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PROPOSAL

to the Government of the Federation of Bosnia and Herzegovina

A reform of state-owned enterprises should be the primary, nonpostponable activity of the new government in economy of the Federation of Bosnia and Herzegovina

1. The necessity for the reform of state-owned enterprises

The Federation of B&H alone, without the cantons, is still a major owner in almost 50 enterprises that dispose of our most precious resources and highly valuable assets, and that employ tens of thousands of workers. It is a fact that a great number of these enterprises are inefficient as businesses, with not so small a number of those who pile their losses year in year out.

The reform, or more precisely, the restructuring and modernizing of enterprises in which FB&H is a major owner (further in the text **SOE**), should not be postponed any longer, nor be exclusively conducted through their privatization; it should finally have to become one of the most important tasks of the new government in our economy. This is so for many reasons:

- 1) because it is the only developing resource of our economy at the moment and in the near future¹
- 2) because it is a transitional enterprise through which our SOEs are trained to become able to make a successful and competitive performance in the market economy,
- 3) because European Union has been insisting on it for a long time, especially lately, seeing it as a very significant transitional enterprise and a prerequisite for a faster development of our economy,
- 4) because it is the only way to prevent devaluation and destruction of our SOEs,
- 5) because the existing system of managing these enterprises is not a modern, professional and corporate system that is typical of the trade economy.

¹ For well-known reasons, this is not the case with small industries, nor foreign direct investments

2. How to make a reform of these enterprises

As our SOEs have to be reformed, for obvious reasons, it is logical to pose a question – how should we do it? As it is well-known, with a few honorable exceptions, there is no program of restructuring and modernization of SOEs. It is sad to have to state this 19 years after their „transitions“. What we have is not what we need.

What we have made, or, more precisely, what our „experts for transition“ made to us at the beginning of SOE transitions in our country, makes only one part of the program. And that is the part which regulates the way privatization should be conducted, but not the way of carrying out their managerial, organizational and motivational transformation and modernization.

The makers of this program have left those inevitable transformational enterprises in SOEs to be made by their future owners, which, as we well know, has never happened. A great number of the existing SOEs in the Federation of B&H have not been privatized, with the inherited, anti-market solutions in the area of management, organization and motivation, that is, of rewarding managers, and thus without a positive effect on the development of the economy.

3. What should be done to make the anti-market solutions change, that is, modernize?

To make anything change and modernize in the above mentioned areas, it is necessary, prior to all, to make a program of restructuring and modernization of SOEs in the Federation of B&H. As we have previously stated, this should have been done much earlier, in the first year of transition of these companies. Had this been done in that period, we would not have had such a bad situation in this economic sector, nor would we have lost a great number of SOEs, and with them a great number of working positions in the economy of the Federation of B&H. However, what happened, happened. Let us change and modernize it now.

In order to do this now, the new Government of the Federation of Bosnia & Herzegovina should engage an adequate and renowned consultant scientific institution that will gather experts from the area of modern corporate management, and design the above stated program with them, through close cooperation and in consultation with the proper ministries. This program would be the basis for: a) making a new and modern legislation on state capital management, and b) introducing concrete and modern solutions to the above mentioned areas in all SOEs that are active in the Federation of Bosnia and Herzegovina.

4. What to change and modernize?

We will only outline here the things that are most important for new solutions and that are typical of trade economy in our SOEs and should thus be incorporated in their work as soon as possible. The list of those solutions is given in the rest of this text.

- **What kind of management system should be applied in SOEs?**
 - Modern, corporate and professional management systems are applied in SOEs in the market economy, which is not the case with our SOEs.
- **Who manages these enterprises and how?**
 - SOEs in the market economy are managed by state management institutions, such as: state pension funds and other institutional investors, as well as banks and other financial institutions, whereas our SOEs (on federal and cantonal levels) are managed through governments (both federal and cantonal), political parties that participate in the government; they conduct the process of „privatization“, and they consider them their assets, and, accordingly, manage them in their name and for their profit, and not in the name and for the profit of the citizens, their legal owners, and all the other groups of interest and influence.
- **Who are the managers of SOEs?**
 - Managers in SOEs and all other corporatized enterprises in the market economy are professional leaders of their businesses, whereas in our SOEs they are leaders – non-professionals, office workers who are employees of these enterprises.

- **Who appoints SOE managers?**
 - SOE managers in the market economy are exclusively appointed by the auditing committee of the enterprise through a job advertisement, whereas managers of our SOEs are appointed by the Government of the Federation of B&H (for SOEs on cantonal level) through a formal job advertisement.
- **What professional profile should managers have?**
 - SOE managers in the market economy are primarily business and management experts, whereas our SOE managers are exclusively loyal, often non-expert members of political parties which participate in the government.
- **What do those who appoint managers want them to do?**
 - Those who appoint SOE managers in the market economy want them to secure a successful, stable and profitable enterprise performance at the penalty of an urgent removal, whereas those who appoint managers in our SOEs want them to do only two things: 1) to be loyal to them and 2) to open their enterprise's cash register.
- **Who is responsible for SOEs' performance?**
 - SOEs' managers and auditing committees are exclusively held responsible for a successful SOEs' performance, which is not the case with our SOEs. In our SOEs, there is no defined term of accountability for their performance. No one is held responsible for an unsuccessful performance in our SOEs.
- **How is the success of SOEs' managers' performance controlled?**
 - In SOEs in the trade economy this control is continuously conducted through a standard of manager's efficiency, whereas in our SOEs it is not conducted at all. No one in our SOEs controls and evaluates the success of the managers' performance.
- **How are SOE's managers stimulated to make the enterprises as efficient as they can be?**
 - In SOEs in the trade economy, this is done by offering the managers several kinds of attractive rewards and by relating those rewards to the enterprise's efficiency, which is not the case with our SOEs. In our SOEs, managers are not stimulated through work, and especially not to make the enterprise as efficient as it can be, for they are paid fixed amounts of money regardless of the final result.
- **When are SOEs' managers removed from office?**
 - In SOEs in the market economy managers are not removed as long as they are successful, whereas in our SOEs everyone is removed – both successful and unsuccessful managers and auditing committees – the moment other political parties enter the government, which clearly states that SOEs are the parties' ownership.
- **How are employees recruited in SOEs?**
 - Recruitment of employees in SOEs in the market economy is done through job advertisements and best candidates are chosen. In our SOEs nepotism is spreaded, members of political parties are employed, as well as cousins and friends of political parties' barons.

Thus, having in mind all the above stated, how can we make our SOEs perform successfully, increase their economic efficiency and in that way increase our GDP and create the so much needed work for the unemployed? By retaining all the above mentioned anti-market solutions in the domain of SOEs' management, organization and rewards for managers, it is impossible to secure that. The only way out is the inevitable and urgent reform of the so-called public sector economics through a restructuring and modernization of SOEs.