

STATE-OWNED ENTERPRISES OWNERSHIP SYSTEMS

SUSTAVI VLASNIŠTVA PODUZE A U DRŽAVNOM VLASNIŠTVU

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Abstract: *State-owned enterprises in different countries have different roles depending on historical, political, economical, ideological and other reasons. Although, from the beginning of the eighties of last century has been conducted a number of privatizations, state-owned enterprises still play a significant role in the economies of many countries. This paper analyzes the systems through which the state exercises its ownership role in state-owned enterprises, with a special emphasis on Croatia. The objective of this paper is the evaluation of specified systems with the final purpose of constructing an optimal system of ownership of state enterprises in the Croatia.*

Key words: *state-owned enterprises, management, ownership, Croatia*

Sažetak: *Državna poduze a u razli itim državama imaju razli itu ulogu što ovisi o povijesnim, politi kim, ekomskim, ideološkim i drugim razlozima. Iako su od po etka osamdesetih godina prošlog svijeta državan poduze a I danas igraju zna ajnu ulogu u gospodarstvima mnogih država. U ovom radu se analiziraju sustavi kroz koje država provodi svoju ulogu vlasnika u državnim poduze ima, uz poseban osvrt na hrvstski sustav upravljanja državnim poduze ima. Cilj rada je vrednovanje navedenih sustava s kona nom svrhom izgradnje optimalnog sustava vlasništva državnih poduze a Hrvatskoj.*

Klju ne rije i: *državna poduze a, upravljanje, vlasništvo, Hrvatska*



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1. Introduction

Historically, the role and importance of state-owned enterprises has changed over time from state to state. Reasons for various importance of state enterprises in various national economies vary from country to country, and they can be broadly classified into four groups: historical, economic, political and ideological. In the same way can be categorized the causes of the existence of state-owned enterprises. Among these stand out the economic reasons which can be summarized as follows [1]:

- The state may be the appropriate monopolist in an economic sector where an interlocking supply network is required for the provision of goods or services.
- The State may become involved in the supply of goods or services which the private sector is not incentivized to supply.
- Some merit goods are inadequately provided for in a free market system or there may be a principled reason for taking them out of the market.
- The private sector may overproduce certain goods with negative externalities.
- If the State cannot regulate effectively or successfully contract for services, or cannot credibly promise not to confiscate or excessively tax enterprises, thus inhibiting investment, then it should become directly engaged in enterprise.

Although, from the beginning of the eighties of last century has been conducted a number of privatizations, state-owned enterprises still play a significant role in the economies of many countries. Due to the global economic crisis, their share in national economies becomes even greater. Exactly therefore is very important question of how states perform their role of the owner in state-owned enterprises which is a key theme of this paper. The paper also gives a review of the system of ownership in state-owned enterprises in the Republic of Croatia.

The paper is organized into six sections. After the introduction the second section analyses the importance of state-owned enterprises. The third section gives the overview of state-owned enterprises ownership systems while the fourth section analyzes the question state-owned enterprises ownership system in the Republic of Croatia and make recommendations for its improvements. The fifth section offers basic conclusions of the paper. The sixth section brings the list of references used.

2. Importance of state-owned enterprises

The role and importance of state-owned enterprises have changed throughout history, from the period in which there was almost no state-owned enterprise, to the period in which it is played a significant role in the economy. Historically, state enterprises began to play an active role since the Great Depression in 1929. as an active agent of economic recovery. The above trend continued after the Second World War, when in many countries SOEs were foundation of the entire post-war reconstruction. In the eighties of the twentieth century, due to raising awareness about the inefficiency of state-owned enterprises have begun trends of privatization of state enterprises that continued from the beginning of the transition of the former socialist countries.

However, despite the active policies of privatization, state enterprises have never completely lost its significance in national economies. Furthermore the global

economic crisis in the second half of the last decade significantly slows down the processes of privatization. Moreover, due to problems in the operations of individual companies, the state, in certain cases, is entering into the ownership of until then private enterprises and de-privatization is happening.

Even before the crisis in many countries, SOEs had a significant share in the gross domestic product and employment. The crisis has aforesaid share further increased. This is best shown by the fact that SOEs were in 2012 responsible for approximately one-fifth of global stock market value, which is more than two times the level observed just one decade ago. [2] The importance of state-owned enterprises can be confirmed by the fact that among the 2,000 largest global companies 204 companies are in majority state ownership with a joint sales amount to \$ 3.6 trillion in 2011 which is equivalent to 6% of world GDP, exceeding the GDPs of countries such as Germany, France or the UK (Figure 1). [3]



Figure 1. The GDP of the UK, France, and Germany compared to total sales of state-owned enterprises among top 2,000 global firms in 2011. [4]

If we analyze share of state-owned enterprises among the top ten enterprises of a country, as shown in Figure 2, it is evident that the share is highest in developing countries, while in developed countries the share is lower but still significant. Even in most developed countries such as Germany and France share exceeds 10%. For the estimation is used weighted average of shares of state-owned enterprises in sales, assets and market value of the country's top ten enterprises.

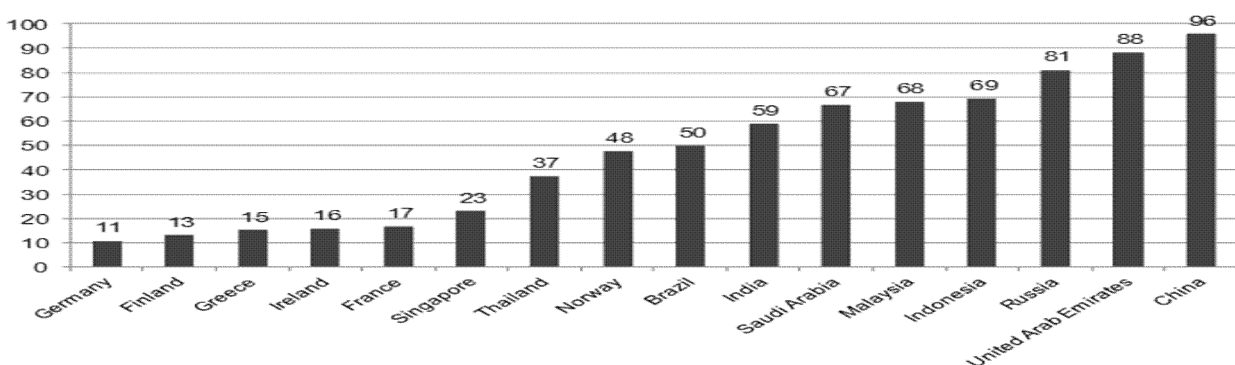


Figure 2. SOE shares among countries' top ten enterprises (%) [5]

The importance of state-owned enterprises is further emphasized by the fact that they are still dominant in infrastructure sectors such as water, energy and transport and therefore their business is not only important for themselves but it affects the entire economy and the general population of a country. Consequently, the governance of SOEs will be critical to ensure their positive contribution to a country's overall economic efficiency and competitiveness. [6]

3. Overview of state-owned enterprises ownership systems

Before analyzing the system of ownership of state-owned enterprises and the way in which the government performs its role as an owner, an important issue in the management of state-owned enterprises generally is the question of the legal form in which state-owned enterprises are organized. The most common legal form of state-owned enterprises is the private limited liability company, followed by the joint stock company. That means that state-owned enterprises in the majority of the countries are considered to be the same as any other company and are subject to the same corporate regulations. While many are legal entities separate from the state, there are nevertheless also public law institutions as, and some countries operate their state-owned enterprises under special laws, i.e. either laws created for the category of state-owned enterprises or laws specifically addressed to some state-owned enterprises. [7]

The organization of the state ownership function is different from country to country and depends on many factors, among which may be distinguished two: relative importance of state-owned enterprises in the economy of a country and a general way of administrative organization of the country. Given the degree of centralization (decentralization) and the number of ministries entrusted with the role of ownership models can be divided into three broad groups (Figure 3): the decentralized or sector model, the dual model and the centralized model. Of course borders of specified models are not strictly defined and over time ownership systems in countries are changing.

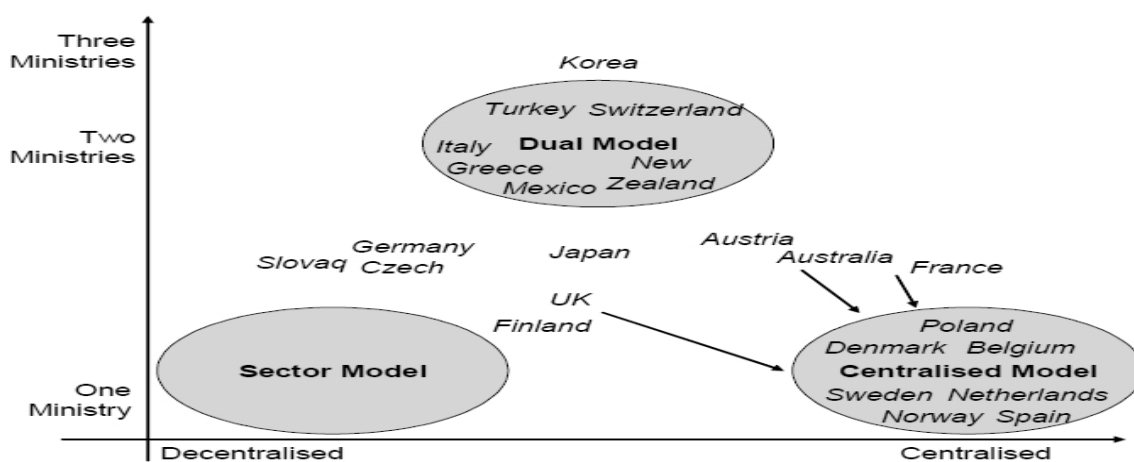


Figure 3. Organization and evolution of the ownership function of state for state owned enterprises [8]

The evolution and reform of the organization of the ownership function have been significant in the last ten years, and a number of countries are still undertaking reforms and these reforms tend to move countries away from the decentralized model and more towards the centralized model, although a few countries seem to have developed a fairly stable dual model of organization. [9]

3.1 Decentralized or sector model

The basic characteristic of decentralized model is entrusting certain state-owned enterprises to individual ministries in accordance with the relevant area of work of each ministry. This model is traditionally the most commonly used, and as its fundamental advantage is considered sectoral expertise of ministries that govern individual companies. Furthermore this model facilitates the implementation of sectoral ministries policies due to direct connections with state-owned enterprises. As the drawbacks of this model occur two problems [10]:

- difficulty in clearly separating the ownership function from other state functions, particularly its regulatory role and industrial policy and
- difficulty in clearly identifying who is running the SOE because with sector ministries in charge, the general public perception tends to be that the ministry is de facto running the state-owned enterprise, instead of the board.

3.2 Dual model

Within the dual model ownership functions is for each enterprise entrusted to two ministries one of which is a sectoral ministry responsible for the sector in which the enterprise operates while the other is the ministry that all enterprises have in common and that is generally the ministry of finance and or ministry of economy. Rationale for the division of responsibilities between the ministry of finance (economy) on one hand, and the sector ministries on the other hand, is quite similar and is clearly articulated [11]:

- the ministry of finance (economy) focuses on both economic efficiency and the fiscal impact of performance of state owned enterprises and therefore they take the lead for financial reporting, economic and divestment issues and have the sole responsibility for approving asset sales;
- sector ministries adopt a commercially oriented perspective with a primary emphasis on ensuring that state-owned enterprises are successful companies a therefore sector ministries take the lead in monitoring performance and have sole responsibility for board composition.

The shortcoming of this model is the potential for conflict in responsibilities of individual ministries of the individual enterprises.

3.3 Centralized model

The centralized model has its roots in countries in transition and today is more and more adopted by other countries. The main characteristic of this model is the centralization of functions of ownership of state-owned enterprises at one ministry (usually the ministry of finance or the ministry of economy). In some countries, the ministry establishes a, more or less independent agency to manage state-owned enterprises. Many countries are now reforming the system of ownership of state-owned enterprises in order to establish a centralized model, and as benefits of these reforms are listed [12]:

- First, reforms seek to clearly separate the ownership function from other state functions, such as industrial policy or regulation.

- Second, centralization of the ownership function facilitates a greater unity and consistency of the ownership policy. It helps in implementing unified guidelines regarding disclosure, board nomination or executive remuneration. It also helps in unifying practices among ministries in areas such as board representation.
- Third, centralization has been a major force towards the elaboration of centralized or aggregate financial reporting on state ownership. The few countries which have a high standard of overall and aggregate reporting on SOEs are usually those that have already or are in the process of centralizing the ownership function.
- Last but not least, the centralization of the ownership function allows for centralizing, competencies and organizing “pools” of experts in relevant matters, such as financial reporting or board nomination.

4. State-owned enterprises ownership system in Republic of Croatia

Acquisition, management and disposal of assets owned by the Croatian government is prescribed through numerous laws and regulations. According to the Strategy on management and disposal of assets owned by the Republic of Croatia for a period of 2013. up to 2017. [12] there is as many as 43 laws and regulations. The basic law governing the management and disposal of state assets is a Law on the management and disposal of assets owned by the Republic of Croatia [13]. Law on the management and disposal of assets owned by the Croatian Republic of Croatia regulates: the management and disposal of assets owned by the state; establish the forms of state property; principles of managing state assets; the documents for management of state assets; the manner and conditions of management and disposition of shares and interests that make up the state assets in companies; the manner and conditions of management and disposition of real estate assets that form the; the scope and authority of the State Office for State Property Management in the management and disposal of state assets; delineation of powers in the management and disposal of state property between the state offices, ministries and companies who have been given special powers and laws; establishment and maintenance of the Register of state property; establishment and organization of the Centre for the restructuring and sale, its scope and the public authority; monitoring and inspection and other issues in this regard. [14]

State Property Management in the Republic of Croatia is entrusted to a number of state institutions thereby management efficiency is very questionable. According to the Strategy [15] state-owned assets in Croatia is currently managed by: Ministries, State Office for State Property Management, Agency for State Property Management, Agency for Transactions and Mediation in Immovable Properties, Croatian Institute for Pension Insurance, Croatian Institute for Health Insurance, Fund for restitution, other funds, agencies, companies and legal entities.

According to the law [16] State Office for State Property Management is the central body for the management and disposal of state assets and coordinating management and disposal of assets owned by the state in relation to central government bodies and other bodies or legal persons established by special laws, which are holders, or

dispose of property owned by the state. Documents of management and disposal of state assets are Strategy on management and disposal of assets owned by the Republic of Croatia, Management plan and Report on the implementation of the Management plan. The strategy defines medium-term objectives and guidelines for the management and disposal of state assets, taking into account economic and development interests, and is brought by Croatian Parliament at the proposal of the Croatian Government for a period of four years. The management plan sets short-term goals and guidelines for management of state assets and implementing measures in order to implement the strategy. It is brought by the Croatian Government for a period of one year. Report on the implementation of the Management Plan, the State Office submits to the Croatian Government for the previous year.

In accordance with the Strategy main task of managing and disposing of the assets of state-owned enterprises is to realize economic growth, development, employment and financial benefits, and existing portfolio of companies in which the government holds shares in the future will be organized into three groups [17]:

1. Enterprises of strategic and developmental importance which are determined by the strategy (owned by state 50% or more):
a) Strategic enterprises that generate revenue from use of public authority and in which the state participates in the pricing of products and services: Enterprises of strategic importance which generate revenues based on the assigned public powers in which the state participates in the pricing of products and services are those in which the state as a shareholder, except economic, achieves strategic objectives: legal and effective exercise of the transferred public powers, security, health insurance, critical infrastructure, uninterrupted supply of population and businesses, and commercial insurance services in the interest of the citizens and the state. For such companies exists long-term social need.
b) Enterprises of developmental importance in which state has a majority stake: In this group are enterprises that are of importance in the developmental role in which state has a majority stake, and which are not from the sector of infrastructure, energy, etc.. Specified enterprises need restructuring, recapitalization and privatization, in whole or in part. Shares in these companies are government investments reaching high added value and profits. It is expected that these enterprises invest in above-average investments, research and development. Those enterprises with its production potential must contribute to the stability and development of countries and regions, and their profits will be important revenue of the state budget.
2. Enterprises whose shares are listed on the regulated market of the capital, in which state has total ownership of less than 50%.: For enterprises whose shares are listed on the regulated market of the capital, in which the state has total ownership of less than 50%, the government is trying to reach the primary goals of economic and usually along with other private investors, i.e., under the same conditions as the other investors, and driven by the same interest.
3. Other enterprises in which the state holds shares and stocks (state share less than 50%):
a) Enterprises with a state share to 25%: For enterprises in the state portfolio in which the state has less than 25% of the shares (which do not have

greater developmental significance), is planned within two years carry out the restructuring, their public listings and selling, donation and / or the formation of a venture capital fund. b) *Enterprises with state share of more than 25%*: For companies that are owned by the state more than 25%, predict the same objectives and procedure as in the previous group, but over period of three years.

5. Conclusion

Despite numerous privatizations that were conducted, state-owned enterprises still play a significant role in the economies of many countries. Due to the global economic crisis, their share in national economies becomes even greater. Exactly therefore is very important question of how states perform their role of the owner in state-owned enterprises. Given the degree of centralization (decentralization) and the number of ministries entrusted with the role of ownership models can be divided into three broad groups: the decentralized or sector model, the dual model and the centralized model. Acquisition, management and disposal of assets owned by the Croatian government is prescribed through numerous laws and regulations. State Property Management in the Republic of Croatia is entrusted to a number of state institutions thereby management efficiency is very questionable and should therefore strive to establish an unified effective system of management of state owned enterprises.

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Photo 015. Laboratory of the Polytechnic in Pozega / Laboratorij Veleučilišta u Požegi