Governance and Enterprise Restructuring in Southeast Europe

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I. Governance and Enterprise Restructuring in Southeast Europe

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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.

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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.

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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 [1]

	Country	Classification of Privatization	Year of Privatization	Primary Method	Secondary Method
1.	Albania	Mixed	1995	MEBO	vouchers
2.	Bosnia and Herzegovina	Mixed	1996	MEBO	direct sales
3.	Croatia	Mixed	1992	MEBO	vouchers
4.	Macedonia	Mixed	1993	MEBO	direct sales
5.	Montenegro	Mixed	1993	MEBO	direct sales
6.	Serbia	Mixed	1993	MEBO	direct sales

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).

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[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

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

[2] calculated as the average of five infrastructure reform indicators covering electric power, railways, roads, telecommunications, water and waste water

4	More than 50 per cent of state-owned enterprise and farm assets in private ownership and significant progress with corporate governance of these enterprises	Complete privatization of small companies with tradable ownership rights	Substantial improvement in corporate governance and significant new investment at the enterprise level, including minority holdings by financial investors	Comprehensive price liberalization; state procurement at non-market prices largely phased out; only a small number of administered prices remain	Significant enforcement actions to reduce abuse of market power and to promote a competitive environment	Removal of all quantitative and administrative import and export restrictions	Significant movement of banking laws and regulations towards BIS standards	Securities laws and regulations approaching IOSCO standards; substantial market liquidity and capitalization; well-functioning non-bank financial institutions and effective regulation	Large degree of progress
4+	Standards and performance typical of advanced industrial economies: more than 75 per cent 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 fallowing equation ([Freedman, 2005](#)) :

$$\gamma i = \beta_o + \beta_1 x_{1i} + ... + \beta_p x_{pi} + \varepsilon_i \quad \textbf{(1)}$$

$$i = 1,...n \quad \textbf{(2)}$$

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

$$GOV_{i,t} = \beta_o + \beta_1 LSP_{i,t} + \beta_2 SSP_{i,t} + \beta_3 PL_{i,t} + \beta_4 CP_{i,t} + \beta_5 TFS_{i,t} + \beta_6 BRIRL_{i,t} + \beta_7 SMNBFI_{i,t} + \beta_8 OIR_{i,t} + \varepsilon_{i,t}$$
(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;
- β is a *p*-dimensional ***parameter vector*** ;
- ε 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

OLS	Dependent Variable Governance and enterprise restructuring										
	Albania						**Bosnia and Herzegovina**				
Independent Variable	[1]	[2]	[3]	[4]	[5]		[1]	[2]	[3]	[4]	[5]
lsp	-0.2025152		-0.0091404	-0.0995574	-0.1087974		0.1524874		0.5323872	0.1518928	0.1427749
	[0.1869121]		[0.196053]	[0.1938835]	[0.2215698]		[0.1927293]		[0.0934086]***	[0.2038962]	[0.1673499]
ssp	0.1697118	0.113114	0.0523193	0.1329074	0.2199953		-0.0249437	-0.0121364	-0.0790883	0.0331294	-0.0236488
	[0.1140906]	[0.1021058]	[0.1198221]	[0.1221306]	[0.1358211]		[0.0670438]	[0.0641176]	[0.0706895]	[0.0595877]	[0.0635731]
pl	-0.5347679	-0.4286216		-0.1531503	-0.3067557		0.0047178	0.0010322	0.023237	-0.0199307	0.0038191
	[0.2250317]**	[0.2039378]*		[0.0938002]	[0.2508544]		[0.030858]	[0.0300623]	[0.033675]	[0.0282685]	[0.0287377]
tfs	0.2659353	0.2188564	-0.0519644		0.1287879		0.0304187	0.0289083	0.0500963	0.040704	0.0302822
	[0.1448371]*	[0.1390868]	[0.0646881]		[0.163219]		[0.0421192]	[0.0414663]	[0.046701]	[0.0440357]	[0.0404747]
cp	-0.9840253	-0.9071432	-0.6432593	-0.737975			-0.1425858	-0.0980406	-0.2358234	-0.1238071	-0.1384151
	[0.3731757]**	[0.3688099]**	[0.4014111]	[0.3787193]*			[0.0838911]	[0.0612916]	[0.081922]**	[0.0878757]	[0.0730635]*
brirl	1.314167	1.218124	1.014514	1.110516	0.909408		0.343431	0.4561517		0.3475343	0.3471329
	[0.2302564]***	[0.2139265]***	[0.2244712]***	[0.219414]***	[0.2072327]***		[0.1575498]**	[0.066292]***		[0.1666564]*	[0.1483936]**
smnbfi	1.213578	0.961111	0.7779803	0.9003803	0.2111793		0.2410562	0.2408255	0.2464227		0.230991
	[0.4536104]**	[0.3917815]**	[0.483435]	[0.4570451]*	[0.2988371]		[0.1509508]	[0.1487633]	[0.1713305]		[0.1194542]*
oir	-0.0590973	-0.2489107	-0.3570052	-0.2381512	-0.2090029		-0.0125967	0.0238195	-0.0593761	0.0846555	
	[0.2398549]	[0.164919]	[0.2382509]	[0.2382847]	[0.2813609]		[0.1072611]	[0.0954801]	[0.1192966]	[0.0934118]	
Constant	-0.2375678	0.0375653	0.2045319	0.0674559	0.0841613		0.415223	0.3535272	0.5706266	0.4295954	0.4128298
	[0.305147]	[0.1703371]	[0.2818152]	[0.2783297]	[0.3377157]		[0.1236471]***	[0.0945685]***	[0.1146797]***	[0.1304645]***	[0.1172391]***
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
Time period	1989-2009						1989-2009				
Standard errors are in parentheses.											
Significance Level:	*** p < 0.01	** p < 0.05	* p < 0.1								

(Continuation)

OLS	Dependent Variable Governance and enterprise restructuring										
	Croatia						Macedonia				
Independent Variable	[1]	[2]	[3]	[4]	[5]		[1]	[2]	[3]	[4]	[5]
lsp	0.0867059	0.1722811	0.1101601	0.1563948	0.1060924		-0.0400841	-0.0718089	-0.0403039	-0.0307779	-0.0546197
	[0.1623609]	[0.1582185]	[0.161339]	[0.18769]	[0.1554621]		[0.0844591]	[0.1341494]	[0.0802903]	[0.0713962]	[0.0730469]
ssp	0.4950602		0.2166759	0.1684129	0.3327732		0.954126		0.9522068	0.9881459	0.9583012
	[0.3365614]		[0.2057257]	[0.362504]	[0.2052517]		[0.2081172]***		[0.1715753]***	[0.1410507]***	[0.2009124]***
pl	-0.2011024	-0.2331644	-0.2224021	-0.3456276	-0.2169713		0.0632146	-0.0857734	0.0617463	0.0625092	0.0386737
	[0.2102789]	[0.218306]	[0.2099915]	[0.2369092]	[0.2036779]		[0.1236557]	[0.190142]	[0.0891231]	[0.1190298]	[0.1024566]
tfs	0.2000222	0.2545105	0.2015001	0.3652061	0.2019553		-0.0019025	0.2475254		-0.0020039	0.0035742
	[0.1825499]	[0.1865807]	[0.1831606]**	[0.1990339]**	[0.178128]		[0.1059441]	[0.1448785]		[0.1020113]	[0.1014893]
cp	0.1432924	0.342051	0.2940192	0.4140078	0.2362731		0.3170152	0.3173858	0.3167068	0.3163479	0.2908476
	[0.2006051]	[0.1547635]*	[0.1396094]*	[0.1961021]*	[0.1293934]*		[0.0978953]***	[0.1560151]*	[0.0925978]***	[0.0942207]***	[0.0681516]***
brirl	-0.3266856	0.0386626		0.1067575	-0.1579131		0.0324758	0.4920464	0.0324864		0.031418
	[0.3132069]	[0.1991627]		[0.3026532]	[0.149381]		[0.141122]	[0.158304]***	[0.1355862]		[0.1363957]
smnbfi	0.6654675	0.5052497	0.5034725		0.6197397		0.2358248	0.1866295	0.235749	0.2379681	0.2128045
	[0.2732843]**	[0.2616168]**	[0.2256206]*		[0.2567298]**		[0.101816]**	[0.16136]	[0.0977389]**	[0.0976263]**	[0.0796935]**
oir	0.2254391	-0.1937215	-0.1067123	-0.0153547			-0.0878511	-0.1422885	-0.0873017	-0.0868301	
	[0.3650046]	[0.2380797]	[0.1789828]	[0.4126282]			[0.2280277]	[0.3629135]	[0.2171038]	[0.2195233]	
Constant	-1.183368	0.3480587	-0.1845918	0.0845048	-0.5886388		-2.513445	-0.0655663	-2.507403	-2.592015	-2.495099
	[1.22832]	[0.6803362]	[0.771904]	[1.30652]	[0.7442398]		[0.5982257]***	[0.4299509]	[0.4752273]***	[0.4729974]***	[0.5764654]***
Observations	189						189				
R-squared	0.9138	0.9091	0.8714	0.9009	0.873		0.9085	0.9182	0.9385	0.8884	0.9283
Adj R-sqrd	0.8563	0.7524	0.756	0.8398	0.7584		0.7808	0.7511	0.7822	0.7822	0.782
Time period	1989-2009						1989-2009				
Standard errors are in parentheses.											
Significance Level:	*** p < 0.01	** p < 0.05	* p < 0.1								

(Continuation)

OLS	Dependent Variable Governance and enterprise restructuring										
	Montenegro						Serbia				
Independent Variable	[1]	[2]	[3]	[4]	[5]		[1]	[2]	[3]	[4]	[5]
lsp	0.025029		0.0148113	0.1000957	0.4965677		0.8198633		0.6901091	1.215844	0.4492792
	[0.1759028]		[0.1404694]	[0.1484071]	[0.1516168]***		[0.2032582]***		[0.1612398]***	[0.1923572]***	[0.1323666]***
ssp	0.0523883	0.0504735	0.0498742	0.0356797	0.1493854		-0.1517718	0.2077483		-0.3517117	-0.0360644
	[0.0519841]	[0.0482828]	[0.0442783]	[0.0472367]	[0.0595531]*		[0.1455706]	[0.1697228]		[0.1624512]*	[0.15511]
pl	-0.0168126	-0.0205609	-0.0221255	-0.0194509	0.0821115		0.0314483	0.0341681	0.034297	0.0076732	0.0232123
	[0.0705467]	[0.0629292]	[0.0469451]	[0.0695862]	[0.0876976]		[0.0363242]	[0.0535565]	[0.0363423]	[0.0446733]	[0.0412353]
tfs	-0.0099158	-0.0023913		0.0090979	-0.1932485		-0.0313151	-0.0395058	-0.0341518	0.0052779	-0.0260193
	[0.095012]	[0.0759026]		[0.0909889]	[0.1072942]*		[0.0371104]	[0.0546432]	[0.0371342]	[0.044111]	[0.0422617]
cp	0.0014707	-0.0116057	-0.0042167	0.0613188	0.1629844		-0.037234	-0.1289785	-0.100937	0.0683665	-0.0301026
	[0.1386809]	[0.0998683]	[0.1225776]	[0.1165131]	[0.1775493]		[0.0757477]	[0.1065472]	[0.0449211]**	[0.084176]	[0.0863631]
brirl	0.1421806	0.1549766	0.1377794		0.1097489		0.325636	0.6203257	0.3793379		0.3638281
	[0.1730948]	[0.1422178]	[0.1613662]		[0.2349382]		[0.1105069]**	[0.122265]***	[0.0980954]		[0.1245697]***
smnbfi	0.9357051	0.9654005	0.9513829	0.9237234			-0.4687327	0.2305621	-0.3899315	-0.565573	
	[0.2699023]***	[0.1645741]***	[0.2155338]***	[0.2661146]***			[0.2111187]**	[0.1776636]	[0.1977843]***	[0.2630502]*	
oir	0.060445	0.0686007	0.0684553	0.0967382	-0.1477279		-0.0053487	-0.0255009	-0.0058332	0.0193794	-0.0143822
	[0.1446265]	[0.127682]	[0.1178239]	[0.135978]	[0.1788415]		[0.0329571]	[0.0480387]	[0.0330639]*	[0.0402005]	[0.0373218]
Constant	-0.2729809	-0.2817912	-0.2698268	-0.269522	0.0150051		0.7784118	-0.3498587	0.3806653	1.281046	0.3166287
	[0.2118772]	[0.1948428]	[0.201575]	[0.2091682]	[0.2649403]		[0.4012921]**	[0.4243155]	[0.1249024]***	[0.4581707]**	[0.391632]
Observations	189						189				
R-squared	0.9199	0.8999	0.9099	0.9188	0.8898		0.9077	0.9145	0.8974	0.906	0.8967
Adj R-sqrd	0.7665	0.7691	0.7691	0.7674	0.7382		0.7961	0.7915	0.7961	0.7938	0.7949
Time period	1989-2009						1989-2009				
Standard errors are in parentheses.											
Significance Level:	*** p < 0.01	** p < 0.05	* p < 0.1								

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*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

Governance and enterprise restructuring dynamics over time
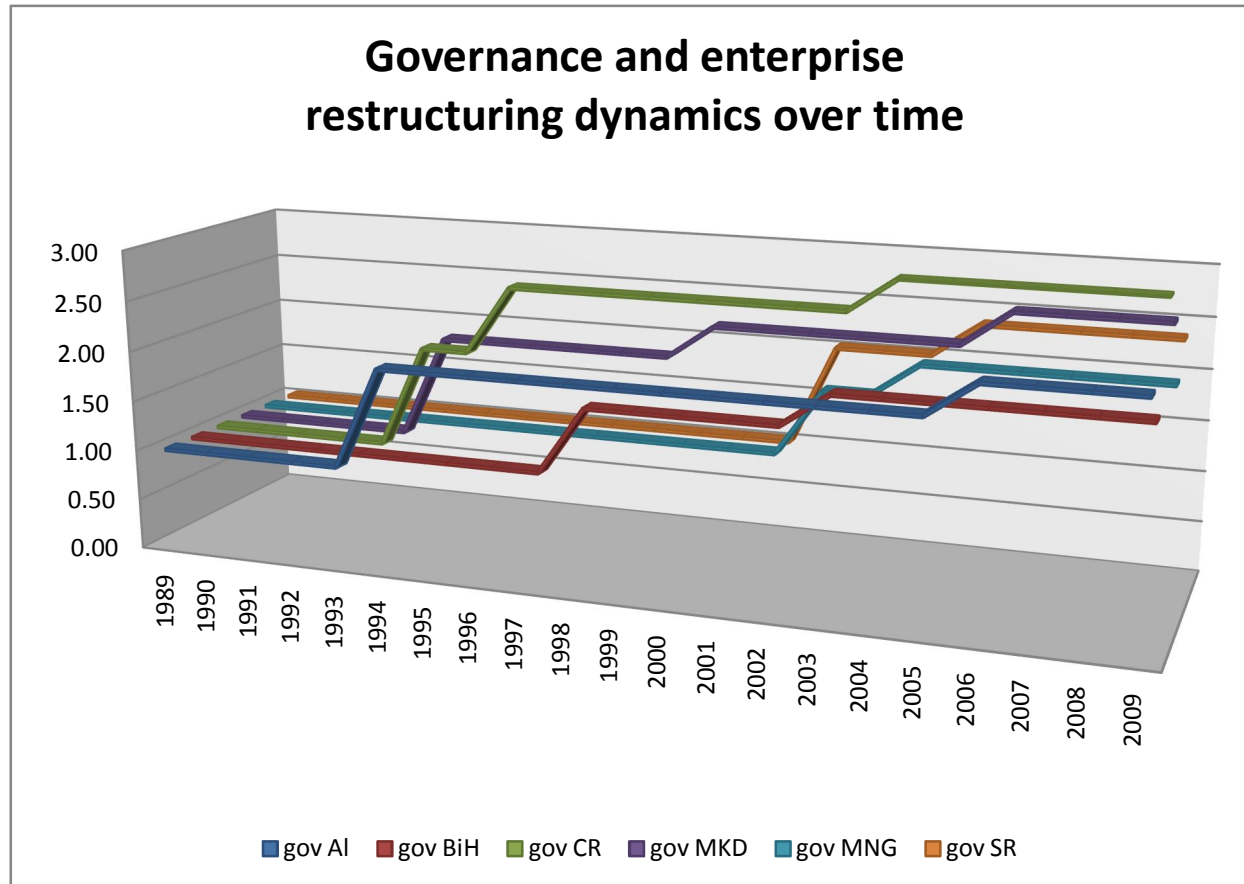
Discussion

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.

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