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Aziz Šunje

Faculty of Economics,
University of Sarajevo,
Bosnia and Herzegovina

✉ aziz.sunje@gmail.com

Dženan Kulović

Faculty of Economics,
University of Zenica,
Bosnia and Herzegovina

✉ dzenan.kulovic@gmail.com

THE NECESSITY OF BUSINESS RESTRUCTURING OF STATE-OWNED AND PUBLIC ENTERPRISES IN BOSNIA AND HERZEGOVINA

НУЖНОСТ ПОСЛОВНОГ РЕСТРУКТУРИРАЊА ДРЖАВНИХ И ЈАВНИХ ПРЕДУЗЕЋА У БОСНИ И ХЕРЦЕГОВИНИ

Summary: *The restructuring of state-owned and public enterprises has attracted the attention of numerous researchers in the transition and post-transition period. The goal of restructuring as a business philosophy is to change and establish a new business philosophy, a new way of thinking. The correct interpretation of this term goes beyond its narrow and misleading translation, which equates to restructuring with a measure of change in structure. This paper examines the situation with the state-owned enterprises in Bosnia and Herzegovina. Although Bosnia and Herzegovina is characterized by the presence of two completely separate systems of corporate governance (corporate governance is regulated at an entity level without any common grounds at the level of Bosnia and Herzegovina), the symptoms of the situation are identical in both entities: state enterprises are commercially inefficient in both entities, and the reasons for their inefficiency are identical. The paper attempts to identify the symptoms and causes of such a state with a set of recommendations for the restructuring of state-owned enterprises, with clear definitions that, considering the trend of expansion of state-owned enterprises in highly developed countries, state-owned enterprises are needed here. It turns out that the privatized companies do not take into account the state interest. Following the logic of the OECD Guideline No. 2 (Ownership of State), first, it is considered how the state should manage the state-owned companies, and then by following the logic of the OECD Guideline no. 6 (Responsibilities of Committee) the complete corporation of state-owned enterprises is advocated in the way that state-owned enterprises have all the prerogatives of corruption, and are sufficiently distanced from political parties in power. Such an approach will significantly contribute to the improvement of corporate governance rating in Bosnia and Herzegovina that shows the atrophy of the system.*

Keywords: *corporate governance, state-owned enterprises, public enterprises, business restructuring*
JEL classification: *G34, L32*

Резиме: *Реструктурирање државних и јавних предузећа заокупља пажњу бројних истраживача у транзицијском и посттранзицијском периоду. Циљ реструктурирања као пословне филозофије јесте промјена и успостављање нове филозофије бизниса тј. новог начина промишљања. Правилно тумачење овог појма надилази исувише узак и погрешан превод овог термина који реструктурирање своди на пуку промјену структуре. У овом раду је сагледано стање у којем се налазе државна предузећа у БиХ. Иако Босну и Херцеговину карактеризира присуство два потпуно одвојена система корпоративног управљања (корпоративно управљање регулирано је на ентитетској разини без додираних тачака на нивоу БиХ) симптоми стања су истовјетни и у оба ентитета: државна предузећа пословно су неефикасна у оба ентитета, а разлози њихове неефикасности су истовјетни. У раду се покушавају идентифицирати симптоми и узроци таквог стања уз сет препорука за реструктурирање државних предузећа, уз јасно одређења да нам, сагледавајући и тренд експанзије државних предузећа у високоразвијеним земљама, државна предузећа требају. Показало се да приватизирана предузећа не воде рачуна о државном интересу. Слиједећи логику ОЕЦД-ове смјернице број 2 (држава као власник), прво, се сагледава начин на који би се држава требала управљати државним предузећима, те се потом слиједећи логику ОЕЦД-ове смјернице бр. 6 (одговорност одбора) заговара потпуна корпоратизација државних предузећа на начин да државна предузећа имају све преорогативе корпроације, те да се у довољној мјери дистанцирана од политичких партија на власти. Овакав приступ значајно ће допринијети побољшању рејтинга корпоративног управљања у Босни и Херцеговини који показује атрофију система.*

Кључне ријечи: *корпоративно управљање, државна предузећа, јавна предузећа, пословно реструктурирање*
ЈЕЛ класификација: *G34, L32*

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1. INTRODUCTION: *THE AGE OF RESTRUCTURING*

Restructuring as a business philosophy, according to Walker (1990), emerged in the early 1980s. Its origin coincides with the economic policy promoted in the UK in those years by Margaret Thatcher (sometimes known as Thatcherism) and in the US by Ronald Regan (sometimes known as Reganomics). It is understood that by the mid-1980s, over 50% of US businesses had entered into some form of restructuring (Walker 1990, 43-55). In a recent survey conducted in Japan in 2003, 55% of the companies surveyed cited the strengthening of the business core, 43% increase in value for owners, 40% achieving faster growth and 32% improvement in financial condition as the main motive for restructuring. Motives include: synergy (28%), elimination of double capacity (23%), sales and closing of less profitable plants due to the reduction in total costs. The wave of restructuring has quickly engulfed many businesses not only in the US but in other developed countries as well. In parallel to globalization and the breaking down of barriers to the development of the world economy, restructuring has become a global phenomenon that is applicable in almost all parts of the world and in very different types of organizations. (Eskić et al. 2018) Therefore, one should not be surprised by the views of individual authors who used the growth of the significance of these activities to call the 80s and 90s of the 20th century as the Age of Restructuring.

As we have a relatively low level of knowledge in this field and as different variants of the term occur, it should be recalled that the term itself originates from the English term *restructuring*, which is a coinage of two words - the Latin prefix *re* and the *structuring* as verb. The use of the prefix *re* in verbs, as is the case with the term *restructuring*, has to do with repeating, changing, or restoring something. The word structuring is a verb that reflects an action related to establishing, organizing, and changing the structure as noun. The simplified term could be described as changing and establishing a new structure. Of course, such an interpretation would be too narrow and misleading, including misinterpretations and other translations of the term. (Eskić et al. 2018)

One of the few explicit definitions of the term of corporate restructuring is given by Crum and Goldberg (1998), stating that it is a set of discontinuous decisive measures taken to increase the competitiveness of a company and increase its value. According to Samaras (2004), the most common, immediate reasons for the restructuring process are: the company has difficulty in paying or is unable to pay its liabilities, sales are stagnant or declining, while according to Bradowski (1991) the most common, immediate reasons of the restructuring processes are: aspirations to grow and improve the financial performance of the business, return to *the business core of the enterprise*, poor prospects in *the business core*.

Wruck (1990) links restructuring to periods of poor corporate performance, and Copeland (1996) states that managers need to restructure businesses to increase value. After all, a company is established and operates with the aim of achieving market value. The motives and goals of its founding, existence and business are positive results that enable it to survive and develop. Businesses differ in their results and effects: there are extremely successful businesses that last for generations; there are average businesses that last for decades; there are below average businesses that barely survive. (Tipurić 2014, 15-16). What distinguishes one company from another is summarized in the following table.

Table 1. Basic differences between successful and unsuccessful businesses

SUCCESSFUL COMPANIES:
- real interest in people - people's most valuable assets; - good training, quality development, continuous monitoring and the possibility of advancement; - good rewards programs; - ability to retain employees, low fluctuation rate; - top manager is dedicated and supportive of people; - developing and encouraging decentralized decision-making with delegation of authority.
UNSUCCESSFUL COMPANIES:
- poor interest in people - people worthless property; - poor training, poor development, discontinuous monitoring and inability to progress; - poor reward programs; - unable to retain employees, high fluctuation rate; - the top manager is not dedicated and does not support people; - developing and encouraging centralized decision-making with delegation of responsibility.

Source: Alper and Mandell 1992, 13

When trying to make a difference, that is, to distinguish between successful and unsuccessful companies, one always comes to the realization that strategic potentials in more successful companies are more rationally and functionally used. This is a feature or distinction that reflects management competency. An important source of competitive advantage for a company is its instinctive ability and internal organization of business. The way management organizes and coordinates employees and processes to maximize their unique ability over the long term, despite constant changes in the competitive environment, is what makes the difference. (Nadler and Tushman 1997, 7)

Economic and technological prosperity contributes day by day to changes whose basic characteristic is speed. Specifically, in order for businesses to be confident in the realization of their business, they must anticipate the future course of events and must adapt quickly and appropriately to changing circumstances. These new situations tell us that businesses are now facing rapid technological changes as well as challenges such as short product life cycles, new competitors entering the market, frequent and unpredictable changes in competitive moves, and the rapid evolution of customer requirements and expectations. (Todorović 2003, 218)

This paper considers the public sector referring to the state-owned enterprises in BiH that generate their revenues on the market and are therefore organized as corporations. Since BiH is characterized by the presence of two completely separate systems of corporate governance (corporate governance is regulated at the entity level with no tangent points at the BiH level), only public enterprises at the entity level are subject to analysis, not those at lower levels of government (cantons and municipalities in FBiH, i.e. municipalities in RS). There is a greater focus on public companies in the Federation of Bosnia and Herzegovina, since FBiH has many more state-owned enterprises and much more non-privatized state-owned capital. In addition to the generally accepted notion of "public enterprises", the term "state-owned enteprises" will also be used synonymously, emphasizing the fact that "the state" (FBiH and RS) is an important owner of the property of the enterprise.

The aim of the paper is to examine how the way of running state-owned enterprises could be improved by gaining insight into the world experience and critically analyzing the existing way of running state-owned enterprises. There is no dilemma that the introduction of a modern corporate governance system would significantly improve the business of state-owned enterprises, which would greatly increase the rate of economic development of BiH with direct multiplying positive effects on the entire economy and society.

The paper is structured in such a way that, first, a situational analysis was conducted to look at the state of the enterprises in both BiH entities. It is obvious that state-owned enterprises are ineffective in business. Then a look is made at why state-owned enterprises in this region are ineffective in business, with clear definition that, considering the trend of expansion of state-owned enterprises in highly developed countries, state-owned enterprises are required here. Privatized companies have shown not to take account of state interest. Thereafter, a set of recommendations is given on how to improve the management of SOEs, both through the dimension of SOEs at the entity level and through the complete corporatization of SOEs so that enterprises have all the prerogatives of corporation, and sufficiently distance themselves from political parties in power. The articulation of the set of recommendations followed the logic of the OECD guidelines for managing SOEs as a kind of "road map".

2. SITUATIONAL ANALYSIS – STATE - OWNED ENTERPRISES IN BIH

Regardless of the differences between the laws of individual countries, it is possible to give an overview of different forms of business organization. Each country regulates possible forms of business establishment with one of its legal acts. Owners are free to choose the form that represents the appropriate framework for running a particular business. (Kreitner et al. 1990) Depending on the level of business development and ownership relations, the most appropriate formal legal framework for business is selected, indicating that individual and partner forms of business are best suited for organizing so-called small business, while corporation is the most suitable form for organizing so-called big business. (Šunje 2002) In terms of ownership and number of shareholders, there are the following forms:(La Porta et al. 1998):

1. Companies with controlling owner, so-called *ultimate owner*, in which one shareholder holds at least 20% of the shares and the other individual share packages are less than 20%.

2. Companies that are owned by a large number of shareholders, the so-called *widely held*, in which individual share packages are below 20%.

As already indicated and based on the logic of the Dayton Agreement, BiH has two completely separate systems of corporate governance existing at the entity levels without any tangent points.

The Republic of Srpska as a "state" is much less present in companies. State capital in companies has been privatized to a much greater extent. At the end of 2017, the Government of the RS also established a list of state-owned enterprises of strategic importance (18 companies).

The Federation of BiH as a “state” is still very present in all economic spheres with a significant share in GDP (over 35%, Transition Report 2011). Three years ago, the FBiH Government allocated companies (52 companies) in which it has ownership in the following three categories: (1) companies with difficulties in doing business (23 companies), (2) strategic companies (21 companies). (3) companies with a share of state capital for privatization (eight companies)

The business analysis was carried out with 44 state-owned enterprises in the Federation of BiH from the first two categories, enterprises with majority state ownership, and the business activities of 18 or 20 state-owned enterprises (MH ERS parent company a.d. Trebinje with two subsidiaries having the status of joint stock companies) in the Republic of Srpska, along with an analysis of their profitability. The business analysis is based on the business results presented on 31 December 2017. (Tron 2018)

The unique feature of all 23 state-owned enterprises in FBIH in the category of companies with difficulties indicates that enterprises operate on the border of sustainability or with significant losses, with losses accumulating from year to year. As many as 12 companies, more than half, operate at a loss, while six state-owned companies do not have any capital in their business books. There is no reason for the pre-war giants like Agrokomerc, Feroelektro, Hidrogradnja, Vitezit, Šipad export-import to operate at a loss. All profitability indicators for this group of companies are far from the average achieved by all business entities in the FBiH.

The situation of strategic enterprises in the Republic of Srpska (Table 2) is even worse than the situation of strategic enterprises in the Federation of Bosnia and Herzegovina, although a considerable number of companies in this category have special market advantages expressed also through one type of monopoly position (RS Airports, Post Office, Roads, Highways, Lottery, ...). The value of assets held by strategic companies in RS is twice lower than the value of assets held by strategic companies in the Federation of BiH (KM 12.95 vs. KM 6.43 billion), which is a confirmation of the above statement that the presence of state capital is significantly higher in the Federation of BiH. As many as six companies in this category operate at a loss, and their profitability results are dissaponting.

The situation of strategic companies in the Federation of BiH is much better (Table 3). The only true loss-maker from this category of state-owned enterprises is JP Railways of FBiH, and two more companies in this category have made a loss in the last business year. A number of companies in this category achieve not very satisfactory business results (as many as seven state-owned companies, both Electric Companies have negative EBIT/revenue). The state-owned enterprises in this category are diversified. A considerable number of strategic state-owned companies undoubtedly have special market advantages expressed through one type of monopoly position (BH Gas, JP Highways of FBiH, Sarajevo International Airport, both Post Companies, both Electric Companies, FBiH Terminals, ...), and therefore, relatively good business results.

It is surprising that, despite the special market benefits, both Electric Companies exhibit very low profitability and negative EBIT/revenue. Companies in the field of so-called dedicated industries show good business results (Unis-Ginex and Igman with 25.8 and 13.6% net margin respestively). The reason is that they are in a highly profitable industry. However, a more subtle analysis of the profitability of SOEs in this category, an analysis of profitability through the rate of return on assets and capital (ROA and ROE), shows that most strategic SOEs do not achieve a higher degree of profitability in their operations. As many as 13 of the 21 SOEs achieve a lower ROA than the Federation of BiH average (ROA at the FBiH level of 2.7%), while 10 of them achieve a lower ROE than the FBiH average (ROE at the FBiH level of 5.2%).

Table 2 Strategic State Enterprises (RS)

Company	Employee no.	Assets	Capital	Profit/ Loss	Profitability			
					Net margin	ROA	ROE	EBIT / revenue
Category of strategic business entities in RS								
MH ERS MP a.d. Trebinje	204	1.430.488.300	1.186.836.919	361.696	0,1%	0,0%	0,0%	-0,2%
MH ERS -MP a.d. Trebinje-ZEDP Elektro-Bijeljinaa.d. Bijeljina	917	278.677.174	175.598.141	-296.166	-0,3%	-0,1%	-0,2%	-3,8%
MH ERS MP a.d. Trebinje, ZP Elektro Doboj a.d. Doboj	406	313.717.907	270.829.036	28.621	0,0%	0,0%	0,0%	2,4%
JPŠ Forests of RS a.d. Sokolac	4805	127.702.523	53.749.406	4.703.404	2,5%	3,7%	8,8%	3,4%
Industrial Plantations a.d. Banja Luka	80	109.735.175	109.074.809	163.509	3.7/%	0,1%	0,2%	1.7/%
JP Anti-Hail Prevention of RS a.d. Gradiška	21	30.109.508	1.537.717	112.036	5.8/%	0.4/%	7.3/%	8.8/%
Aeroports of RS a.d. Banja Luka	54	16.072.123	5.656.224	-144.420	-6,40%	-0,90%	-2,60%	6,3%
Post Transport Company of RS a.d. Banja Luka	2290	80.135.477	64.585.610	-745.922	-1,3%	-0,9%	-1,2%	-1,60%
JP Roads of RS d.o.o. Banja Luka	81	3.019.177.408	2.588.758.728	5.924.700	6,4%	0,2%	0,2%	11,5%
JP Highways of RS d.o.o. Banja Luka	95	795.662.304	37.783.346	5.732.647	7,9%	0,7%	15,2%	12,0%
Srna News Agency of RS a.d. Bijeljina	69	2.039.466	1.183.656	18.833	0,9%	0,9%	1,6%	1,3%
RS Lottery a.d. Banja Luka	97	5.073.661	2.204.834	133.836	2,9%	2,6%	6,1%	3,2%
PD Semberija a.d. Novo Selo, Bijeljina	154	24.271.377	10.527.869	- 1.989.924	-25,4%	-8,2%	-18,9%	-16,5%
HPK Chemical Maize Processing a.d. Draksenić, Kozarska Dubica	185	32.731.109	24.597.453	-665.283	-3,4%	-2,0%	-2,7%	-2,7%
Veterinary-Livestock Center a.d. Banja Luka	24	2.938.790	2.739.335	173.764	20,4%	5,9%	6,3%	21,0%
Gas Transport a.d. East Sarajevo - Pale	11	5.681.271	5.650.132	270.450	30,3%	4,8%	4,8%	26,1%
Special Purpose Engine Factory a.d. Pale	79	11.547.425	3.066.788	- 1.242.408	-429,7%	-10,8%	-40,5%	-501,3%
Kosmos a.d. Banja Luka	183	43.557.855	17.843.699	2.493.232	39,9%	5,7%	14,0%	16,8%
Orao a.d. Bijeljina	392	39.029.512	22.909.632	193.033	1,7%	0,5%	0,8%	3,8%
Jahorina Olympic Center a.d. Pale	165	62.522.050	26.764.615	544.798	10,7%	0,9%	2,0%	-28,2%
	10.312	6.430.870.415	4.611.897.949	15.770.436	-0,17	0,00	0,00	-0,22

Source: Tron 2018

Table 3. Strategic state-owned enterprises (FBiH)

Company	% of state owner-ship	No. of employees	Assets	Capital	Profit/ Loss	Profitability			
						Net margin	ROA	ROE	EBIT/ revenue
BH Gas d.o.o. Sarajevo,	100%	28	33.636.218	32.008.387	3.981.725	43,4%	11,8%	12,4%	14,00%
BH Telecom d.d. Sarajevo,	90%	3377	1.177.591.857	1.055.755.848	60.715.350	12,6%	5,4%	6,0%	11,70%
Roads d.d. Mostar,	93,24%	239	8.168.202	6.098.808	-452.885	-4,0%	-5,5%	-7,4%	-6,00%
Film Center of Sarajevo d.o.o. Sarajev		3	797.478	509.217	-45.897	-51,2%	-5,8%	-9,0%	-35,80%
Croatian Posts d.o.o. Mostar	62,76	687	25.278.073	21.709.068	54.878	0,10%	0,10%	0,10%	-1,60%
Igman d.d. Konjic,	51%	1149	113.170.135	86.692.165	14.866.329	13,6%	13,1%	17,1%	10,50%
JP Highways of FBiH d.o.o. Mostar	100%	393	1.793.290.889	818.888.269	65.393.160	49,5%	3,6%	8,0%	53,4%%
JP BH Post d.o.o. Sarajevo	100%	2315	297.638.433	288.116.810	2.126.620	2,5%	0,7%	0,7%	-1,20%
JP Roads of FBiH d.o.o. Sarajevo,	100%	86	2.361.688.205	1.902.871.539	25.855.444	37,2%	1,1%	1,4%	36,80%
JP Electric Company of BiH d.d. Sarajevo,	90,37%	4529	3.373.944.836	2.989.491.676	412.376	0,1%	0,0%	0,0%	-2,10%
JP Electric Company HZHB d.d. Mostar,	90%	2130	1.245.501.748	854.115.639	237.441	0,1%	0,0%	0,0%	-3,50%
JP Croatian Telecommunications d.d. Mostar,	50,10%	1403	382.281.482	322.574.843	1.027.998	0,5%	0,3%	0,3%	0,1%%
Sarajevo International Airport d.o.o. Sarajevo,	100%	502	246.507.633	230.816.904	13.683.584	27,1%	5,3%	5,6%	26,7%%
JP Una National Park.o.o. Bihać,	100%	22	715.845	221.025	110.886	11,4%	15,5%	50,2%	12,70%
BiH Lottery d.o.o. Sarajevo,	100%	540	20.195.974	10.005.792	812.085	2,7%	4,0%	8,1%	3,50%
FBiH Operator Terminals d.o.o. Sarajevu,	100%	84	56.330.123	33.276.176	1.582.134	40,7%	2,8%	4,8%	40,90%
RMU Banovići d.d. Banovići,	69,53%	2741	182.938.866	112.117.349	6.190.712	4,2%	3,4%	5,5%	8,00%
Union bank d.d. Sarajevo,	91,44%	Financial institution (bank)							0,00%
Unis-Ginex d.d. Goražde,	51%	666	59.584.141	54.831.414	10.299.292	25,8%	17,3%	18,8%	25,70%
Unis-Group d.o.o. Sarajevo	100%	20	20.526.985	2.312.646	1.525.547	6,6%	7,4%	66,0%	5,90%
FBiH Railways doo Sarajevo.	91,8	3361	1.553.465.937	755.387.752	-4.485.698	-3,7%	-0,3%	-0,6%	-5,10%
		24.275	12.953.253.060	9.577.801.327	10.731.110	11,54%	4,22%	9,89%	6,02%
FEDERATION OF BIH		329.942	62.252.961.137	31.905.822.661	1.562.424.505	3,80%	2,70%	5,20%	5,20%

Source: Tron 2018

And this tentative analysis of the performance of SOEs in both BiH entities shows that SOEs are not achieving satisfactory business efficiency, despite the fact that a considerable number of SOEs operate under special market benefits.

The key question we need to answer is: do we need state-owned enterprises?

3. DO WE NEED STATE-OWNED ENTERPRISES?

We shall answer this question by looking at how the OECD member countries treat the issue of state-owned enterprises.

Despite the great privatization wave of state-owned enterprises in the 1980s and 1990s of the last century, there has been an increasing awareness that the presence of the state and state-owned enterprises in certain industries is essential. Private companies have shown not to be concerned with the general interest. Many businesses are actively separating the economic benefit from the social benefit, believing that it will be well-respected in the local community. While it is true that more and more businesses want to make their grants strategic, few have linked their grants to areas that increase their sustainable competitive advantage. And even fewer of them systematically apply their special advantages to maximize the economic and social benefits generated by their charity (Porter and Kramer 2002, 52-53). A 2005 study by the McKinsey consulting firm found that managers in the world believed that a company should balance its obligations towards shareholders with an explicit contribution to the general public good. They emphasize that social responsibility is not spoken in general, but in a way that is consistent with the company's strategy. The more closely related social issues are to the business of the enterprise, the greater is the possibility that they may use their resources for useful purposes for society.

Since 2005, the number of state-owned enterprises at the global level has doubled. At the global level, state-owned enterprises generate about 10% of GDP and account for about 20% of the market value of total equity. Half of the OECD countries (OECD 2005) have between 50 and 100 state-owned enterprises, with the other half of OECD countries having between 25 and 50 state-owned enterprises, with ¾ of those enterprises being wholly or majority owned by the state. The extent to which state-owned enterprises are present in the economies of highly developed countries is explained by the fact that in most OECD countries the share of state-owned enterprises in the GDP of these countries is between 15% and 35%, while this ratio is even slightly higher than 80% in Finland. Industries dominated by the presence of state-owned enterprises in these countries have the status of a public good and strategic industries, and in most cases it refers to the energy, infrastructure, transport, and often the financial sector.

Following the experience of highly developed countries, it is certain that in our country the state must be present in all industries that belong to the category of public goods, which have the status of strategic industries, and in which our country can gain a comparative advantage. Energy, water, forests, ores, industry transport infrastructure, should have the status of public goods and strategic industries. Therefore, the answer to the question “do we need state-owned enterprises?” is: yes, we need state-owned enterprises to manage our public goods and industries where we as a country can gain a comparative advantage. Energy, water, forests, ores, transport infrastructure are industries that need to have the status of public goods and strategic industries.

What we lack is a clear development strategy for BiH (its entities), which needs to determine in which industries the presence of the state is necessary, and therefore a clear definition of which majority state-owned enterprises should be abandoned, restructured and privatized. There is no doubt that the largest number of enterprises in the category of state-owned enterprises with disabilities (FBiH) need to be restructured and privatized. And it should have been done a long time ago. In this domain, the RS has gone one step further than the FBiH.

In addition, there is a lack of industry strategies that need to answer the question: "What are the state's expectations of each state-owned enterprise in the industries in which the state is present?" If there are no clear expectations, and there are actually none, if there is no vision and clearly defined business mission for each individual company, then each direction of their action can be accepted as good, which completely relativises the issue of their business success.

After determining where the state should be present and what its expectations are, the question is how to raise the efficiency of SOEs in strategic sectors, in sectors where the state will continue to be present, and how to achieve strategic goals in each strategic sector.

But before we try to look at how to increase the efficiency of state-owned enterprises, it is necessary to identify the reasons for the business inefficiency of our state-owned enterprises.

4. REASONS FOR BUSINESS INEFFICIENCY OF OUR STATE-OWNED ENTERPRISES

The quality of corporate governance in BiH is relatively low in both entities. The grade is C, poor to medium, as measured by the RKU index: 52.39% of the fulfillment of the prescribed criteria in BiH (Papac et al. 2016, 142), with almost identical rating at the entity level (51.66% in FBiH and 53.33% in RS). Significant improvements are needed in almost all areas of corporate governance, as indicated by the FBiH Government Reform Agenda (part: Business climate and competitiveness).

The quality of corporate governance of state-owned enterprises in BiH in both entities is at an even lower level. There are many reasons. In addition to the already mentioned fact that one of the reasons for the business inefficiency of state-owned enterprises is the lack of a clear development strategy in both entities, and the absence of clear industrial strategies, clear state expectations of each state-owned enterprise, the following reasons for the business inefficiency of our state-owned enterprises in both entities can be recognized. (Šunje 2017, 93-95):

- *State-owned enterprise management model, inadequate state-owned enterprise management model*

In early 2016, the FBiH Government abandoned the decentralized model of managing state-owned enterprises (sector minister model) and located the management of state-owned enterprises at the level of the Government of FBiH. State-owned enterprises are managed in the same way in RS. The RS Government directly manages state-owned enterprises the same as the FBiH Government. Such model of management of state-owned enterprises is not applied by any developed country in the world. It is not realistic to expect that a government of one country, besides numerous other tasks, will be sufficiently focused on managing a large number of state-owned enterprises. There is no dilemma that the successful management of a large number of state-owned enterprises also requires an appropriate management focus.

- *Public, state-owned enterprises do not have the characteristics of a corporation to the necessary extent*

The corporation as the most suitable form of organizing big business emerged and became known with the advent of the first big businesses, in the late 19th and early 20th centuries. It is corporations that have contributed most to the enormous development of the world economy in the last 120-130 years.

Corporations as a form of organizing big business are characterized, among other things, by a limited guarantee of the owners (shareholders), complete separation of ownership and managerial functions, and positioning, on the one hand, of the supervisory board as a key corporate body (representative of the owners), and, on the other, professional managers as operational management holders. The quality of a corporation depends to a large extent on the ability of the people, the owners' representatives, who sit on the board of directors, and, above all, the ability of professional top executives who run the corporate business.

In accordance with the logic of corporate business organization, professional top executives are the key to corporate success. The success of corporate business depends on their ability. Professional top managers are recruited by the supervisory board itself, regulating the relationships between the owners (the supervisory board as the owner's representative) and the top managers (holders of managerial function), including top management fees, through a management contract.

Without going here in more details on the well-known scope of work of the Supervisory Board and the place and role of professional top-managers, the fact is that in our state-owned enterprises, the Supervisory Board lacks the competencies that a corporate Supervisory Board should have. In addition, our state-owned enterprises are not familiar with the category of professional managers, with the notion that, generally speaking, there is still no awareness in our society that the quality of a business depends primarily on the quality of the people who run it, on the quality of their top managers. Likewise, our state-owned enterprises do not use the institute of managerial contracts as the basic mechanism governing the relationship between the holder of the ownership (Supervisory Board) and the managerial function.

- *Public enterprises are heavily influenced by political parties in power*

After each parliamentary election in both entities, the political parties that win power share the electoral prey - agreeing on which party in power "belongs" to which state-owned enterprise. Then there is a purge: all supervisory board members and management not belonging to this political option are replaced, regardless of the business results achieved. Membership in the boards and boards of state-owned enterprises is decided, de facto, at the meetings of the staff committees of the political parties to which the companies are reassigned. The supervisory boards only formally approve the board members (top executives) selected by the staff committees of the respective political parties. In addition, state-owned enterprises are becoming an oasis where political parties employ their staff beyond real needs. It would be interesting to make an analysis of the extent to which the number of employees in some state-owned enterprises has increased in relation to the volume of business over a long period of time.

The criterion for the election of members of the supervisory boards in most cases is party eligibility. The same logic, the logic of political eligibility, is followed at election of top executives and board members. The top executives of our state-owned enterprises are party officials, not professional managers. And, completely contrary to the logic of corporate governance, top executives often do not have the ability to choose their closest associates. They are elected by the staff committees of the respective political parties. Consequently, the corporate head of state-owned enterprises does not recognize the state as the owner, but the political party that controls it, putting in the proper plan the interests of a given political party, not the interests of the state and state-owned enterprise.

- *Legal solutions that further regulate corporate governance of public companies are contrary to the logic of corporate governance*

In addition to the FBiH and RS Companies Laws (two laws), the functioning of state-owned enterprises with majority state or entities ownership (over 50%) is additionally regulated by a number of laws and by-laws. A common feature of additional legislation regulating the issue of managing state-owned enterprises in which the state (entities) is the majority owner is that they are relativized, diminished by the prerogatives of the corporation as a form of business organization. The given laws and regulations treat the top managers (and even the members of the supervisory boards) more as a kind of civil servants, not as professional managers, locating to the Government of FBiH and RS the power and considerable part of the powers which, following the logic of corporate management, should be stationed at the level of the supervisory boards.

In addition, there are restrictions on the amount of top managers' remuneration (monthly remuneration: four or five average FBiH salaries, with the possibility of an annual bonus of up to two average salaries, and the remuneration of top executives in state-owned enterprises is similarly limited in RS), even for members of the supervisory boards (monthly remuneration: one average salary), which is contrary to the corporate governance logic. It is unrealistic to expect that true professional managers will agree to run businesses whose assets are valued at hundreds of millions of KM for such a fee, nor will serious people agree to be members of the supervisory boards for the estimated amount of compensation, with assumed loyalty to the political parties that appointed them.

5. HOW TO MANAGE STATE-OWNED ENTERPRISES?

State-owned companies in the most developed countries of the world do not show a satisfactory degree of business efficiency.[1] The way in which individual countries have ensured good governance of state-owned enterprises is to treat state-owned enterprises as corporations "... run by professional and capable managers, not by politicians" (The Economist 2014), which is achieved through the separation of ownership and governing functions, putting state-owned enterprises outside the direct control of political parties in power. The world's best-run state-owned enterprises (the example of Norway and the Norwegian giant Statoil, as one of the best-run businesses in the world, a state-owned enterprise 100% owned by a state that manages Norwegian oil and gas) "... have proven that their successful business can be ensured ... without a leading state hand"(The Economist 2014). To paraphrase the message of a previously cited article from The Economist: the problem of efficient functioning of state-owned enterprises has been successfully solved only by countries that hold state-owned enterprises far enough from their governments.

And this is the path to follow: to keep state-owned enterprises far enough from their governments and political parties in power. The paper will furtheron deal with the world experience of countries that successfully manage their state-owned enterprises, and it will be suggested how the operations of our state-owned enterprises could be improved.

6. WHERE AND HOW TO MOVE ON NEXT?

As we have seen, the number of state-owned enterprises in the RS and especially in the FBiH is large and the largest BiH enterprises are state-owned enterprises, with high-value assets, significant participation in GDP, and a large number of workers. However, state-owned enterprises in both entities are not sufficiently efficient and appropriately managed, which has direct repercussions on the level of GDP. *How to improve the work of state-owned enterprises?*

As has been pointed out on several occasions, the first (pre) step to improve the work of state-owned enterprises is to identify in which sectors of the economy the state as the owner should be present, which cannot be determined without entity development strategies and industrial strategies, and a clear delimitation of state power vis -à-vis state property in all instances. Accordingly, the first prerequisite for shaping how to improve the operation of state-owned enterprises is, on the one hand, defining in which sectors, in which industries, the state becomes the owner and, on the other, what are the state's expectations for the given industries (industrial strategies).

Although this issue (the issue of the Entity's development strategies and its industrial strategies and the privatization of state property) goes far beyond the scope of this paper, it is no doubt that the state (in all instances) still needs to be present in certain industries. Infrastructure industries that have the character of the public good (energy, road and rail infrastructure, forests, water, etc.), and industries where FBiH can build a comparative advantage, should still be owned by the state.

7. ORGANIZING A MODERN CORPORATE GOVERNANCE SYSTEM IN STATE-OWNED ENTERPRISES

A key step in creating the preconditions for the successful functioning of state-owned enterprises should be to organize a modern system of corporate governance in state-owned enterprises through the corporatization of state-owned enterprises. This specificity is inevitable for the sole reason that corporations have multiple owners so that their business cannot be run by the owners of their own indipendent businesses, especially not one of them. (Franks and Mayer 2001, 14) Corporate governance, as a set of mechanisms by which a corporation manages, grows and develops in the market, is fundamental to the developed countries of the world. The theme of corporate governance, in theory, begins with Adam Smith's capital work, Wealth of Nations, which already emphasized that directors (today's managers) cannot care for and manage a business and money the way their owners do it (Ružić 2011). According to the OECD (*Organisation for Economic Cooperation and Development*) definition, corporate governance *'Corporate governance essentially involves balancing*

[1] For more details on the inefficiency of state-owned enterprises in highly developed countries see The Economist 2014

the interests of a company's many stakeholders, such as shareholders, senior management executives, customers, suppliers, financiers, the government, and the community. Since corporate governance also provides the framework for attaining company's objectives, it encompasses practically every sphere of management, from action plans to internal controls for performance measurement.'

In addition to the OECD, IFC *(International Finance Corporation),* among others, emphasizes the definition of corporate governance, which is presented as a *'system of structures and balances between boards, management and investors in order to achieve the effective functioning of the company, ideally equipped to produce long-term values'.*

Home references on corporate governance most emphasize Babić's definition of corporate governance as a *'governance system in which there are two-pronged actors: Owners and managers with various management roles and positions whose proper performance is to ensure the effective functioning of the corporation and the permanent long-term enhancement of shareholder wealth'.* Corporate governance is significant because it provides guidance to corporations in order to profit and improve their business. It is particularly relevant to organizations with separate ownership and management structures, which is characteristic of joint stock companies in an open corporate governance system. However, it is particularly important for transition countries whose corporate governance system is based on an entrepreneurial-transition model and whose business environment is unregulated, so there is a need to improve the level of corporate governance and to have functional convergence. *Functional convergence occurs when an individual investor or corporation continually works to improve the level of corporate governance, despite the lack of an appropriate and stimulating legal framework.* In transition countries, it becomes attractive to investigate the level of improvement of corporate governance systems due to the fact that the entrepreneurial-transition model is inherent in transition countries. Its main characteristics are that it is a system under construction, with the legal sphere being rather imprecise, there is insufficient definition in the relations between the management and the principal, there are many elements from the era of the controlled economy, the lack of expertise of shareholders and the management on corporate governance, the lack of understanding of their obligations, interfering of competencies, the supervisory boards have power legally, but actually it is with the management. Good corporate governance should result in reconciliation of the relationships that arise between owners and managers due to their different roles in modern corporations, reconcile the interests of majority and minority shareholders and protect minority shareholders, and provide adequate support to the supervisory board, management and lower-level management in achieving the goals of the corporation, and establishing a functional system for controlling and monitoring the corporation's operations.

Given that there are no universal patterns by which the quality of corporate governance is measured for each enterprise, these indices are generated as a result of individual surveys and are generally applicable to limited areas from the perspective of the region and the type of corporate governance model. Also, different indices look at companies with different criteria and have different categories, and the number of criteria and categories may not be the same. The following table shows the aforementioned indices for measuring the quality of corporate governance and their basic characteristics. (Mustajbašić et al. 2018)

Table 4. Corporate Governance Indices

Index name	Application area	No. of criteria	No. of categories	Rating scale
CorporateGovernance Quotient (CGQ)	S&P 500, S&P 400, S&P 600, Russell 3000	63	4	From 1 to 100%
S&P Corporate governance score or GAMMA score	USA and GB (only at corporation call)	80 to 100	4	From 1 to 100% (from 1 to 10)
GMI rating	Russell 1000, S&P 500, S&P 400, TSX 60, Nikkei	450	14	From 1 to 100% (from 1 to 10)
DR rating – Deminor Rating	USA and GB	20	4	From DR-1 (lowest) to DR-10 (highest) => scale ranges by 1/2 value
Index DVFA – Scorecard for German Corporate Governance	Germany and other Continental Europe countries	47	7	From 1 to 100% (from 1 to 8)

Index PFCG – Polish Forum for Corporate Governance	Poland – highest OECD rating for corporate governance development	60	9	From 1 to 100% (from A to E - npr. A, A-, B+, B, B-,…)
TRIS rating	Eadt Asian stock exchanges	45	4	From 1 to 100% (from 1 to 10)
Brunswick UBS Warbuk	Moscow stock exchange	20 sub-category (complex criteria)	8 main criteria	From 1 best rated companies to 72 for worst rated
SEECGAN index	Corporate governance in Croatia	98 sub-category - questions	7 main criteria	From 1 to 10 (A, B, C, D ratings)

Source: Papac et al. 2016, 137-138

Developing good corporate governance practices would allow the state to better protect its assets, increase the value of SOEs and make them more attractive to strategic partners and investors. Therefore, it is very important to work on the quality of corporate governance, both for the benefit of the company itself and for the entire national economy (Mustajbašić et al. 2018).

When it comes to the corporate governance system, the corporate governance system in BiH is closer to being closed, which can be a consequence of gathering experience from Central European countries, but also due to the low level of financial market development. (Matić and Papac 2010).

The quality of corporate governance is measured by the RKU index (short for *Razina Korporativnog Upravljanja* - Level of Corporate Governance), which was developed and tested on the model of the Scorecard for German Corporate Governance index, presented in the previous section. (Mustajbašić et al. 2018)

According to this index, the quality of corporate governance is assessed through six categories within which there are prescribed criteria. The categories of corporate governance quality assessment are (Papac et al. 2016):[2]

1. Commitment to corporate governance principles and social responsibility,
2. Shareholders Assembly,
3. Supervisory Board / Non-Executive Directors,
4. Management Board - Management,
5. Audit and internal control mechanisms,
6. Transparency of business.

The assessment is conducted once a year and is valid for a period of one business year, that is, for a period between two general meetings of shareholders.

Table 5. Corporate Governance Rating Index Structure

Degree of fulfillment of default criteria	Rating mark (1 - 10)	Mark description (10 levels)	Mark description (5 levels)
0 – 15 %	F	Extremly bad	E – bad
16 – 25 %	E	Very bad	
26 – 35 %	D	Bad	D – poor
36 – 45 %	+ D	Poor	
46 – 55 %	C	Poor to medium	C – medium
56 – 65 %	+ C	Medium	
66 – 75 %	B	Medium to good	B – good
76 – 85 %	+ B	Good	
86 – 93 %	A	Very good	A – very good
94 – 100 %	+ A	Extremly good	

Source: Papac et al. 2016, 140

[2] The survey questionnaire consists of a total of 46 questions, where the first category lists 7 questions, the second 9, the third 7, the fourth 9, the fifth 5 and the sixth 9. The questions are answered with "Yes" and "No" and each question is weighted with a certain value.

A survey of the quality of corporate governance in BiH according to the RKU Index, conducted by Papac et al., published in 2016, shows that the quality of corporate governance in BiH is poor to medium. In this research, the RKU index measured the quality of corporate governance for 87 corporations in Bosnia and Herzegovina, of which 49 were from the Federation of BiH and 38 from the Republic of Srpska. The quality was measured in three years (2011, 2012 and 2013) and noignificant difference was found between the three measurement periods, i.e. C (poor to medium). This shows that only half of the prescribed criteria were met. It should be noted that the first category is significantly below, at only one third of the standards set for this category. (Papac et al. 2016). A detailed overview of the results of the mentioned research is presented in the table.

Table 6. The quality of corporate governance in BiH as measured by the RKU index

	Index category	**Weight value**	**2011**	**2012**	**2013**	**Total average**
I.	Commitment to the principles of corporate governance and social responsibility (7 criteria)	15%	4,73%	5,48%	6,28%	5,49%
II.	II. Shareholders Assembly (9 criteria)	15%	8,53%	8,62%	8,66%	8,60%
III.	Supervisory Board (8 criteria)	10%	4,32%	4,32%	4,40%	4,35%
IV.	Board of Directors-Management (9 criteria)	20%	10,76%	10,48%	10,61%	10,62%
V.	Audit and internal control mechanisms (5 criteria)	10%	5,43%	5,37%	5,45%	5,41%
VI	Business Transparency (9 Criteria)	30%	17,05%	16,97%	17,53%	17,18%
TOTAL			50,81%	51,23%	52,92%	51,66%

Source: Papac et al. 2016, 141

Previous corporate governance quality surveys in BiH according to the above index have shown that the overall score is 51.66% of meeting the prescribed criteria, that is, the quality is poor to medium (C), which shows that significant improvements are needed in almost all areas of corporate governance. Extremely low results are in the part of the Supervisory Board, followed by audits and internal controls, and a poor result is shown by the commitment to the principles of corporate governance and social responsibility. Somewhat better results are in the segments of shareholder assemblies and the board of directors, and the rating is mostly improved by a solidly assessed business transparency (Mustajbašić et al.2018).

The organization of a modern corporate governance system for state-owned enterprises should be realized through the implementation of a comprehensive project. The following is our view of how the corporate governance system of state-owned enterprises in the FBiH should be established.

Corporate governance system in RS could be set up in the same way.A modern corporate governance system in SOEs in FBiH and RS (in both entities) should (fully) follow and support the logic of OECD corporate governance guidelines in SOEs that are derived and fully compatible with OECD corporate governance principles. The OECD Guidelines for Corporate Governance in SOEs should be a "road map" in the project of organizing a modern corporate governance system in SOEs.

OECD Guidelines for Corporate Governance in SOEs

I Rationales for state ownership (Six Guidelines A-F)
II The state's role as an owner (Six Guidelines A-F)
III Equitable treatment of shareholders (Four guidelines A-D)
IV Stakeholder relations (Three Guidelines A-C)
V Transparency and disclosure (Five guidelines A-D)
VI Responsibility of (supervisory) boards of state-owned enterprises (Six guidelines A-F)

At this point, we will focus on two key aspects on which a modern corporate governance system in SOEs should rest:

1. Method (model) of managing state-owned enterprises;
2. Corporatization of state-owned enterprises.

7.1. Mode (model) of state-owned enterprises management - ownership body

Highly developed countries, OECD members, apply different models of state-owned enterprise management (sector minister model, dual model,…),[3] with the centralized state-owned enterprise management model proving to be the most effective. Cadbury (1992) emphasizes the separation of ownership and management structure and corporate governance presents itself as a set of mechanisms through which a company functions. Corporate governance has evolved in different parts of the world. Because of this, two corporate governance models have emerged, referred to as the single-stage and two-stage corporate governance models. The main difference between the two models mentioned is in the power segment over the enterprise. If external structures are more powerful, and if the business of a company is more determined by the capital market than by interest groups, then we are talking about an open model. If power is in the hands of interest groups, primarily shareholders, then it is a closed model. In addition to this difference, with the development of corporate governance, there has been a differentiation of models in other segments, and the basic differences are shown in the following table. The following table provides a comparison of the single-stage and two-stage models of corporate governance.

Table 7. Comparative model of single-stage and two-stage model

	Management	Control	Composition	Leadership	Size
Single-stage model	Board of Directors	Board of Directors	Executive and non-executive members	There may be a duality of positions but not recommended.	The tendency of reducing the size of the board of directors.
Two-stage model	Board of Directors	Supervisory Board	The board of directors is composed of executive members, the supervisory board of non-executive members.	There is no duality of positions.	The statutory minimum number of members of the Board of Directors and Executive Board is required.

Source: Monks and Minow 1995

It is a way of managing SOEs, which is also recommended by the second OECD Guidelines (II. The role of the state as an owner). There is no reason for us not to centralize the management of state-owned enterprises either through a separate agency within one of the key ministries, or even through a separate ministry (Belgium).

OECD Guideline: II. The state, in the role of the owner, also defines the framework area of work of such a body. It positions it in a way to, on the one hand, relativize the influence of political parties in power (direct accountability to Parliament, not to the Government), and, on the other, to enable relatively independent operation of state corporations and to position a state-owned supervisory board in accordance with the corporate governance logic, as the central corporate body (guideline C: the state should leave the boards of state-owned enterprises to exercise their powers and respect their independence), with the active participation of the central government body (entity-level government bodies) in the appointment of competent members of the supervisory boards. Logically, a government centralized body "… establishes a reporting system that allows regular monitoring of the results of a state-owned enterprise" (Guideline F, point 3) , thereby exercising its supervisory role.

[3] There are basically three models for managing SOEs: the sector minister model, the dual model and the centralized model. For more information on governance models for SOEs in OECD member countries, see OECD 2005

OECD Guideline: II. The role of the state as the owner

A. Authorities should develop and publicize ownership policy that sets out the overall goals of state ownership, the role of the state in corporate governance in state-owned enterprises, and the manner of implementation of their ownership policy.
B. The government should not be involved in the day-to-day management of SOEs and should allow them full operational autonomy to achieve their defined objectives.
C. The state should let SOE boards exercise their responsibilities and should respect their independence.
D. **The exercise of ownership rights** should be clearly identified within the state administration. The exercise of ownership rights should be **centralised in a single ownership function**, or, if this is not possible, carried out by **a co-ordinating body**.
E. The **coordinating body or ownership entity should be held accountable to representative bodies** such as the **Parliament** and **have clearly defined relationships with relevant public bodies**, including the state supreme audit institutions.
F. The state as an informed and active owner should exercise its ownership rights according to the legal structure of each company. Its prime responsibilities include:
1. Being represented at the general shareholders meetings and effectively exercising voting rights;
2. **Establishing well-structured, merit-based and transparent board nomination processes in fully or majority-owned SOEs**, and **actively participating in the nomination of all SOEs' boards**;
3. Setting up reporting systems that allow the ownership entity to regularly monitor, audit and assess SOE performance;
4. When permitted by the legal system and the state's level of ownership, maintaining continuous dialogue with external auditors and specific state control organs;
5. Ensuring that **remuneration schemes for all SOE board members foster the long term interest of the company** and can **attract and motivate qualified professionals**.

To conclude, such a centralized body would have to be an expert body that, starting from industrial strategies (not yet in existence), verifies strategic plans of state-owned enterprises, giving them full freedom in achieving their development and business goals and results. The management of state-owned enterprises is left to the supervisory boards in such a way that state-owned enterprises accomplish their business mission through a "management by results" system, with a focus on achieving consistent business results. Result as the only benchmark.

7.2. Corporatization of state-owned enterprises

Despite certain differences in the organization of corporations in different parts of the world, corporation as a form of organizing big business around the world is characterized by the so-called. limited guarantee (shareholders) and separation of ownership and management function. According to the OECD definition of corporate governance, key stakeholders of the corporation are shareholders, board, top management, and other stakeholders relevant for its operations (customers, suppliers, employees, etc.).

OECD definition of corporate governance

Corporate governance includes the structure of relationships between (1) the top management of a corporation, (2) its (supervisory) board, (3) its owners (shareholders), and (4) other stakeholders. Corporate governance also provides the structure by which corporate goals are shaped, and the means to accomplish goals and continuously measure corporate performance.

Each corporation functions so that the owners (shareholders) through the assembly elect their representatives to the (supervisory) board, which hires and oversees the work of professional top executives who run the business operationally. In this context, the supervisory board (shareholder representative), on the one hand, and top executives as holders of separate managerial functions, on the other, are the main actors of each corporation, and the managerial contract is a mechanism that ensures the conflicting interests of owners and managers. The Supervisory Board has the status of a superior in relation to top executives and, consequently, the status of a key body of the corporation. The quality of the corporation depends on the quality of the people sitting on the (supervisory) boards and top-managers.

Therefore, there is no reason why state-owned enterprises, organized as corporations, do not function as well as any other corporation. The only difference is that the state as an owner, through its ownership body, and based on industrial strategic determinations and policies, can set their visionary-strategic expectations before state enterprises, which state-owned enterprises should achieve in an efficient way.

Therefore, the corporatization of state-owned enterprises should mean nothing other than the establishment of state-owned enterprises on corporate principles. And the OECD VI Guideline positions the supervisory board as a key body of a state-owned enterprise, but the necessary focus should also be placed on the professionalization of management. Let's not forget, ultimately, the quality of the business always depends on the quality of management. To summarize the story of the corporatization of state-owned enterprises.

State-owned enterprises should have the characteristics of a corporation in such a way that their supervisory board is a corporate body with a field of activity which is presumed in OECD VI Guideline, with appropriate communication with the ownership entity. The question of the composition of the supervisory board chosen by the ownership entity is also crucial. We believe that there should be room in the Supervisory Board for independent members (one to two, depending on the size of the board), competent, honest and self-aware people who are not owners' representatives, and (even) employees' representatives. Certainly, the way of selecting the members of the Supervisory Board is one of the key issues that should be considered through the realization of the project of organization of a modern corporate governance system.

The next feature of corporatized state-owned enterprises should be professional management, that is, the engagement of professional managers by supervisory boards (with proper involvement of the ownership entity). Professional managers would have the necessary degree of freedom to perform managerial tasks under the supervision of a supervisory board aimed at achieving the strategic goals set (or approved) by the ownership entity, as a reflection of appropriate industrial strategies and policies. The result of the work of professional managers would be evaluated by the supervisory board (and the ownership body) solely through the success in achieving the set strategic goals and business results (the result as the only benchmark). And as long as the state-owned company achieves the planned results, the status of the executive manager is beyond question. Let's not lose sight of the fact that the success of state-owned enterprises depends primarily on the quality of the people sitting on the boards of directors and, above all, on the quality of professional top executives. There is no reason that our state-owned company is not managed by a professional manager with appropriate managerial experience coming from another country.

OECD Guideline: VI. Accountability of (supervisory) boards of SOEs

A. Boards of SOEs should have a clear mandate and ultimate responsibility for the results of the company. The board should be fully accountable to the owners, act in the best interests of the company and treat all shareholders fairly. B. Boards of SOEs should perform their duties of overseeing management and strategic direction, in accordance with the goals set by the government and the ownership entity. Boards should have the power to appoint and dismiss the CEO. C. The boards of SOEs should be constituted so that they can make objective and independent assessments. Good practice requires that the chairman of the board be separated from the CEO. D. Where employee representation on the board is required, mechanisms must be put in place to ensure that such representation is achieved effectively and contributes to improving the ability, information and independence of the board. E. Where necessary, boards of SOEs should form specialized committees to support the full board in the performance of its functions, especially with regard to audit, risk management and compensation. F. Boards of SOEs should conduct an annual assessment of their performance.

The relationship between the supervisory board and professional managers would be governed by the managerial contract, with the remuneration for managerial engagement, and the engagement fees for supervisory board members should be (far) above current limits. The provisions of management contracts would be approved by the ownership entity.

The result of the project of organizing a modern corporate governance system for state-owned enterprises should also be a set of laws and by-laws that will verify the projected situation. In any case, it is a complete project that positions state-owned companies in a paradigmatically different way, so that its realization should take into account the way of its presentation in terms of creating a supportive environment for its acceptance.

Except for state-owned enterprises at Entity levels, the same logic can be applied to the functioning of state-owned enterprises at lower state levels, primarily to utility state-owned enterprises at cantonal, city and municipal levels. This means: centralized management of utility companies led by professional CEOs, and the result as the only measure of business success.

8. CONCLUSIONS

There is still enormous capital in the hands of over 60 majority state-owned enterprises in both entities of Bosnia and Herzegovina, with a significantly larger number of state-owned enterprises and a significantly larger non-privatized state capital in the Federation of Bosnia and Herzegovina. However, state-owned enterprises in both BiH entities are ineffective in business and many of them have losses primarily due to the unclear designation of the state as the owner and inappropriate way (model) of managing these enterprises, with the great influence of political parties in power.

The state still needs to be (and will be) present in the BiH economy, so the question of the efficiency of these companies is of great economic importance. Improving the management of state-owned enterprises would have a multiplying positive impact on the economic development of the FBiH. The restructuring of the management of SOEs should be approached in a holistic way, guided by the experience of the countries that have done so successfully, and following the logic of the OECD Guidelines for the Management of SOEs.

First, starting with a clear definition of the area of economy (industry) in which the state at the entity level emerges as the owner (development strategy of BiH at the entity level), and the clear definition of its expectations as the owner (industrial strategy), it is necessary to define the model of management of public enterprises at state, entity level (centralized model – ownership entity at entity level).

Secondly, it is necessary to corporate state-owned enterprises through an appropriate legislative framework to, among other things, sufficiently distance them from the influence of political parties in power. There is no reason for SOEs to function differently than any other successful privately owned corporation.

Although the subject of this paper is not state-owned enterprises at lower levels of government, we have no dilemma that the logic of corporatization of state-owned enterprises should, with appropriate adaptation, be applied to state-owned enterprises at cantonal (FBiH) and local, municipal, levels. It is more than obvious that the management of state property at lower levels of government needs to be reformed.

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