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Analysis of Performance of State Owned Enterprises – Compression analysis of the Republic of Slovenia and Bosnia and Herzegovina

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A B S T R A C T

One of the biggest questions battling governments around the world is performance of State Owned Enterprises (SOEs), as they are one of the biggest companies in every country and have a large share in economics growth and prosperity. Power, water and other types of independence of each country are mainly based on resources controlled by State Owned Enterprises. This issue became more important in last few decades due to globalization and market liberalization. Paper analyses performance of SOEs from the Republic of Slovenia and Bosnia and Herzegovina. To understands differences and similarities between SOEs from Bosnia and Herzegovina and Slovenia we have conducted a comparison analysis. Measuring the success of these SOEs is based on the analysis of financial statements for period from 2008 to 2012, using indicators of profitability and market indicators. The results reveal that SOEs from Bosnia and Herzegovina have poor governance and much lower performance than SOEs from Slovenia. The broad conclusion that emerges from the results is that government of Bosnia and Herzegovina has to conduct extensive reforms and reorganization of its S SOEs in order to survive and grow.

A R T I C L E I N F O

Keywords:
Performance, State Owned Enterprises, Slovenia, Bosnia and Herzegovina

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1.1. INTRODUCTION

There are numerous reasons for establishing or retaining public enterprises, especially if we consider resources that are very important for country, society and from witch most of the government budget is financed. Jones and Mason (1982) categorized as follows: ideological predilection, acquisition or consolidation of political or economic power, historical heritage and inertia, and pragmatic response to economic problems. Friedmann and Garner (1970) also used four categories: promotion and acceleration of economic development, defensive reasons, controlling monopoly industries, and political ideology. Peterson (1985) argued that State Owned Enterprises (SOEs) are established to pursue national goals, economic efficiency, weakness of the POEs, and political ideology.

SOEs have been driving force for development and growth of many countries. However, in the realm of public policy, one of the most unprecedented global features in the last quarter of the twentieth century has been privatization. During the period, governments all over the world introduced various forms of privatization irrespective of their economic context, political orientation and ideological position (Haque, 2000). There are different views of privatization and its effects on performance of companies as well as on benefits of privatization for country and its economic growth. One group of authors support privatization and argue that it has positive impacts on company performance and country's economics development (Magginson and Netter, 2001; Vickers and Yarrow, 1995; Dewenter and Malatesta, 2001; D'Souza and Megginson, 1999 and others). On the other hand, other group of authors does not support privatization of strategically important enterprises and argue that privatization has negative impacts country's economics development and growth (Campbell-White and Bhatia, 1998; Bayliss, 2002 and others).

While Bozec, R., Breton, G. and Côté, L. (2002) in its research of state–owned enterprises and private firms for the period 1976–1996 argue that SOEs "when their main goal is to maximize profit, perform as well as the privately owned enterprises. Therefore, the alleged underperformance of the SOEs may only be the result of pursuing other goals."

Despite all these arguments most of the countries around the world have kept its main resources under the government ownership in full or partial control. Reason for this is that these enterprises are of great importance for economic prosperity of every country and they are often one of the biggest resources that each country has. Therefore, performance and competitiveness of SOEs is very important especially in period of globalization and liberalization of markets in these two companies.

From the state's perspective, maximizing SOEs performance is a goal of overriding importance. One of the most important factors driving SOEs performance is the quality of their governance. Studies on SOEs performance shows that good governance translates into better results, while weak governance is often at the root of many of the performance problems typically associated with state ownership. Good governance is thus a key to the solution.

2. RESEARCH METHODOLOGY

With increased market liberalization and entrance of new competition to Slovenian and Bosnian markets it is even more important to analyze performance, competiveness and governance of SOEs as they no longer have monopoly position in markets and have to compete for market share.

Paper analyses performance of SOEs from the Republic of Slovenia and Bosnia and Herzegovina. To understands differences and similarities between performance of SOEs from Bosnia and Herzegovina and Slovenia we have conducted a comparison analysis. Measuring the performance of these SOEs is based on the analysis of financial statements for period of 5 years from 2008 to 2012, using indicators of profitability and market indicators. In order to measure performance of these companies we have defined Key Performance Indices (KPIs).

Key Performance Indices are as following:

1. Return on Equity (ROE)
2. Return on Assets (ROE)
3. Operating Margin
4. Net profit Margin
5. Equity Ratio
6. Sales/Total Asset Ratio (S/T)
7. Net income per employee

Based on KPI's we test performance of SOEs in these two countries in order to determine how good are these enterprises governed and how well they provide value and return on investment of its shareholders. Analysis will assess the way governments of these two countries exercise ownership of its enterprises, which contribute a significant share to economy growth.

To calculate Key Performance Indices and conduct analysis of SOEs data was collected for sample of 60 SOEs, 30 SOEs from Bosnia and Herzegovina and 30 SOEs from Slovenia. The research data was collected from companies' annual reports, the database of the Banja Luka Stock Exchange and the Sarajevo Stock Exchange, the Agency of the Republic of Slovenia for Public Legal Records and Related Services (AJPES) and companies' web pages. Therefore, research was based on 300 observations for each of 7 Key Performance Indices.

3. RESEARCH RESULTS AND DISCUSSION

Performance analysis was done according to Key Performance Indices based on research data acquired for 30 Bosnian and 30 Slovenian SOEs. Table 1. presents descriptive statistics of Key Performance Indices for Bosnian and Slovenian SOEs in cumulative amount for 5 years.

	Country	N	Mean	Std. Deviation
ROE	SLO	150	3,1688	4,7746
	BIH	150	-0,3224	1,1605
ROA	SLO	150	0,6990	1,5984
	BIH	150	0,1406	0,5651
Operating Margin	SLO	150	6,6057	2,6765
	BIH	150	-3,8195	7,1367
Net Profit Margin	SLO	150	1,3156	3,9520
	BIH	150	-5,5834	5,5888
Equaty Ratio	SLO	150	46,0728	1,5717
	BIH	150	78,3924	0,9788
Net income per employee	SLO	150	769069,9729	118452,3707
	BIH	150	51757,9818	1707,5048
S/T	SLO	150	62,8312	6,1632
	BIH	150	32,6978	1,0649

Table 1: Descriptive statistics of KPIs for Bosnian and SOEs

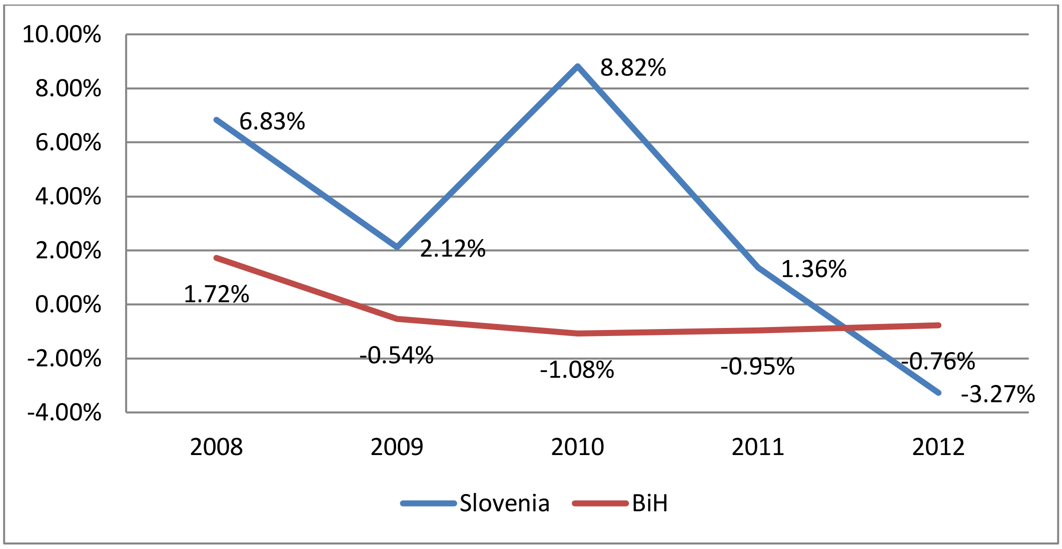

Figure 1: Return on Equity (ROE) for Bosnian and Slovenian SOEs

As shown in Figure 1. SOEs from Bosnia and Herzegovina have much lower Return on Equity than SOEs from Slovenia. Moreover, SOEs from Bosnia and Herzegovina have negative trend in ROE in analyzed period. This shows that companies from Bosnia and Herzegovina are less efficient in using shareholders capital in generating profits. However, there is also a big decline in ROE for SOEs from Slovenia after 2010 due to higher losses in financial and air sector, which were hit by crises in that period.

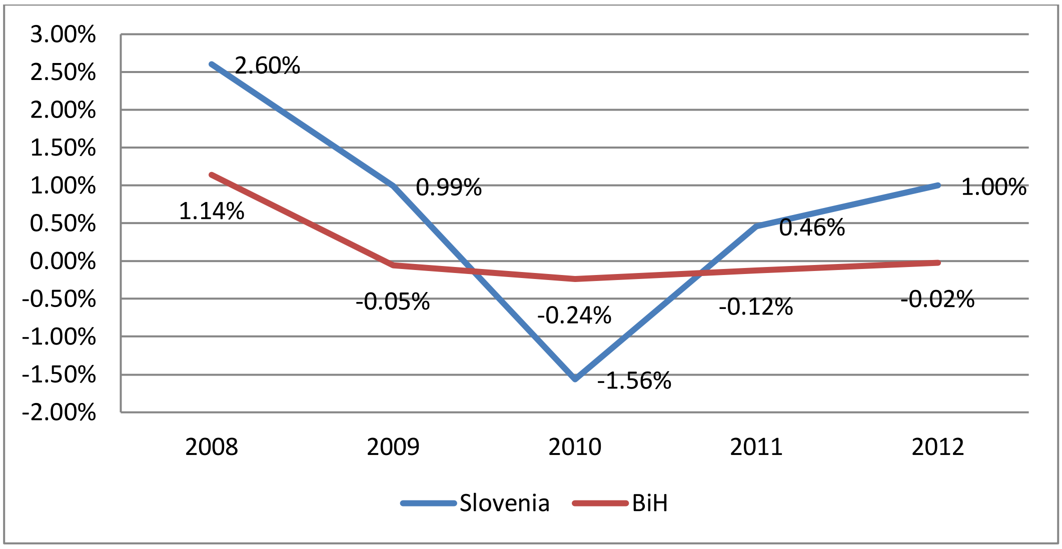

Figure 2: Return on Asset (ROA) for Bosnian and Slovenian SOEs

Results presented in Figure 2. show that SOEs from Bosnia and Herzegovina have significantly lower Return on Asset than SOEs from Slovenia and negative trend in ROA in analyzed period. This shows that companies from Bosnia and Herzegovina are less efficient in utilization of its assets, which is one of the most important factors in SOEs. Furthermore, results indicate large decrease in ROA in Slovenian SOEs in 2009 and 2010 mainly due to crises in financial, but also in several other sectors. However, in 2011 and 2012 we see increase in ROA and positive returns which indicates that companies have managed to cope with problems. Whereas SOEs from Bosnia and Herzegovina have not been effective with dealing with problems they face and not managed to have positive ROA.

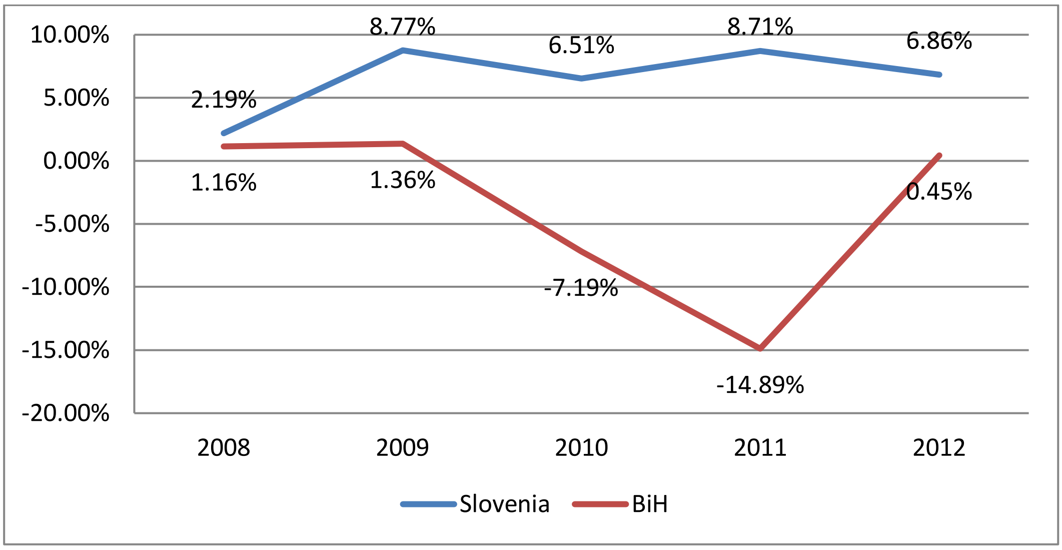

Figure 3: Operating Margin for Bosnian and Slovenian SOEs

Data from Figure 3. and Table 1. shows that in analyzed period SOEs from Bosnia and Herzegovina on average have negative Operating Margin of -3.82% while SOEs from Slovenia have Operating Margin of 6.61%. These results show that Bosnian companies have significantly lower Operating Margin in analyzed period, indicating that they are less profitable and facing problems of managing its costs and debt due to low efficiency. On the other hand, Slovenian SOEs have been more efficient in managing its cost.

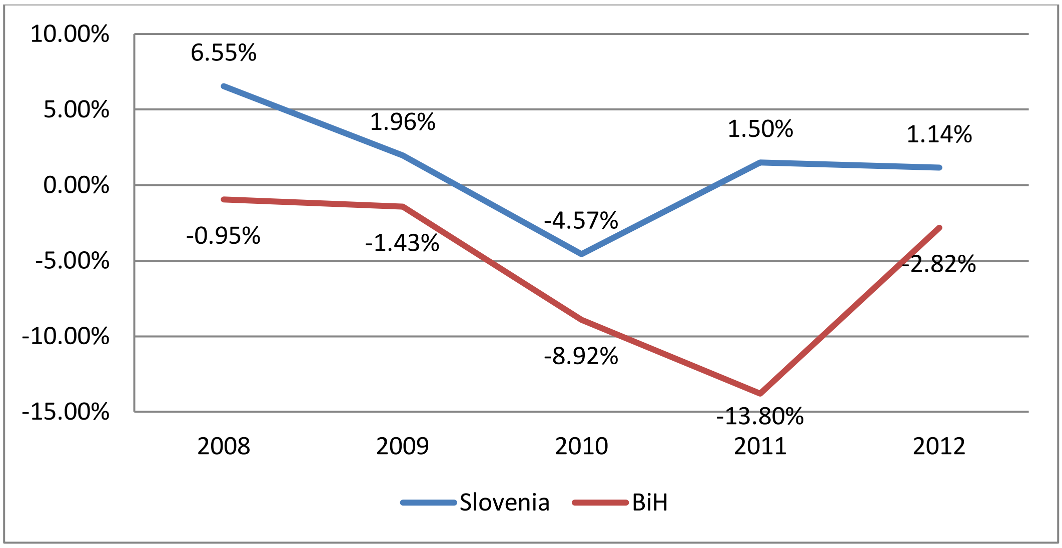

Figure 4: Net Profit Margin for Bosnian and Slovenian SOEs

Similar situation is with Net Profit Margin of analyzed SOEs. Data from Figure 4. and Table 1. shows that in analyzed period SOEs from Bosnia and Herzegovina have negative Net Profit Margin, while SOEs from Slovenia have positive Net Profit Margin in analyzed period, except in 2010. Lower Net

Profit Margin of Bosnian SOEs indicates that they are less profitable and less efficient in converting revenue into actual profit. Furthermore, these results show that they have poorer control over its costs compared to Slovenian SOEs, which is indicator of poor governance Enterprises.

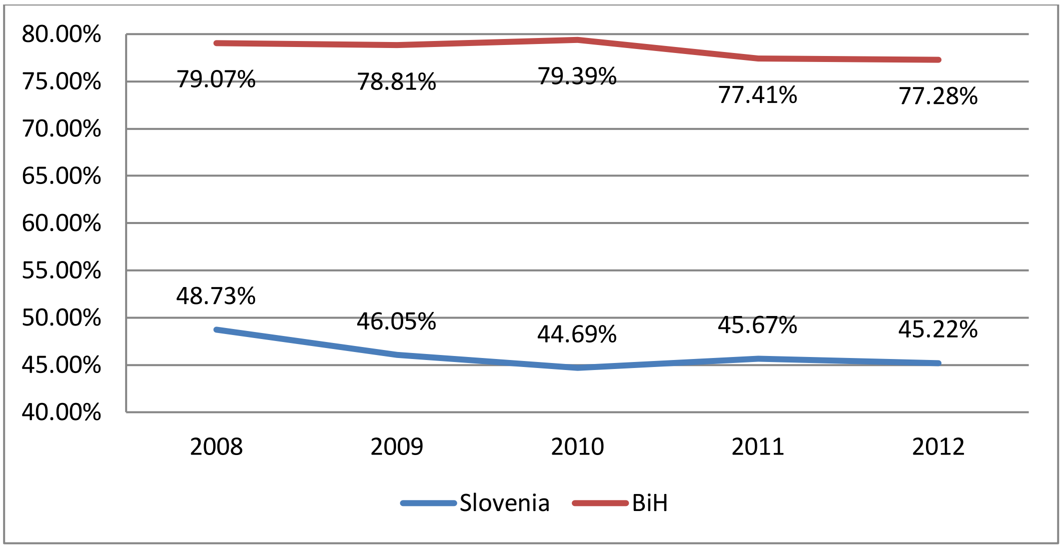

Figure 5: Equity Ratio for Bosnian and Slovenian SOEs

Figure 5. shows larger percentage of assets of SOEs from Bosnia and Herzegovina are financed/owned by shareholders, which is not the case in SOEs from Slovenia where almost half of assets are financed by debt. Bosnian SOEs have not had large investments in asset and therefore did not require large financing. This high Equity Ratio shows that Bosnian SOEs have been largely financing its assets by its equity and it means that they will be able to processed with future investment projects and they do not have large obligations to its creditors. On the other hand Slovenian SOEs had largely invested in its operations and modernization and therefore larger percent of assets is financed from creditors.

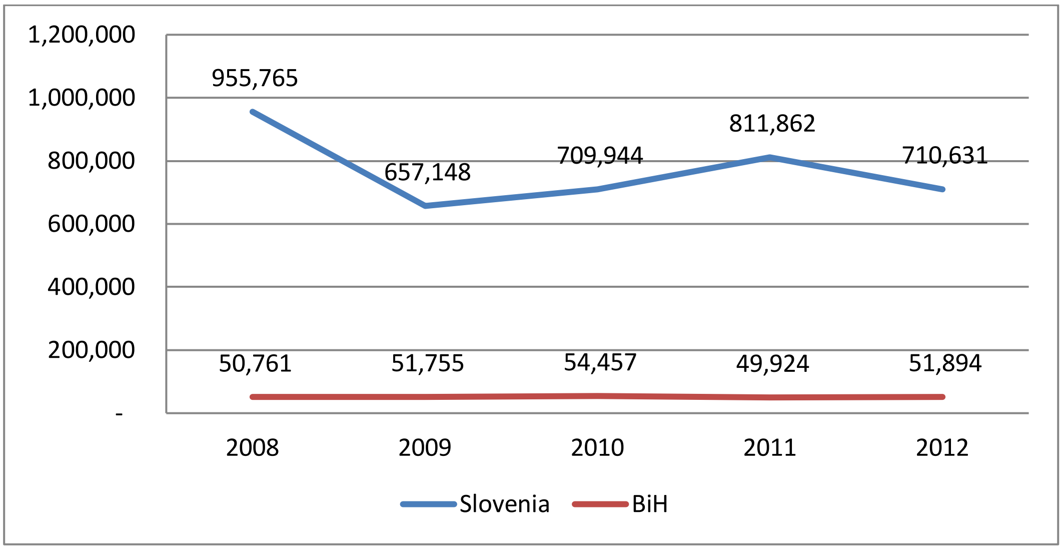

Figure 6: Net Income per employee for Bosnian and Slovenian SOEs

Analysis of indicate that in analyzed period SOEs from Bosnia and Herzegovina have significantly lower Net Income per employee than SOEs from Slovenia. Moreover, Bosnian SOEs have negative trend and constant decrease of Net Income per employee in analyzed period. This shows that managers of Bosnian SOEs do not have ability to use their human resources efficiently to create profits for company. Furthermore, this indicates overemployment in Bosnian SOEs. SOEs from Slovenia also had problem with overemployment in SOEs but they have managed to use their human resources 15 times efficient than SOEs from Bosnia and Herzegovina.

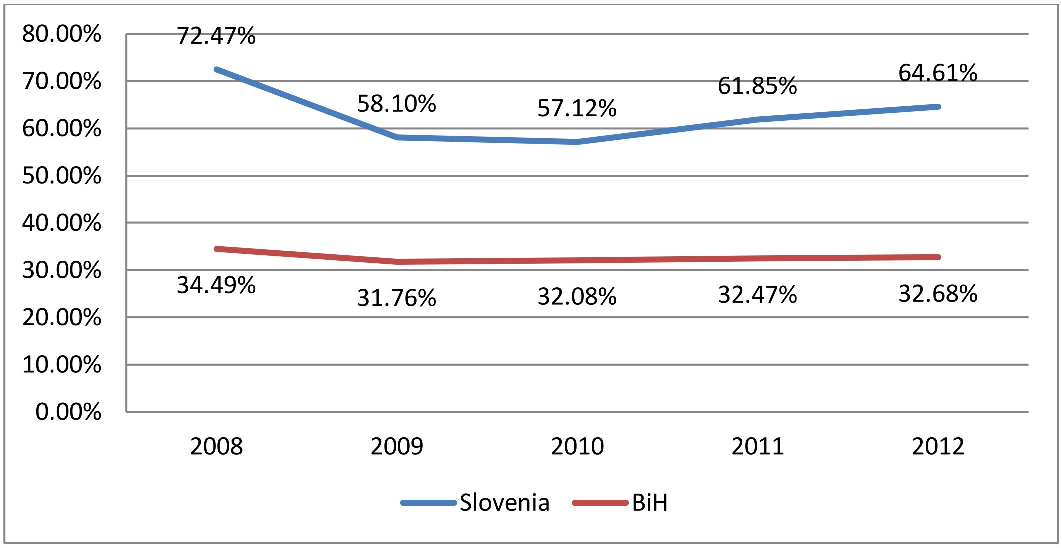

Figure 7: S/T Ratio for Bosnian and Slovenian SOEs

Data from Figure 7. shows that in analyzed period SOEs from Bosnia and Herzegovina considerably lower S/T ratio than SOEs from Slovenia. These results indicate negative trend in S/T ratio for Bosnian companies and positive trend for Slovenian companies. Therefore, Bosnian SOEs are not efficient in managing assets at its disposal to generate sales revenue. Almost twice higher S/T ratio of Slovenian SOEs suggests that they require much smaller investment to generate sales revenue and, therefore, have higher profitability.

4. CONCLUSION

SOEs are fundamentally important to the Slovenian and Bosnian economy as SOEs in these countries provide important services to industry and the public. On one hand, when SOEs perform well they can provide a boost economic and social development, contribute significantly to state budgets, and are an important tool to achieve government policies. On other hand, when SOEs perform poor they can become financial and political burden.

In 2009 government of the Republic of Slovenia has adopted Policy on Corporate Governance of SOEs in order to tackle the problem of governance and performance of SOEs. Despite crisis, adoption of this policy has shown some improvements in governance and performance of Slovenian SOE'. However, the government of Bosnia and Herzegovina still has not adopted any Policy on Corporate Governance of SOEs. Therefore, SOEs continue to constrain economy of Bosnia and Herzegovina through their absorption of large amounts of scarce capital, low productivity, and relatively limited service coverage.

Thought analysis of sample companies it can be concluded that Bosnian SOEs are not well governed and that government is not doing much to change situation in these companies. Moreover, big problem presents overemployment, which is also result of poor governance of these companies and not including experts in boards and top management positions in companies.
On the other hand, results indicate that Slovenian SOEs are better governed and performance much better than Bosnian SOEs. Slovenian government has adopted policy on Corporate Governance of SOEs, which shows that government has realized the important of SOEs for economic and social development and is trying to tackle the problem of governance and performance of SOEs.

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