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THE INFLUENCE OF OWNERSHIP STRUCTURE ON THE PERFORMANCE IN CROATIAN HOTEL INDUSTRY

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ABSTRACT

Transition from the socialist to market economy required, in one of its stages, a change in ownership structure and privatisation of enterprises. Privatisation developed differently in former socialist countries: in some countries, the process has been completed fully, while in other countries, it has been completed only partially. In addition to differences in the dynamics of privatisation across countries, privatisation evolved differently across sectors within a single national economy. Moreover, the birth of the Croatian state and a shift towards the market economy evolved in specific conditions due to the Croatian War of Independence, which placed an additional burden on the transition process which is difficult as it is. This paper examines the privatisation of hotel industry in Croatia, its dynamics and its results in the light of two facts. Firstly, tourism represents a major driver of economic growth in Croatia, and secondly, the resources available within this sector are very specific. The paper therefore evaluates the justification of privatisation by studying various facets of economic performance among privatised and non-privatised enterprises, e.g. their level of productivity and structure of debt, with special emphasis on the performance of mixed enterprises. The study results indicate a far better performance of private firms in relation to state-owned enterprises. More precisely, better economic performance is noticed in enterprises where state holds minority ownership interest than in enterprises where state holds majority ownership interest.

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I INTRODUCTION

The issue of privatisation has long been the object of discussion in economic history albeit with different intensity. Ever since A. Marshall, privatisation has been understood as the sale of state-owned enterprises to the private sector. It is also generally understood that privatisation has had varying degrees of importance in particular countries. Still, the literature suggests that greater significance of privatisation was especially evident at the end of the 20th century when, on the one hand, developed countries launched privatisation of particular sectors, e.g. financial sector, telecommunications etc., and on the other, centrally planned economies embarked on mass privatisation.

After a long period of stagnation of economic development during the 1980s, centrally-planned economies (12 Eastern European countries and 15 states within the former USSR) initiated various changes in economies and society in general, thus marking the beginning of the transition process. It should be mentioned that at the end of the 1980s Croatia was still a constituent republic of the former federation, suffering from high debt related to short-term loans. This resulted in Croatia being classified on the list of seventeen world's biggest debtor nations. As a result of permanent rollovers of loans and high interest, huge funds had been drained out from the economy and allocated to consumption, which only worsened the problem. As Yugoslavia dissolved, economies of its former constituents revealed an encumbered economic structure mired in heavy industry, uncompetitive manufacturing industry, technological inferiority and overemployment. These are but a few examples illustrating the economic situation in Croatia at the beginning of the 1990s.

Transition in Croatia began after the Constitution of the Republic of Croatia was passed in December 1990. This period was marked by the onset of war in autumn 1991, as well as by big numbers of displaced persons and refugees, human casualties and immense material damage. In those circumstances, unsurprisingly, the Croatian economy recorded a dramatic fall in GDP (-11.7% in 1992) and faced the problem of inflation (over 1,000% in 1993).

In addition to monetary independence, transition also required changes in institutional and legal frameworks. In that respect, it could be said that the process of ownership transformation in Croatia began in 1991 with the passing of the Law on the Transformation of Socially Owned Enterprises. This Law provided for ownership transformation of state-owned enterprises into joint stock companies (Croatian: *d.d.* or *d.o.o.*) and privatisation, or selling state ownership and state rights to private legal and physical entities, could begin.

Before privatisation, in 1990, the Croatian economy consisted of 10,859 enterprises, of which 3,637 (33.49%) were state-owned, employing 97.62% of the labour force. On the other hand, there were 6,785 private firms (62.48%) employing 1.73% of the labour force.[1] In view of that, the course of transition of the Croatian economy from state-ownership to market economy can be, under certain conditions, be divided in two stages: ownership transformation as the first stage, and privatisation as the second. Each of the two stages employed specific and complementary privatisation-aimed methods, which makes it difficult to pinpoint precisely a specific privatisation method and modality in a particular stage within the given period.

The deadline for transformation of ownership was 30 June 1992 after which the enterprises which had not completed ownership transformation were assigned to *Hrvatski fond za razvoj* (Croatian Fund for Development). If we further take into account the fact that banks,

[1] According to Družić I. et al. *Hrvatski gospodarski razvoj*, Ekonomski fakultet Sveučilišta u Zagrebu, Zagreb, 2003.

which were then mostly state-owned, transformed their claims on loans into ownership shares during ownership transformation, we can conclude that in the stage of ownership transformation in Croatia, privatisation actually increased state ownership in business organisations.

Even though the process of privatisation began in 1992, after a legally determined deadline for completion of the ownership transformation stage, privatisation was formalised only when the Privatisation Act was passed in 1996.[2] Prior to that, a Regulation of 1993 enabled the sales of Croatian Privatization Fund's portfolio via a public tender in order to attract capital from diaspora, while a Regulation from 1994 allowed for purchases of shares with "old savings" in foreign currency from the former country. Until the end of 1995, the private sector accounted for less than 50% in economic activities, which means that privatisation only partially succeeded. Bendeković's study on the effect of privatisation in Croatia (Bendeković, 2000) indicates that legal regulations and procedures were not respected in privatisation, and that judging by the results available at that time, privatisation did not achieve its goals. Quite to the contrary, privatisation created a negative effect from political, social and economic point of view.

So, to what extent did privatisation yield positive results and did it succeed in the hotel industry? These are the questions we have set out to explore in this paper. It should be mentioned that the economic literature shows opposing views on the efficiency of private and state ownership, although as a rule, the private sector is thought to create positive effects in introducing innovations and improving cost management.

II PRIVATISATION IN TRANSITION COUNTRIES

Since the main cause of debt crisis in developing economies in the 1980s was poor competitiveness, the International Monetary Fund and World Bank programs shifted toward a microeconomic approach, demanding from transition countries to implement structural adjustment policies to raise competitiveness of enterprises and increase their nation's creditworthiness. Typically, developing countries faced proposals to implement comprehensive measures of structural adjustments which included privatisation, stabilisation, market orientation and internal and external liberalisation.

Privatisation held a central position in reform policies of former socialist countries. It also represented a cornerstone of transition as it was expected to solve the problem of technologies which were lagging behind in these countries. Interestingly enough, the model of privatisation of socialist economies, especially self-governing socialism, had not been known in the scientific literature and practise of that time, so that the case of Croatian privatisation proved to be even more complex. Privatisation generally includes four elements: mass privatisation, mostly in the sphere of manufacturing, privatisation of the service sector, land reform or reprivatisation of agriculture and finally, denationalisation. Moreover, together with mass

[2] The Privatisation Act (NN 21/96) allowed the possibility to grant shares, without any payment in return, to certain categories of citizens, primarily Homeland war veterans, war invalids, family members of the killed, imprisoned and persons pronounced missing, displaced persons and refugees. The right to hold shares through vouchers was exercised by acquiring shares at the auction, or by proxy through an investment fund, as well as by direct investment in company shares.

privatisation in transition economies, ownership transformation was under way in some mixed economies of developed countries such as Italy, France and Austria since they had a bigger share of state ownership than for example USA and Japan. Overall, the last decades of the 20th century were marked by privatisation in transition countries, but also by privatisation of major state-owned enterprises in developed countries, especially in the sphere of iron and steel production, energy sector, telecommunications and financial sector.

Many research studies on the performance of enterprises in private and state ownership indicate increased efficiency of private firms, even though in certain sectors the results are ambiguous. For example, Bennett and Johnson (1979), as well as De Alessi (1980) argue that the private sector is far more efficient than the public sector, whereas other authors such as Millward and Parker (1983) and Borins and Boothman (1985) do not find any significant interdependence between performance and ownership structure even though, in certain interpretations, they favour the public sector, especially when this relates to the production of electrical energy and water supply. This is important because there are not many private firms in these sectors, and even if there are, they are often regulated or are allowed limited competition. A comprehensive overview of related research between 1970 and 1995 is given in Villalonga's paper (Villalonga, 2000) where this author shows that in the total of 153 research studies conducted, 104 show higher efficiency of private firms, 14 show smaller efficiency of private firms and 35 studies are neutral in that respect. Even though there are evidently contradictory findings, it is clear that findings vary according to the structure of the market for a particular industry, features of the country itself and also according to employed efficiency indicators.

Differences in performance of private firms and state-owned enterprises can be analysed using the principal and agent theory which takes into account the relationship of manager (agent) and owner (principal). The assumption is that managers will, irrespectively of ownership structure, rather invest their efforts into maximizing their own benefits than the benefits of the entire organisation, but this attitude is less visible in private firms due to fears of takeovers, sales in case of poor results, danger of bankruptcy, and high turnover of managers. Shapiro and Willig (1990) emphasise that the main difference between private firms and state-owned enterprises lies in the information flows in the framework of hierarchical relationships between public officials and managers, and private owners and managers. In state-owned enterprises this relationship transforms into the relationship between a state-public official and public official-manager (Villalonga, 2000). According to Laffont and Tirole (1991), state-owned enterprises use their resources suboptimally considering that some of them are geared towards satisfying social aims.

The processes of ownership transformation and privatisation in Croatia have led to the formation of mixed ownership enterprises, which in turn has intrigued scholars to analyse their performance. Although research on mixed enterprises is less prevalent, Eckel and Vininga (1985) suggest that mixed enterprises have better performance than state-owned enterprises, but poorer performance than private firms. Villalonga (2000) in his study analyses 24 Spanish enterprises facing numerous political and organisational factors which affect the process of privatisation. Privatisation results and efficiency of enterprises vary according to the stage of post-transition period. Negative effects of privatisation in initial post-privatisation years were exceeded by positive effects in the seventh and eighth year after privatisation, which points to the need of observing transition in a longer span of more post-transition years.

Privatisation in particular countries in transition varied according to the methods applied even though the goal was always to privatise enterprises and to make a shift towards the market economy. Table 1 shows different methods of privatisation in a selected number of countries in transition. Among the total of 23 analysed countries, exclusive prevalence of one single method in the first and second stage cannot be established. Actually, it is clear that vouchers prevailed in stage one while direct sale and voucher methods prevailed in the second stage. In addition to these methods, MEBO was used more in the first than in the second stage. MEBO privatisation method developed as a sale of shares of the enterprise to managers and employees of the enterprise while in direct sales the enterprise was sold using a public tender according to predetermined criteria. The voucher privatisation model was adopted in 1991 by the Czechoslovakian government, after which it spread to other countries in transition (Russia, Estonia, Romania etc.). In the narrow sense, it represents issuing vouchers which citizens can use to buy shares/stakes of the enterprise.

TABLE 1 PRIVATISATION MODELS IN SELECTED COUNTRIES IN TRANSITION

COUNTRY	PRIVATISATIO N TYPE	YEAR OF PRIVATISATION*	PRIMARY METHOD	SECONDARY METHOD
Albania	mixed	1995	MEBO	coupon
Armenia	mass	1994	coupon	direct sale
Azerbaijan	mass	1997	coupon	direct sale
Belarus	mixed	1994	MEBO	coupon
Bulgaria	complete	1993	direct sale	coupon
Croatia	mixed	1992	MEBO	coupon
Czech Republic	mass	1992	coupon	direct sale
Estonia	complete	1993	direct sale	coupon
Georgia	mass	1995	coupon	direct sale
Hungary	complete	1990	direct sale	MEBO
Kazakhstan	complete	1994	direct sale	coupon
Kirgizstan	mass	1996	coupon	MEBO
Latvia	complete	1992	direct sale	coupon
Lithuania	mass	1991	coupon	direct sale
Macedonia	mixed	1993	MEBO	direct sale
Moldavia	mass	1995	coupon	direct sale
Poland	complete	1990	direct sale	MEBO
Romania	mixed	1992	MEBO	direct sale
Russia	mass	1993	coupon	direct sale
Slovakia	complete	1995	direct sale	coupon
Slovenia	mixed	1998	MEBO	coupon
Ukraine	mass	1994	coupon	MEBO
Uzbekistan	mixed	1996	MEBO	direct sale

*Note: Year of privatisation has been determined on the basis of EBRD data for primary privatisation and chronology of privatisation. Source: Adjusted by the authors on the basis of Bennett J. et al: Privatisation Methods and Economic Growth in Transition Economies.

As for Croatia, enterprises were able to make a decision on which method to use in ownership transformation after they had assessed their capital value, i.e. the share capital of the newly formed company. This assessment was based on the book value of state-owned capital, and an assessment of assets and liabilities. In the ownership transformation stage, Croatia transformed ownership through the sale of enterprises to strategic partners and through insider privatisation involving employees and management (MEBO). Until the end of 1995, ownership transformation was completed in 2,598 companies, of which 1,146 were transformed to completely private ownership (44%), whereas other enterprises remained in minority or majority state ownership. This clearly indicates that the success of ownership transformation stage is only partial (Crnković B., 2010).

Voucher privatisation included a total of 471 companies with the capital valued at DEM 3,668,440,618 to be privatised. It is worth mentioning that 75.5% of that capital came from manufacturing industry, mining, catering and tourism.[3] In addition, 281 of 471 enterprises to be privatised through vouchers were not solvent and profitable. Considering the value of share capital designated for voucher privatisation, 23.6% were auctioned successfully in the first round, 23.2% in the second round and around 53.2% were auctioned successfully in the third round. The bidders showed the keenest interest in the shares of companies which were traded on capital markets (there were 11 publicly traded companies whose shares were offered through vouchers). In the sector of tourism, 85 companies participated in voucher privatisation, which represented 18.1% of the total number of enterprises which participated in voucher privatisation.

Voucher privatisation ended at the end of 1998 even though its aftermath proved critical for some companies. Namely, due to the crisis of 1999 many of these companies went bankrupt and many small shareholders, and even tycoons, returned their shares to the portfolio of the Croatian Privatization Fund. The government then adopted a plan and program to privatise all enterprises which included the basic model of public tenders for strategic enterprises, and the sale on Zagreb and Varaždin Stock Exchange. On 30 June 2002, as a result of privatisation, the portfolio of the Croatian Privatization Fund included a total of 1,091 enterprises. Ever since that day, the Croatian government has not ceased to sell shares that it owns through public tenders, albeit at a different pace and intensity.

According to EBRD, the worst results in the privatisation of state-owned enterprises were recorded by Serbia, with grade 2.7 in 2012, followed by Bosnia and Herzegovina and Slovenia with grade 3.0. Croatia received grade 3.3 although it is worth emphasising that Croatia accomplished far better results in relation to other transition countries in the privatisation of small enterprises earning grade 4.3, which launched it to the top of other successful transition countries such as Estonia, Hungary, Lithuania and Latvia. The privatisation of SMEs has especially contributed to the high share of the private sector in the entire business structure of Croatia, which in 2010 was 97.7%.[4] The private sector was less significant in the share of the number of employees (73.6% in the total number of employees). The participation of the private sector in the total income of the Croatian economy was 73.3%, its share in profit was 71.8% and in loss 72.7%. It is disconcerting nevertheless that the private sector participated with only 55.1% in investments in fixed assets in 2010 (according to data by FINA, Croatian Financial Agency).

According to data collected by FINA, 797 enterprises were owned by the state in Croatia in 2010, 644 were mixed enterprises and 788 were joint ownership enterprises. These relatively low shares of state ownership, which show that privatisation has not been completed, continued

[3] The report of the State Audit Office on the audit of voucher privatisation, Zagreb 2002.
[4] In the first nine months of 2012 this share increased to 98%.

to fall so that in the first nine months of 2012 the number of enterprises in state ownership fell to 759 (share in the number of total businesses was 0.8%), the number of mixed enterprises was 577 (0.6%) and the number of joint ownership enterprises fell to 547 (0.6%). It can be concluded that privatisation has been relatively completed in the entire economy.

If we direct our analysis now to the sector of hotels and accommodation, according to the data collected by AUDIO (Government Asset Management Agency), it is clear that of the total number of enterprises already-mentioned, 117 were in mixed ownership (in which state has 0-49% ownership share), which represents a 19% share, while 16 enterprises maintained the majority state-owned package (2.0% of fully state-owned enterprises).

Judging from the economic aspect and on the basis of the data presented, the share of almost 20% of non-privatised enterprises in the sector which has a critical role in the economic growth and development of the country can be assessed as negative, especially when theoretical and empirical research emphasises their inefficiency. Numerous economists since Marshall's days have advocated a shift away from state ownership. Marshall in particular was sceptical of state ownership because state is not good at innovations and it is known that innovations, together with cost reductions, are deemed indispensable for better competitiveness of enterprises. Justifications for maintaining the role of the state in the economy (Schleifer, A. 1998) are only valid if a) cost reductions lead to a significant decrease in quality, b) innovations are not important, c) competition is weak and consumer choice is inadequate, and d) reputation mechanism weakens. Considering that in the sector of tourism none of these four factors are present to a significant extent, any justification for maintaining state ownership, from an economic point of view, simply does not prove valid. Therefore, in the next chapter we shall continue to analyse to what extent new owners contribute to the development of the sector and yield both individual, but also socially acceptable results when compared to the state as the owner.

III THE SUCCESS OF TRANSITION IN THE HOTEL INDUSTRY

The data obtained by FINA show that in the Republic of Croatia at the end of 1990s there were around 2,000 business organisations within the activity of hotels and restaurants (activity H55 according to NKD, National Classification of Activities, 2007). Small-sized enterprises prevailed in that number, accounting for 93.4% in 1999, while medium-sized enterprises accounted for 5.4% and large enterprises accounted for 1.2% of that number. In the years which followed there was a sudden increase in the number of business organisations, especially small enterprises, whose average rate of growth was 10% in the period 2000-2007. The average growth rate of medium-sized enterprises in that period was negative, which may be the consequence of restructuring in a certain number of enterprises and related reductions in the number of employees. This is an important observation considering that the determining criteria for classifying enterprises was the number of employees. In that respect, possible in-depth analysis should analyse the survival rate, as well as the rate at which new enterprises were set up. Although the growth dynamic in the tourism sector is big, it is not above average. To be more precise, the period between 1999 to 2007 saw a rapidly growing number of new enterprises in the real estate segment, which typically require little initial capital, as well as in health services, public administration, insurance and transport. Similarly, above average rates of setting up new business enterprises were registered in activities which began with liberalisation and deregulation, such as post and telecommunications and electrical energy sector.

In 2007, the National Classification of Activities (NKD) was revised, which caused changes in the analysed sector, primarily in the segment of small-sized enterprises, while there were no significant changes in medium-sized and large enterprises in terms of numbers. In 2008, the number of small enterprises fell from 4,041 (2007) to 1,554 to rise again in 2010 to 1,634. It is important to stress that the decrease of 2,500 enterprises does not indicate their disappearance from the market but rather reflects their statistical transfer to another category, i.e. preparing and serving food and beverages.

Since the aim of this paper is to determine the difference in efficiency of private firms and state-owned enterprises, and since according to the data of Government Asset Management Agency, the remaining state-owned enterprises are mainly hotels, our sample is narrowed down to activity 55.10, i.e. hotels. The total number of enterprises and their classification was conducted by combining data from three sources: AMADEUS data basis, FINA and GAMA data.

TABLE 2 NUMBER OF ENTERPRISES IN THE ACTIVITY HOTELS AND ACCOMMODATION (NATIONAL CLASSIFICATION OF ACTIVITIES 55.10) FROM 2003 TO 2011.

OWNERSHIP	2003	2004	2005	2006	2007	2008	2009	2010	2011
TOTAL NO. OF ENTERPRISES	332	373	430	483	521	576	652	673	645
SMALL	146	172	211	247	281	327	380	397	373
MEDIUM	115	125	141	155	157	166	187	191	186
LARGE	71	76	78	81	83	83	85	85	86
Of that number, according to ownership interest.									
50-100% of state ownership share*	not known	not known	not known	not known	not known	23	22	18	18
0-49% of state ownership share**	not known	not known	not known	not known	not known	105	100	95	95

**Data for the number of enterprises in state and mixed ownership were obtained from the Financial Agency (FINA), while other data were obtained from AMADEUS data base. According to the data of the Croatian Privatization Fund there were 16 enterprises with state as majority owner and 107 enterprises with state as minority owner at the beginning of 2013.

Source: The authors used Amadeus, Financial Agency (FINA) and GAMA data bases.

The number of enterprises classified as hotels and accommodation (National Classification of Activities 55.10) continually rose at the average rate of 9% annually in the period from 2003 to 2011, increasing from 332 to 645, which accounts for 0.5% in the total number of business organisations in the Croatian economy (on 31 December 2011 there were 128,930 business organisations, according to the data obtained by the State Bureau of Statistics 2012). The average rate of growth of small-sized enterprises was around 13% while the dynamic of medium-sized and large enterprises was 6% and 2% respectively. It is clear that the number of business organisations was reduced in 2011 in all categories of size, except in large enterprises, which can be a result of bankruptcy procedures and closing of SMEs. Of the total number of business organisations according to FINA, the number of enterprises where state holds majority ownership interest was around 20 at the end of the analysed period, which accounts for 3.9% (2008) or 2.8% (2011). The number of mixed enterprises was around 100, which accounts for 18.3% (2008), or 14.7% (2011). By summarizing these two categories it can be concluded that state is highly present in the sector of hotel industry in terms of ownership. However, a more in-depth analysis based on GAMA data from the end of 2012,[5] whose data comply with the data collected by FINA, makes it clear that there are enterprises in the category of mixed ownership where the share of the state is below 1% and that these shares were kept by the state in privatisation as reservations. Of the total number of 107 mixed enterprises in 2012 only 34 had a share of state ownership bigger than 10%.

On the basis of the stated data, three groups of enterprises have been formed. Group I includes state-owned enterprises where state holds majority ownership interest. Group II includes mixed enterprises where state ownership interest is bigger than 10% but lesser than 49%, while Group III comprises all other enterprises. Groups I and II have a smaller number of enterprises in relation to the list obtained from GAMA because some enterprises are not included in the activity classified as 55.10 as its main activity according to the AMADEUS base, so that Group I includes 10 instead of 16 and Group II includes 18 instead of 34 enterprises. Similarly, the authors have transferred from Group II to Group III all enterprises which according to GAMA have less than 2% share of state ownership. These are enterprises in majority private ownership while a small number of shares owned by the state has been kept as reservations, or provisions for bad debt arising from ownership transformation and privatisation. Most of these enterprises are quoted on the Zagreb Stock Exchange.

IV EVALUATION OF PERFORMANCE OF ENTERPRISES WITHIN THE HOTEL INDUSTRY IN CROATIA RELATIVE TO OWNERSHIP STRUCTURE

Our study has analysed the difference in performance of enterprises considering their ownership structure. The performance of enterprises was measured with the rate of growth of revenue in relation to previous year, EBIT, revenue per employee, return on assets (ROA) as ratio of EBIT to total assets, and return on equity (ROE) as a ratio of EBIT to equity. Table 3 shows these indicators of performance of enterprises in groups considering the type of ownership structure for the period 2004-2011 as average values of analysed enterprises in the group.

[5] In 2012, 16 enterprises were in majority state ownership while 107 companies were in mixed ownership with minority share owned by state.

TABLE 3 PERFORMANCE INDICATORS OF PRIVATE FIRMS, ENTERPRISES WHERE STATE HAS MINORITY INTEREST AND ENTERPRISES WHERE STATE HAS MAJORITY INTEREST, 2004–2011.

Year	2004	2005	2006	2007	2008	2009	2010	2011	Average
Group					**Revenue growth rate (%)**				
I	3.43	27.67	12.17	19.83	2.96	-4.22	-0.64	10.88	**9.01**
II	5.64	12.23	-1.43	4.33	3.67	-8.78	-4.30	5.25	**2.08**
III	9.80	8.20	-4.56	5.24	0.32	9.10	8.34	-7.36	**3.63**
Group					**EBIT, EUR**				
I	7,257	135,061	65,742	138,310	62,400	-24,399	5,885	46,882	**54,642**
II	111,670	92,768	-282	-185,527	-238,414	-318,113	-269,118	-146,295	**-119,164**
III	228,112	153,321	-18,573	-517,807	-165,200	-125,256	-143,848	139,176	**-56,259**
Group					**Revenue per employee (EUR)**				
I	35,000	40,000	34,000	34,000	46,000	46,000	51,000	54,000	**42,500**
II	24,000	28,000	27,000	27,000	30,000	40,000	29,000	31,000	**29,500**
III	36,000	41,000	34,000	34,000	36,000	37,000	72,000	39,000	**41,125**
Group					**ROA, %**				
I	-2.18	-1.59	-2.42	-1.13	-1.28	-2.02	-3.04	-2.19	**-1.98**
II	-2.55	-3.19	-4.59	-2.84	-4.06	-4.42	-4.78	-4.76	**-3.90**
III	-0.07	-0.30	0.18	0.45	-0.80	-1.92	-6.02	-3.37	**-1.48**
Group					**ROE, %**				
I	-4.30	0.46	3.63	-0.83	-12.56	1.26	-8.35	-3.62	**-3.04**
II	-9.65	-19.35	-9.35	-5.31	-8.16	-12.47	-19.62	-114.04	**-24.74**
III	-15.25	-12.48	-5.73	1.43	-3.52	-4.51	-46.60	-35.63	**-15.29**

Source: The authors used Amadeus (BvD) data basis.

The above table shows that enterprises in private ownership have the highest rate of revenue growth which in the period analysed was 9.01% on average, followed by enterprises where state has minority ownership interest (3.63%), and enterprises in majority state ownership which recorded the smallest rate of growth (2.08%). It is clear that in the years of prosperity private firms grew fastest and in the years of crisis they recorded the smallest decline. The exception includes mixed enterprises which recorded a rise in revenue in the years of crisis. The analysis of individual data indicates that the rise in 2009 and 2010 is the result of high rates generated by two enterprises only, while the rest of the Group recorded mainly a slight drop in revenue. Generally speaking, privatised enterprises show better responsiveness to the positive and negative environment, or put differently, these enterprises are more flexible and thus more competitive than the enterprises with state as a share owner.

The analysis of revenue per employee indicates the relevance of capacity and the economic strength of the company in all three groups considering relatively small differences in revenue generated at the beginning of the analysed period. Revenue per employee in 2004 was highest in enterprises where state holds minority ownership interest (EUR 36,000) while in private firms it was EUR 35,000. At the beginning of the analysed period, enterprises where state holds majority ownership interest recorded around EUR 27,000 revenue per employee. A significant change in revenue generated per employee is evident in private firms which in 2008 recorded a jump from 34,000 to 46,000, which led to an average of EUR 42,500. The exception in Group III in terms of sudden rise of average revenue per employee in 2010 was the result of exceptionally good results by several enterprises in the Group which recorded a steep rise in revenue per employee. At this stage of analysis, it can be concluded that increases in revenue per employee are the result of completed restructuring process in a certain number of enterprises, but also the result of significant investments from the previous years which enabled higher prices. In state-owned enterprises there were growth periods but also sudden decreases. Reasons for that can be found in overemployment but also in the smaller number of visitors. So, the lowest average revenue per employee in the period from 2004 to 2011 was recorded by enterprises where state holds majority ownership interest (EUR 29,500).

The average EBIT was also highest in private firms (EUR 54,642) which on average maintained positive results throughout the period analysed, with the exception of 2009. The worst result was recorded by enterprises where state holds majority interest (average loss of the period was EUR -119,164) which accumulated losses continually from 2006. Enterprises where state holds minority interest recorded better, but on average still negative results (EUR -56,259). The last Group mentioned also recorded losses in 2006 with extremely poor performance in 2007.

Other performance indicators include return on assets (ROA) and return on equity (ROE) which were, on average, negative for all three groups of enterprises in the period analysed. The average ROA in private firms was -2% while in enterprises where state holds majority interest it was -1.5% and in enterprises where state holds minority interest it was -4%. Return on equity was on average -3% in private firms while in state-owned enterprises it was -15.3% (with majority interest) and -28.4% (with minority interest). On the basis of this analysis, it can be concluded that state-owned enterprises incurred debts while managing equity with no profitability and adequate returns, which is not the case with private firms. The analysed indicators of performance of enterprises within the hotel industry relative to ownership indicate that private firms show better performance relative to enterprises with minority state interest, and even better performance in relation to enterprises with majority state interest. Hotel enterprises where state is the majority shareholder have significant long-term debt towards banks and other financial institutions. Since some of these loans are in CHF which, due to its appreciation in the period 2009-2011 additionally increased debt by almost 50%, it is important to add this factor to the indicators used. All in all, due to outstanding debt arising from loans, financial expenditure made up of interest payments and increases in foreign exchange differences, the hotel industry has remained burdened by losses for years.

Considering that the analysed activity is highly labour-intensive, in continuation we shall explore in more detail the shifts in productivity, adjusted for trends in the number of employees. In particular, we will analyse the turnover in the average number of employees in the enterprise, average salaries measured by the average cost of employees, and the share of costs employees generate in revenue (Table 4).

TABLE 4. NUMBER OF EMPLOYEES AND THE RATE OF FLUCTUATION OF THE AVERAGE NUMBER OF EMPLOYEES AND AVERAGE COST OF EMPLOYEES AND THE AVERAGE SHARE OF THE COST OF EMPLOYEES IN REVENUES IN PRIVATE FIRMS, IN ENTERPRISES WHERE STATE IS MAJORITY AND MINORITY OWNER, 2004-2011.

Year	2004	2005	2006	2007	2008	2009	2010	2011	Average
Group	**Number of employees (total)**								
I	16,080	17,418	18,722	20,207	23,568	20,309	18,519	19,260	**19,260**
II	1,938	1,932	1,918	1,871	1,914	1,598	1,641	1,630	**1,805**
III	1,883	1,815	1,849	1,871	1,659	1,715	1,620	1,613	**1,753**
Group	**Number of employees (average per enterprise)**								
I	61	59	56	58	64	48	44	46	**55**
II	194	193	192	187	191	160	164	163	**181**
III	105	101	109	110	104	95	90	90	**101**
Group	**Rate of fluctuation of the average number of employees per enterprise (%)**								
I	0.00	-3.28	-5.08	3.57	10.34	-25.00	-8.33	4.55	**-2.90**
II	3.19	-0.52	-0.52	-2.60	2.14	-16.23	2.50	-0.61	**-1.58**
III	-6.25	-3.81	7.92	0.92	-5.45	-8.65	-5.26	0.00	**-2.57**
Group	**Average cost of employees (EUR)**								
I	8,000	9,000	11,000	10,000	11,000	11,000	12,000	12,000	**10,500**
II	9,000	10,000	11,000	11,000	12,000	17,000	12,000	12,000	**11,750**
III	9,000	11,000	11,000	12,000	13,000	14,000	14,000	13,000	**12,125**
Group	**Average share of the cost of employees in revenues (%)**								
I	29.92%	29.77	34.43	28.67	29.55	36.45	31.02	28.69	**27.36**
II	37.62%	37.6	41.64	41.03	42.32	45.11	45.71	43.47	**37.16**
III	31.63%	31.88	34.43	34.43	32.94	36.45	34.06	35.82	**30.04**

Source: The authors used Amadeus (BvD) data basis.

From 2004-2011 private firms employed an average of 19,260 employees. Enterprises where state has minority ownership interest had 1,753 employees while enterprises in which state has majority ownership interest employed 1,805 employees on average in the same period. Although they employed the highest number of employees in absolute values considering their frequency (the Group counts 345 of 617 enterprises), private firms employed on average the smallest number of employees individually (55) considering the ratio of employees and total number of firms. Enterprises where state has minority interest employed 101 workers on average while enterprises with majority state interest employed the highest number of workers on average, 181 per enterprise. In private firms, apart from the biggest total decrease in the number of employees on average, another trend is also discernible and that is the biggest decrease in the average number of employees per firm in relation to enterprises where state holds both minority and majority interest. In 2009, private firms decreased the number of employees from an average of 64 to 48, and continued reductions in 2010. State-owned enterprises responded to the 2009 crisis by reducing the number of employees, but these reductions were significantly smaller in enterprises where state holds majority interest. The lowest average cost per employee was recorded in private firms in the analysed period (on average it was EUR 10,500 annually), while in enterprises where state holds minority interest it was EUR 11,750 and in enterprises where state holds majority interest it was EUR 12,125. The data indicates that the highest degree of rationalisation of business activity in terms of the number of employees was in private firms. The share of costs of employees in revenue in the period analysed was also the smallest in private firms (27.36%), followed by enterprises where state holds minority interest (30.04%) while the costs of employees were the highest in enterprises where state holds majority interest (37.16%). All that can point to the conclusion that, apart from other reasons, private firms owe their better performance results compared with enterprises where state holds majority and minority interest mainly to the rationalisation of business activity, to the highest dynamic of reducing the number of employees and to lower salaries, which therefore produces lowest costs of employees in total revenue. All this leads to higher productivity of workers in private firms than in state-owned enterprises.

The authors proceed to explore debt dynamics relative to ownership structure. For that purpose Table 5 provides an overview of trends of total long-term debt, average long-term debt per enterprise and debt dynamics measured by the rate of growth of long-term debt.

TABLE 5 SHIFTS IN TOTAL AND AVERAGE LONG-TERM DEBT AND DEBT DYNAMICS IN PRIVATE FIRMS AND IN ENTERPRISES WHERE STATE HAS MINORITY AND MAJORITY OWNERSHIP INTEREST, 2004–2011.

Year	2004	2005	2006	2007	2008	2009	2010	2011	Average
Group	**Long-term debt (EUR)**								
I	737,935,323	868,122,929	1,098,312,420	1,359,874,849	1,717,377,973	1,769,264,331	1,708,726,116	1,784,026,104	**1,380,455,006**
II	75,245,382	77,357,409	68,647,767	67,134,460	62,431,901	64,497,560	62,290,392	57,792,343	**66,924,652**
III	101,124,779	104,726,784	104,447,032	164,986,752	136,518,867	185,040,944	200,177,262	191,292,845	**148,539,408**
Group	**Average long-term debt per enterprise (EUR)**								
I	2,138,942	2,159,509	2,408,579	2,752,783	3,128,193	2,835,359	2,649,187	2,891,452	**2,620,501**
II	7,524,538	7,735,740	6,864,776	6,713,446	6,243,190	6,449,756	6,229,039	5,779,234	**6,692,465**
III	5,618,043	5,818,154	6,143,943	9,705,103	8,030,522	10,280,052	11,120,959	10,627,380	**8,418,020**
Group	**Rate of growth of long-term debt (%)**								
I	33.03	17.64	26.52	23.81	26.29	3.02	-3.42	4.41	**16.41**
II	-5.61	2.81	-11.26	-2.20	-7.00	3.31	-3.42	-7.22	**-3.83**
III	3.08	3.56	-0.27	57.96	-17.25	35.54	8.18	-4.44	**10.80**

Source: The authors used Amadeus (BvD) data basis.

Table 5 shows that the highest average debt per enterprise is seen in enterprises where state holds minority interest, then in enterprises with majority state interest and in private firms, but it is worth highlighting that the rate of growth of long-term debt is highest in private firms: 16.41% on average per year in the period studied. This rate rose especially until 2008. It is clear that enterprises where state holds minority interest increased long-term debt on average by 10.80% while enterprises where state holds majority interest reduced long-term debt by 3.83%. Although from the aspect of debt dynamics, state-owned enterprises show better results it must be added that these are long-term debts and since the size of average debt per enterprise is almost 4 times higher in state-owned enterprises than in private firms it can be concluded that they reached the maximum level of debt and that they were not able to take on new debt which is why they have negative growth rates. The analysis of short-term loans still remains to be researched to show to what extent negative growth rates, i.e. decreasing long-term debt, is the result of increased income, and to what extent they are the result of new short-term debts. On the basis of all that, it is clear that privatised enterprises had less debt burden which allowed them to generate new long-term loans in the name of new investments in the process of restructuring, thus raising the quality of accommodation, which in turn allowed higher prices and therefore higher revenue. On the other hand, state-owned enterprises did not complete the process of restructuring, and the only step forward in that respect was reducing long-term loans, which in these enterprises reached their maximum level, especially if it is known that in the past couple of years they have been accumulating losses.

V. CONCLUSION

The process of privatisation represented a stage in transition from the centrally-planned to the market economy. Even though transition developed differently in the countries mentioned, two main paths can be detected in that process: one is "shock therapy" and the other is gradual transition. The lack of one single transition strategy resulted in different ways of implementation of various stages within transition, i.e. privatisation. More precisely, privatisation developed from voucher privatisation, direct sales to MEBO method.

It is quite clear that the success of privatisation varies not only across different transition countries but within one single country, across its sectors. Croatia has been evaluated as a relatively successful country when it comes to privatisation of small sized enterprises which make up the corpus of the Croatian economy. Yet, in the privatisation of medium and large sized enterprises Croatia has been less successful. Croatia has been especially unsuccessful in privatising enterprises in tourism, namely hotel industry, which is all the more disconcerting since it is generally perceived that foreign investors are usually highly interested in the unique resources within this particular sector.

The share of state-owned enterprises in the segment of hotel industry is around 20%, which is very high considering the strategic significance of these enterprises and especially considering their performance. Our study has shown that enterprises which have not been privatised are quite large, with an average of 181 employees, which, adjusting for the regional aspect, prevail in coastal regions. At the same time, throughout the period analysed, i.e. from 2004 to 2011, state-owned enterprises achieved poor results, did not complete the process of restructuring and recorded high debt.

Our study shows that it is necessary to privatise the remaining portfolio of the hotel industry to decrease costs and increase the quality of service in these enterprises. State-owned enterprises simply must undergo the process of restructuring which implies layoffs of a certain number of employees, reductions in salaries and recapitalisation to solve the problem of outstanding debts. It would be logical to assume that if strategic partners were attracted to buy these enterprises through public tenders, new owners would start new investment cycles necessary to raise the level of competitiveness of these enterprises. However, the size of outstanding debt along with ruined and poorly maintained accommodation facilities which had not seen any investment for years (e.g. hotels, buildings in tourist resorts and camping facilities), make it imperative that future owners invest substantial funds in these facilities, which decreases the interest of investors. Furthermore, financial crisis has decreased the inflow of foreign direct investments, which only prolongs the completion of privatisation. In addition, let us not forget unresolved legal issues related to ownership rights on tourist land (i.e. court disputes and inertia of public administration). Additional burden to investors is the issue of concession fees as well as unresolved joint ownership issues in the community. It is clear therefore that a serious investor can only be attracted by the location of the hotel complex.

Although the study has shown that state-owned enterprises show much poorer performance in relation to both private firms and mixed enterprises, from the political point of view, privatisation should probably be postponed to a future period. Namely, the present crisis, just like the past one during which most hotels were privatised in Croatia, implies necessarily a decrease in the inflow of capital to the state budget. Moreover, unemployment rate in Croatia at present is 21.9%, so that privatisation will only contribute to further increases in unemployment rate. From the economic point of view, on the other hand, privatisation should be completed as soon as possible because its prolongation will result in the accumulation of more losses and perhaps even in bankruptcy. In conclusion, we believe that both economic and political aims of privatisation should be harmonised and that the problem of privatisation should be solved by non-political appointments of managers in state-owned enterprises. Naturally, owners should clearly define goals that managers would then try to accomplish. If these aims are not accomplished, managers should be dismissed which would in turn invigorate the managers' labour market. Along with necessary investments, this would lead to further decreases in costs and increases in quality and competitiveness of these enterprises. Let us conclude by saying that the worst solution would be to keep the present situation intact as this only apparently solves the problem of unemployment in some regions, but continually contributes to the poor quality of the tourism offer of the entire country, which only produces negative effects in the long run.

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