renewed

22 Investment in fixed assets in last 5 years

	2001	2002	2003	2004	2005
New plants					
New buildings					
Equipment					
Other investment					

23 Please provide us data on expenditures, i.e. investment in research & development in last 5 years.

	2001	2002	2003	2004	2005
R&D expenditure					

VII Business environment

24. What are the barierrs to doing business in Montenegro, according to upur opinion?
0= I don't know/I am not sure
1= causes serious problems
2= usually causes problems
3= causes some problems
4= does not cause problems

(Please grade each of barierrs given below)

Barierr to doing busines	1	2	3	4	0
Lack of personell					
Your personal managerial skills					
Education and skills of employees					
High taxes and duties					
Custom tariff rates					
Export/import procedures					
Administrative burden					
Changes in legal and administrative environment					
Work of commercial courts and the judiciary					
Strong competition					
Unloyal competition / Existing monopolies					
Procedures and guarantuees needed to get the loan					
Infrastructure					
Corruption					
Problems with liqudity in the system – customers are not paying for provided goods and services promptly					
Political situation					
Lack of business information					
Other barriers					

The survey started immediately after the questionnaire was approved.
The team of 12 researchers worked on the survey, some of which was appointed 8, and other 9 companies.

Experience CEED had with similar survey showed the best efficiency of sending questionnaires by fax and e-mail. Before sending questionnaires each company was to be phoned and researcher was to inform the company about the survey, explaining what it is all about. The cover letter and questionnaires are to be sent. The questionnaire were addressed to executive directors of the companies (according to the Law on Business organization each shareholders' company has executive director on the head of management team). Cover letter contained information on the project, surveyor and briefly explained the purpose of the survey.

In this first phase companies had been given a period of two weeks to send an answer. If the answers (fulfilled questionnaires) haven't arrived within a 7-10 days, researchers phoned companies again to remind them on the survey.

At the very beginning research team faced big problem. Namely contact addresses and phones of 33 companies were not in function. This meant we could not get in touch with 33 companies from the population, and thus our survey was reduced on 72 companies. Researchers have also tried to visit offices (at registered address) of the companies but these were either closed or other companies operated in "their" office space. When asked about the company of interest employees of these "new settled" companies couldn't give any information. Some of them knew and some of them didn't know that a company of interest previously operated in the same space.

After the first two week research phase, we've got 22 answers and 15 companies refused cooperation. Some of them explicitly refused to cooperate at the very beginning and some of them refused cooperation in second cycle of phoning, even though they promised cooperation at the very beginning. Thirteen out of 72 companies on the list couldn't be reached neither by phone (they had registered phone lines which were active but didn't answer the phone) nor in direct contact.

Afterwards researchers phoned the companies that didn't send answers reminding them on the survey again, explaining the purpose and sending the questionnaire with somewhat changed cover letter again. Having in mind the time framework we were limited with companies had a week to send answers.

If the answers didn't arrive within a week, researchers phoned companies again reminding them on survey. In this phase many researcher have visited the companies to try to get answers in direct interviews with managers. In this phase 10 more companies refused cooperation, either explicitly or promised cooperation and sometimes even took questionnaires in direct contact with our researchers but never send them fulfilled.

Each company that sent the answers has got letter of expressions of gratitude for help in the survey. Researchers thanked even to companies that refused to cooperate.
Companies that have explicitly refused to cooperate with our researchers usually explained that act with busyness of their employees. In several cases persons that were contacted in companies openly showed their suspicions about the purpose of the survey.
The result was 34 completely fulfilled questionnaires.

The issue raised in this phase of research was whether this sample is representative. We analyzed the structure of the companies we have got the answers from.

These companies are operating within different industries. Thus 23.5% of the companies in the sample listed trade as their main activity, 17.6% are operating in industry, mining and watersupply. Structure of the sample according to the main activity of the surveyed company is given in the table below.

Main industry	Number of companies	Percent
Industry, mining, and watersupply	6	17.6
Agriculture, fishery and forestry	3	8.8
Construction industry	5	14.7
Transport	3	8.8
Trade	8	23.5
Hotels and restaurants	5	14.7
Other	4	11.8
Total	34	100.0

The structure of the 241 companies, listed on the initial list of companies that are going to be privatized through Mass voucher privatization (published in book Mass

Voucher Privatization – Data on Companies by Privatization Council of the Government of Montenegro) is somewhat different from the classification, we've used in our questionnaire[24]. The structure of 241 companies that entered privatization is given in the next table.

Main industry	Number of companies	Percent
Industry	80	33.2
Agriculture	11	4.5
Transport	9	3.5
Trade	74	30.7
Tourism	31	12.8
Other	36	14.9
Total	241	100.0

If we try to compare these data and to bridge somehow problem of different classification we'll add up companies operate within the construction industry today with companies whose main activity is industry, mining, and watersupply (we got 32.3%). This number is comparable with the percentage of 33.2% from 1999 and we can say that sample of 34 companies we've got the answers represents pretty well the initial structure of the companies for privatization from 1999.

Regional distribution of the companies from the sample is given in the table below and it represents the structure of the Montenegrin economy pretty well. Namely, northern parts of Montenegro are not as developed as central and southern parts of the country. The core of economy is concentrated in central and southern part of the country.

	Frequency	Valid Percent
North Montenegro	5	14.7
Central Montenegro	15	44.1
South Montenegro	14	41.2
Total	34	100.0

If we analyze the structure of the sample according to the ownership structure 67.65% of the companies have 100% private capital. The state still has share of capital in 11 out of 34 companies, which is 32.35% of the sample. When we go back to the ownership structure of all registered shareholders companies in Montenegro

[24] Valid statistical classification has changed.

(page 15) around 30% of the companies (114 out of 386) still had state as shareholder.

State share	Frequency	Valid Percent
Yes	11	32.35
No	23	67.65
Total	34	100.0

If we analyze the size of the companies, according to the number of employees, then 32.4% are big companies, 32.4% medium sized, while 23.5% are small companies. Remaining 11.7% have 1-9 employees, i.e. those are so-called micro companies.

	Frequency	Valid Percent
Micro (1 - 9 employees)	4	11.7
Small (10 - 49 employees)	8	23.5
Medium (50 - 249 employees)	11	32.4
Big (250 and more)	11	32.4
Total	34	100.0

Having in mind the fact that privatization bring in most cases segmentations and liquidations (105 active companies out of 241 that entered privatization) we can not discuss whether our sample is representative or not according to this criterion. But comparison of the structure of initial list of the companies that entered privatization in Montenegro in its second phase (1999) and the sample of the companies we've got answers from leads us to certain conclusions.

Initial structure of 241 companies that entered privatization is given in the table below.

	Frequency	Valid Percent
Micro (1 - 9 employees)	25	10.4
Small (10 - 49 employees)	76	31.5
Medium (50 - 249 employees)	97	40.2
Big (250 and more)	43	17.8
Total	241	100.0

As it could be noticed the structure has changed in favor of big companies. It can be explained with pretty much social and political reason, because there are fewer problems if a smaller or medium sized company bankrupts. On the other sized big companies with large number of employees either still in the hands of state or are privatized through international tenders, where potential buyer has to guarantee some kind of social program and usually oblige not to fire people for a certain period of time.

Previous analysis have suggested that we've got representative sample i. e. we consider building up the wanted model on the data got from our survey the best possible solution in this moment.

Still, we had one more option available and it can be discussed. That is, what we've called "The worst case scenario": collection data from alternative sources. These are:

a) Book Mass Voucher Privatization – Data on Companies published by Privatization Council of the Government of Montenegro that contains information on 241 companies whose share is to be privatized dominantly or in significant portion through mass voucher program. The information given in the book relates to period 1998-2000, and consists of:
    - Estimated value of capital, total number of shares and number of shares that were to be exchanged for vouchers
    - Industry and main activities of the company
    - Description of land and assets of the company
    - Ownership structure at the time
    - Average number of employees in the company for the mentioned three year period
    - Average wage
    - Debts
    - Basic info from financial statements for the mentioned three year period

b) Data on ownership structure from central register – Central Depositary Agency

These two sources would be starting point to make **stratified sample** according to the following criteria: ownership structure; size of the company measured by estimated value of assets – book value; and main industry. In this case sample would have 50 companies. After the sample is determined research team would analyse and gather necessary data from third source:

c) Financial statements, which are public and can be acquired from Business Statistics Unit of the Commercial Court of Montenegro. *It is important to note here that CEED has already analysed data from financial statements of Montenegrin companies and has good data base for years 2003, 2004 and is making a database for 2005.*

In this worst case scenario research team should gather information on privatization methods used in privatization of companies from selected sample. This information can be acquired from fourth source:

d) Annual reports of Privatization Council, The Development Fund, The Pension Fund and The Employment Fund as well as from the Agency of Restructuring and Foreign Investment.

In this worst case scenario the model would have to be estimated on data that are somewhat different from the data potentially gathered through the questionnaire survey, but it would also be possible to build the model make some conclusions on statistical significance of selected indicators, and draw policy recommendations.

However, when we compared the data from the book Mass Voucher Privatization – Data on Companies published by Privatization Council of the Government of Montenegro, for the companies that have cooperated with our researchers and the data collected from fulfilled questionaries we realized that there huge differences occurred. The comparison pointed out main shortage of collecting data from the book and building model on data acquired this way: old data, and thus not representative. The data acquired from other sources were pretty accurate but having in mind structure of companies that have answered our questionaries; quantity and quality of acquired data we decided to build up the model based on the sample.

IV THE EMPIRICAL RESULTS

1. Descriptive statistics

Analysis of data we've got from the initial phase of the survey are given showed that around 22% of the companies have reported loss in its financial reports for 2005, while in 2001 expenses 42% of the surveyed companies exceeded revenues

Around 40% of the companies have some kind of revenues from export, while around 26% of the surveyed companies has redundant workers, 35% of which are companies that still have state share in capital structure, while remaining 65% of the companies are privatized.

Average age of the employees in surveyed companies is 45.67. Education structure of the employees is as follows: 31.66% have finished elementary school, 51.74 have high school diploma, and 16.31% have bachelor degree, while only 0.29% of all employees in surveyed companies have master degree or PhD.

Around 63% of employees in surveyed companies have attended some kind of training programs in last 5 years, whereas 8% of the surveyed companies has used state subsidies in last 5 years.

Around 14% of companies have changed their main activity in last 5 years, and in all cases except for one that was after the privatization took place. The exception is a former military factory that have reoriented to production of some mechanical and hydraulic elements.

Around 32% of the companies have introduced new product or service into their supply line in last 5 years. In last five years 17% of the companies have introduced new technology into their production lines, and 50% of companied bought new equipment.

Around 44% of the surveyed companies have invested in their assets in 2005 and average investment amounts to €1.867.493. Only 8% of companies have invested in research and development over the last 5 years.

Our survey also contained questions on the estimates of the business climate in Montenegro. The results of the sub-survey on barriers to doing business among privatized companies are given in the table below:

Barierr to doing busines	I don't know/I am not sure	causes serious problems	usually causes problems	causes some problems	does not cause problems
Lack of personell	3.8 %	3.8 %	30.8 %	19.2 %	42.3%
Your personal managerial skills	20.0 %	0.0 %	5.0 %	40.0 %	35.0 %
Education and skills of employees	4.0 %	16.0 %	16.0 %	48.0 %	16.0 %
high taxes and duties	7.1 %	39.3 %	42.9 %	10.7 %	0.0 %
Custom tariff rates	13.6 %	18.2 %	9.1 %	22.7 %	36.4 %
Export/import procedures	14.3 %	14.3 %	14.3 %	28.6 %	23.8 %
Administrative burden (central level)	4.3 %	4.3 %	8.7 %	47.8 %	34.8 %
Administrative burden (local level)	4.0 %	8.0 %	36 %	36 %	16.0 %
Changes in legal and administrative environment	4.8 %	9.5 %	28.6 %	47.6 %	9.5 %
Work of commercial courts and the judiciary	4.0 %	12.0 %	24.0 %	48.0 %	12.0 %
Strong competition	12.0 %	12.0 %	20.0 %	20.0 %	36.0 %
Unloyal competition / Existing monopolies	14.3 %	32.1 %	32.1 %	7.1 %	14.3 %
Procedures and guarantuees needed to get the loan	9.1 %	31.8 %	18.2 %	18.2 %	22.7 %
Infrastructure	11.1 %	22.2 %	40.7 %	25.9 %	0.0 %
Corruption	18.2 %	18.2 %	22.7 %	18.2 %	22.7 %
Problems with liqudity in the system – customers are not paying for provided goods and services promptly	3.8 %	30.8 %	26.9 %	23.1 %	15.4 %
Political situation	25.0 %	5.0 %	5.0 %	30.0 %	35.0 %
Lack of business information	5.0 %	0.0 %	20.0 %	60.0 %	15.0 %
Other barriers					

Statistical analysis was followed by unsuccessful attempt to build significant and valid econometric model on the data we provided with the survey. Incomplete data set we've got from the survey tied researchers' hand and disabled panel data analysis, so we've decided to focus our econometric analysis on data for 2005 and changes in the value of certain economic indicators in 2005 compared to 2001. Nevertheless numerous tests for the significance of relationship between different indicators of a company success (profit/loss, growth of asset value, growth of sales) and different indicators of concentration of ownership showed no significant relation.

The regression analysis showed positive relationship between investment into research and development in companies in 2005 and share of foreign owners in the company who have 5% or more voting rights. The equation representing this regression relation is shown below:

Dependent Variable: INV_RD				
Method: Least Squares				
R-squared	0.114264			
Adjusted R-squared	0.086584			
F-statistic	4.128132			
Prob(F-statistic)	0.050548			
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2185.197	44489.77	0.049117	0.9611
FS	2737.976	1347.574	2.031781	0.0505

Despite the fact that R^2 is not high, critical probability value of Fisher statistics for the equation confirms that the regression is valid at 5% significance level.

We needed additional survey of literature on the relationship between firm performance and ownership structure in transition countries (and consequently new data that will enable us to build the model). Many studies used so called Tobin's Q to measure performance of privatized firms. [25]

2. Building the model

As said previously the goal of the model was to find whether there is any significant relationship between firms performance measured by Tobin Q and different indicators of ownership structure which will be explained below.

2.1 Variables

Tobin Q is defined as the ratio between firm market value and asset replacement cost. Having in mind the fact that shares of privatized companies are traded on two stock exchanges in Montenegro, we've decided to calculate Tobin's Q for the companies from the sample and try to use this indicator as measure of firm performance. In practice, we've used approximation of Tobin's Q calculated as the relationship between firm's market capitalization plus liabilities and its total assets.

Ownership structure variables

PH: Share of private capital in the company (% of voting rights held by private entities)

SH: Share of state capital in the company (% of voting rights held by public entities)

CS: percentage of voting rights held by controlling shareholders at the threshold of 5% - cumulative percentage of voting rights of all shareholders who have over 5% of voting rights

BS: percentage of voting rights held by a biggest shareholder at the threshold of 5%;

---

[25] Djankov and Claessens (1999) conducted a study of over 700 Czech companies between 1992 and 1997 and noted positive correlation between the level of ownership concentration and profitability, Tobin's Q-measured performance, as well as employee productivity.

FS: cumulative percentage of voting rights held by foreign investors at the threshold of 5%;

DS: cumulative percentage of voting rights held by domestic investors at the threshold of 5%;

DUM: dummy variable which takes the value of 1 if controlling shareholder is a family or an individual, or if majority shareholder at the threshold of 5% is a member of the management; in other cases, it takes the value of 0.

MC: firm's market value (number of shares outstanding x share's price)

2.2 Hypotheses

The analysis we've described attempts to verify theses on higher efficiency of private capital, and theses of Demsetz (1985, 2001) for the case of transition countries. We test three hypotheses:

H1: There exists a positive correlation between share of private capital in ownership structure of a firm and firm performance

H2: There exists a positive correlation between ownership concentration and firm performance;

H3: The nature of shareholders has an impact on firm performance.

The goal is to examine the influence of private versus state capital, ownership concentration, and type of owners on the firm performance. We would like to see if ownership concentration in the hand of largest shareholder(s) (at the threshold of 5%) brings benefits to the firm. We also examine the influence of the nature of ownership on firm performance from two perspectives: whether the owner is a foreign entity, or whether owner manages the company.

2.3 Specification of the model

$$Tobin = a_0 + a_1 MC + a_2 PH \quad (1)$$

$$Tobin = a_0 + a_1 MC + a_2 SH \quad (2)$$

$$Tobin = a_0 + a_1 MC + a_2 BS \quad (3)$$

$$Tobin = a_0 + a_1 MC + a_2 CS \quad (4)$$

$$Tobin = a_0 + a_1 MC + a_2 FS \quad (5)$$

$$Tobin = a_0 + a_1 MC + a_3 DS \quad (6)$$

$$Tobin = a_0 + a_1 MC + a_2 CS + a_3 DUM \quad (7)$$

2.4 Estimation of the model

Note: * - significant at 5% level, ** - significant at 10% level

Equation 1

Dependent Variable: TOBIN
Method: Least Squares

R-squared	0.303546
Adjusted R-squared	0.258613
F-statistic	6.755596
Prob(F-statistic)	0.003671

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.136956	0.259165	-0.528453	0.6009
MC*	5.23E-09	2.33E-09	2.243972	0.0321
PH*	0.007940	0.003179	2.497469	0.0180

Equation 2

Dependent Variable: TOBIN	
Method: Least Squares	
R-squared	0.174305
Adjusted R-squared	0.121034
F-statistic	3.272067
Prob(F-statistic)	0.051369

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.505079	0.123823	4.079035	0.0003
MC*	6.06E-09	2.51E-09	2.414535	0.0218
SH	-0.002407	0.003764	-0.639391	0.5273

Estimation output of the previous two equations clearly proves existence of strong relationship between private capital shares in ownership structure below 5% significance level, whereas there is negative, but not statistically significant relation between Tobin's Q as measure of firm performance and state capital share in ownership structure.

Equation 3

Dependent Variable: TOBIN	
Method: Least Squares	
R-squared	0.182606
Adjusted R-squared	0.129871
F-statistic	3.462708
Prob(F-statistic)	0.043922

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.347841	0.171367	2.029797	0.0510
MC*	5.72E-09	2.55E-09	2.244341	0.0321
BS	0.003082	0.003613	0.853109	0.4001

Equation 4

Dependent Variable: TOBIN				
Method: Least Squares				
R-squared	0.333791			
Adjusted R-squared	0.290809			
F-statistic	7.765958			
Prob(F-statistic)	0.001845			

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.044052	0.176489	0.249600	0.8045
MC*	4.81E-09	2.30E-09	2.090446	0.0449
CS*	0.008806	0.003127	2.815645	0.0084

Estimated regressions represented through equations 3 and 4 are significant (at 5% significance level according to critical probability of Fisher) and indicate a positive influence of ownership concentration in the hands of owners who have 5% or more voting rights. Previous two equations' output shows that there is positive, but not statistically significant correlation between the variable LNBS and Tobin's Q. On the other side there is strong positive correlation between LNCS and Tobin's Q. This means that the majority shareholders (with over 5% of voting rights) play active and beneficial role to the company, whereas the evidence doesn't prove significant influence of the biggest shareholder among majority shareholders on firm performance measured by Tobin's Q.

Equation 5

Dependent Variable: TOBIN				
Method: Least Squares				
R-squared	0.225375			
Adjusted R-squared	0.175399			
F-statistic	4.509688			
Prob(F-statistic)	0.019095			

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.240405	0.174601	1.376876	0.1784
MC*	7.54E-09	2.57E-09	2.935808	0.0062
DS	0.004812	0.003056	1.574664	0.1255

Equation 6

Dependent Variable: TOBIN	
Method: Least Squares	
R-squared	0.611807
Adjusted R-squared	0.586762
F-statistic	24.42857
Prob(F-statistic)	0.000000

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.326437	0.075788	4.307260	0.0002
MC	-3.14E-10	2.03E-09	-0.154618	0.8781
FS*	0.016098	0.002690	5.983912	0.0000

Through equation 5 and 6 we've tried to compare whether the influence of domestic and foreign majority owners on the firm performance is stronger (at the threshold of 5% of voting rights). Both estimated regressions are valid at 1% significance level (critical probability of F-statistics below 0.01) but evidence showed no significant correlation between domestic majority ownership and firm performance measured by Tobin's Q whereas foreign owners with 5% or more voting rights has very strong positive influence. The influence of foreign majority owner is almost twice stronger then the influence of all majority owners. Regression coefficient preceding FS in equation 6 is 0.016 compared to 0.008, which precedes CS in equation 4. Practically it means that foreign majority owners influence firm performance much stronger then domestic owners.

Equation 7

Dependent Variable: TOBIN	
Method: Least Squares	
R-squared	0.334112
Adjusted R-squared	0.267523
F-statistic	5.017540
Prob(F-statistic)	0.006152

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.038392	0.185428	0.207045	0.8374
MC	4.76E-09	2.37E-09	2.012334	0.0532
CS	0.008722	0.003253	2.681707	0.0118
DUM	0.022413	0.186271	0.120327	0.9050

Through equation 7 we've tried to estimate the influence of majority owners-managers on the firm performance measured by Tobin's Q. Thus we've created a dummy variable which takes a value of 1 if majority owner(s) of the company also act(s) as manager(s) and examined its influence on the Tobin's Q controlling for the influence of CS. The results showed that there is no significant influence of owner-managers on the firm performance.

Thus, we've proved that experience of companies privatized in Montenegro clearly confirms the hypothesis on higher efficiency of private capital versus to a state. The analysis has also showed that concentration of ownership had positive influence on firm performance in Montenegro, especially when majority owners are foreign entities. On the other side, experience of Montenegro's privatized companies has not proved that there is significant difference in influence of managers owners and managers who has no ownership in the company.

3. Recommendations

The experience of Montenegrin privatized companies proved the thesis on the efficiency of private capital. A message that policy makers can draw is to continue with privatization process.

Concentration of ownership which followed privatization through high activity on the secondary markets (stock-exchanges) has positive influence on firm performance. That's why capital market must continue to develop and strengthen. Foreign investors and majority owners in Montenegrin privatized companies have stronger influence on the firm performance. That's why the policy of attracting foreign investors must continue.

References

1. Abdelati, Wafa, and Stijn Claessens, “Losses, Financing, and Adjustment of State Enterprises in Romania,” World Bank, mimeo, March 1996.
2. Agency for Reconstruction and Foreign Investment of Montenegro (2003 and 2004): Annual Reports
3. Aghion, Philippe, Blanchard, Olivier, and Robin Burgess, “The Behavior of State Firms in Eastern Europe: Pre-Privatization,” European Economic Review
4. Alan A. Bevan and Saul Estrin, London Business School, World Bank Working Paper Number 342, (2000): The Determinants of Foreign Direct Investment in Transition Economies
5. Anderson, James H., Georges Korsun, and Peter Murrell, “Which Enterprises (Believe They) have Soft Budgets after Mass Privatization? Evidence from Mongolia.” Journal of Comparative Economics
6. Anderson, James H., Georges Korsun, and Peter Murrell. “Ownership, Exit, and Voice after Mass Privatization: Evidence from Mongolia,” Economics of Transition
7. Black, Bernard, “Does Corporate Governance Matter? A Crude Test Using Russian Data,” University of Pennsylvania Law Review
8. Blayney Mark: "Turning your bussines around", How to books ltd, UK, 2002
9. Boettke, P. 2004: *An Austrian Economist Perspective on Transitional Political Economy*: The Journal od the Hayek Society at LSE, London, Vol 6/2
10. Burke Ronald J., Lcooper Cary: "The organization in crisis", Blackwell, USA, 2000
11. Center for Entrepreneurship and Economic Development (2003): Business Environment Survey
12. Center for Entrepreneurship and Economic Development (2003, 2004): Montenegro Business Outlook
13. Center for Entrepreneurship and Economic Development (2004): Barriers to Doing Business in Montenegro
14. Claessens, Stijn, and Simeon Djankov, “Enterprise Performance and Management Turnover in the Czech Republic,” European Economic Review

15. Claessens, Stijn, and Simeon Djankov, "Government Regulation and Privatization Benefits in Eastern Europe," Working paper, World Bank, Washington DC, 2000.
16. Claessens, Stijn, and Simeon Djankov, "Privatization Benefits in Eastern Europe," Journal of Public Economics, forthcoming, 2002.
17. Claessens, Stijn, Simeon Djankov and Gerhard Pohl, "Ownership and Corporate Governance: Evidence from the Czech Republic", The World Bank, mimeo, March 1997.
18. Claessens, Stijn, and Simeon Djankov, "Ownership Concentration and Corporate Performance in the Czech Republic", Journal of comparative Economics, 1999.
19. Cull, Robert, Jana Matesova, and Mary Shirley, "Bad Corporate Governance or Looting? A Reexamination of the Czech Privatization Experience," World Bank, Washington DC, June 2000
20. Demsetz, Harold, and Kenneth Lehn, "The Structure of Ownership: Causes and Consequences," Journal of Political Economy
21. Djankov, Simeon, "Ownership Structure and Enterprise Restructuring in Six Newly Independent States," Comparative Economic Studies
22. Djankov, Simeon, and Peter Murrell, "Enterprise Restructuring in Transition: A Quantitative Survey," SSRN Working paper, February 2002.
23. Djankov, Simeon, "Restructuring of Insider-Dominated Firms", Economics of Transition, 1999
24. Djuric Zdenka: "Upravljanje razvojem preduzeca", Univerzitet "Braca Karic", Novi Sad, 2004
25. Estrin, Saul, and Adam Rosevear, "Enterprise Performance and Ownership: The Case of Ukraine,"
European Economic Review, 1999
26. Frydman, Roman, Cheryl Gray, Marek Hessel, and Andrej Rapaczynski, "When Does Privatization
Work? The Impact of Private Ownership on Corporate performance in the Transition Economies,"
Quarterly Journal of Economics, 1999.

27. Grosfeld, Irena, and Jean Francois Nivet, “Insider Power and Wage Setting in Transition: Evidence from a Panel of Large Polish Firms,” European Economic Review, 1999.
28. Jones, Derek, “The Economic Effects of Privatization: Evidence from a Russian Panel,” Comparative Economic Studies, 1998.
29. FIAS (2004): Montenegro Investment Environment Diagnostic
30. Glennerster, Rachel, “Evaluating Privatization in the former Yugoslav Republic of Macedonia”, Kennedy School of Government, Harvard University, mimeo, March 2000.
31. Gogan A. Patrik: "Integracije, akvizicije i restrukturiranje korporacija", Prometej, Novi Sad, 2000
32. Grupa autora: "Turnaround restructuring", Recovery group, USA, 2003
33. Havrylyshyn Oleh and Donal McGettigan, “Privatization in Transition Countries,” Post-Soviet Affairs
34. Institute for Strategic Studies and Prognoses, “Transition Report on Montenegro”, 2004.
35. International Monetary Fund (2001): Resolving and Preventing Financial Crises: The Role of the Private Sector
36. International Monetary Fund, (2000): International Capital Market - Developments, Prospects and Key Policy Issues
37. Kasio F. Vejn: "Odgovorno restrukturiranje", Prometej – Novi Sad 2003
38. Konings, Jozef, “Competition and Firm Performance in Transition Economies: Evidence from Firm-Level Surveys in Slovenia, Hungary, and Romania” CEPR Discussion Paper 1170, 1997.
39. Kreacic, Vladimir-Goran, “Restructuring of Manufacturing Firms in Georgia: Four Case Studies and a Survey,” Private Sector Department, Europe and Central Asia Region, World Bank, Washington DC, mimeo, April 1998.
40. Lee, Young, “Wages and Employment in China's SOEs, 1980-1994 : Corporatization, Market Development and Insider Forces,'' Journal of Comparative Economics, Dec 1999.

41. Organization for Economic Co-operation and Development (2004): Principles of Corporate Governance, published in cooperation with OSCE office in Serbia and Montenegro
42. Patrik Goran: "Integracije, akvizicije i restrukturiranje korporacije", Prometej, Novi Sad, 2004.
43. Pohl, Gerhard, Anderson, Robert E., Claessens Stijn, and Djankov , Simeon, "Privatization and Reexamination of the Czech Privatization Experience," World Bank, Washington D.C., June 2000.
44. Privatization Council of the Government of Montenegro, "Mass Voucher Privatization – Data on Companies", 2001
45. Smith, Stephen, Beom-Cheol Cin, and Milan Vodopivec, "Privatization Incidence, Ownership Forms, and Firm Performance: Evidence from Slovenia," Journal of Comparative Economics, 1997
46. United Nations Conference on Trade and Development (1999, 2000, 2001, 2002 2003): World Investment Report
47. United Nations Conference on Trade and Development (2003): World Investment Directory, Central and Eastern Europe
48. Uri Dadush, Ashok Dhareshwar and Ron Johannes (1994): Are private Capital Flows to Developing Countries Sustainable? The World Bank Policy Research Working Paper
49. Vukotic Veselin (2001): Makroekonomski racuni i modeli, CID Podgorica
50. Vukotic Veselin (2002): Preduzetnistvo i biznis
51. William Baumol: " The Free-Market Innovation Machine", Princeton University Press - New Jersey, 2002
52. Zemplinerova, Alena, Radek Lastovicka, and Anton Marcincin, "Restructuring of Czech Manufacturing Enterprises: An Empirical Study," CERGE-EI, Prague, mimeo, Sept 1995.

Web sites:

www.imf.org,
www.unctad.org,
www.waipe.org,

www.ifc.org,

www.worldbank.org

www.ecgi.ssrn.com

www.cerge-ei.cz