Management of the international competitiveness of firms, national and regional systems: Analysis of corporate governance and enterprise restructuring in Southeast Europe

A thesis presented
by
Mico Apostolov
to
The Class of Social Sciences
for the degree of
Doctor of Philosophy
in the subject of
Management, competitiveness and development

Scuola Superiore Sant’Anna
A.A. 2010-2011
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Tutor: Prof. Nicola Bellini

Scuola Superiore Sant’Anna
A.A. 2010-2011
To My Parents
Governare è far credere.

Niccolò Machiavelli
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Abbreviations

- BEA - Business Environment Activity
- BRIRL - Banking reform and interest rate liberalization
- CP - Competition policy
- EBRD - European Bank for Reconstruction and Development
- EurActiv - European Union Information Website (EU and Europe)
- ETUI - European Trade Union Institute
- EXP - Exports of goods and services
- FDI - Foreign direct investments
- FULL – privatization mode where firms sold to outsiders for positive prices
- GDP - Gross domestic product
- GOV - Governance and enterprise restructuring
- IFC - International Finance Corporation
- IVA - Industry, value added
- LSP - Large-scale privatization
- LDC - Listed domestic companies
- MASS – privatization mode where firms sold at a zero (or nominal) price
- MCLC - Market capitalization of listed companies
- MEBOs - manager-employee buyouts
- MIXED – privatization mode with manager-employee buyouts (MEBOs), leased buyouts and all other cases
- OECD - Organisation for Economic Co-operation and Development
- OIR - Overall infrastructure reform
- OLS - Ordinary least squares regression model
- PL - Price liberalization
- SEE – Southeast Europe
- SMNBFI - Securities markets and non-bank financial institutions
❖ S&P - Standard & Poor's
❖ SSP - Small-scale privatization
❖ STTV - Stocks traded, total value
❖ SVA - Services, value added
❖ TFS - Trade and foreign exchange system
❖ USA - United States of America
❖ USAID - United States Agency for International Development
❖ WB - World Bank
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Being part of the PhD Program in Management of Scuola Superiore Sant'Anna, Pisa, Italy and MAIN Laboratory (Laboratorio Management & Innovazione) gave me the profound opportunity to develop professionally and personally, for which I am enormously grateful. Thus, it has been an extraordinary experience to be able to learn from great spirits and minds.

Indeed, I would like to express earnest gratitude to my academic supervisor Professor Nicola Bellini, who during the years of my doctoral apprentissage made the most to enable me with the opportunities that build life. The process of enlightening is never easy, hence « l'art d'interroger est bien plus l'art des maîtres que des disciples. Il faut avoir déjà beaucoup appris de choses pour savoir demander ce qu'on ne sait pas. »

Further, I would like to thank Professor Andrea Piccaluga for he always was interested of my paths and hence his advices were extremely vital to my professional development. Also, I highly esteem the consultations with Professor Roberto Barontini, as well as, Professor Lino Cinquini. Additionally, I appreciate the support from the colleagues of MAIN Laboratory (Laboratorio Management & Innovazione).

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I am truly indebted to my father Goce and mother Grozdana for the continuous support through all my life, and indeed to my brother Ljupcho for helping me when needed. Also, I am much grateful to Natasha for being wonderful.

One can only be fortunate to be able to reside in Pisa, as well as, to be able to stroll around Tuscany and see the real meaning of heritage from antiquity to presence embodied in every curved marmo bianco in Italy. The headquarters around Chiostro di Sant'Anna open the door gazing at Piazza Martiri della Libertà, creating the future of liberty. Many days were passed in solitude thinking or loudly debating, walking and watching the historical façades at Piazza dei Cavalieri, down to the tiny street bending to the right, bringing exactly to a magnificent view of Torre pendente di Pisa at Piazza dei Miracoli.
Preface

Corporate governance and enterprise restructuring is essential to competitive advantages of companies, national and regional systems, especially in rather specific business environment accented with transition of the national economic system. Indeed, it is taken with serious consideration, by the companies, regulators and governments. Mainly there are two reasons for this occurrence. On one hand, there was a strong wave of privatization programs in the countries subjected to system change which had resulted with deep and turbulent societal transformation, primarily and in essence driven by economic transition. On the other hand, the international business environment fermented towards standardization of corporate governance practices triggering significant progress in business and economic literature surrounding this issue.

Perusing good governance and enterprise restructuring is multi-faceted strategic approach including capital markets, legal and regulatory reforms, institutional shaping, etc. The economies of transition slowly integrate and search their place in the international market, followed by increase of the economic growth and change in their ownership structure. Consequently, the relationships between public and private segments are profoundly changing, building transitions towards institutionalization of corporate governance and enterprise restructuring. These practices implemented by the private sector invoke companies’ operations that are more transparent, attractive to the investor and above all, efficient. Further down the line of the relation cause-effect, the final desired outcome is competitive business, which in turn leads to sustained economic growth and job creation.

Indeed, corporate governance is a set of relationships formed between company’s management, the board, shareholders and stakeholders. Therefore, it provides a structure that arranges the objectives of the company, assures that these objectives are met, as well as, imposes performance monitoring mechanisms. In addition, enterprise restructuring deals with the ways of overall reshuffle of the company through a long term process, in order to increase company’s competitiveness and efficiency. Hence, the whole process is focused on corporate governance,
corporate control and enterprise restructuring exercised through domestic financial institutions and markets, fostering market-driven restructuring.

Southeast European countries have made noteworthy progress in corporate governance and enterprise restructuring during the process of transition and especially in the last few years. The overall reforms have improved the business environment, institutional framework, legal and regulatory system. There are important national initiatives monitoring the companies’ conduct. Thus, it is important to sustain the momentum of reforms, as well as, to put in place credible enforcement mechanisms. Assisting the process of corporate governance reform and enterprise restructuring in Southeast Europe is essential, which has the goal of enhancing confidence and international credibility of the companies and national economies.

Without a doubt, good corporate governance practices provide incentives that are vital in perusing objectives that are in the interest of the company and shareholders, thus ensuring effective monitoring of the managers and boards of directors, which eventually leads to effectively allocating resources through constant enterprise restructuring. It is estimated that it improves efficiency and is generally recognized as indispensable for establishing viable investment climate characterized by competitive companies and well-organized capital markets. The importance of the capital markets for overall growth supports the link between corporate governance and enterprise restructuring arrangements and growth on macroeconomic and microeconomic level.

Macedonia has been developing institutional and academic awareness about the issue of corporate governance in the recent few years. The main reason for this is the progress of privatization of socially-owned and partly state-owned enterprises, which called upon the urgency of regulating relationships established within companies on one hand, and relationships between companies and the society on the other. Further, businesses are facing with rapidly increasing demands from the regulators and other stakeholders on both the domestic and international market. The development of the capital market is improving the investment climate for the domestic and foreign investors, demonstrating the need for capital and financial means essential to the process of enterprise restructuring.
However, it is noted that the Republic of Macedonia, during the transition period failed to achieve more significant investment activity, therefore needs additional efforts to cope with the growing competition on the regional and international markets. Thus, corporate governance and enterprise restructuring is increasingly important issue for the Macedonian economy. It is being taken with greater consideration by the companies, as well as, the government. The strong waves of privatization programs have resulted in an altered business environment, and new legal and institutional frameworks have been established. Indeed, corporate governance and enterprise restructuring contribute to sustainable economic development by enhancing the performance of companies and increasing their access to external sources of capital.

_The essence of this thesis is to analyze the business aspects of corporate governance and enterprise restructuring in the light of economic transition._

_Below are given the abstracts of the papers presented at various conferences, as well as, the journals in which they are published or due to be published._
Abstracts

Abstract 1

The research in this paper is to be focused on examining governance and enterprise restructuring in Southeast Europe (Western Balkans) transition economies. International organizations classify the following countries in Southeast Europe (Western Balkans): Albania, Bosnia and Herzegovina, Croatia, Macedonia, Montenegro and Serbia.

The European Bank for Reconstruction and Development (EBRD) has governance and enterprise restructuring as basic indicator of economic transition and defines it as effective corporate governance and corporate control exercised through domestic financial institutions and markets, fostering market-driven restructuring. The corporate governance is most often defined in terms of the roles, responsibilities, and interactions of top management and the board of directors.

Using data of Southeast European economies, will be examined the interrelationships between governance and enterprise restructuring and set of policies that influence the governance patterns.

Abstract 2

This paper is to be concerned with the corporate governance mechanisms’ influence on governance and enterprise restructuring in Southeast Europe (Western Balkans) transition economies: Albania, Bosnia and Herzegovina, Croatia, Macedonia, Montenegro and Serbia.

The institutional changes and corporate governance mechanisms in national governance systems are essentially important for the transition process, thus there are specificities of corporate governance mechanisms in transition economies that indicate the progress towards market based economy. Most notable are: the market-based corporate governance mechanisms, management-structure based corporate governance mechanisms, ownership structure, boards of directors,
management compensations schemes, that is, management structures and financial structures. Corporate governance mechanisms are seen through governance and enterprise restructuring indicator which has already established link to gross domestic product and foreign direct investments in the literature.

The data set is of Southeast European economies, and will be examined the interrelationships between governance and enterprise restructuring, set of policies that influence the governance patterns, gross domestic product and foreign direct investments.

**Abstract 3**

This paper is a case study of the **Republic of Macedonia** (Southeast Europe), which focuses on examining governance and enterprise restructuring.

Governance and enterprise restructuring is already defined indicator in EBRD’s studies and transition reports, measuring the effective corporate governance and corporate control exercised through domestic financial institutions and markets, fostering market-driven restructuring. As of the beginning of the transition process, governance and enterprise restructuring remains in the center, as essential pillar, that moves forward the society towards developed market economy.

The data used in this article are analyzed with an econometric regression model, which as employed in this study examines the interrelationships between governance and enterprise restructuring and set of policies that influence the governance patterns.

**Abstract 4**

The corporate governance issue in Macedonian companies has been brought forward during the recent few years. The main reason is the fact that the privatization process completion of state-owned enterprises has put emphasis to the challenge to reasonably regulate relationships established within companies on one hand, and relationships between companies and society on
the other. All market economies, including those with longest tradition, have faced this kind of challenge so far.

Corporate governance becomes an increasingly important issue for the Macedonian economy. It is being taken with greater consideration by the companies, regulators and government. The strong wave of privatization programs from mid-90’ have resulted in an altered business environment, and new legal and institutional frameworks have been established. Indeed, corporate governance contributes to sustainable economic development by enhancing the performance of companies and increasing their access to external sources of capital.

In this paper we will make attempt to analyze the predominant factors that create prolific corporate governance environment in two terms; a) micro level and macro level.

Abstract 5

Corporate governance is most often defined in terms of the roles, responsibilities, and interactions of top management and the board of directors. Using information on Macedonia, obtained through various sources, this study is an attempt on determining some of the factors that influence the development of governance and enterprise restructuring in this economy.

The study is founded on governance-conduct-performance paradigm in strategic management. We will examine the possibilities that lead to the following outcomes: A) The degree to which governance and enterprise restructuring is positively related to foreign direct investments, exports and value added (industry and services) in the Macedonian economy; B) The degree to which governance and enterprise restructuring is related to: listed domestic companies, market capitalization of listed companies and stocks traded, and presumably that relation is somewhat ambiguous, nonetheless important.
I. Governance and Enterprise Restructuring in Southeast Europe

Mico Apostolov,*

This article has been presented at: Joint PhD Symposium on South East Europe (LSE, UCL and Goldsmiths) - London School of Economics and Political Science (LSE), London, UK

Published at London School of Economics and Political Science (LSE), London, UK

June 2010

Abstract:

The research in this paper is to be focused on examining governance and enterprise restructuring in Southeast Europe (Western Balkans) transition economies. International organizations classify the following countries in Southeast Europe (Western Balkans): Albania, Bosnia and Herzegovina, Croatia, Macedonia, Montenegro and Serbia.

The European Bank for Reconstruction and Development (EBRD) has governance and enterprise restructuring as basic indicator of economic transition and defines it as effective corporate governance and corporate control exercised through domestic financial institutions and markets, fostering market-driven restructuring. The corporate governance is most often defined in terms of the roles, responsibilities, and interactions of top management and the board of directors.

Using data of Southeast European economies, will be examined the interrelationships between governance and enterprise restructuring and set of policies that influence the governance patterns.

JEL Classifications: G30, G32, G38; L33; O11; P31

Keywords: governance, enterprise restructuring, corporate governance, transition, Southeast Europe

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Introduction

The research in this paper is to be focused on examining governance and enterprise restructuring in **Southeast Europe (Western Balkans)** transition economies. International organizations classify the following countries in Southeast Europe (Western Balkans): Albania, Bosnia and Herzegovina, Croatia, Macedonia, Montenegro and Serbia.

The European Bank for Reconstruction and Development (EBRD) has governance and enterprise restructuring as basic indicator of economic transition and defines it as effective corporate governance and corporate control exercised through domestic financial institutions and markets, fostering market-driven restructuring. The corporate governance is most often defined in terms of the roles, responsibilities, and interactions of top management and the board of directors.

Using data of South-East European economies, will be examined the interrelationships between governance and enterprise restructuring and set of policies that influence the governance patterns.

Two basic hypotheses to test governance and enterprise restructuring:

- **1st Hypothesis:** governance and enterprise restructuring depend on set of policies: large-scale privatization, small-scale privatization, price liberalization, competition policy, trade and foreign exchange system, banking reform and interest rate liberalization, securities markets and non-bank financial institutions and overall infrastructure reform;
- **2nd Hypothesis:** governance and enterprise restructuring is important and improves over time due to imposed policies.

The academic significance of the topic is in determining the factors that influence governance and enterprise restructuring, as well as, its overall significance in the development of Western Balkans transition economies.
Theoretical and literature framework

1. The theory of privatization

The theory of privatization is narrowly tied to the countries that have gone through overall process of command economy and holistic public ownership of the means of production and clarifies that such ownership suffers serious efficiency loss, agency problems and political interference in the management of firms. Thus, information asymmetries and incomplete contracting problems, lead to severe incentive default which is main problem for efficiency losses (Zinnes, Eilat, & Sachs, 2001). Hence, the incentive–efficiency pattern i.e. agency problem has two manifestations. The first, the managerial problem consists of failure of the state to monitor managers in state owned companies, i.e. the managers tend to maximize their own utility function instead of the owners. Further, the companies do not have market value, the separation of ownership and control was not possible (Vickers & Yarrow, 1990). The second is the political problem of constant political obstruction and distortion of objectives from profit to employment maximization (Boycko, Shleifer, & Vishny, 1996; Shapiro & Willig, 1990; Shleifer & Vishny, 1994).

In transition economies the most prominent way to make the transformation and initial privatization was done through transfer of the ownership form public to private hands through the so-called ‘shock therapy’ i.e. ‘transfer as fast as possible’ (Kołodko, 2000; Lipton, Sachs, & Summers, 1990). The other possible advocated way was ‘gradual sales’ (Kornai, 1990). Thus, in overall transition theory it is widely believed that once the ownership is in private hands the market forces will spin processes that are going to eventually create all necessary institutions through the need of them as unavoidable feedback, hence the emerging shareholder class is to require and put in place corporate governance institutions insuring control over managers (Balcerowicz, 1993; Sachs, 1996; Stiglitz, 1998).

The privatization processes due to existing theory and lack of practice, triggered three basic methods of privatization depending on the country, institutional and intellectual environment (Bennett, 2004a, 2004b):
1. MASS privatization - firms sold at a zero (or nominal) price
2. FULL privatization - firms sold to outsiders for positive prices
3. MIXED privatization - manager-employee buyouts (MEBOs), leased buyouts and all other cases.

Figure I.1 Transition economies: Southeast Europe

<table>
<thead>
<tr>
<th>Country</th>
<th>Classification of Privatization</th>
<th>Year of Privatization</th>
<th>Primary Method</th>
<th>Secondary Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Albania</td>
<td>Mixed</td>
<td>1995</td>
<td>MEBO</td>
<td>vouchers</td>
</tr>
<tr>
<td>2. Bosnia and Herzegovina</td>
<td>Mixed</td>
<td>1996</td>
<td>MEBO</td>
<td>direct sales</td>
</tr>
<tr>
<td>3. Croatia</td>
<td>Mixed</td>
<td>1992</td>
<td>MEBO</td>
<td>vouchers</td>
</tr>
<tr>
<td>4. Macedonia</td>
<td>Mixed</td>
<td>1993</td>
<td>MEBO</td>
<td>direct sales</td>
</tr>
<tr>
<td>5. Montenegro</td>
<td>Mixed</td>
<td>1993</td>
<td>MEBO</td>
<td>direct sales</td>
</tr>
<tr>
<td>6. Serbia</td>
<td>Mixed</td>
<td>1993</td>
<td>MEBO</td>
<td>direct sales</td>
</tr>
</tbody>
</table>

2. National governance systems

The two important things that have to be taken under consideration while analyzing national governance systems and corporate governance are the influence of different stakeholders of the national system of governance to shape the strategic decision making at firm level and the influence of the corporate governance institutions and overall governance on the country’s attractiveness for international investment (Filatotchev & Boyd, 2009; McGee & Preobragenskaya, 2004).

As a result, the influence of different stakeholders of the national system of governance on the strategic decision making at firm level is seen through the pattern of competitive advantage of the firm, as well as, the possibility these institutions to enable or restrict business practices (ex. protection of investors, protection of employees, minority stakeholder protection, etc.) (Filatotchev, Wright, Uhlenbruck, Tihanyi, & Hoskisson, 2003).

---

1 Bennett, John, Estrin, Saul, Maw, James, Urga, Giovanni, 2004b. Privatization methods and economic growth in transition economies. CEPR 4291.
The second important issue is that the institutional framework and the institutional governance regime can influence attractiveness for international investment. Hence, it has been noted the impact on the nature of foreign market entry modes or the extent to which certain market entry can facilitate the transfer of resources from entrant to entrée and vice-versa (Denis & McConnell, 2005). Further, here it is important to stress that institutional differences between countries have an effect on their corporate governance regimes (Porta, Lopez-De-Silanes, & Shleifer, 1999).

**Analytical Framework**

1. **Sample selection and Data**

The European Bank for Reconstruction and Development (EBRD) Transition Report series have the latest information on the countries that are classified in transition. The data that this prominent organization offers are based on wide network of sources that they obtain from national and international authorities (Bennett, 2004a, 2004b; Zinnes et al., 2001). EBRD tracks reforms and assesses the overall process of transition using set of transition indicators, which are formed in comparison to the standards of industrialized market economies.

Further, the data sample is mainly drawn from the extended research and data bases of the European Bank for Reconstruction and Development (EBRD), the Transition Report publication series. Consequently, the data used in this research are taken from their index structure ‘economic statistics and forecasts’ (EBRD, 1994-2009). The scale used in shaping the transition indicators ranges from 1 to 4+, ‘where 1 represents little or no change from a rigid centrally planned economy and 4+ represents the standards of an industrialized market economy’ (EBRD, 1994-2009). There are detailed numbers for the countries in transition analyzing the period of 1989 to 2009 in different areas. These indicators are sorted by sector and country and are analyzing nine arias: large scale privatization, small scale privatization, governance and enterprise restructuring, price liberalization, trade and foreign exchange system, competition policy, banking reform and interest rate liberalization, securities markets and non-bank financial institutions, and overall infrastructure reform (EBRD, 1994-2009; Gouret, 2007).
### Figure I.2 Transition Indicators Methodology

<table>
<thead>
<tr>
<th>Classification system</th>
<th>Large-scale privatization (LSP)</th>
<th>Small-scale privatization (SSP)</th>
<th>Governance and enterprise restructuring (GOV)</th>
<th>Price liberalization (PL)</th>
<th>Competition policy (CP)</th>
<th>Trade and foreign exchange system (TFS)</th>
<th>Banking reform and interest rate liberalization (BRIRL)</th>
<th>Securities markets and non-bank financial institutions (SMNBFI)</th>
<th>Overall infrastructure reform (OIR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Little private ownership</td>
<td>Little progress</td>
<td>Soft budget constraints; few other reforms to promote corporate governance</td>
<td>Most prices formally controlled by the government</td>
<td>No competition legislation and institutions</td>
<td>Widespread import and/or export controls or very limited legitimate access to foreign exchange</td>
<td>Little progress beyond establishment of a two-tier system</td>
<td>Little progress</td>
<td>Little progress</td>
</tr>
<tr>
<td>2</td>
<td>Comprehensive scheme almost ready for implementation; some sales completed</td>
<td>Substantial share privatized</td>
<td>Moderately tight credit and subsidy policy; little action taken to strengthen competition and corporate governance</td>
<td>Some lifting of price administration; state procurement at non-market prices for the majority of product categories</td>
<td>Competition policy legislation and institutions set up; some reduction of entry restrictions or enforcement action on dominant firms</td>
<td>Some liberalization of import and/or export controls; almost full current account convertibility</td>
<td>Significant liberalization of interest rates and credit allocation; limited use of directed credit or interest rate ceilings</td>
<td>Formation of securities exchanges, market-makers and brokers; some trading in government paper and/or securities</td>
<td>Moderate degree of progress</td>
</tr>
<tr>
<td>3</td>
<td>More than 25 per cent of large-scale enterprise assets in private hands, but possibly with major unresolved issues regarding corporate governance</td>
<td>Comprehensive programme almost ready for implementation</td>
<td>Significant and sustained actions to harden budget constraints and to promote corporate governance effectively</td>
<td>Significant progress on price liberalization, but state procurement at non-market prices remains substantial</td>
<td>Some enforcement actions to reduce abuse of market power and to promote a competitive environment; substantial reduction of entry restrictions</td>
<td>Removal of almost all quantitative and administrative import and export restrictions; almost full current account convertibility</td>
<td>Substantial progress in establishment of bank solvency and of a framework for prudential supervision and regulation</td>
<td>Substantial issuance of securities by private enterprises; establishment of independent share registries, secure clearance and settlement procedures</td>
<td>Fair degree of progress</td>
</tr>
</tbody>
</table>

2 calculated as the average of five infrastructure reform indicators covering electric power, railways, roads, telecommunications, water and waste water
<table>
<thead>
<tr>
<th>4</th>
<th>More than 50 percent of state-owned enterprise and farm assets in private ownership and significant progress with corporate governance of these enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Complete privatization of small companies with tradable ownership rights</td>
</tr>
<tr>
<td></td>
<td>Substantial improvement in corporate governance and significant new investment at the enterprise level, including minority holdings by financial investors</td>
</tr>
<tr>
<td></td>
<td>Comprehensive price liberalization; state procurement at non-market prices largely phased out; only a small number of administered prices remain</td>
</tr>
<tr>
<td></td>
<td>Significant enforcement actions to reduce abuse of market power and to promote a competitive environment</td>
</tr>
<tr>
<td></td>
<td>Removal of all quantitative and administrative import and export restrictions</td>
</tr>
<tr>
<td></td>
<td>Significant movement of banking laws and regulations towards BIS standards</td>
</tr>
<tr>
<td></td>
<td>Securities laws and regulations approaching IOSCO standards; substantial market liquidity and capitalization; well-functioning non-bank financial institutions and effective regulation</td>
</tr>
<tr>
<td></td>
<td>Large degree of progress</td>
</tr>
</tbody>
</table>

| 4+ | Standards and performance typical of advanced industrial economies: more than 75 percent of enterprise assets in private ownership with effective corporate governance |
|    | Standards and performance typical of advanced industrial economies: no state ownership of small enterprises; effective tradability of land |
|    | Standards and performance typical of advanced industrial economies: effective corporate control exercised through domestic financial institutions and markets, fostering market-driven restructuring |
|    | Standards and performance typical of advanced industrial economies: complete price liberalization with no price control outside housing, transport and natural monopolies |
|    | Standards and performance typical of advanced industrial economies: effective enforcement of competition policy; unrestricted entry to most markets |
|    | Standards and performance norms of advanced industrial economies: removal of most tariff barriers; membership in WTO |
|    | Standards and performance norms of advanced industrial economies: full convergence of banking laws and regulations with BIS standards; provision of full set of competitive banking services |
|    | Standards and performance norms of advanced industrial economies: full convergence of securities laws and regulations with IOSCO standards; fully developed non-bank intermediation |
|    | Standards and performance norms of advanced industrial economies |
2. Model and Econometrics

The econometric model that is used in this study is a regression model where we have estimated the following equation (Freedman, 2005):

\[ y_i = \beta_0 + \beta_1 x_{i1} + \ldots + \beta_p x_{ip} + \epsilon_i \]  

(1)

\[ i = 1, \ldots, n \]  

(2)

Thus, applied to our research this model has the following shape:

\[ GOV_{it} = \beta_0 + \beta_1 LSP_{it} + \beta_2 SSP_{it} + \beta_3 PL_{it} + \beta_4 CP_{it} + \beta_5 TFS_{it} + \beta_6 BRIRL_{it} + \beta_7 SMNBFI_{it} + \beta_8 OIR_{it} + \epsilon_{it} \]  

(3)

- where the **dependent variable**, \( GOV_{it} \), shows governance and enterprise restructuring;
- the **independent variables**, are as follows:
  1. \( LSP_{it} \) large-scale privatization;
  2. \( SSP_{it} \) small-scale privatization;
  3. \( PL_{it} \) price liberalization;
  4. \( CP_{it} \) competition policy;
  5. \( TFS_{it} \) trade and foreign exchange system;
  6. \( BRIRL_{it} \) banking reform and interest rate liberalization;
  7. \( SMNBFI_{it} \) securities markets and non-bank financial institutions;
  8. \( OIR_{it} \) overall infrastructure reform;
- \( \beta \) is a \( p \)-dimensional **parameter vector**;
- \( \epsilon \) is the **error term** or noise.
Results and Effects

1. Results on the first assumption

The first hypothesis is that governance and enterprise restructuring depend on set of policies: large-scale privatization, small-scale privatization, price liberalization, competition policy, trade and foreign exchange system, banking reform and interest rate liberalization, securities markets and non-bank financial institutions and overall infrastructure reform. The transition theory explains well the effects of privatization, restructuring, competition, budget constraints, policies of governance and management (Djankov & Murrell, 2002).

The country results of the OLS regression (Figure 3) show that there is important development of governance and enterprise restructuring during the period of transition. Yet, the effect of the variables that most influence governance and enterprise restructuring in this set of countries is mixed. When analyzed the large-scale privatization variable (Filatotchev & Mickiewicz, 2003) and its impact on countries’ governance and enterprise restructuring it was found that there is positive impact in B&H, Croatia and Montenegro, negative in Albania, Macedonia and significant Serbia (p < 0.01).

Further, small-scale privatization influenced governance and enterprise restructuring positively in Albania, Croatia and Montenegro, negatively in B&H and Serbia and is significant in Macedonia (p < 0.01). When analyzed price liberalization as important milestone and instrument of transition we can see that there is upbeat influence in B&H, Macedonia and Serbia, however on the other hand it behaves indifferent in Albania, Croatia and Montenegro. The trade and foreign exchange system were liberalized and recently they are being made compatible to the European Union’s internal market as these countries approach the euro-integration processes (De Macedo & Martins, 2008). In the period of our observation the trade and foreign exchange system gave good results in almost all countries except Montenegro and Serbia where the results are mixed in relation to governance and enterprise restructuring.
Legislating the competition policy and imposing it properly in the countries of transition was and still remains important issue, especially because of the fact that the command systems were characterized with state monopolies and as such were protected and nourished through the ‘soft-budget constraint’ practice. The relation of competition policy to governance and enterprise restructuring is positive in Croatia; negative in Albania, B&H, and Serbia; significant in Macedonia and in the case of Montenegro it gave mixed results depending on the model. The banking reform and interest rate liberalization show good results in all countries, as well as, the reform on securities’ markets and non-bank financial institutions except Serbia in the latter case. Finally, the overall infrastructure reform gave negative outcome in almost all countries and it is most probably due to the fact that the disinvestment in infrastructure is constant lag in transition countries.

Almost two decades of transition is fairly enough to allow good research on the links between different economic reforms. It is worthwhile to stress that all these countries started from highly distorted system and were introduced with policy reforms designed to introduce market mechanisms in order to make the allocation of resources as efficient as possible, while creating conditions for sustainable growth and improvement of living standards (De Macedo & Martins, 2008).

Therefore, examining these various variables which represent introduced policies in SEE countries that undergo stressful process of overall society transformation, confirms the uneasiness of the overall process, as well as, the varied impact of any of these policies to each other and supplementary policy issues.
**Figure I.3 OLS analysis of SEE**

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Albania</th>
<th>Bosnia and Herzegovina</th>
</tr>
</thead>
<tbody>
<tr>
<td>lsp</td>
<td>-0.2025152</td>
<td>-0.0091404</td>
</tr>
<tr>
<td></td>
<td>[0.1869121]</td>
<td>[0.196053]</td>
</tr>
<tr>
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</tr>
<tr>
<td></td>
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<td>[0.1021058]</td>
</tr>
<tr>
<td>pl</td>
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<td>-0.4286216</td>
</tr>
<tr>
<td></td>
<td>[0.2250317]</td>
<td>[0.2039378]</td>
</tr>
<tr>
<td>tfs</td>
<td>0.2659353</td>
<td>0.2188564</td>
</tr>
<tr>
<td></td>
<td>[0.1448371]</td>
<td>[0.1390868]</td>
</tr>
<tr>
<td>cp</td>
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<td>-0.9071432</td>
</tr>
<tr>
<td></td>
<td>[0.3731757]</td>
<td>[0.3688099]</td>
</tr>
<tr>
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<td>1.218124</td>
</tr>
<tr>
<td></td>
<td>[0.2302564]</td>
<td>[0.2139265]</td>
</tr>
<tr>
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<td>1.213578</td>
<td>0.961111</td>
</tr>
<tr>
<td></td>
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<td>[0.3917815]</td>
</tr>
<tr>
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</tr>
<tr>
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</tr>
<tr>
<td></td>
<td>[0.3505147]</td>
<td>[0.1703371]</td>
</tr>
</tbody>
</table>

**Observations** | 189 | 189

**R-squared** | 0.9197 | 0.8858 | 0.9208 | 0.9084 | 0.8964 | 0.9132 | 0.9023 | 0.9165 | 0.8796 | 0.9031

**Adj R-sqrd** | 0.8329 | 0.732 | 0.8089 | 0.8207 | 0.7022 | 0.7719 | 0.7727 | 0.7638 | 0.7686 | 0.7741


Standard errors are in parentheses.

Significance Level: *** p < 0.01 ** p < 0.05 * p < 0.1
### Table: Governance and enterprise restructuring

<table>
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<th></th>
<th>Macedonia</th>
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</tr>
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**Observations**: 189  
**R-squared**: 0.9138  
**Adj R-squared**: 0.8563  
**Time period**: 1989-2009

<table>
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**Significance Level**: *** p < 0.01  ** p < 0.05  * p < 0.1

Standard errors are in parentheses.
(Continuation)

<table>
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<th>Serbia</th>
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<td>Adj R-squared</td>
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</tr>
<tr>
<td>Time period</td>
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</tbody>
</table>

Standard errors are in parentheses.
Significance Level: *** p < 0.01 ** p < 0.05 * p < 0.1
2. Results on the second assumption

The second hypothesis is that the variable governance and enterprise restructuring is important and improves over time due to imposed policies.

The EBRD assesses progress in transition through a set of transition indicators which are used to track reform developments since the commencement of transition (EBRD, 1994-2009). Using these indicators and the examination of the tables in the Figure 3 and Figure 4, allows us to measure the possible outcomes of the second hypothesis.

The country results (Figure 3 and Figure 4) confirm this hypothesis with some mixed outcomes i.e. is important and lethargically improves over time. In fact, the close relation with number of these policies shows the significant impact of the policies to the way governance and enterprise restructuring was imposed, positively or negatively. Thus, there is good correlation to analyzed variables that represent the manner observed policies have been developing during the period of transition, however mixed outcomes to how each of these variables impacts governance and enterprise restructuring. Nonetheless, over time most of the variables improved and it is clear that there is noteworthy relationship between them moving upwards.

Further in Figure 4 (and Figure 3 in many segments when observed through particular variables) we can analyze the movements of governance and enterprise restructuring over time. Indeed, in this study the analyzed variable (governance and enterprise restructuring) moved towards increase and positive upward climb indicated through the rise of all countries’ curves. Hence, it can be noted that most of the progress has been done in Croatia, followed by Macedonia (IFC, 2008). In the mid range is Serbia and in the lower part of governance and enterprise restructuring progress are Montenegro, Albania and Bosnia and Herzegovina. Thus, Figure 4 confirms the positive movement up, relative to the process of transition over time.
Figure I.4 Governance and enterprise restructuring dynamics over time
Discussion

Due to the analysis of the first assumption where a relation was made between governance and enterprise restructuring and imposed set of policies, the results have shown that there are mixed outcomes. Indeed, there are positive and negative pressures of introduced policies on governance and enterprise restructuring in the set of SEE countries, however it is evident that overall, there is satisfactory picture of governance and enterprise restructuring progress.

The second hypothesis analyzed the importance and progress of corporate governance and enterprise restructuring. Hence, due to this observation, conducted through combination of the basic findings of the first analyzed assumption and the compared movement of only corporate governance and enterprise restructuring variables of the countries in question, it was found evidence that the transition process progresses along with the imposed reforms, and policies triggered a positive inclination of governance and enterprise restructuring.

However, the overall outcome of these countries is mixed as there are significant improvements in some countries and noteworthy lags in other. Indeed, it is needed considerable improvement in corporate governance, institution-building controlling agency problems and imposing already adopted regulation, as well as, adopting new ways of enterprise restructuring policies within existing policies of overall transition economy restructuring.
References:


II. Governance and Enterprise Restructuring in Southeast Europe – gross domestic product and foreign direct investments

Mico Apostolov,*

This article has been presented at: Economic trends, social trajectories and policies of identities in post-communist capitalism – EBRD / ETUI / EurActiv Conference in Bratislava, Slovakia

October 2010

Abstract:

This paper is to be concerned with the corporate governance mechanisms’ influence on governance and enterprise restructuring in Southeast Europe (Western Balkans) transition economies: Albania, Bosnia and Herzegovina, Croatia, Macedonia, Montenegro and Serbia.

The institutional changes and corporate governance mechanisms in national governance systems are essentially important for the transition process, thus there are specificities of corporate governance mechanisms in transition economies that indicate the progress towards market based economy. Most notable are: the market-based corporate governance mechanisms, management-structure based corporate governance mechanisms, ownership structure, boards of directors, management compensations schemes, that is, management structures and financial structures. Corporate governance mechanisms are seen through governance and enterprise restructuring indicator which has already established link to gross domestic product and foreign direct investments in the literature.

The data set is of Southeast European economies, and will be examined the interrelationships between governance and enterprise restructuring, set of policies that influence the governance patterns, gross domestic product and foreign direct investments.

**JEL Classifications:** G30, G32, G38; L33; O11; P31

**Keywords:** governance, enterprise restructuring, corporate governance, transition, Southeast Europe

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mico_apostolov@haas.berkeley.edu
Introduction

The research in this paper is to be focused on examining governance and enterprise restructuring in Southeast Europe (Western Balkans) transition economies. International organizations classify the following countries in Southeast Europe (Western Balkans): Albania, Bosnia and Herzegovina, Croatia, Macedonia, Montenegro and Serbia.

The institutional changes and corporate governance mechanisms in national governance systems are essentially important for the transition process, thus there are specificities of corporate governance mechanisms in transition economies that indicate the progress towards market based economy, the most notably the market-based corporate governance mechanisms, management-structure based corporate governance mechanisms, ownership structure, boards of directors, management compensations schemes i.e. management structures and financial structures.

Using data of South-East European economies, will be examined the interrelationships between governance and enterprise restructuring, set of policies that influence the governance patterns, gross domestic product and foreign direct investments.

Hypothesis: The basic hypothesis to test governance and enterprise restructuring is that it is influenced by gross domestic product and foreign direct investments dynamics.

Corporate governance mechanisms are seen through governance and enterprise restructuring indicator which has already established link to gross domestic product and foreign direct investments in the literature.
Theoretical and literature framework

1. Institutional changes and corporate governance mechanisms in national governance systems

There are many studies conducted on determining the way stakeholders can use corporate governance mechanisms in transition. Most often is used the agency theory to explain the changes in ownership structure in an environment of dominance of government and institutional owners (Chan, Lin, & Zhang, 2007), as well as, the differences of transition economies’ ownership structure in comparison to developed countries (Young, 2002).

Noteworthy contributions are the studies on firm performance and governance structure in political and regulatory environments that have a significant impact on corporate governance systems (Firth, Fung, & Rui, 2006). Also, there is significant literature that analyzes corporate governance through the importance of strong in addition to good governance and minority shareholder protection to reduce agency problems (Dharwadkar, George, & Brandes, 2000).

The institutional aspect of the economic transformation towards free market economies is characterized by institutional transition, providing in the literature evidence on the firm behavior in such environmental set (Hoskisson, Eden, Lau, & Wright, 2000). Indeed, business strategies (Peng, 2000) introduced due transition are important for this study. These features of Central and Eastern European economies are extensively analyzed (King, 2001), which gives good foothold for further study of the similar transition aspects in Southeast Europe.

2. Corporate Governance Mechanisms in transition economies

There are number of corporate governance mechanisms which are used to resolve agency problems, thus are classified by the corporate governance literature, and the most prominent are: market-based corporate governance mechanisms, management-structure based corporate governance mechanisms, ownership structures, boards of directors, management compensation schemes, and financial structures (Fama & Jensen, 1983; Jensen, 2000; Prowse, 1995; Shleifer & Vishny, 1997).
a) Market-based corporate governance mechanisms

The market-based corporate governance mechanisms incorporate two basic values i.e. the managerial labor market and the market for corporate control (Jensen, 2000), the managerial labor market as corporate governance mechanism, verifies the managers’ human capital hence determining the managers’ career development path (Fama, 1980). On the other hand, the market for corporate control functions as corporate governance mechanism by introducing discipline on managers through the threat of takeover (Shleifer & Vishny, 1997). In context of transition economies it is estimated that the market-based corporate governance mechanisms are likely to increase and improve along the progress of the transition (Le, Kroll, & Walters, 2010).

b) Management-structure based corporate governance mechanisms

The role of management-structure based corporate governance mechanisms in the governance of companies takes shape through internal managerial labor markets and constant mutual monitoring between managers by creating hierarchical controls (Ocasio, 1999), due to the process of firm management (Williamson, 1985).

These hierarchical-bureaucratic structures used to regulate agency problems and manage the firm are characterized by layers of management bringing high degree of formalization of operating procedures and authority in firms’ functioning and effectiveness (Jensen, 2000).

Hence, the effectiveness of the hierarchical-bureaucratic structures in transition economies declines during the restructuring process as market-supporting institutional framework and market based mechanisms take hold (Le et al., 2010).

c) Ownership structure

The ownership structure can function as corporate governance mechanism in the sense where inside ownership reduces agency costs. Thus, managerial ownership is opposed to the divergence of interests between managers and shareholders which leads to maximization of shareholders’ wealth in the case of owner-managers’ decision making (Fama & Jensen, 1983).
On the other hand, the corporate governance literature points out that large owner-managers are likely to lessen agency problems, making at the same time principal–principal agency problems more severe (Young, 2002).

In the transition process as companies move towards free market functioning, the role of ownership structure is determined mostly by independent outside blockholders and foreign investors (Le et al., 2010).

d) Boards of directors

In corporate governance literature the board of directors is usually defined as to represent the firms’ shareholders. Thus, the boards have the authority over the work of the managers to control and monitor their decision making and results (Jensen, 2000).

Due to its characteristics the board of directors has the role of classic corporate governance mechanism i.e. central to the internal control system (Jensen, 1993), even though in practice often these responsibilities are blurry and undetermined.

As far as transition economies are concerned, the literature suggests that at the early stage of privatization the already set, state-appointed board members, are likely to be more effective, however later in the transition process when market mechanisms enter into force, outside board members that hold large stakes in the firm are ought to offer more (Le et al., 2010).

e) Management compensations schemes i.e. management structures

Management compensations schemes and management structures can be used as corporate governance mechanism through aligning the interests of managers to those of shareholders (Bloom, 1998).

On one hand, there can be a scheme where the principal is monitoring the agent’s behavior on prearranged compensation i.e. behavior-oriented contract, and on the other, outcome-based contract where the principal measures the agent’s marginal output and compensation based on
the marginal output (Shleifer & Vishny, 1997). The use of one contract over another would be determined based on industry, legal, and other characteristics important for the firm or the country.

Thus, in transition environments most of the early stage countries have predominantly behavior-based compensation schemes as opposed to those in the latter stage that typify more with outcome-based compensation structures (Le et al., 2010).

f) Financial structures

There is a positive relationship between free cash flow and incentives managers to peruse their goals and self-interests i.e. peruse investments that increase their personal compensation and influence (Shleifer & Vishny, 1997), clearly increasing agency costs.

Further, debt financing is important to a firm and thus essential are the ties to banks and other financial institutions that allow access to financial resources (Porta, Lopez-De-Silanes, & Shleifer, 1999). In this case the corporate governance mechanism is in place through the notion that banks and other financial lenders and instruments monitor their borrowers helping to restrain managers’ self-serving behaviors (Berglöf, 1995).

The debt as corporate governance mechanism in transition economies is operationalized through state owned banks at the beginning of the process; however this role further in the transition is taken by foreign creditors.

According to Peng the ‘Two-Phase Model of Institutional Transitions’ is the following (Peng, 2003):
Figure II.1 Two-Phase Model of Institutional Transitions
Analytical Framework

1. Sample selection and Data

The estimation is based on data provided by the data bases of the European Bank for Reconstruction and Development (EBRD) Transition report series (\textit{EBRD, 1994-2009}), the World Bank Database (\textit{WB})\textsuperscript{3} and the National Banks’ databases of the countries in Southeastern Europe (\textit{BA; CBBH; CBM; CNB; NBRM; NBS})\textsuperscript{4}. The indicator of GDP is measuring growth in real GDP (in per cent) for the time period of 1989 to 2009 (with exceptions for the years where data was not available, which is minor) and the indicator of FDI’s is measuring foreign direct investment as net inflows recorded in the balance of payments.

2. Model and Econometrics

The econometric model (\textit{Freedman, 2005}), that is used in this study is a regression model where we have estimated the following equation:

\[
\gamma_i = \beta_0 + \beta_1 x_{1i} + ... + \beta_p x_{pi} + \varepsilon_i \quad (1)
\]

\[
i = 1,..,n \quad (2)
\]

Thus, applied to our research this model has the following shape:

\[
GOV_{i,t} = \beta_o + \beta_1 GDP_{i,t} + \beta_2 FDI_{i,t} + \varepsilon_{i,t} \quad (4)
\]

- where the \textit{dependent variable}, $GOV_{i,t}$, shows governance and enterprise restructuring;
- the \textit{independent variables}, are as follows:

\textsuperscript{3} World Bank Database, Available at: \url{http://data.worldbank.org/}

1. $GDP_{i,t}$, gross domestic product;

2. $FDI_{i,t}$, foreign direct investments;

- $\beta$ is a $p$-dimensional parameter vector;

$\varepsilon$ is the error term or noise.
Results and Effects

1. Results on the assumption

The hypothesis is that the variable governance and enterprise restructuring is encouraged by movements in gross domestic product and foreign direct investments. The results of the OLS regression explaining the link between GOV and GDP, FDI are given in the Figure 2, whereas Figure 3 descriptively shows the relationships and movements between these variables.

The GDP results are significant only with Croatia and Macedonia (p < 0.01). On the other hand, the FDI variable results occur significant in Albania and Bosnia and Herzegovina (p < 0.05), as well as, Croatia, Macedonia and Serbia (p < 0.01).

It is clear from Figure 2 and Figure 3 that governance and enterprise restructuring is positively influenced by gross domestic product and especially foreign direct investments dynamics.
Figure II.2 OLS on GOV for GDP and FDI - SEE

<table>
<thead>
<tr>
<th>OLS</th>
<th></th>
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<td><strong>Bosnia and Herzegovina</strong></td>
<td><strong>Croatia</strong></td>
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<tr>
<td></td>
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<td>(0.0033471)</td>
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<tr>
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<td>(0.0000655)***</td>
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<td>(0.1140025)***</td>
<td>(0.1346605)***</td>
<td>(0.0845265)***</td>
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<td>0.6528</td>
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<tr>
<td>Adjusted R-squared</td>
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<td>0.6065</td>
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<td>Time period</td>
<td>1989-2009</td>
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<td></td>
</tr>
</tbody>
</table>

Standard errors are in parentheses.

Significance Level: *** p < 0.01  ** p < 0.05  * p < 0.1
Figure 11.3 FDI & GDP in GOV

FDI dynamics within GOV indicators

- Governance and enterprise restructuring
- Foreign direct investment (net inflows recorded in the balance of payments)
- Expos. (Governance and enterprise restructuring)

GDP dynamics within GOV indicators

- Governance and enterprise restructuring
- Growth in real GDP (in per cent)
- Expos. (Governance and enterprise restructuring)
Discussion

The results on the hypothesis show that the governance and enterprise restructuring is positively influenced by gross domestic product and foreign direct investments dynamics. Indeed, positive results in almost all counties are found for foreign direct investments, but still mild evidence to its connection to gross domestic product.

The relation of institutional changes and corporate governance mechanisms in national governance systems to overall economic movements, and especially foreign direct investments has good evidence in the literature and the empirical analyses. Thus, it is apparent that the new way of functioning of the systems creates an endogenous competitive characteristics for the home companies due time, through the process of learning and cooperation with foreign companies or their capital.

Furthermore, it is apparent that governance and enterprise restructuring advance through time due to imposed policies, as well as, overall progress of the economies’ gross domestic product and especially the influx of foreign direct investments.
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CBM. http://www.cb-mn.org/: Central Bank of Montenegro


CNB. http://www.hnb.hr/: Croatian National Bank


III. Governance and Enterprise Restructuring - the case of Macedonia

Mico Apostolov,*

This article has been presented at: 2nd International Conference on Economies of Central and Eastern Europe - Convergence, Opportunities and Challenges organized by the Society for the Study of Emerging Markets (USA)

June 2010

Abstract:

This paper is a case study of the Republic of Macedonia (Southeast Europe), which focuses on examining governance and enterprise restructuring.

Governance and enterprise restructuring is already defined indicator in EBRD’s studies and transition reports, measuring the effective corporate governance and corporate control exercised through domestic financial institutions and markets, fostering market-driven restructuring. As of the beginning of the transition process, governance and enterprise restructuring remains in the center, as essential pillar, that moves forward the society towards developed market economy.

The data used in this article are analyzed with an econometric regression model, which as employed in this study examines the interrelationships between governance and enterprise restructuring and set of policies that influence the governance patterns.

JEL Classifications: G30, G32, G38; L33; O11; P31

Keywords: governance, corporate governance, management strategy, transition, Southeast Europe, Macedonia

Acknowledgements: I would like to thank Prof. Nicola Bellini for the continuous support, as well as, the PhD Program in Management and MAIN Lab of Scuola Superiore Sant’Anna, Pisa, Italy

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Introduction

The research in this paper is to be focused on examining governance and enterprise restructuring in Southeast Europe economies and in particular a case study of the Republic of Macedonia.

EBRD has governance and enterprise restructuring as basic indicator of economic transition and defines it as effective corporate governance and corporate control exercised through domestic financial institutions and markets, fostering market-driven restructuring. The corporate governance is most often defined in terms of the roles, responsibilities, and interactions of top management and the board of directors.

Using data of South-East Europe i.e. case study of Macedonia, will be examined the interrelationships between governance and enterprise restructuring and set of policies that influence the governance patterns.

Literature Review

There are several contemporary theories that set the foundations of governance and enterprise restructuring within a framework important for this research.

The institutional setting is of essence when governance and enterprise restructuring is analyzed in transition economies. Further, the literature on corporate governance is extensive and is linked to important theories, of which the agency theory is fundamentally predominant. The established agency theory highlights the function of corporate governance in the overall enterprise restructuring, ensuring that the firm protects the interests of shareholders in a given institutional context (Fama & Jensen, 1983). Thus, the institutional setting has impact on the outcome of companies’ performance through the very nature of country’s ownership structure and policies undertaken to shape the governance system. When companies are analyzed, it is important to state the presence of different agency conflicts between shareholders and management in a given ownership structure of each country. Hence, different countries have divergent governance systems leading to variations in the nature of the agency problems, where according to the ‘law and economics’ viewpoint, legal systems craft institutional specificities (La Porta, Lopez-de-
The literature further proposes that different national governance systems are also influenced by cultural and historical features in addition to their specific legal system (Hall & Gingerich, 2009).

The links between agency theory and institutional theory (Aguilera & Jackson, 2003) explain that divergences in national institutions may have significant impact on the effectiveness of governance at the firm level (Aguilera, Filatotchev, Gospel, & Jackson, 2008).

The law and economics approach (e.g., (La Porta et al., 2000; La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1998)) puts the focus on the fact that the ability to enforce financial contracts and thus increase the effectiveness of governance depends on institutional characteristics (Djankov, Hart, McLiesh, & Shleifer, 2008; Douma, George, & Kabir, 2006; Hoskisson, Cannella, Tihanyi, & Faraci, 2004). Further, it is stated that in order to complete the frame already set by the agency theory it is necessary to merge it with institutional theory (Douma et al., 2006; Kaplan, Martel, & Stromberg, 2003). There are two principal strings of institutional theory fitted to the analysis: a) the first, origins in political science (North, 1990) and b) the second is derived from organizational theory (Scott, 2002). The political science approach focuses on the setup where political and economic institutions create incentives for managers and the way the outcomes are shaped. On the other hand, the organizational theory approach is concerned with the adjusting function of organizations while creating the institutional environment. In this regard, Aggarwal and Goodell argue that national corporate governance differences between countries used in their study are determined by legal, cultural, and other national characteristics (Aggarwal & Goodell, 2010).

1. Corporate Strategies in transition economy environment

As countries undergo serious system transformations the managers are faced with complex decision-making environment (Sanders & Mason, 1998), and thus it is closely regarded that the performance of large enterprises should be linked to managerial flexibility in making strategic decisions within the context of the firm’s governance. Furthermore, there aren’t many sources that can point towards emerging corporate governance mechanisms in South-East Europe,
although prior research suggests that independent managers and board of directors (corporate governance) may be an important necessity for managerial ability to undertake performance-enhancing strategies (Hoskisson, Eden, Lau, & Wright, 2000). Before restructuring, the revenues were generated by monopolistic structure through a handful of specialized state-owned companies. As the reforms progressed towards free market economy in environment with sluggish internal demand, adopting better strategies may be closely linked to better financial performance of the firm (Luo & Peng, 1999). Moreover, we can see that previous research has linked strategies with performance (Hoskisson et al., 2000; Makhija, 2004), and governance directly with performance (Djankov & Murrell, 2002; Peng, 2004), and consequently in this research we will make an essay to implement the governance and enterprise restructuring EBRD indicator as measure against set of policies.

Economic reforms introduced in Southeast Europe aimed at increasing enterprise efficiency and making their products internationally competitive and thus reforms were tied with structural crisis (Uhlenbruck, Meyer, & Hitt, 2003). The pre-reform environment that was characterized by import protection and export promotion through monopolistic, state-owned foreign trade companies which in many terms crippled the enterprises to meet overseas threats and as a result made the internationalization of their work very difficult. As liberalization of the market forces and privatization progressed they were meant to eliminate the constraints imposed on managers by state ownership and command economy system (Hoskisson et al., 2000; Makhija, 2004). In the case of the Southeast Europe, companies were privatized using range of methods (Claessens, Djankov, & Lang, 2000; Djankov & Murrell, 2002). Thus, the privatization process resulted with diverse range of ownership structures and governance mechanisms (Newman, 2000).

The corporate governance affects enterprises restructuring and financial performance (Hoskisson et al., 2000; Peng, 2004). Indeed, when firms from transition economies are involved in international activities, they are likely to develop their capabilities (Luo & Peng, 1999; Sanders & Mason, 1998). As a consequence of the peculiar characteristics of the capital markets in South-East Europe i.e. lack of well developed capital markets, limited portfolio diversification and liquidity, it is often stated that large shareholders could wish to utilize potential upside of a particular business strategy, but they are frequently restrained and affected adversely by the
company’s idiosyncratic risk\(^5\) ([Maug, 1998](#)). Due to this phenomenon they chose to impose sub-optimal strategies on managers. Moreover, large shareholders in transition countries where the protection of minority investors is low, most often endeavor to take advantage of their power and grasp “private benefits of control”. This ‘expropriation’ can be found in a range of forms, such as ‘related party transactions, use of transfer pricing, assets stripping and other forms of “tunnelling” of revenue and assets from firms’ ([Porta, Lopez-De-Silanes, & Shleifer, 1999](#); [Porta, Lopez-De-Silanes, Shleifer, & Vishny, 1997](#)). Therefore, in such economies high ownership concentration was investors’ response to low levels of protection of minority shareholders in emerging markets ([Hitt, Keats, & DeMarie, 1998](#); [Porta et al., 1997](#)). Even though we analyze and focus specifically on Macedonia, variations in governance regimes indicate sufficient international analyses of governance and enterprise restructuring in the specific group of economies that undergo serious difficulties in transformation.

Corporate governance and enterprise restructuring in Macedonia

1. Institutional and legal framework

   a) The *institutional framework* is essential in the development of the governance and enterprise restructuring process. The institutions that carry the process are the Securities Commission and the Macedonian Stock Exchange and are aided by the Central Securities Depository ([IFC, 2008](#)).

   b) The *legal framework* is comprised of sets of laws and regulations including the first 1996 Company Law its enactment of 2004, as well as, the Securities Law, the Law on Takeovers, the Bankruptcy Law, and the Macedonian Stock Exchange’s corporate governance code and listing rules ([IFC, 2008](#)).

\(^5\) Another term for unsystematic risk. The variability in the returns of an investment as a result of factors specific to that investment only.
2. Overall assessment of corporate governance characteristics

Macedonia’s corporate governance model is consistently built since the beginning of transition to modern market economy. Thus, it complies with the notion that each country shapes its particular way of governance due to its own history, culture, and legal and regulatory framework (Aggarwal & Goodell, 2010; La Porta et al., 2000; La Porta et al., 1998; Porta et al., 1999; Porta et al., 1997). The main characteristics of the Macedonian corporate governance model are (IFC, 2008):

a) Gradual concentration of ownership which is reflected through policies leading to dispersed ownership structure of companies to become concentrated over time in a more regular manner. As 2008 IFC Corporate Governance Manual for Macedonian Companies indicates around 300,000 individuals become shareholders in the first phase of the privatization process. Later the process reinforced itself and eventually resulted with 255,000 in 2004 and 105,000 in August 2007 individuals as shareholders. This was result due imposed regulatory reform (Company Law, 1996) and also the development of the capital market urging for voluntary decisions of shareholders to sell their shares on the Macedonian Stock Exchange, characterized with constant default on minority shareholders’ and investor protection during this period. However, with creation of the Central Securities Depository (state authority for securities registration), the quality of the process had improved.

b) Company shareholders as company employees and vice-versa, describes the phenomenon of the dual role and mutual interaction of these two categories as most of the employees are at the same time shareholders in the company. Thus, there is conflict in the rights and the duties as these two roles, which in essence oppose themselves and exclude each other. Indeed, this characteristic is problem of many transition economies and needs time to be resolved, while is still producing mixed outcomes.

c) As a consequence of the previous two, there is the third main characteristic of the Macedonian economy in light of governance and enterprise restructuring i.e. lack of
separation of company’s ownership from company’s control. This practice, despite the introduced regulation, is still lagging, hence the unfortunate problem where majority-vote shareholders who most often hold companies’ top positions, trigger overwhelming influence over comprehensive daily work of the enterprise. Further, this reduces and prevents the control systems’ vigilance and reporting to and from shareholders and investors.

d) The forth important feature derived from the previous, is the inadequate oversight of management’s work. This is due the fact that members of the supervisory board are individuals with lack of experience directly appointed by the controlling majority shareholders or in submission to the very persons that they are supposed to control.

**Research hypotheses**

Two basic hypotheses to test governance and enterprise restructuring:

- **1st Hypothesis:** Governance and enterprise restructuring depend on set of policies: large-scale privatization, small-scale privatization, price liberalization, competition policy, trade and foreign exchange system, banking reform and interest rate liberalization, securities markets and non-bank financial institutions and overall infrastructure reform; and ,

- **2nd Hypothesis:** Governance and enterprise restructuring is significant and improves over time due to imposed policies.
Sample selection and Data

It this paper it is used the same econometric model as in the first article.

The European Bank for Reconstruction and Development (EBRD) Transition Report series have the latest information on the countries that are classified in transition. The data that this prominent organization offers are based on wide network of sources that they obtain from national and international authorities (Bennett, 2004a, 2004b; Zinnes, Eilat, & Sachs, 2001). EBRD tracks reforms and assesses the overall process of transition using set of transition indicators, which are formed in comparison to the standards of industrialized market economies.

Further, the data sample is mainly drawn from the extended research and data bases of the European Bank for Reconstruction and Development (EBRD), the Transition Report publication series. Consequently, the data used in this research are taken from their index structure ‘economic statistics and forecasts’ (EBRD, 1994-2009). The scale used in shaping the transition indicators ranges from 1 to 4+, ‘where 1 represents little or no change from a rigid centrally planned economy and 4+ represents the standards of an industrialized market economy’ (EBRD, 1994-2009). There are detailed numbers for the countries in transition analyzing the period of 1989 to 2009 in different areas. These indicators are sorted by sector and country and are analyzing nine arias: large scale privatization, small scale privatization, governance and enterprise restructuring, price liberalization, trade and foreign exchange system, competition policy, banking reform and interest rate liberalization, securities markets and non-bank financial institutions, and overall infrastructure reform (EBRD, 1994-2009; Gouret, 2007).

Model and Econometrics

The econometric model that is used in this study is a regression model where we have estimated the fallowing equation (Freedman, 2005):

\[
\gamma_i = \beta_0 + \beta_1 x_{i1} + \ldots + \beta_p x_{ip} + \epsilon_i \quad (1)
\]

\[
i = 1, \ldots, n \quad (2)
\]
Thus, applied to our research this model has the following shape:

$$GOV_{i,t} = \beta_0 + \beta_1 LSP_{i,t} + \beta_2 SSP_{i,t} + \beta_3 PL_{i,t} + \beta_4 CP_{i,t} + \beta_5 TFS_{i,t} + \beta_6 BRIRL_{i,t} + \beta_7 SMNBFI_{i,t} + \beta_8 OIR_{i,t} + \epsilon_{i,t}$$

(3)

- where the **dependent variable**, $GOV_{i,t}$, shows governance and enterprise restructuring;
- the **independent variables**, are as follows:
  1. $LSP_{i,t}$, large-scale privatization;
  2. $SSP_{i,t}$, small-scale privatization;
  3. $PL_{i,t}$, price liberalization;
  4. $CP_{i,t}$, competition policy;
  5. $TFS_{i,t}$, trade and foreign exchange system;
  6. $BRIRL_{i,t}$, banking reform and interest rate liberalization;
  7. $SMNBFI_{i,t}$, securities markets and non-bank financial institutions;
  8. $OIR_{i,t}$, overall infrastructure reform;
- $\beta$ is a $p$-dimensional **parameter vector**;
- $\epsilon$ is the **error term** or **noise**.
**Results and Effects**

The *first* hypothesis is that governance and enterprise restructuring depend on set of policies: large-scale privatization, small-scale privatization, price liberalization, competition policy, trade and foreign exchange system, banking reform and interest rate liberalization, securities markets and non-bank financial institutions and overall infrastructure reform. The transition theory explains well the effects of privatization, restructuring, competition, budget constraints, policies of governance and management (Djankov & Murrell, 2002).

The country results of the OLS regression for Macedonia (Figure 2) show that there are good results on correlation and dependence of governance and enterprise restructuring to large-scale privatization. However, the coefficients are negative pointing towards possible lag of governance mostly because of country specific dispersed ownership and agency conflicts as analyzed before (CG Manuel-IFC, 2008). The variable explaining trade and foreign exchange system and its relation to GOV behaves with mixed outcome depending on the model. Further, the price liberalization variable shows good results and there is good evidence and correlation between country’s governance, as well as, positive impact on GOV.

The banking reform of the system and the interest rate liberalization demonstrated good results in contribution to the governance and enterprise restructuring. In this analysis the overall infrastructure reform has given important input in improving the overall economic governance, but the negative sign suggests some concern, as the disinvestment in infrastructure is constant lag in transition countries.

On the other hand, governance and enterprise restructuring have strong relation to the small-scale privatization; competition policy and securities markets and non-bank financial institutions. In the case of these variables, the models have shown evidence i.e. $p < 0.001$ (and $p < 0.05$).
Figure III.1 Results of OLS on Macedonia

<table>
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</table>

Standard errors are in parentheses.
Significance Level: *** p < 0.01   ** p < 0.05   * p < 0.1
The second hypothesis is that the variable governance and enterprise restructuring is significant and improves over time due to imposed policies.

In the analysis (Figure 1) the results confirm this hypothesis with some mixed outcomes i.e. sluggishly improves over time. In fact, the close relation with number of these policies shows the significant impact of these policies to the way the governance and enterprise restructuring was imposed, positively or negatively. Thus, there is significant correlation to SSP, CP, BRIRL and SMNBFI, presenting outcomes to how each of these variables impacts GOV. Nonetheless, over time most of the variables improved and it is clear that there is relationship between them moving upwards.

Further in Figure 2 we can see the movements of governance and enterprise restructuring over time. Also, in this case the analyzed variable moved alongside the increase of the other variables and towards positive upward climb. Figure 3 indicates that even though there is positive movement up, governance and enterprise restructuring is still at the bottom of estimated policies’ progress.
Figure III.2 Macedonia’s Governance and Enterprise Restructuring

Macedonia

MACEDONIA

- Large scale privatisation
- Small scale privatisation
- Governance and enterprise restructuring
- Price liberalisation
- Trade & Forex system
- Competition Policy
- Banking reform & interest rate liberalisation
- Securities markets & non-bank financial institutions
- Overall infrastructure reform

Expon. (Governance and enterprise restructuring)
Figure III.3 Indicators’ Dynamics

- Large scale privatisation
- Governance and enterprise restructuring
- Trade & Forex system
- Banking reform & interest rate liberalisation
- Overall infrastructure reform
- Small scale privatisation
- Price liberalisation
- Competition Policy
- Securities markets & non-bank financial institutions
Discussion

On the first assumption that governance and enterprise restructuring depend on imposed set of policies, the analysis showed that there are mixed outcomes. There are positive and negative influences that eventually bring satisfactory picture for the overall governance and enterprise restructuring.

On the other hand, due to analysis of the second assumption it is clear that as the transition process progressed along with the imposed reforms and there is a positive inclination of governance and enterprise restructuring.

However, there is still more to be done in order to bring these economies closer to the standards of developed ones. Indeed, it is needed considerable improvement of corporate governance, institution-building to control agency problems and imposing already adopted regulation, as well as, enforcing new enterprise restructuring policies, within existing policies of overall transition economy restructuring.
References:


IV. Corporate Governance in Macedonia – micro and macro analysis

This article has been published at: Risk Governance and Control - financial markets and institutions, February 2011

Mico Apostolov,*

February 2011

Abstract:

The corporate governance issue in Macedonian companies has been brought forward during the recent few years. The main reason is the fact that the privatization process completion of socially-owned and partly state-owned enterprises has put emphasis to the challenge to reasonably regulate relationships established within companies on one hand, and relationships between companies and larger society on the other. All market economies, including those with longest tradition, have faced this kind of challenge so far.

Corporate governance becomes an increasingly important issue for the Macedonian economy. It is being taken with greater consideration by the companies, regulators and government. The strong wave of privatization programs from mid-90’ have resulted in an altered business environment, and new legal and institutional frameworks have been established. Indeed, corporate governance contributes to sustainable economic development by enhancing the performance of companies and increasing their access to external sources of capital.

In this paper we will make attempt to analyze the predominant factors that create prolific corporate governance environment in two terms; a) micro level and macro level.

JEL Classifications: G30, G32, G38; L33; O11; P31

Keywords: governance, corporate governance, management strategy, transition, Southeast Europe, Macedonia

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**Introduction**

This paper is concerned with corporate governance and enterprise restructuring through a measure of management’s capabilities to act in the best interest of shareholders, as well as, the mechanisms that trigger managerial behavior needed to augment the wealth of the enterprise i.e. the stewardship and enterprise dimensions. The specific characteristics of the economies in transition give research ground for different models analyzing the effects of governance and organizational capabilities for restructuring. The economy of Macedonia has been characterized by high level of changes in the ownership structure and business environment turbulence. There are studies that specifically analyze the changes in the ownership structure and business environment turbulence, which will be used in this article (Hoskisson, Eden, Lau, & Wright, 2000; Uhlenbruck & Castro, 1998).

The already established transition economic theory gives evidence that the privatization of formerly state-owned companies is not followed with performance improvements as default guarantee (Megginson & Netter, 2001). Further, the literature suggests that it is needed replacement of the management and introduction of several governance mechanisms, if wanted grater performance of newly privatized enterprises (Cuervo & Villalonga, 2000). Indeed, the studies analyzing governance and enterprise restructuring in transition economies suggest that evolving corporate governance is crucial for the outcome of firm restructuring (Djankov & Murrell, 2002; Filatotchev, Buck, & Zhukov, 2000). Thus, it is evident that different methods of privatization (management-employee buyouts, gave-aways, tying to strategic foreign investors, etc.) require different governance.

Due to the nature of the transition process these markets have different settings and attributes when compared to developed national economies (Hoskisson, Johnson, Yiu, & Wan, 2006). The learning process of the corporate governance in post-communist economies is characterized by the need of developing the monitoring systems, as well as, tuning managers to respect and satisfy the needs of the shareholders (Filatotchev, Hoskisson, Buck, & Wright, 1996), which is creating new ‘rules of the game’(North, 1990; North, 1994). Hence, the weight of transformation and enterprise restructuring falls on the quality of managers and their capabilities to learn the new rules of the game (Lyles & Salk, 1996; Steensma & Lyles, 2000).
The research hypotheses are:

1st Hypothesis i.e. Micro Level: domestic versus foreign owners, companies are driven by foreign owners;

2nd Hypothesis i.e. Macro Level: governance and enterprise restructuring is influenced by gross domestic product and foreign direct investments dynamics.

**Theoretical and literature framework**

1. *The transition economy literature*

The planned economies’ management based on the principles of theoretical ground of the political ideology at that time when national economies were characterized by state-owned property inducing acute inefficiencies of firms, thus also on overall macro level (*Kornai, 1992*). This resulted with incapability to increase efficiency of the firms and make their products competitive in regional and international business environment (*Sachs, Warner, Åslund, & Fischer, 1995*). The process of privatization was imposed as to introduce sociopolitical change and improve macroeconomic benefits, as well as, ‘restart’ the state-owned companies by imposing market managerial mechanisms (*Megginson & Netter, 2001*).

There has been variation of different modes of privatization that were imposed while restructuring from planned to functional market economies, and there is sufficient literature bases that suggest different mode of privatization lead to different governance outcomes (*EBRD, 1994-2009; Estrin & Wright, 1999; Wright, Hoskisson, Busenitz, & Dial, 2000*).

2. *Problems of governance in transition economies*

There are studies that link enterprise restructuring with governance features, such as board attributes and ownership structure (for example, *Bergh, 1995; Bethel & Liebeskind, 1993; Djankov & Murrell, 2002; Johnson, Hoskisson, & Hitt, 1993*). The specificities of each separate country contribute to explanations of enterprise restructuring, such as development of market
institutions, government involvement, ownership patterns, industry structures and enforcement of business laws (Chang & Hong, 2000; La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1998; North, 1994). During the restructuring phase important hybrid organizational forms took place i.e. so-called ‘recombinant properties’, which represent recombination of property, thus distorting the boundary between public and private ownership (Peng & Heath, 1996; Spicer, McDermott, & Kogut, 2000; Stark, 1996). The variations in enterprise restructuring outcomes could be caused by managerial opportunisms which are not controlled by the owners; hence this is likely to be a consequence of board composition, legal enforcement (the lack of it) and weak capital market (Filatotchev et al., 2000; Wright, Buck, & Filatotchev). Thus, the governance problems most often are caused by inadequate monitoring of managers or because they have acquired too much ownership due bending the transition process (Morck, Shleifer, & Vishny; Newman, 2000; Whitley & Czaban, 1998).

3. Apprenticing and competences

One of the most important problems that transition economies are faced with is the lack of capital and new ways of acquiring finances, moreover because the capital markets are not well developed and there is no sufficient protection to foreign and minority investors (EBRD, 1994-2009). Consequently, the enterprise restructuring in all its organizational characteristics turns around learning and fortification of market competencies (Lyles & Salk, 1996; Uhlenbruck, Meyer, & Hitt, 2003).

The ‘ability to change’ as a function of firm’s resources is essential to enterprise restructuring (Barker Iii & Duhaime, 1997), especially in an environment where they have very limited absorptive capacity i.e. the ability ‘to recognize the value of new information, assimilate it, and apply it to commercial ends’ (Cohen & Levinthal, 1990). This is quite vital as it provides firms with strategic flexibility to assume good positions in constantly changing and turbulent transition environment (Puffer, McCarthy, & Peterson, 2001).
Indeed, the absorptive capacity and the ability to adopt and further build competitive capacities depends on prior knowledge, which in transition economies is estimated to be significantly low (Newman, 2000).

4. Governance and upgrade of competences

The constrains that inflict enterprise restructuring are usually lack of effective governance mechanisms, as well as, managerial inability to adopt to changes (Mahoney, 1995). However, it is evident that managerial abilities may get better due time, but these improvements are usually lagging behind the pace of change in the business environment. Thus, effective corporate governance can influence managers to improve and increase the overall strategic flexibility of the firm towards undertaking the necessary restructuring (Hitt, Ireland, & Hoskisson, 2009; Hoskisson, Johnson, & Moesel, 1994; Johnson, 1996).

In the analytical framework used by Filatotchev, Wright, Hoskisson et al. there are two basic dimensions of governance modes: insider and outsider governance modes (Filatotchev, Wright, Uhlenbruck, Tihanyi, & Hoskisson, 2003).

The insider governance mode is characterized by governance mechanisms imposed by dominant ownership management and employees and outsider governance mode is associated to dominance of ownership from investors outside of the firm (mainly foreign investors)(Hitt et al., 2009; Hoskisson et al., 2000; Puffer et al., 2001). The other two dimensions are low or high absorptive capacity that indicate the capability of the firm to upgrade its competences due time and competitive pressures (Filatotchev et al., 2003) :
### Figure IV.1 Corporate governance and learning capacity

<table>
<thead>
<tr>
<th>Learning—low absorptive capacity</th>
<th>Insider governance</th>
<th>Outsider governance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Quadrant 1: Stuck privatization</strong></td>
<td><strong>Organizational characteristics:</strong>&lt;br&gt;• Managerial incentives reduced in absence of purchase&lt;br&gt;• Low managerial turnover&lt;br&gt;• Resistance to outside board members&lt;br&gt;• Entrenchment of traditional networks&lt;br&gt;• Low learning and weak governance</td>
<td><strong>Strategic outcomes:</strong>&lt;br&gt;• Likelihood of low corporate restructuring effectiveness</td>
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<table>
<thead>
<tr>
<th>Learning—high absorptive capacity</th>
<th>Insider governance</th>
<th>Outsider governance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Quadrant 2: Privatization to domestic institutions</strong></td>
<td><strong>Organizational characteristics:</strong>&lt;br&gt;• Managerial incentives but poor wealth diversification lead to low risk behavior&lt;br&gt;• Monitoring by outside investors&lt;br&gt;• Limited access to outside networks&lt;br&gt;• Important role of bank-led financial-industrial groups producing financial reallocation but also private appropriation&lt;br&gt;• Ambiguous efficiency of governance, may be traded off for low learning</td>
<td><strong>Strategic outcomes:</strong>&lt;br&gt;• Likelihood of moderate corporate restructuring effectiveness</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Learning—high absorptive capacity</th>
<th>Insider governance</th>
<th>Outsider governance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Quadrant 3: Privatization buy-outs</strong></td>
<td><strong>Organizational characteristics:</strong>&lt;br&gt;• Managerial incentives&lt;br&gt;• Passive monitoring by financiers&lt;br&gt;• Limited access to outside networks&lt;br&gt;• High learning is traded off for weak governance</td>
<td><strong>Strategic outcomes:</strong>&lt;br&gt;• Likelihood of moderate corporate restructuring effectiveness</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Learning—low absorptive capacity</th>
<th>Insider governance</th>
<th>Outsider governance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Quadrant 4: Privatization to foreign investors</strong></td>
<td><strong>Organizational characteristics:</strong>&lt;br&gt;• Effective boards&lt;br&gt;• Managerial turnover&lt;br&gt;• Break-out from traditional networks&lt;br&gt;• High learning complements high efficiency governance</td>
<td><strong>Strategic outcomes:</strong>&lt;br&gt;• Likelihood of high corporate restructuring effectiveness</td>
</tr>
</tbody>
</table>
Analytical Framework

1. Sample selection and Data

The first assumption will be analyzed on the bases of a survey on shareholders in Macedonia, with an emphasis on their rights (the level of acknowledgement of their rights, the level and manner of practicing of their rights, their involvement in the company’s decision making), conducted by USAID/Business Environment Activity (BEA)\(^6\).

Since there has been a major development of the capital market in Macedonia, increase of the knowledge of investors and the broader public, this survey is a more comprehensive research and provides a more general picture of the shareholders’ structure, with an emphasis on (the level of) incorporation of good Corporate Governance practices in the companies, especially the Joint Stock Companies. The principal players are the shareholders, management and the board of directors.

The second estimation is based on data provided by the data bases of the European Bank for Reconstruction and Development (EBRD) Transition report series (EBRD, 1994-2009), the World Bank Database\(^7\) and the National Bank of the Republic of Macedonia\(^8\) and Macedonian Stock Exchange\(^9\). The indicator of GDP is measuring growth in real GDP (in per cent) for the time period of 1989 to 2009 (with exceptions for the years where data was not available, which is minor) and the indicator of FDI’s is measuring foreign direct investment as net inflows recorded in the balance of payments.

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\(^6\) USAID/Business Environment Activity (BEA). Available at: [http://www.bea.org.mk/]

\(^7\) World Bank Database, Available at: [http://data.worldbank.org/]

\(^8\) National Bank of the Republic of Macedonia. Available at: [http://www.nbrm.gov.mk/]

\(^9\) Macedonian Stock Exchange. Available at: [http://www.mse.org.mk/]
2. Model and Econometrics

a) First hypothesis analytical framework

The first hypothesis is that companies are driven by foreign owners which puts domestic versus foreign owners, and it is tightly connected with the second hypothesis. In order to get good results and more complete research, this first hypothesis is analyzed qualitatively. Thus, the approach taken is concerned with the micro level of Macedonian economy i.e. examination on the origin of dominant owners and the impact each category has to directing the firm structure therefore giving favorable outcomes.

b) Second hypothesis analytical framework

The econometric model (Freedman, 2005) that is used for the second hypothesis is a regression model where we have estimated the following equation:

\[ y_i = \beta_0 + \beta_1 x_{1i} + \ldots + \beta_p x_{pi} + \epsilon_i \quad (1) \]

\[ i = 1, \ldots, n \quad (2) \]

Thus, applied to our research this model has the following shape:

\[ GOV_{i,t} = \beta_0 + \beta_1 GDP_{i,t} + \beta_2 FDI_{i,t} + \epsilon_{i,t} \quad (3) \]

- where the dependent variable, \( GOV_{i,t} \), shows governance and enterprise restructuring;
- the independent variables, are as follows:
  1. \( GDP_{i,t} \), gross domestic product;
  2. \( FDI_{i,t} \), foreign direct investments;
- \( \beta \) is a \( p \)-dimensional parameter vector;
- \( \epsilon \) is the error term or noise.
**Results and Effects**

1. **Results on the first hypothesis i.e. Micro Level**

The numbers taken from the IFC’s Corporate Governance Manual for Macedonian companies and the survey of USAID/Business Environment Activity (BEA)\(^{10}\) are valid until 2008 and were retrieved from the Central Depositary\(^{11}\). The number of Joint Stock Companies at that time was 577, with total number of shareholders 174,870. Thus, largest type of holders is the domestic individuals (95.64%), followed by domestic legal entities (2.43%). The foreign individuals form a group of 1.43% and the smallest is the group of foreign legal entities with 0.45% of shares in the Macedonian joint stock companies (IFC, 2008).

On the other hand, if we observe the number of shares that are owned by various types of owners we get completely different picture, which confirms the first hypothesis in this study. Hence, *more than half* (56.68%) of the shares in the Macedonian joint stock companies are owned by the foreign legal entities. This group is followed by domestic legal entities which own 34.23% of all shares in the country, and at the end there are domestic and foreign individual owners who hold in total less than 10% of the shares in the Macedonian joint stock companies (IFC, 2008).

These values are well portrayed in the figures below, where it is found evidence for the first hypothesis i.e. most of the valuable and important Macedonian joint stock companies, that in essence form the Macedonian economy, are indeed driven by foreign owners.

The fact that *more than half* of the shares in the Macedonian joint stock companies are owned by foreign legal entities is connected to the movements in foreign direct investment and thus to the second hypothesis. Furthermore, it is evidence of dispersion of shareholding by domestic owners against concentration of control of foreign entities. This also shows that most of the enterprise restructuring, learning and apprenticing of new capacities and capabilities, hence improving corporate governance and governance of the economy in general, comes from foreign input.

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\(^{10}\) USAID/Business Environment Activity (BEA). Available at: [http://www.bea.org.mk/](http://www.bea.org.mk/)

Figure IV.2 Percentage of shares by type of holder

Figure IV.3 Percentage of the number of shares by type of holder
2. Results on the second hypothesis i.e. Macro Level

The results on the second hypothesis are shown in the tables below. The second hypothesis assumes that governance and enterprise restructuring is influenced by gross domestic product and foreign direct investments dynamics. Further, the study produced correlation matrix and OLS regression analysis results.

Figure IV.4 Correlation Matrix on GOV for GDP and FDI – Macedonia

<table>
<thead>
<tr>
<th></th>
<th>GOV</th>
<th>GDP</th>
<th>FDI</th>
</tr>
</thead>
<tbody>
<tr>
<td>GOV</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP</td>
<td>0.8327</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>FDI</td>
<td>0.6936</td>
<td>0.4835</td>
<td>1</td>
</tr>
</tbody>
</table>

Figure IV.5 OLS on GOV for GDP and FDI – Macedonia

<table>
<thead>
<tr>
<th>OLS</th>
<th>Dependent Variable</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Governance and enterprise restructuring</td>
</tr>
<tr>
<td>Independent Variable</td>
<td>Macedonia</td>
</tr>
<tr>
<td>GDP</td>
<td>0.0741883</td>
</tr>
<tr>
<td></td>
<td>[0.0140246]***</td>
</tr>
<tr>
<td>FDI</td>
<td>0.0010187</td>
</tr>
<tr>
<td></td>
<td>[0.0003291]***</td>
</tr>
<tr>
<td>Constant</td>
<td>1.859174</td>
</tr>
<tr>
<td></td>
<td>[0.0845265]***</td>
</tr>
<tr>
<td>Observations</td>
<td>63</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.8039</td>
</tr>
<tr>
<td>Adjusted R-squared</td>
<td>0.7808</td>
</tr>
<tr>
<td>Time period</td>
<td>1989-2009</td>
</tr>
</tbody>
</table>

Standard errors are in parentheses. Significance Level: *** p < 0.01  ** p < 0.05  * p < 0.1
The OLS analysis is rather basic and it has the purpose to indicate and support the first hypothesis. The results of the OLS regression explaining the link between GOV and GDP, FDI are given in the figures describe the relationships and movements between these variables.

The GDP results are significant for both GDP and FDI ($p < 0.01$). It is clear from the figures that governance and enterprise restructuring is positively influenced by gross domestic product and especially foreign direct investments dynamics.

However, it must be said that deeper econometric analysis might bring different light to the way separate segments of these variables contribute to governance and enterprise restructuring. Hence, the business aspect of analysis introduced to this paper gives rather satisfactory picture of the positive impact that foreign investments give to the business environment, as well as, their dominance in ownership shareholding which eventually impacts the process of learning, capabilities building and apprenticing from foreign boards and investors.
Figure IV.6 GDP in GOV – Macedonia

Figure IV.7 FDI in GOV – Macedonia
Discussion

The first analysis gave results that more than half of the shares in the Macedonian joint stock companies are controlled by the foreign legal entities. The analysis of the second hypothesis showed to be significant for foreign direct investments. Hence, it can be said that the ownership structure is connected to the movements in foreign direct investment and thus to the second hypothesis. This also confirms the premise that domestic ownership is dispersed and the control is given to foreign entities, where the influx of new capacities and capabilities pushed by foreign ownership increases the learning and apprenticing process of the firm.

The basic examination of foreign direct investment variable, gross domestic product variable and governance and enterprise restructuring variable indicates that governance and enterprise restructuring is positively influenced by gross domestic product and especially foreign direct investments dynamics.

The format of study and the business aspect of the research give acceptable results of the impact that foreign investment to the business environment, as well as, the dominance of ownership shareholding which eventually impacts the process of learning, capabilities building and apprenticing from foreign boards and investors.
References


V. Attributes to corporate governance and enterprise restructuring in the Macedonian economy

Mico Apostolov,*

This article has been presented at: BASEES Annual Conference 2011, University of Cambridge, UK

This article has been published at: CEA Journal of Economics, Volume 5-Issue 2, Skopje, Macedonia

December 2010

Abstract:

Corporate governance is most often defined in terms of the roles, responsibilities, and interactions of top management and the board of directors. Using information on Macedonia, obtained through various sources, this study is an attempt on determining some of the factors that influence the development of governance and enterprise restructuring in this economy.

This study is founded on governance-conduct-performance paradigm in strategic management. We will examine the possibilities that lead to the following outcomes: A) The degree to which governance and enterprise restructuring is positively related to foreign direct investments, exports and value added (industry and services) in Macedonian economy; B) The degree to which governance and enterprise restructuring is related to: listed domestic companies, market capitalization of listed companies and stocks traded, and presumably that relation is somewhat ambiguous, nonetheless important.

Keywords: corporate governance, enterprise restructuring, transition, SEE, Macedonia

JEL Classifications: G30; G3; G34; G38; L33; O11; P31

Acknowledgements: I would like to thank Prof. Nicola Bellini for the continuous support, as well as, the PhD Program in Management and MAIN Lab of Scuola Superiore Sant'Anna, Pisa, Italy

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**Introduction**

Corporate governance is most often defined ‘in terms of the roles, responsibilities, and interactions of top management and the board of directors’ (Thomas L. Wheelen & Hunger, 2008). Using information on Macedonia, obtained through various sources, this study is an attempt on determining some of the factors that influence the development of governance and enterprise restructuring in this transition economy.

In transition economies the processes of transformation are grave, much turbulent and thus our analysis will observe some of the factors that influence the development of governance and enterprise restructuring in Macedonia. Consecutively, we will be interested to see whether corporate governance and enterprise restructuring, as defined by European Bank of Reconstruction and Development (EBRD) through the indicator ‘governance and enterprise restructuring’ (EBRD, 1994-2009), has certain relations to some of the country’s performances and what these supposing relationships are in particular.

This project is founded on governance-conduct-performance paradigm in strategic management (Hitt, Hoskisson, Johnson, & Moesel, 1996; Hitt, Keats, & DeMarie, 1998; Iii & Waring, 1999). It examines the possibilities that lead to the following outcomes:

_I._ The degree to which governance and enterprise restructuring is positively related to foreign direct investments;

_II._ The degree to which governance and enterprise restructuring is positively related to exports;

_III._ The degree to which governance and enterprise restructuring is ambiguously related to: listed domestic companies, market capitalization of listed companies and stocks traded;

_IV._ The degree to which governance and enterprise restructuring is positively related to value added (industry and services).
Theoretical and literature framework

As countries undergo serious system transformations the managers are faced with complex decision-making environment (Sanders & Mason, 1998), and thus it is closely regarded that the performance of large enterprises should be linked to managerial flexibility in making strategic decisions within the context of the firm’s governance. Furthermore, there aren’t many sources that can point towards emerging corporate governance mechanisms in South-East Europe, although prior research suggests that independent managers and board of directors (corporate governance) may be an important necessity for managerial ability to undertake performance-enhancing strategies (Hoskisson, Eden, Lau, & Wright, 2000).

Before restructuring, the revenues were generated by monopolistic structure through a handful of specialized state-owned companies. As the reforms progressed towards free market economy in environment with sluggish internal demand, adopting better strategies may be closely linked to better financial performance of the firm (Luo & Peng, 1999). Moreover, we can see that previous research has linked strategies with performance (Hoskisson et al., 2000; Makhija, 2004), governance directly with performance (Djankov & Murrell, 2002; Peng, 2004), and consequently in this research we will make an essay to implement the governance-strategy-performance paradigm (Hitt et al., 1996; Iii & Waring, 1999).

The introduced economic reforms in Southeast Europe (and also Macedonia) aimed at increasing enterprise efficiency and making the products internationally competitive, therefore reforms were tied to structural crisis (Uhlenbruck, Meyer, & Hitt, 2003). The pre-reform environment was characterized by import protection and export promotion through monopolistic, state-owned foreign trade companies, which in many terms crippled the enterprises to meet overseas threats and as a result made the internationalization of their work very difficult.

As liberalization of the market forces and privatization progressed, they were meant to eliminate the constraints imposed on managers by state ownership and command economy system
In the case of the Southeast Europe, companies were privatized using range of methods (Djankov & Murrell, 2002). Thus, the privatization process resulted with diverse range of ownership structures and corporate governance mechanisms (Newman, 2000). Through recent research has been found that performance and internationalization strategies depend and can be enhanced by bigger managerial independence, however it is clear that the second depends of firm’s corporate governance, and in particular of the ownership structure and board composition (Hoskisson et al., 2000; Uhlenbruck et al., 2003).

The corporate governance affects enterprises restructuring and financial performance (Hoskisson et al., 2000; Peng, 2004). Indeed, when firms from transition economies are involved in international activities, they are likely to develop their capabilities (Sanders & Mason, 1998), which implies a positive relationship between governance exports and financial performance (Luo & Peng, 1999).

As a consequence of the peculiar characteristics of the capital market in Macedonia i.e. lack of developed capital markets, limited portfolio diversification and liquidity, it is often stated that large shareholders could wish to utilize potential upside of a particular business strategy, but they are frequently restrained and affected adversely by the company’s idiosyncratic risk. Due to this phenomenon they chose to impose sub-optimal strategies on managers. Moreover, large shareholders in transition countries where the protection of minority investors is low, most often endeavor to take advantage of their power and grasp “private benefits of control”. This ‘expropriation’ can be found in a range of forms, such as ‘related party transactions, use of transfer pricing, assets stripping and other forms of “tunneling” of revenue and assets from firms’ (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 2000; Porta, Lopez-De-Silanes, Shleifer, & Vishny, 1997). Therefore, in such economies high ownership concentration was investors’ response to low levels of protection of minority shareholders in emerging markets (Shleifer & Vishny, 1997).

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12 Another term for unsystematic risk. The variability in the returns of an investment as a result of factors specific to that investment only.
Even though we analyze and focus specifically on Macedonia, variations in governance regimes indicate sufficient international analyses of the links between governance and enterprise restructuring and other parameters of the national economy (La Porta et al., 2000; La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1998; Porta, Lopez-De-Silanes, & Shleifer, 1999; Porta et al., 1997; Shleifer & Vishny, 1997).
Figure V.1 Governance-Conduct-Performance paradigm

National Environment
- Corporate Control
- Corporate Governance
- Vertical Linkages
- Labor Relations
- Different national policies which include competition policy, innovation system, trade policy, etc.

Conduct / Strategy
- Investment Level
- Leverage
- Capitalization of Companies
- Capital Markets

Performance
- Exports
- Value added of goods and services
- Profit rate and growth rate

Regional and International Product Markets
Analytical Framework

1. Sample selection and Data

This study is based on sources provided by the data bases of the European Bank for Reconstruction and Development (EBRD) (EBRD, 1994-2009), the World Bank Database\textsuperscript{13}, the National Bank of the Republic of Macedonia\textsuperscript{14} and the Macedonian Stock Exchange\textsuperscript{15}, for the period of 1996-2008.


The data sample of the European Bank for Reconstruction and Development (EBRD) i.e. Transition Report publication series used in this research are taken from their index structure ‘economic statistics and forecasts’ (EBRD, 1994-2009). The scale used in shaping the transition indicators ranges from 1 to 4+, ‘where 1 represents little or no change from a rigid centrally planned economy and 4+ represents the standards of an industrialized market economy’(EBRD, 1994-2009).

The data taken from the Macedonian Stock Exchanges and the National Bank of the Republic of Macedonia is relatively good and viable for research, as the institutional requirements are close to those in developed countries, as the European integration processes and the implementation of European Directives keep the standards constantly up to date.

\textsuperscript{13} World Bank Database, Available at: http://data.worldbank.org/
\textsuperscript{14} National Bank of the Republic of Macedonia: http://www.nbrm.gov.mk/
\textsuperscript{15} Macedonian Stock Exchange: http://www.mse.org.mk/
Figure V.2 Analytical Framework

- Listed Domestic Companies
- Market Capitalization of Listed Companies
- Stocks Traded (total value)
- Corporate Governance and Enterprise Restructuring
- Exports of goods and services
- Foreign Direct Investments
- Industry, Value Added
- Services, Value added

Market Capitalization of Listed Companies

Stocks Traded (total value)

Industry, Value Added

Services, Value added

Corporate Governance and Enterprise Restructuring

Exports of goods and services

Foreign Direct Investments
2. Model and Econometrics

The econometric model that is used in this study is a regression model where we have estimated the following equation (Freedman, 2005; Gelman, 1996; Gilks, Richardson, & Spiegelhalter, 1996):

\[ \gamma_i = \beta_0 + \beta_1 x_{1i} + \ldots + \beta_p x_{pi} + \epsilon_i \quad (1) \]

\[ i = 1, \ldots, n \quad (2) \]

Thus, applied to our research this model has the following shape:

\[ GOV_{it} = \beta_0 + \beta_1 FDI_{it} + \beta_2 EXP_{it} + \beta_3 LDC_{it} + \beta_4 MCLC_{it} + \beta_5 STTV_{it} + \beta_6 IVA_{it} + \beta_7 SVA_{it} + \epsilon_{it} \quad (3) \]

- where the dependent variable, \( GOV_{it} \), shows governance and enterprise restructuring;

- the independent variables, are as follows:
  1. \( FDI_{it} \) foreign direct investments;
  2. \( EXP_{it} \) exports of goods and services
  3. \( LDC_{it} \) listed domestic companies, total
  4. \( MCLC_{it} \) market capitalization of listed companies
  5. \( STTV_{it} \) stocks traded, total value
  6. \( IVA_{it} \) industry, value added
  7. \( SVA_{it} \) services, value added

- \( \beta \) is a \( p \)-dimensional parameter vector;
- \( \epsilon \) is the error term or noise.
### Figure V.3 Definition of variables

<table>
<thead>
<tr>
<th>Definition of variables</th>
<th>GOV - Governance and Enterprise restructuring</th>
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</thead>
<tbody>
<tr>
<td><strong>dependent variable</strong></td>
<td>Governance and Enterprise restructuring</td>
</tr>
<tr>
<td></td>
<td>Effective corporate governance and corporate control exercised through domestic financial institutions and markets, fostering market-driven restructuring. The corporate governance is most often defined in terms of the roles, responsibilities, and interactions of top management and the board of directors.</td>
</tr>
<tr>
<td></td>
<td>Source: EBRD</td>
</tr>
<tr>
<td><strong>independent variables</strong></td>
<td></td>
</tr>
<tr>
<td>1. FDI - Foreign direct investment, net inflows (BoP, current US$)</td>
<td>FDI are Foreign direct investment, net inflows (BoP, current US$)</td>
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<tr>
<td></td>
<td>Foreign direct investment are the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments. This series shows net inflows (new investment inflows less disinvestment) in the reporting economy from foreign investors. Data are in current U.S. dollars.</td>
</tr>
<tr>
<td>3. EXP - Exports of goods and services (% of GDP)</td>
<td>Exports of goods and services represent the value of all goods and other market services provided to the rest of the world.</td>
</tr>
<tr>
<td></td>
<td>They include the value of merchandise, freight, insurance, transport, travel, royalties, license fees, and other services, such as communication, construction, financial, information, business, personal, and government services. They exclude compensation of employees and investment income (formerly called factor services) and transfer payments.</td>
</tr>
<tr>
<td></td>
<td>Source: World Bank national accounts data, and OECD National Accounts data files.</td>
</tr>
<tr>
<td>4. LDC - Listed domestic companies, total</td>
<td>Listed domestic companies are the domestically incorporated companies listed on the country's stock exchanges at the end of the year. This indicator does not include investment companies, mutual funds, or other collective investment vehicles.</td>
</tr>
<tr>
<td></td>
<td>Source: Standard &amp; Poor's, Emerging Stock Markets Factbook and supplemental S&amp;P data.</td>
</tr>
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</table>
Continuation

<table>
<thead>
<tr>
<th>Independent Variables</th>
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<tbody>
<tr>
<td>5. MCLC - Market capitalization of listed companies (% of GDP)</td>
</tr>
<tr>
<td>Market capitalization (also known as market value) is the share price times the number of shares outstanding.</td>
</tr>
<tr>
<td>Listed domestic companies are the domestically incorporated companies listed on the country's stock exchanges at the end of the year. Listed companies does not include investment companies, mutual funds, or other collective investment vehicles.</td>
</tr>
<tr>
<td>Source: Standard &amp; Poor's, Emerging Stock Markets Factbook and supplemental S&amp;P data, and World Bank and OECD GDP estimates.</td>
</tr>
</tbody>
</table>

| 6. STTV - Stocks traded, total value (% of GDP) |
| Stocks traded refers to the total value of shares traded during the period. |
| This indicator complements the market capitalization ratio by showing whether market size is matched by trading. |
| Source: Standard & Poor's, Emerging Stock Markets Factbook and supplemental S&P data, and World Bank and OECD GDP estimates. |

| 7. IVA – Industry, value added (% of GDP) |
| Industry corresponds to ISIC divisions 10-45 and includes manufacturing (ISIC divisions 15-37). |
| It comprises value added in mining, manufacturing (also reported as a separate subgroup), construction, electricity, water, and gas. Value added is the net output of a sector after adding up all outputs and subtracting intermediate inputs. It is calculated without making deductions for depreciation of fabricated assets or depletion and degradation of natural resources. The origin of value added is determined by the International Standard Industrial Classification (ISIC), revision 3. |
| Source: World Bank national accounts data, and OECD National Accounts data files. |

| 8. SVA - Services, etc., value added (% of GDP) |
| Services correspond to ISIC divisions 50-99 and they include value added in wholesale and retail trade (including hotels and restaurants), transport, and government, financial, professional, and personal services such as education, health care, and real estate services. |
| Also included are imputed bank service charges, import duties, and any statistical discrepancies noted by national compilers as well as discrepancies arising from rescaling. Value added is the net output of a sector after adding up all outputs and subtracting intermediate inputs. It is calculated without making deductions for depreciation of fabricated assets or depletion and degradation of natural resources. The industrial origin of value added is determined by the International Standard Industrial Classification (ISIC), revision 3. |
| Source: World Bank national accounts data, and OECD National Accounts data files. |
Results and Effects

The study adopts variables that are compatible to governance-conduct-performance paradigm in strategic management (Hitt et al., 1996; Hitt et al., 1998; Iii & Waring, 1999), and using OLS regression gives answers to the posed hypotheses:

1. The degree to which governance and enterprise restructuring is positively related to foreign direct investments

The results of the OLS regression, depending on the model, show different significance (p < 0.01, p < 0.05 and p < 0.1). This points out that there is evidence that governance and enterprise restructuring is positively related to foreign direct investments (FDI).

The ownership structure of the companies that produce most of Macedonia’s domestic product is moving towards dominant participation of foreign direct investments, hence members of board that are foreigners, which is important impact on the way corporate governance is conducted and its future prospects (IFC, 2008).

2. The degree to which governance and enterprise restructuring is positively related to exports

Exports (EXP) are very important component of country’s economy, as they represent the value of outputs that are compatible on international markets, thus exports stand for the core value of the economy. The models in this study show significance of p < 0.05 and p < 0.1, which can be taken as evidence in support to this hypothesis.

This variable shows good and stabile results in different models always giving results that go in favor of the posed hypothesis. Hence, it is evident that governance and enterprise restructuring is positively related to exports, which is at length explained in the literature through many case studies and empirical examinations (Aulakh, Kotabe, & Teegen, 2000; Bernard & Bradford Jensen, 1999; Clerides, Lach, & Tybout, 1998).
**Figure V.4 OLS on Macedonia**

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<td>IVA</td>
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<td>R-squared</td>
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<td>0.896</td>
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<td>0.6274</td>
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<td>0.549</td>
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<tr>
<td>Adj R-squared</td>
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<td>0.8745</td>
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<td>0.5032</td>
<td>0.723</td>
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<td>Time period</td>
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</tbody>
</table>

Standard errors are in parentheses.

Significance Level: *** p < 0.01  ** p < 0.05  * p < 0.1
3. The degree to which governance and enterprise restructuring is ambiguously related to: listed domestic companies, market capitalization of listed companies and stocks traded

The relation of governance and enterprise restructuring to the variables representing listed domestic companies, market capitalization of listed companies and stocks traded was tested and gave rather mixed results.

The variable showing listed domestic companies (LDC) in almost all models showed significance (p < 0.01 or p < 0.1). Hence, it could be claimed that the increase and presence of domestic companies that are capable to fulfill the criteria to be listed on the Macedonian Stock Exchange is important attribute to governance and enterprise restructuring.

As for the other two variables, market capitalization of listed companies (MCLC) and stocks traded (STTV) there aren’t significant outcomes.

4. The degree to which governance and enterprise restructuring is positively related to value added (industry and services)

The variables explaining value added in industry (IVA) and value added in services (SVA) were tested for a relationship with governance and enterprise restructuring.

Further, the results on value added in industry (IVA) in most of the OLS regression models comport with decent significance (p < 0.01 or p < 0.5). Thus, this demonstrates a relation of value added in industry to overall governance and enterprise restructuring.

As far as the variable explaining value added in services (SVA) is concerned, the outcomes and conduct is almost the same as IVA, even though the curve it gives is quite different from that of value added in industry.
Figure V.5 Variables’ movements in governance and enterprise restructuring
Discussion

The purpose of this analysis was to test four hypotheses, that is, the extent to which governance and enterprise restructuring is positively related to foreign direct investments, exports and value added (industry and services), as well as, the extent to which governance and enterprise restructuring is related to listed domestic companies, market capitalization of listed companies and stocks traded. Further, as a conceptual framework the study used governance-conduct-performance paradigm in strategic management.

Hence, the findings of the regression analysis point out that there is evidence to tie positive developments in governance and enterprise restructuring to foreign direct investments, exports and listed domestic companies. On the other hand, there is inconclusive evidence on market capitalization of listed companies and stocks traded to the extent of their impact on corporate governance and enterprise restructuring. Finally, there are significant results on value added in industry and services.

This paper is a contribution to the research developing the business aspects of Macedonian economy, as there is constant lack of scientific papers that deal with the specific issues of corporate governance and enterprise restructuring.
References


