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The Impact of Special Spin-Off Privatization: The Case of Stone Castle Vineyard and Winery

Abstract

This paper examines the post-privatization performance of an enterprise privatized through the Special Spin-Off model in Kosovo, focusing on the case of Stone Castle Vineyard and Winery. The study addresses a significant gap in the literature concerning structured privatization mechanisms in post-conflict transition economies. While previous research on Kosovo's privatization process has primarily emphasized compliance with contractual obligations across multiple enterprises, this paper provides an in-depth firm-level institutional analysis of how binding investment and employment commitments interact with a weak regulatory environment.
The study adopts a qualitative case study design, integrating semi-structured interviews with managerial representatives, questionnaire data, audit reports, and official documentation from the Privatization Agency of Kosovo. The findings demonstrate that the enterprise fulfilled its contractual commitments related to capital investment and employment, expanded production capacity, strengthened export orientation, and implemented technological modernization. At the same time, the enterprise faced institutional obstacles, including bureaucratic delays, legal uncertainty, and limited state support for export development. The analysis suggests that the effectiveness of the Special Spin-Off model operates through a conditional mechanism: enforceable contractual commitments can stimulate productive restructuring and reduce opportunistic behavior, but long-term success depends on complementary institutional capacity. The pa-

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per contributes to the broader literature on privatization in transition economies by providing firm-level evidence from a post-conflict context and by highlighting the interaction between contractual design and institutional constraints. Limitations in the research are difficulties to ensure audit reports and deficit of literature related to Special Spin-Off method.

Keywords: Privatization, special spin-off, enterprise performance, transition economy, institutional framework, wine industry.

1. INTRODUCTION

Privatization has been one of the most significant structural reforms implemented across post-socialist economies since the early 1990s. In the transition from a centrally planned socialist system to a functioning market economy, post-socialist countries in Southeast Europe undertook complex institutional reforms, among which privatization was one of the most pivotal. The privatization outcomes varied considerably across regions, depending largely on institutional quality, regulatory capacity, and political stability. For Kosovo, privatization represented not only an economic imperative but also a process deeply intertwined with unresolved legal, political, and historical challenges. Unlike other post-Yugoslav republics that began privatization in the early 1990s, Kosovo's process was delayed until 2003 due to its status as a disputed territory and its administration under the United Nations Mission in Kosovo (UNMIK). The country's limited sovereignty, ambiguity surrounding property rights, and infrastructural degradation significantly influenced both the pace and structure of its transition (RIINVEST, 2008; Dervishi, 2015).

Kosovo's pre-independence economy was characterized by the dominance of socially owned enterprises (SOEs), many of which were poorly managed, undercapitalized, and technologically outdated. Nevertheless, these enterprises remained essential for employment and regional development. According to the Kosovo Trust Agency (KTA), the body initially mandated to implement privatization of over 590 SOEs placed under its administration (Law No. o4/L-034). These entities represented a substantial portion of the country's industrial, agricultural, and commercial assets. The Privatization Agency of Kosovo (PAK), as the successor institution to KTA, reports that SOEs accounted approximately 90% of industrial and mineral infrastructure, 50% of retail premises, and around 20% of agricultural land (PAK Work Report, 2008–2009). Unlike many other post-socialist countries, state-owned enterprises were excluded from Kosovo's privatization agenda; only socially owned enterprises were eligible for privatization.

Privatization in Kosovo was implemented through two principal mechanisms: the Regular Spin-Off and the Special Spin-Off. The Regular Spin-Off allowed for the transfer of enterprise assets without additional obligations imposed on buyers. In contrast, the Special Spin-Off model included contractual conditions concerning capital investment, employment, and continuation of business operations. The Special Spin-Off method, which constitutes the focus of this study, was reserved for enterprises considered to be of strategic economic importance. During the mandate of the KTA, 25 SOEs were privatized through the Special Spin-Off method (Annual Report – PAK, 2012). Buyers of these enterprises were required to commit to investment, employment generation, and operational continuity as stipulated in the privatization agreements.

Two major studies examining performance of SOEs privatized through the Special Spin-Off model are conducted by Dervishi (2020) and Kelmendi (2016). Both studies primarily analyze compliance of employment and investment commitments specified in privatization agreements, considering profitability, export performance, and challenges faced by investors. Compared to enterprises privatized through the Regular Spin-Off model, many of which demonstrated weaker performance or were reduced to asset leasing, Special Spin-Off enterprises have generally shown stronger productive capacity, business expansion, and export growth.

Existing studies by Dervishi (2020) and Kelmendi (2016) primarily assess whether Special Spin-Off privatization achieved its formal objectives, particularly in terms of fulfilling contractual commitments. While these studies provide important evidence on aggregate compliance and performance indicators, they offer limited insight into the firm-level processes through which restructuring occurs. The present paper extends this line of research by examining how privatization was implemented within a specific production enterprise, focusing on organizational restructuring, technological modernization, and the interaction between modern production systems and traditional viticulture practices in a post-conflict institutional setting initially administered by UNMIK.

This paper examines the post-privatization performance of a flagship enterprise in Kosovo's wine industry. "Stone Castle Vineyard and Winery" serves as a highly relevant case due to its historical significance, scale of operations, export orientation, and contribution to industrial and regional development. The objectives of this paper are fourfold:

(1) to assess the post-privatization performance of Stone Castle Vineyard and Winery based on contractual compliance and economic indicators;
(2) to identify success and failure factors influencing performance;
(3) to evaluate the role of legal and institutional frameworks in shaping outcomes; and
(4) to contribute to the limited body of empirical literature on Kosovo's Special Spin-Off privatization model.

By focusing on a single, strategically important enterprise, this paper aims to shed light on the broader implications of privatization policies and performance challenges in fragile post-conflict economies. The findings suggest that internal restructuring dynamics and sector - specific complementarities may be as important as, or even more influential than, the formal privatization model itself. By shifting the analytical focus from contractual compliance alone to processes of organizational transformation, the study provides a deeper understanding of how performance evolves in strategically important enterprises operating within fragile post-conflict institutional environments. Therefore, the paper adds extended value beyond other Special Spin Off studies performed up to date.

The paper contributes to the literature by demonstrating that post-privatization outcomes are shaped not only by the design of the privatization procedures and conditions, but also by firm-level organizational structure, technological upgrading, and the integration of modern production processes with existing agricultural capacity and local economic linkages. The scientific and practical contribution of the research is valuable to policymakers, development practitioners, investors, and scholars interested in these issues.

2. ACADEMIC DEBATES ON PRIVATIZATION

Privatization has been widely regarded as a central component of economic transition from centrally planned to market-based systems. Neoclassical economic theory suggests that private ownership enhances efficiency by strengthening profit incentives, clarifying property rights, and reducing political interference in enterprise management. From this perspective, state or socially owned enterprises are often characterized by soft budget constraints, managerial inefficiencies, and limited accountability, resulting in suboptimal allocation of resources (Martin, 1993; Kikeri, Nellis, & Shirley, 1994). However, empirical experience across post-socialist countries illustrates that ownership transfer alone does not automatically generate improved performance. These assumptions have impacted the policies of the World Bank and the IMF, who linked privatization as a mechanism to improve fiscal balance (Berthelemy, Kauffmann, Valfort & Wegner, 2004).

Comparative studies on transition economies emphasize that the effectiveness of privatization depends critically on institutional quality, regulatory capacity, and the credibility of enforcement mechanisms (Djankov and Murell, 2002). Another study, points the complementary reforms such as macroeconomic stabilization, legal and regulatory clarity, trade liberalization and finance investments positively influencing privatization (UNDP, 2014; Kikeri, Nellis & Shirley, 1994). While, where legal systems are weak and monitoring structures underdeveloped, privatization may result in asset stripping, insider capture, or enterprise decline rather than productive restructuring (Laci, Mema & Pine, 2003). Institutional economics therefore frames privatization not merely as a change in ownership status, but as part of a broader transformation of governance structures, property rights enforcement, market-supporting institutions and productivity rise (Lopez – Calva & Sheshinski, 2003; Shneider, 2003, Megginson & Netter, 2001 and Filipovic, 2005). The design of privatization models, including the degree of conditionality imposed on buyers reflects attempts to mitigate risks associated with weak institutional environments.

Within broader theoretical debate, structured privatization mechanisms such as models incorporating binding investment and employment obligations—represent an effort to align private incentives with public economic objectives. By embedding contractual commitments into privatization agreements, policymakers seek to prevent opportunistic behavior and ensure continued production, job preservation, and capital modernization (Bortolotti & Faccio, 2004; Arnold, 2022). Kosovo's privatization process must be understood within this theoretical and institutional context. Unlike many Central and Eastern European countries that initiated privatization during the early 1990s, Kosovo's process began in 2003 under administration of the United Nations Mission in Kosovo (UNMIK). The delayed implementation reflected unresolved political status, contested property rights, and the need to establish basic institutional structures following the 1999 conflict (RIINVEST, 2004; Mulaj, 2007).

Prior to privatization, Kosovo's economy was dominated by socially owned enterprises (SOEs), which constituted the backbone of industrial, construction, trade and agricultural production. These enterprises were characterized by outdated technology, accumulated liabilities, unclear ownership documentation, and deteriorated infrastructure. The transformation of this sector was therefore both economically and politically sensitive (RIINVEST, 2002; Mustafa et.al, 2008).

The privatization process was led by the UNMIK Department of Trade and Industry (UNMIK Reg.2002/12). The method of direct sale was adopted, awarding assets to the highest bidder through sealed-envelope auctions (Gashi et al., 2000; Berisha, 2012). The Kosovo Trust Agency (KTA) was established as the primary institution responsible for administering and privatizing SOEs. Its mandate included asset valuation, tender procedures, contract negotiation, and monitoring of post-privatization obligations. In later years, responsibilities were transferred to the Privatization Agency of Kosovo (PAK) as a successor of KTA (Law No.04/L-034). However, during the early stages of privatization, institutional capacity remained limited. Administrative procedures under international protectorate were still evolving, inter-agency coordination was often fragmented, and judicial mechanisms for resolving disputes were underdeveloped and weak (Gashi, Hashi and Pugh, 2020). The Special Chamber of the Supreme Court of Kosovo was established for disputes' arising from privatization (UNMIK/DIR/2003/13).

Two principal privatization models were implemented: the Regular Spin-Off and the Special Spin-Off. The Regular Spin-Off involved the transfer of enterprise assets to the winning bidder without additional operational obligations beyond the purchase price. In contrast, the Special Spin-Off model imposed legally binding commitments related to capital investment, employment maintenance, and continuance of core business activities for a specified monitoring period. The Special Spin-Off was reserved for large SOEs that employed a significant number of workers and maintained ongoing business activities, deemed strategically important to Kosovo's economy and was implemented exclusively during the KTA's mandate (UNMIK Reg.2002/12, article 10.2(b)). According to the KTA's Deputy Managing Director the ideal strategy was that 5% of SOEs would be sold through a Special Spin-Off method (PAK, 2009).

Our findings indicate that the vast majority, approximately 95% of enterprises privatized under this method were manufacturing companies, while 4.76% were service-oriented. By introducing contractual conditions, policymakers sought to ensure new owners would undertake productive investment and preserve employment. This approach reflected awareness of risks associated with insufficient regulatory oversight and fragile market institutions (Gashi, Hashi and Pugh, 2020).

The findings of Dervishi (2020) and Kelmendi (2016) provide a comprehensive assessment of 25 enterprises privatized through the Special Spin-Off model in Kosovo. Together, these studies offer important empirical evidence on post-privatization performance, focusing on indicators such as investment, employment, productivity, efficiency, exports, and regulatory constraints. Dervishi (2020) evaluated enterprise performance across eight dimensions. The results indicate an increase in employment following privatization, accompanied by substantial investment in technological capacity. Efficiency improvements were associated with modernization of production systems, while export performance expanded steadily across most enterprises.

The selected case study, "Stone Castle Vineyard and Winery," was identified among the country's leading wine exporters. Despite these positive trends, post-privatization regulatory challenges and relatively high tax burdens were reported as constraints to business expansion. While the majority of enterprises operated successfully during and beyond the contractual monitoring period, approximately 20% did not sustain long-term business activity. Similarly, Kelmendi (2016) examined all 25 Special Spin-Off enterprises, emphasizing contractual compliance, employment, investment, profitability, and export growth. The findings show that 18 firms fulfilled between 80–100% of contractual commitments, three achieved partial compliance (65–79%), and four demonstrated weak performance. Profitability increased in most enterprises, and export expanded into international markets. However, bureaucratic and fiscal constraints were identified as persistent barriers affecting performance.

Collectively, these studies document improvements in return on investment, technological upgrading, and export expansion across the Special Spin-Off enterprises. Employment growth was present but generally moderate and often influenced by seasonal labour. The scientific perspective indicates the success of Special Spin-Off model has had better performance besides the ordinary Spin-Off model (RIINVEST, 2008; Dervishi 2020; Kelmendi, 2016).

The Special Spin-Off model was designed as a conditional privatization mechanism. Contracts included minimum investment requirements, employment thresholds, reporting obligations, and time-bound implementation schedules. In principle, non-compliance could trigger financial penalties, withdrawal of shares, and contract termination (KTA, Rules of Tender). In practice, however, enforcement capacity during the early stages of privatization was institutionally constrained. Monitoring relied primarily on periodic reporting and external audit verification. Judicial procedures in cases of dispute were slow, and institutional expertise in complex commercial enforcement was still developing. Moreover, the broader political sensitivity surrounding privatization sometimes reduced the immediacy of sanctioning mechanisms (PAK, 2009). Nevertheless, formal penalties were imposed in certain cases. The total amount of penalties announced for capital investment failure reached €1,167,000, while €92,250 was imposed for employment-related non-compliance. In more severe cases, the withdrawal of shares was applied as a corrective measure. Enterprises such as Grand Hotel, XIM Strezovci, MIM Golesh, and IDG Tobacco were returned under PAK administration following failure to meet contractual conditions, even after extensions (PAK Monitoring unit, 2011). These cases illustrate that enforcement mechanisms existed, although their application was selective and operated within evolving institutional constraints.

From a theoretical perspective, Kosovo's Special Spin-Off model can be interpreted as a hybrid arrangement situated between market-based privatization and state-guided restructuring. It sought to combine private ownership incentives with conditional safeguards intended to prevent asset stripping and short-term opportunism. However, its effectiveness depended on investor capacity, sectoral opportunity structures, and the gradual consolidation of institutional oversight. Building on institutional and conditional privatization theories (Kelmendi, 2016; Dervishi, 2020; RIINVEST, 2008), this study moves beyond assessing whether contractual obligations were formally fulfilled. It examines how such commitments may generate performance outcomes under conditions of limited enforcement strength. Particular attention is given to the interaction between investment obligations, monitoring arrangements, managerial strategy, and sector-specific complementarities. By identifying these mechanisms, the paper situates the Kosovo experience within broader theoretical debates on privatization in weak institutional environments and establishes the analytical foundation for examining enterprise-level restructuring dynamics.

3. METHOD AND METHODOLOGY

This study adopts a qualitative case study approach to examine the performance of an enterprise privatized through the Special Spin-Off model in Kosovo. A case study design is particularly appropriate for analyzing complex institutional processes embedded within real-life economic and regulatory contexts, especially when the boundaries between organizational behavior and institutional environment are intertwined. Case study methodology is *particularistic, descriptive and heuristic*, providing strong connection to core values and specific contexts (Merriam, 2009). Rather than testing formal econometric hypotheses, the study seeks to identify mechanisms through which contractual obligations, managerial decision-making, and institutional constraints interact to shape enterprise outcomes. Given the limited availability of systematic firm-level evidence regarding Special Spin-Off enterprises in Kosovo, an in-depth qualitative approach allows detailed contextual analysis and analytical generalization (Mathews & Ross, 2010). The selection of "Stone Castle Vineyard and Winery" follows a purposive sampling strategy, meaning a non-probability sampling that explores in depth research questions. The enterprise represents one of the most economically significant entities privatized under the Special Spin-Off model, operating in an export-oriented agro-processing sector with high restructuring requirements. Post-privatization performance of the enterprise is assessed by analyzing key performance indicators: privatization conditions, investment commitments, employment outcomes, obstacles, and the impact of state policies. In order to examine data collected related to contractual commitments is applied analytical method.

The research methodology integrates possibilities and limitations of the study, drawing upon literature review, collecting primary data from fieldwork, questionnaire analysis, and secondary sources. Aligned with the study's objective, the central research question is:

What are the factors of success and failure that have had a positive or negative impact on the performance of the privatized enterprise?

Iraj Hashi (1998) suggests that post-privatization performance of enterprises can be evaluated through specific measurable criteria, such as: profitability, efficiency, output, employment level, capital investment, and ownership structure. Findings suggest the success of privatization depends heavily on the post-privatization ownership structure, like foreign, or employee ownership, and the institutional and regulatory environment, focusing on market competitiveness, legal frameworks, and investor protection. He argues that privatization is most effective when complemented by policies that encourage competition and robust regulation. Other research studying sales revenues, employment, labor productivity, and labor and material costs found that profit is an unreliable measure of short-term performance in the early stages of post-communist transition (Frydman, Gray, Hessel, and Rapaczynski, 1999).

Accordingly, present paper adopts performance indicators suited to the company's trajectory after privatization. The research question is explored through these dimensions: conditions of privatization, buyer commitments (investment and employment), turnover, post-privatization challenges, and legal framework relevance.

More specifically, the research further investigates three sub-questions:

1. What factors positively influenced the company's performance after privatization?
2. Which factors served as obstacles to performance post-privatization?
3. How important is Kosovo's legal framework to post-privatization success?

The aim is not statistical representativeness but analytical insight into the functioning of structured privatization under conditions of limited institutional capacity. Data collection relied on multiple sources to ensure triangulation and enhance internal validity. Primary data were obtained through interviews and semi-structured questionnaire (Sokoli, 2016) with senior managerial representatives, Chief Financial Officer, Production Manager and Plant supervisor. Each interview lasted approximately 60 minutes. To identify and obtain deeper meanings, features and other specifics into responses thematic analysis is used. The interview protocol included open-ended questions addressing performance indicators: investment implementation, employment outcomes, technological modernization, export strategy, regulatory challenges, and perceptions of contractual enforcement mechanisms. In addition to interviews, structured questionnaires were used to collect standardized information on capital investment levels, employment figures, production expansion, and export performance. This allowed the integration of narrative explanations with measurable indicators. The questionnaire comprised 20 questions through four sections: (1) Pre-interview information; (2) General company data; (3) Activities, turnover and investment and (4) Post-privatization obstacles.

Documentary evidence played a central role in verifying factual claims. Privatization contracts, monitoring reports, and PAK Audit reports, used as primary source of data, were examined to confirm compliance with investment and employment obligations. Performance Audit reports of Audit Company (OAG, 2015), provided independent verification of financial expenditures and workforce thresholds, reducing reliance on self-reported managerial data. Secondary data were drawn from academic literature – books, academic papers, and KTA/PAK working papers. Primary and secondary data are complementary related. After studying entire data are found specific gaps related to obstacles, performance and legal framework addressed by our research. The study covers time period from the company's privatization in 2006 through 2020.

The analysis of interview material followed a thematic coding procedure. Initially, transcripts were read in full to identify recurrent patterns related to investment decisions, employment dynamics, institutional constraints, and enforcement perceptions. A coding framework is developed, combining deductive categories derived from privatization and institutional theory with inductively emerging themes specific to the enterprise context. Each transcript is coded manually, and relevant excerpts were grouped according to thematic clusters. Particular attention was given to statements indicating causal linkages—for example, how regulatory delays affected operational timelines, or how binding investment obligations influenced modernization decisions. Triangulation across interviews, questionnaires, and official documentation strengthened the credibility of findings. Where discrepancies appeared, priority was given to Audit reports.

While the single-case design limits statistical generalization, it allows analytical generalization by linking empirical observations to broader theoretical debates regarding structured conditional privatization in weak institutional environments. The study does not claim universal applicability but seeks to illuminate mechanisms that may operate in similar post-conflict or institutionally fragile contexts.

Certain limitations must be acknowledged. Managerial interviews may reflect subjective interpretations shaped by reputational considerations. Moreover, enforcement effectiveness during the early privatization period was influenced by evolving institutional capacity, which complicates retrospective assessment. These limitations are mitigated through verification of documents and transparent acknowledgment of institutional constraints. The methodological approach is designed to provide a balanced, evidence-based assessment of how contractual design and institutional context jointly influenced post-privatization restructuring outcomes.

4. CASE STUDY: STONE CASTLE VINEYARD AND WINERY

"Stone Castle Vineyard and Winery" was originally established in 1952 as a socially owned enterprise operating within Kosovo's agro-industrial system. Prior to privatization, the enterprise possessed extensive vineyard land and production infrastructure that positioned it among the most significant actors in the domestic wine sector. However, similar to many SOEs in Kosovo, it experienced prolonged stagnation during the 1990s and early 2000s due to political instability, disrupted supply chains, underinvestment, and weak managerial accountability.

By the time privatization was initiated, the enterprise faced deteriorated production facilities, outdated technological equipment, limited working capital, and constrained access to export markets. Vineyard maintenance had been inconsistent, and modernization of processing facilities had not been undertaken for several years. Despite these structural weaknesses, the enterprise retained important strategic assets, including substantial agricultural land, established brand recognition in regional markets, and potential for export growth. These features contributed to its designation as an enterprise eligible for privatization through the Special Spin-Off model.

The privatization process was conducted under the authority of the Kosovo Trust Agency in 2006. The privatization contract required the investor to undertake specific capital investments from €5,636,000 over two years and the employment of 250 permanent workers, as well as maintain the enterprise's core business activity, for five years. After privatization, the enterprise was rebranded as "Stone Castle Vineyard and Winery", reflecting historical identity and the new ownership's vision. The company currently owns a total estate of 2,246 hectares, where 694 hectares is cultivation land, making it the largest wine producer in Kosovo.

The investor assumed control of the enterprise with an obligation to rehabilitate vineyard areas, modernize production infrastructure, improve processing capacity, and strengthen market competitiveness. Investment commitments included acquisition of modern fermentation tanks, bottling lines, storage facilities, and quality control equipment. Particular emphasis was placed on technological upgrading in order to meet international production and certification standards necessary for export expansion.

Stone Castle's underground wine cellar, with a storage capacity of 5-million liters, maintains a constant temperature between 12.8°C and 16.1°C, essential for high-quality wine maturation. Bottling and labeling is done using modern equipment to meet international export standards, supported by rigorous quality control and traceability across the production chain. During the research visit in autumn, the vineyard, production plant and the entire area was maintained with high standards of cleanliness.

The wine sector is traditionally developed in Kosovo. In 1988, vineyards covered 9,000 hectares. According to the Ministry of Agriculture and Rural Development (MARDK, 2017), 25-registered wine production enterprises were operating in Kosovo. The wines and grape brandies of Rahovec region are widely recognized by domestic consumers and international visitors, particularly during the annual wine festival "Hardh Fest".

During the post-privatization period, significant capital expenditures were directed toward restructuring and modernization. Production facilities were rehabilitated, outdated equipment was replaced, and vineyard areas were gradually restored and expanded. These investments contributed to increased production capacity and improved product consistency. Employment levels were maintained in accordance with contractual obligations, and gradually expanded. Export orientation became a central component of the enterprise's strategy. The company expanded operations and products, and became a leading exporter, reflecting the potential of structured privatization when combined with capable ownership and strategic vision. Management emphasized workforce stabilization as part of a broader long-term development strategy rather than short-term cost reduction. At the same time, the enterprise operated within an institutional environment characterized by administrative complexity and evolving regulatory frameworks. Managers reported challenges related to property registration procedures and documentations, limited institutional coordination and bureaucratic delays like hand-over the company to buyer 7- months after contract signature. Although mechanisms were formally in place, the institutional environment remained in consolidation during early years of privatization.

Monitoring of contractual obligations was conducted through KTA/PAK periodic reports and independent audit verification. Investments and employment commitments as per contractual requirements were fulfilled. The restructuring process resulted in modernization of infrastructure, expansion of vineyard capacity, and strengthening of export. Overall, the post-privatization trajectory of "Stone Castle Vineyard and Winery" reflects a process of gradual orga-

Table 1. Investments After Privatization Across Categories

Purchase of land	Building up new vineyards*	Purchase of equipments	Immovable property	Realisation %
€ 59.300,00	€ 756.326,33	€ 96.851,85	€ 339.958,72	95,5%

Source: Canvass questionnaire

nizational transformation shaped by contractual obligations and managerial strategy. The enterprise transitioned from a stagnating socially owned entity to a functioning market-oriented producer operating within both domestic and international markets. This transformation occurred within consolidating a regulatory environment sharpening the interaction between structured privatization design and evolving institutional capacity.

Privatization Details: The original enterprise, NewCo Rahoveci Winery/Stone Castle, was privatized through Special Spin-Off method by KTA. The contract and commitment agreement, signed on July 31, 2006. The monitoring period was set to conclude on July 31, 2009. However, PAK Board of Directors granted one-year extension to the company to fulfill contractual obligations. The company was formally released from monitoring by PAK in 2010 (PAK, 2011).

5. EMPIRIC ANALYSES AND RESULTS

"Stone Castle Vineyards and Winery" operated under contractual conditions outlined in the Special Spin-Off privatization agreement, asdefined in the buyer's business plan during the tendering process, according to KTA Rules of Tender. Primary data were collected from the company's representatives and cross-verified with official PAK monitoring reports and independent audit documentation. "Stone Castle Vineyard and Winery" is a limited liability company that has expanded its operation within Kosovo and internationally. The company is managed by General Director. The company encountered challenges with land usurpation during first year. KTA had no formal agreement with the police or court to remove occupants.

Stone Castle privatization price was set at €4,302,900.00. The company's contractual obligations included capital investments totaling €5,636,000, across three categories: €3,150,000 vineyard expansion, €2,046,000.00 forwinery upgrades, and €440,000.00 for infrastructure improvements. By 2020 a total of €1.25 million had been invested in that year alone, on new vineyards, acquisition of equipment, and purchase of shop in Prishtina.

The amount valued at €756,326.33 was spent over three years on vineyard expansion and grape cultivation. Currently company counts 694 hectares of cultivation land.

In accordance with the Special Spin-Off contract, capital investments refer to the acquisition of capital or fixed assets during the commitment period, as well as any investments made in the first six months that serve to improve these assets (KTA, Rules of Tender).

Investment Realization:

- Buyer-reported fulfillment: 99.5% of commitment
- Auditor-confirmed fulfillment: 95.5%
- PAK reports: consistent but cautious confirmation

The winery has invested in upgrading state-of-the-art stainless steel tanks, underground cellars, and oak barrels to enhance wine aging and proper storage.

The data indicates that the buyer's – reported investment amount was 0.5% lower than the committed amount. Realisation of the commitment for investments is 95.5% confirmed by au-

Table 2. Comparison of Investments Commitment

Investment commitments	Investments reported by the buyer to PAK	Investments confirmed by external auditors	Realisation %
€5.000.000,00	€5.500.000,00	€4.772.692,00	95,5%

Source: Authors' calculations based on survey, Audit report (OAG, 2015) and PAK report

Table 3. Comparison of Employment Commitment

Employment Commitment	Number reported by the buyer to pAK	Number of employees confirmed by auditor	Realisation %
250	252	252	100,8%

Source: Authors' calculations based on survey, Audit report (OAG, 2015) and PAK report

diting company, which is not the same reported by PAK and the buyer (PAK, 2019).

Capital investments were directed primarily toward modernization of production facilities, technological upgrading, and rehabilitation of vineyard infrastructure. These investments addressed long-standing structural deficiencies inherited from the period of social ownership and enabled modernisation and expansion of production capacity.

Managers emphasized that the existence of formal investment benchmarks created both an obligation and a strategic framework for long-term planning. Rather than focusing on short-term liquidity extraction, investment was oriented toward capacity-building and quality enhancement (interview with CFO, 2020). At the same time, managers acknowledged that investment decisions were influenced by market considerations and export opportunities, suggesting that contractual obligations interacted with commercial incentives rather than substituting for them. This finding aligns with institutional perspectives meaning that contractual design alone cannot determine outcomes independently of market signals (authors' remarks).

Employment Outcomes and Workforce Stability

Employment commitments constituted a central element of the Special Spin-Off contract:

- Employment obligation: 250 workers
- Actual: 252 regular workers + seasonal staff (up to 300 staff during harvest time).

Empirical evidence from monitoring reports confirms that minimum employment thresholds were maintained throughout the monitoring period (PAK, 2019). Moreover, the enterprise gradually expanded its workforce in response to increased production activity.

Interview responses suggest that employment stability was not perceived solely as a contractual constraint but also as a strategic necessity. Skilled labour retention and workforce continuity were regarded as essential for production quality and operational efficiency. Training initiatives introduced during the post-privatization period further supported workforce upgrading. It is important to note that employment outcomes were shaped by both contractual obligations and sectoral characteristics. Labour-intensive nature of vineyard management and wine production created structural incentives for employment retention. This suggests that observed employment stability cannot be attributed exclusively to contractual enforcement mechanisms.

Export Expansion and Market Reorientation

Annual turnover in 2020 is accounted €2.96 million. More than 50% of total sales are attributed to exports growth. Income generation year was clearly lower comparing to the previous years as a consequence of situation created from Covid-19.

Export: One of the most notable post-privatization developments was the enterprise's increased export orientation. In 2020, the company exported €1,608,773.80, representing 54% of the total sales. Documentary evidence and managerial accounts indicate expansion into regional and international markets: United States, Germany, Netherlands, Africa, Albania, Croatia and Serbia.

Export growth contributed to revenue diversification and reduced dependence on domestic demand. This outcome reflects the interaction between investment-led modernization and strategic market repositioning. The results suggest that the Special Spin-Off model facilitated conditions for export expansion by imposing minimum investment thresholds in compliance with international standards. Nevertheless, managers reported limited institutional support for export promotion, highlighting gaps in policy frameworks. Export success therefore relied primarily on firm-level initiative rather than state support, underscoring the importance of managerial capacity in weak institutional environments.

New products in the form of different varieties: Ancient Vranç Gjergj Kastrioti, Gecaj Estate Owners Choice, Pinot Grigio, Cabernet Sauvigon, Owners Choice 2017 Petit Verlot / Grand Vranç, Brandy-42, Brandy-49, Verak-10 and Verak-25 years.

Technology and Certification: The level of production technology at company exceeds the local industry average. The technology is upgraded in order to meet international production and certification standards. The company is certified with ISO9001 and HACCP standards, confirming its adherence to international quality and safety requirements.

Obstacles after Privatization:

Performance after privatization was assessed against a set of ten obstacles affecting production operation on business activities. These obstacles were categorised as follows: High taxes from the state, bureaucratic delays, legal framework, inherited problems from privatization, unfair competition, access to bank credit, financial constraints for new investments, provision of raw material/ machinery, public services and support in exports. Respondents identified key barriers:

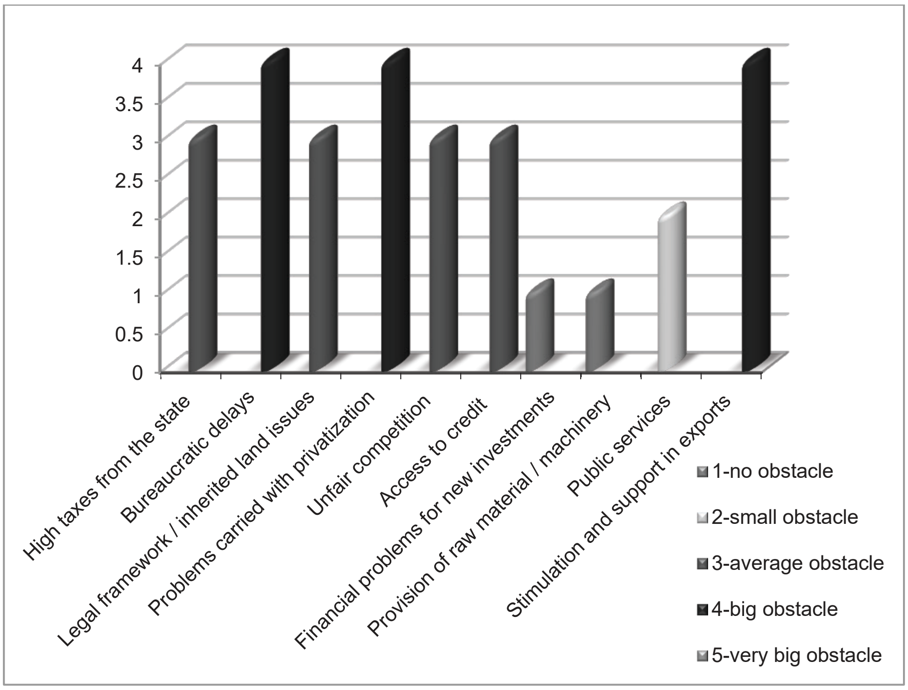
1. Lack of export support (rated "very big obstacle")
2. Bureaucratic delays
3. Legal uncertainty and inherited land issues

The findings evidence that despite fulfilling contractual obligations, the enterprise continue to face challenges that affected business development and operational efficiency. Bureaucratic delays had direct impact on operations, on bank loans debt, creating material economic loss. The lost revenue is seen as an opportunity cost while waiting contract delivery and property hand over. Least problematic areas were access to raw materials and machinery, and public utilities.

Enforcement Mechanisms and Penalty Provisions

The empirical findings indicate that while penalty provisions were formally embedded within privatization contracts, their practical enforcement capacity was constrained. Monitoring of compliance relied on periodic monitoring and independent audit verification. The interview data suggest that the deterrent effect of penalties depended more on credibility of Stone Castle than on the strict legal enforcement. Managers testified no formal sanctions were imposed

Figure 1. Obstacles after Privatization "Stone Castle Vineyard and Winery"



Source: Authors' calculations according to survey response (2021)

to the enterprise during the monitoring period, as contractual obligations were fulfilled.

6. DISCUSSION

The findings of this study contribute to ongoing debates regarding the effectiveness of structured privatization models in institutionally fragile environments. The analysis of our case study allows identification of specific causal mechanisms through which the Special Spin-Off model may influence enterprise performance under conditions of weak institutional capacity.

The success of Stone Castle can be attributed to several interrelated factors. First, substantial capital investments were made in vineyard expansion and the modernization of production. These investments not only met the requirements set forth in the privatization agreement but also enabled the company to increase production capacity, diversify product line, and improve quality standards. The integration of modern equipment and compliance with international certification protocols (ISO 9001, HACCP) signal company's strategic orientation. These outcomes support arguments in the literature suggesting that conditional privatization frameworks may reduce short-term opportunistic behavior and encourage restructuring-oriented investment.

Second, the company's human resource strategy proved essential. By hiring experienced local workers on a seasonal basis, the company demonstrated its integration into the local economy and its contribution to community livelihoods. This approach supports social cohesion and labor continuity in the aftermath of ownership transformation (Hashi, 1998; Estrin et al., 2009).

Third, brand development and export orientation have been strategically pursued. Stone Castle invested in marketing and digital platforms to enhance its presence in European and North American markets. Export sales - accounting for more than 50% of the company's total revenue (CFO, 2021 survey), reflect both strategic foresight and commitment to international expansion. However, alongside these accomplishments, institutional and regulatory barriers continue to hinder enterprise development. Bureaucratic inefficiencies, legal uncertainty and weak enforcement mechanisms remain significant burdens on business environment, contributing to reduced investor confidence (Gashi et al., 2020). The legal framework governing property rights and post-privatization obligations has been problematic. First years prelude the KTA's limited coordination with law enforcement left privatized enterprises vulnerable to land usurpation, highlighting how institutional gaps can delay or undermine privatization outcomes. These findings support Djankov and Murrell's (2002) argument that weak institutions are a central constraint in transitional economies. Another key constraint is lack of state-supported export mechanisms. While many developing countries assist producers in accessing international markets, Kosovo offers no such support, placing the full burden of export on enterprises. This reflects broader literature emphasizing the role of industrial policy in building competitive sectors (UNDP, 2014).

Other preclusive factors are procedural delays. While, privatization bidding procedures is set aiming speedy economic development in the post war period, from interviews is found that KTA procedures were among biggest obstacles for investors. The delays caused by these procedures seriously damaged businesses. Consequently after final decision of the KTA Board of Directors, the buyer had one month in disposal to pay privatization contractual amount (KTA, Rules of Tender). These delays also caused financial damage to buyers in terms of bank loans for privatizing SOE; The lost revenue, increased risks, and opportunity costs incurred while waiting for bureaucratic contract finalization (from 6-11 months), sunk costs used for licenses upon application or machinery that cannot be recovered as they could not start the business operation.

The findings confirm privatization outcomes cannot be explained only by contractual provisions. The success observed in Stone Castle, reflects an interaction between contractual structure, managerial commitment, technological upgrading, and favorable sectoral dynamics. The wine industry's export potential and asset specificity created structural incentives for long-term investment. This comparative insight suggests the effectiveness of the Special Spin-Off model vary across sectors and institutional contexts. This convergence likely strengthened compliance, as fulfilling contractual commitments also aligned with profit-oriented strategy.

Furthermore, while monitoring procedures were formally present, the broader institutional environment during the early stages of privatization in Kosovo remained in consolidation. Administrative coordination challenges and evolving regulatory frameworks limited the strength of enforcement capacity. Therefore, compliance should be interpreted as the outcome of combined contractual, reputational, and market-based incentives rather than solely as the result of strict institutional enforcement. From a broader perspective, the Kosovo experience provides cautious support for structured privatization models in post-conflict economies. Conditional privatization may introduce safeguards against opportunistic behavior and encourage productive restructuring. These observations suggest that Special Spin-Off model's effectiveness is context-dependent. Where sectoral potential and investor capacity are strong, conditional privatization may reinforce restructuring. In weaker sectors, similar contractual frameworks may not produce comparable outcomes. Kosovo experience reflects broader patterns observed in post-conflict and post-socialist transitions, where privatization unfolds alongside ongoing state-building processes (Berisha, 2012). Institutional consolidation is gradual, and enforcement mechanisms strengthen over time. The findings do not suggest that enforcement was irrelevant. The formal monitoring procedures and audit verification contributed to accountability and transparency.

From comparative perspective, the "Stone Castle Vineyards and Winery" case offers cautious support for conditional privatization models relative to asset transfers. The inclusion of investment and employment benchmarks appears to have discouraged purely speculative acquisition strategies. Nevertheless, the model's success depended on investor commitment and sectoral viability, highlighting that contractual design alone cannot guarantee developmental outcomes (RIINVEST, 2008). However, privatization must be supported by reforms to improve contract enforcement, reduce bureaucracy, and enable enterprise growth sooner. This case study highlights the dual importance of enterprise capacity and state capability in shaping outcomes. The findings inform both academic debate and policymakers for improving privatization strategies in transitional contexts.

7. CONCLUSION

This study examined the post-privatization performance of "Stone Castle Vineyard and Winery", SOE privatized through the Special Spin-Off model in Kosovo. By combining interview data, documentary evidence, and audit reports, the analysis explored how contractual investment and employment obligations operated within a weak and evolving institutional environment. The findings indicate that enterprise fulfilled its contractual commitments regarding capital investments and employment during the monitoring period. Modernization of production facilities, rehabilitation of vineyard infrastructure, and expansion of export activities at present case suggest that privatization method contributed to organizational restructuring and improved operational capacity. Market diversification and export growth were supported by branding, online marketing and commitment to traditional winemaking. The case suggests that enterprise performance was shaped by the interaction of contractual design, managerial commitment, sectoral characteristics, and market opportunities. The wine sector's export potential and the investor's strategic orientation aligned with contractual obligations, facilitating restructuring. This indicates that structured privatization models may be most effective when investor incentives and sectoral dynamics support long-term development. The broader institutional environment remains a critical determinant of long-term enterprise performance.

The study offers several practical implications. First, policymakers should strengthen institutional coordination across agencies to ensure assets possession after privatization without delays. Second, advance legal reforms to streamline contract enforcement, reduce bureaucratic friction, and improve investor protections mechanisms. Third, targeted programs of the Ministry of Agriculture, may support vineyard innovation and export marketing.

In terms of academic contribution**,** this paper adds to the limited empirical literature on post-privatization performance in Kosovo and Southeast Europe. From a policy perspective, the findings offer a grounded example on how conditional privatization mechanisms such as the Special Spin-Off model can provide an intermediate solution in contexts characterized by institutional fragility. The Special Spin-Off model appears well-suited to contexts where long-term developmental goals are prioritized over short-term financial gain.

Limitations of the study include its single-case study design implying that findings cannot be statistically generalized to all enterprises privatized through the Special Spin-Off model. While analytical generalization is possible, comparative multi-case studies would provide stronger evidence regarding the broader effectiveness of conditional privatization mechanisms. Access to complete audit data was also constrained by time and documentation availability. Nonetheless, the case of Stone Castle offers valuable insight to policymakers, investors, and researchers. The paper affirms the importance of pairing privatization with institutional accountability, legal clarity, and support mechanisms. As Kosovo continues to develop its economy and regulatory systems, lessons from this case can inform more inclusive, sustainable, and strategic privatization practices in the years ahead.

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Utjecaj posebnog modela *spin-off* privatizacije: slučaj vinarije i vinograda Stone Castle

Sažetak

Ovaj rad analizira postprivatizacijsku uspješnost poduzeća privatiziranog putem modela posebnog spin-offa na primjeru vinarije i vinograda Stone Castle na Kosovu. Istraživanje adresira značajan jaz u literaturi vezan uz strukturirane modele privatizacije u postkonfliktnim tranzicijskim gospodarstvima. Dok su se prethodna istraživanja procesa privatizacije na Kosovu primarno usredotočila na usklađenost s ugo-

vornim obvezama kod većeg broja poduzeća, ovaj rad pruža detaljnu institucionalnu analizu na razini poduzeća o tome kako obvezujuće investicijske i zaposleničke obveze djeluju u uvjetima slabog regulatornog okruženja. Istraživanje se temelji na kvalitativnom pristupu studije slučaja, uz primjenu polustrukturiranih intervjua s predstavnicima menadžmenta, podataka iz upitnika, revizijskih izvješća i službene dokumentacije Privatizacijske agencije Kosova. Rezultati pokazuju da je poduzeće ispunilo ugovorne obveze vezane uz kapitalna ulaganja i zaposlenost, proširilo proizvodne kapacitete, ojačalo izvoznu orijentaciju te provelo tehnološku modernizaciju. Istodobno, poduzeće se suočilo s institucionalnim preprekama, uključujući birokratska kašnjenja, pravnu nesigurnost i ograničenu državnu potporu razvoju izvoza. Analiza upućuje na to da učinkovitost modela posebnog spin-offa djeluje putem uvjetovanog mehanizma: provedive ugovorne obveze mogu potaknuti produktivno restrukturiranje i smanjiti oportunističko ponašanje, no dugoročni uspjeh ovisi o komplementarnim institucionalnim kapacitetima. Rad doprinosi široj literaturi o privatizaciji u tranzicijskim gospodarstvima pružajući dokaze na razini poduzeća iz postkonfliktnog konteksta te naglašavajući interakciju između ugovornog dizajna i institucionalnih ograničenja. Ograničenja istraživanja odnose se na poteškoće u osiguravanju revizijskih izvješća i nedostatak literature povezane s modelom posebnog spin-offa.

Ključne riječi: privatizacija, posebni spin-off, uspješnost poduzeća, tranzicijsko gospodarstvo, institucionalni okvir, vinska industrija.