INTERNATIONAL JOURNAL OF ENGINEERING AND MANAGEMENT SCIENCES

www.scienceandnature.org

PRIVATIZATION AND FUTURE CHALLENGES IN THE FREE MARKET ECONOMY

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ABSTRACT
This paper encompasses within itself privatization as vital element toward transition in the free market economy. It is understandable that the transition is painful because many mid and big size companies will fail (bankrupt) and as consequence for certain time the work force will be reduced. Nevertheless new companies will be created which will increase productivity, employment, increase the incomes and enter in the free market economy

KEYWORDS Privatization, efficiency, major distribution, investments, market economy, stability, mid and small business, transition, free, productivity, employment, income increase

INTRODUCTION

Establishment of free market economy makes necessary putting the private property above the means of production. Transfer of property from public sector to private creates huge and difficult problems. It is necessary that new owners of property (private) to use with efficiency the means of production. Furthermore, privatization of not only the enterprises, but also the arable land should be done in such a way that they are considered as right/factual by the majority of people. Judgments for the efficiency and justice can easily collide; in that case a necessary equilibrium should be maintained.

In order to make rational economic decisions, managers of enterprises need to have information on the incomes and account. For that regard they need to have an appropriate accounting system. In everyday actions of the enterprise we need to have a budget. By comparing the actual data of the incomes and expenditures with the budget figures, managers will have notices were the things are not going at the right direction.

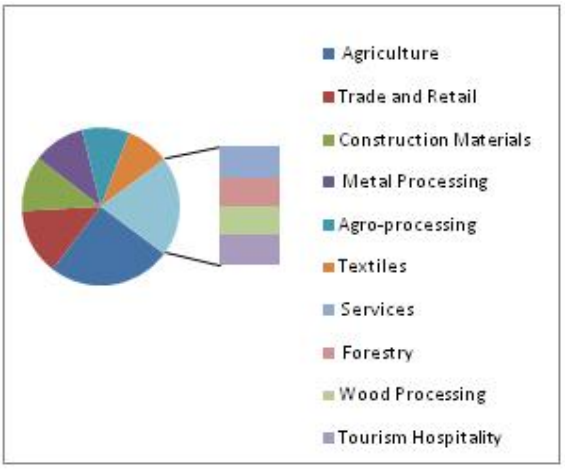
Transfer from the planned economy in the market economy presupposes the big challenges. Price reform and free competition assumes private property and lifting the trade barriers. Foreign competition decreases the strength of domestic monopoly. Prices will drop.

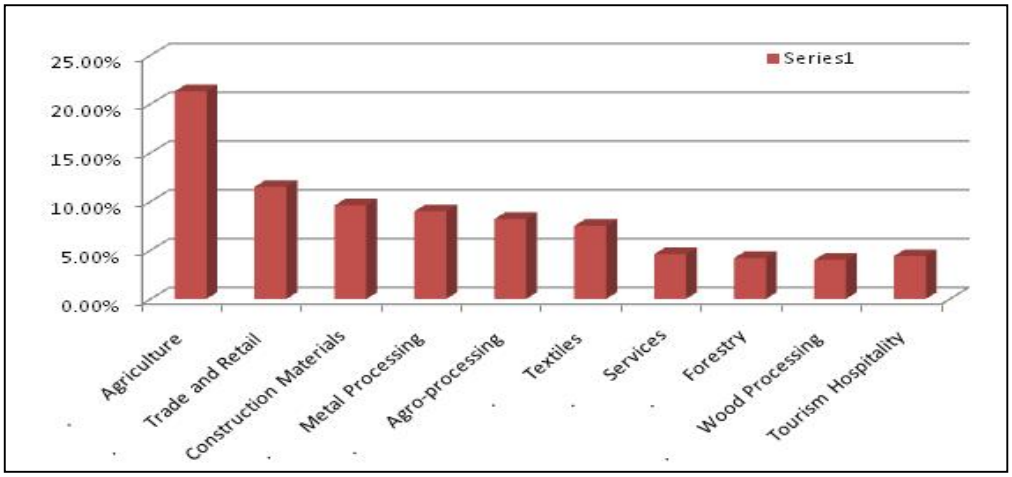
Consumers will have the opportunity to choose between different furnisher. This offers an efficient use of resources. Nevertheless, at the transition phase lots of companies will go out of the business market. Due to that, for a certain time it will be very difficult to avoid increase of unemployment. In order for the population to accept the unavoidable difficulties that transition encompasses towards the regular market economy, it is of huge importance that the leading authorities have political legitimacy in the eyes of the wide public.

Privatization and future challenges

If we take a closer look at the privatization process in Kosovo we can conclude that has been a very complicated and not an easy process. Over 590 business enterprises have been identified as potential Socially Owned Enterprises (SOEs). SOEs have operated in a variety of sectors including:

- Agriculture 21.3%
- Trade and Retail 11.5%
- Construction Materials 9.6%
- Metal Processing 9.0%
- Agro-processing 8.2%
- Textiles 7.5%
- Services 4.6%
- Forestry 4.2%
- Wood Processing 4.0%
- Tourism Hospitality 4.4%





THREE ASPECTS OF PRIVATIZATION

One political-economic problem, in our case the privatization problem, can be viewed in tree aspects: in efficiency, distribution and stability.

Efficiency: how should the propertybe organized in order that existing production apparatus and real estate be used in most efficient way in the short time ("static" efficiency)? A similar question concerning the efficiency in connection with investments which brings new production capacity and the real estate, efficiency in a long term capacity ("dynamic" efficiency).

Distribution: What is the impact of alternative methods of privatization in distribution of incomes and wealth? Here we have a shorter perspective or approach (distribution of incomes) and long term perspective or approach (distribution of accumulated incomes or wealth).

Stability: What is the impact of alternative tools of privatization during a short time in the macroeconomic variables such as inflation and unemployment?

Table 1. Three aspects of privatization: efficiency, distribution and stability.

Short term	**Long term**	
	1	2
Static	Dynamic	Efficiency
Efficiency efficiency		
Distribution of the incomes	Distribution of wealth	Distribution
Stability of cyclic oscillation	Structural adjustment	Adjustment

Table 1.Represents the way of organizing the arguments, but no guarantee, that all aspects can get clear answers. Mostly answers in one or two aspects can be decisive in taking the decision on how should the privatization be implemented in specific case. Two examples;

Small Business

The reason why the small businesses are included as separate category is that the small business can be sold relatively easily to only way new owner. More precisely, the definition "small business" in some European countries is that is a property of one person. This can be referred to stores, barber shops, small hotels, handicraft shops, restaurants and small enterprises.

Small businesses can be put on auction. Person that thinks that he his most qualified to run the business with profit usually will make the biggest offer at the auction. A public auction with lots of participants will increase the

possibility of having the right person at the right place, meaning most suitable person as owner.

Nevertheless even with this relatively simple form of privatization a certain number of problems can occur. We will stop briefly in three of them: Consequences of price reform, financing problems and your buyers.

Possible serious buyers will have to do an assessment of the incomes and cost analyses before presenting an offer in connection with certain business. In order to perform the financial analyses they have to anticipate future prices of raw material and the final products. This can be difficult even for the market economies of the central and eastern European countries and this can bring another problem, the problem of assessing the consequences in future profit as result of actual reforms or future prices Imagine an enterprise which sells subsidized products (example; food products) and uses the subsidized raw material (example; electrical energy), when the subsidy will decrease or be removed, the market prices will experience changes from the current prices. Future prices structure will be unknown. As far as market goods in all over the world the world market prices will be used adding the transport cost, taxes and custom fees. This can be used as a good base for calculating the future prices. Nevertheless, from the raw material and small business products only a small portion will be an object of international trade. Then someone can assess the market prices of so called "untradeable" goods (goods that are not part or at small percentage of international market) in other western countries, like energy and cement; this market prices cannot be taken into an account in today's calculations, instead of taking subsidized prices to make possible in that way the proper assessment of possible profits in future.

When the subsidy will be removed, the prices will increase. Less people will be in condition to secure the goods, so also the waiting lines will disappear. For some goods which earlier we had long waiting lines and relatively low subsidies consumers will be ready to pay higher prices. This means that the market can tolerate the increase of production but also the price increase. For other goods, were the prices will increase immediately, the demand can be lower, but with increase in production of goods as consequence we will have a price decrease.

Furthermore, there is a dynamic aspect of efficiency issue in an economy which is characterized with subsidies and from the regular foreign trade. From the economic point of view a general perspective would be if the new investments could be based in the exact future prices. Otherwise the society would face the danger of investments without profit and as result powerful groups which would oppose necessary reforms of price in attempt to protect their investments. In other words, efficiency, be it static or dynamic would show an early reform of price and market prices set freely in connection with the untradeable goods.

Another problem is manifested also in relation with financial aspect of buying the business. Except his funds (joint-stock capital), an eventual buyer of the business will need to loan money (foreign capital). In a market economy such a request would be addressed to a bank. Bank will assess the business concept, in our case the buying the enterprise. In case that the bank is convinced that our business concept is trustworthy and ensures payments of loan with interest, then the bank will give the funds. Nevertheless, in some countries of Central and Eastern Europe there is no banking system with market orientation. Also it is hard to find qualified bankers and financial analysts which can assess/evaluate different investments and ensure efficient use of capital.

A third problem which is connected with selling of small and middle state enterprises has to do with the level in which the foreigners would be allowed to buy them. From a point view of efficiency the foreign owners would constitute the positive factor. They would give their experience and expertise in connection with technology and management. Additionally, new foreign owners would bring fresh capital within the country. This imported capital could be constituted partly from western machinery and other equipment, and partly from western currency which owners will have to pay for buying an enterprise.

Agriculture

The reconstruction of the agriculture includes two factors; splitting the agricultural enterprise in smaller working units and privatization. In case that one farm is divided, then the leverage is smaller. This from its side could result also in lowering the efficiency. From the other side another experience, the experience and division of larger properties and vast land in smaller units, which would be owned from the people who work on them, could bring a faster development and bigger production. Observing how the state owned farms and cooperatives in some countries are enormous, it is obvious that the division and privatization of the land would be best way/road for increasing the food supply. In connection with the privatization it is natural that from the point view of efficiency we should pay attention and preferred treatment (to a certain degree) to those who actually arable the land; they know the preconditions for production (condition of arable land, climate, etc.) and as result they will be in condition to use the land in most efficient way.

Big Enterprises

Privatization of big enterprises presents new problems. From a point view of efficiency, it is desirable a though competition between many enterprises. Existing monopolies need to be cracked, and other obstacles towards the competition should be removed. Whenever possible, big enterprises should be divided in smaller working units and then should be privatized. Also it is important to create/establish most favorable conditions for establishing a new business. As we noticed earlier, free trade with other countries is important, to guarantee fair prices within the country but also to give the opportunity for customers to choose from different venders. Selection from the customer is the best expression of realistic competition between producers. If the foreign companies will be allowed to build their own production factories, then the conditions for bigger competition and efficient usage of resources would improve. It would be important installment of business legislation in order to stir up the competition, including the rules/regulations which will protect open buying/purchasing and not discriminated of the public sector, a law which ensures an opportunity for opening freely the new enterprises.

As result of intention to maximize the profit we should minimize the misuse of resources. Another aspect is that the fulfillment of the consumers requirements/needs should be at the center of the company's activity. During this time where the competition is tough those who will force the management of the company to behave as mentioned above, the professional owner (stakeholders) will enforce this kind of customer oriented management.

In principle, stakeholders' owner ship can be exercised in two different ways. An active way would include a closer monitoring by the stakeholders of the company. If the company is managed/lead wrongly, owners will impose changes; by replacing the directors/managers and appointing new council. This active method of exercising the ownership is also known as "voice method", owners will ensure that their voice will be heard against a weak leadership.

As far as the passive method of exercising the ownership, those shareholders which are not satisfied with the companies' direction, they will sell their shares in stock market. This method is also called "departure method", the dissatisfaction of the owners is expressed in a fact that they will desert the sinking ship. If the "departure method" is used by many stakeholders, then the price of shares will decrease. This will result with discontent between the remaining stakeholders and the new ones. They will be forced to make changes in the leadership of the company. Moreover o lower price of companies' shares could result in problems for requiring loans from banks and extending the initial capital via the selling the new shares. The voice method is easier to be implemented when the ownership is concentrated in one or few owners. Partially this will give the owners an influence and concrete vision through the numbers of voting rights which they have in the general council and through the representation in the company, and partially will incite in them a stronger interest to deal with managing the company.

In contrary if the interests of the ownership are divided between many smaller shareholders then as result the engagement of each stakeholder will be also smaller.Lack of group without a defined vision which hasn't a big interest in a company's activity, will result in an approach which will not have a demand toward a company's management to achieve maximal profit. It is obvious that I f we have a big number of small stockholders the pressure on the company's management will be minor, in comparison if we have more of professional stakeholders.

What this means for the privatization? One of the options would be that the ownership could be organized as follows; New government would create an investment company (holding company), the only task of which would be to exercise the role of professional owner in several companies. For each country we can think of ten to thirty such companies. As return, shares in investment companies could be sold or given for free to people.

An overview on investment companies

Who would be the monitor of the monitors? meaning of the investment companies. The shareholders which are dissatisfied with the profits of the investment company need to have the right to sell the shares which they have in that company (departure method). If part of the companies' profit of the investment company will be directed to increase the general pension funds, a shareholders will have an additional reason to increase the requests towards the monitors, meaning that the investment company should do a better job/performance.

At the end his pension/retirement fund will depend on the profits which investment company will have throughout the years. Should the employees get for free the shares of the company or should they have a discount when the shares will be sold?

From a point view of efficiency the answer will be no. The reason is that they will present different objectives which will differ from the maximal profits. In case that employees in general represent a big group of shareholders it will be possible a protection/preservation of the jobs and of the existing production structures. If the demand for the products of the company is decreased then it will be very difficult to accomplish the necessary reduction of labor force. The willingness to introduce new technology will lead to increase in production and redundancy of the labor force which will run into resistance from the shareholders that are employed at the company. Employment objectives should be better realized at national or regional level and these objectives should be achieved through macroeconomic measures. Moreover, if the aim to reach maximal profit would be faded and would become unclear, the managers of the company would have difficulties in getting loans for new investments.

A question is posed; Would the job give pleasure and efficiency will be higher if the workers own part of the company's shares? This could be true if we talk about a small business, were the role of the manager and owner is the same. In such company's all necessary preconditions will be fulfilled for voice method to be functional (family business maybe gives the best example at in this direction). Nevertheless, in big enterprises an individual will feel inferior and in a situation to leave the company, his influence will be minor that practically will not be noticed. The experience shows that companies which are managed by the workers are rarely successful. This is best illustrated in a system were the companies are controlled by the workers. In market economies we have relatively small number of companies controlled by employees. If the control by the employees would be the best form of leading the company, then based on the business freedom in one market economy, this form would shift other alternative forms. However this did not happened. Typical form of organization of the big companies consists in companies with joint capital were the biggest portion is of foreign shareholders.

From a point view of dynamic efficiency, were companies experience financial losses it is necessary for them to reorganize the operations, close or be sold. If such measures are not realized, then starting from work, equipment and building will remain unrealized. As much as these opportunities will be denied for efficient companies, then the social productivity will decrease. If in a case when a non-profit realized company would be held artificially alive and operational, then other companies would be forced to pay more for their production factors then normally (example; the salaries will increase from the companies who could recruit and retain labor force with the help of subventions). As result we will have a reason for legislation which would guarantee that the management of the company would present a document of bankruptcy in case when the debts will exceed the profits. The state should not interfere with giving subventions or expedient loans. If in an economy there is no strict restriction toward the budget of the companies for a certain time, the big part of the business sector in that country will be without effect.

The practice shows that the legislation regarding bankruptcy and strict budget restrictions are necessary prerequisite for effective economy. This means that in dealing with companies and banks, society needs to define clear lines and policies of division between political world and market economy. Division line between politics and economy has also a huge political importance, constitutional role. A clear division between a political power and economic ownership would avoid a melting among politics and economy. If during a privatization process of the big companies, someone would create a small number of investment companies were each of them would own one enterprise, we would have an instrument for exercising professional ownership but also political power. For this reason, skeptical voices are being raised against fast establishment of big investment companies. This road can be followed only when we are sure that old owners/rulers are expelled for good from the influence in such companies. To speed this process, the state should avoid taken payments for shares in the big companies. Shares should be "parked" either directly in the economy of the country or in the investment company, which afterwards would be owned by the country's economy. What would then happen?

1. Privatization would proceed with faster rhythm, and as result we will avoid the need of guessing the future prices of raw material and production in order to create an opinion based on this for the value of the company.
2. We will eliminate a need for possible buyers who will require loans. Nevertheless to achieve an effective control through the "departure method" a market for shares should be established.
3. Legal situation could be cleared if at the beginning state companies are transferred in the companies with joint capital, where all the shares are owned by the state and only then be privatized. In this case the reform would become in-eversible. Within a short period of time. Then it will be difficult for rulers but also for workers to buy the company with a lower price. In an unclear legal situation could happen that the leaders but also the workers would be in position to gain the ownership over the company which would make politically very difficult to change later in time. Individuals but also companies could be capable to influence the distribution of the capital on their favor

without any right. Hasty privatization projects have been implemented for companies but also for spontaneous combined land reform in Poland and Hungary.

4. If the privatization would go slower, powerful stimulants could be ascending for the establishment of new business. It would be very hard to find a potential investor who will sit cross handed for years. They would like to use the existing possibilities as faster as possible. Such new established companies will compete with state companies and if possible they will draw them out of the game. For society in general this could endanger the use of resources. An effective use of resources would be an indicator that state owned companies should as soon as possible transfer in private companies and give them the opportunity to compete freely.

Stability

"We are not in the condition/situation to give/sell the companies" is a statement heard frequently. Why not? If the state would sale the companies then with the help of the incomes gained could decrease the state deficit, also by decreasing the amount of the money in the private sector, inflation will be lower. This could be important, but doesn't compose a permanent solution of inflation problem. Huge budget deficits of the state sector and high level of inflation in countries of Central and Eastern Europe cannot be resolved without a continuous control and limitation of money offer. By selling the state property the problem of budget deficit will be only a temporary solution.

This justification leads in an important situation: Privatization is not an effective measure or even a suitable measure in resolving the short term problems. Adjustment of cyclic oscillation to reduce the unemployment and inflation would require macroeconomic measures. It is important to make clear that if put a new structure in a business sector compatible with comparative advantage with other countries, and also long term competition, the essential changes in relative prices would be unavoidable. These changes would be lead to decrease in production and bankruptcy of companies and loss of the work places in some sectors. This would be necessary to allow other branches of the industry to considerably develop and to expand further more. Smaller companies, in particular in service oriented to require more labor force. Also the building of new houses and investments in infrastructure would create new work places.

However the transition into the market economy will not be easy. Decisive factor in most of the cases would be decided form the fact if the changes in the relative prices are accompanied with strong and sufficient offer. Will the new opportunities for beneficial profit be used, which will be created as an answer to changes in relative pricing, from capable businessmen's? Are they going to be in condition to make an attempt to work more? Only if these two condition swill be fulfilled then we could have materialization from the increase of production. Only the increase of production (increase of productivity) would secure an improvement of life standard.

CONCLUSION

Privatization is an essential element in a road toward market economy. During this process many companies could fail or reduce their labor force. It is important to point out that bankruptcy does not include necessarily closure of all working places in a company. The purpose of bankruptcy primarily is financial reconstruction of the company, by making possible that the companies' accounts are regular.

It is difficult to deny the fact that many big companies will have to be closed. For this reason, it is necessary to encourage the small business and service companies', which have been discriminated to expand through fast privatization and creation of new companies'. This is of big importance if the word privatization in the mind of the people will be a synonym of unemployment- something which could halt a process of privatization. In this situation it would be important a basic support for family incomes, through a network of social insurance and social assistance. Also the possibility for requalification for those who will lose their jobs, to be prepared for better days.

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