



ABSTRACTS

The paper juxtaposes the basic initial goals and results, i.e. the effects of the process of privatization in the most advanced transitional countries and Croatia. The text is mostly limited to the economic achievements of the privatization process and the problem of their adequate social evaluation and measurement. In the paper the overall consequences of such a comprehensive change of the ownership system regarding the efficiency of transitional economies is analysed, and the extent to which the original intentions of privatization policies have helped transform the reality of transitional countries. In short, the text analyses whether the benefits of such a project have outweighed the overall costs and whether it can be ultimately stated that this project has for the most part succeeded in carrying out its initial intentions.

Although the majority of transitional countries have advanced considerably in overcoming the ownership heritage of Communism (state ownership), and regardless of the fact that the positive effects of privatization are evident, one can conclude that almost in all transitional countries there is a kind of gap between wishes and reality. However, the differences among countries in that respect are considerable. In the group of the most advanced transitional countries (and these are mostly countries of the first integrational circle with the EU: Poland, Hungary, The Czech Republic, Slovenia and Estonia), which coped well with all the traps and controversies of the process, this gap is small because the privatization policy has performed its initial task to a greater degree and has succeeded in transforming the commanding state economic systems into economies with a dominant private sector in creating the GDP and overall employment, and has thus ensured conditions for the return of economic growth in the market economy system. The group of the most advanced transitional countries has reached, in this respect, standards shared by most of the OECD countries. Other less successful countries, among which Croatia is, have not managed to attain the desired effects of the privatization policy, thus making the gap between the objective and projected reality quite significant and causing social resistance to further privatization projects.

The simplest answer to be offered in the empirical assessment of the effects of privatization is that in a successful institutional market-economy supporting entrepreneurs and competition, privatization brings the benefits expected, while in countries that were not as successful in creating it, the benefits are indiscernible and moreover, privatization brings distorted effects.

Specially analysed in the text are the empirical data concerning the effects of privatization on the restructuration of companies and the increase of their allocative (external) and cost

(internal) effectiveness. Recent empirical studies in seven transitional countries have confirmed the hypothesis about the favourable influence of privatization on the increase of a company's effectiveness. In the immediate four-year post-privatization period there has been a rise in the overall productivity factor in these companies, and even more so of work productivity per unit of product. Privatization has proved the most important single factor in the restructuration of companies.

The author also analyses other effects of the privatization process in transitional countries such as raising the welfare of consumers, employees and investors, lowering the prices, effecting public financing and the development of the capital market.

The results of privatization achieved in Croatia are comparatively lagging behind the most advanced transitional countries. Analysis of the indicators of specific economic goals of the privatization process indicates that they, in spite of some positive steps, still mostly reflect the gap between wishes and reality, i.e. the insufficient realization of the expected and desired effects. The process of privatization has not yet included all the sectors of vital importance for the functioning of the economic system based on the principles of private entrepreneurship and market competition (large state companies, sector of public services and infrastructure, banking sector). Due to unsatisfactory economic results, the effects achieved in Croatia are followed by an exceptionally unfavourable perception of the broader public, which is confirmed by the first empirical research on a statistically significant national sample, the results of which are analysed in the paper.

In order to neutralize the distorted effects of the privatization process, the creators of the policy of privatization will have to make a lot of directed effort. In addition to a more precise formulation of economic goals they also have to deal with the neutralization of the process' negative image in the public. The experience gathered and lessons learned in the previous phase of the process could be useful in determining the future institutional-regulative solutions and creating the necessary conditions for more positive effects in the next phase of privatization, especially of public companies and the banking sector. One of the very important conditions for achieving positive privatization effects in the future is restoring trust in the institutional organization of the process, which has been seriously impaired in the previous phase.

In the analysis the author uses two main groups of data. The first group consists of selected media materials. The second group has been obtained through (planned) research of public opinion on "classic" and mass/coupon privatization. Both opinion polls were conducted during 1998. These are also the first systematic research projects of the Croatian public opinion on privatization.

In the paper the author first analyses the main concepts. Based on the analyses of Habermas, he excluded from the composition of the public the institutionally organized public. Analytically speaking, therefore, the definition of the public is equal to the **public of private persons**. By analysing the basic components of public imagination the author demonstrates that the public of private persons is "naturally" situated in the position of one of the metasytemic subjects of modernization. In accordance with the latter he also defines public communication. This is not any media communication but the one fulfilling two basic conditions. The first is the presence of the private persons' public. The second includes public interest as the subject of mediation of this public. In accordance with the latter, the author consistently and analytically differentiates between public communication and concepts such as mass communication or media communication. These syntagms should be attributed, based on the author's analysis, to **technical modalities** of communication **and not to public communication**. Public communication can appear in any of the technical modalities. With regard to referent literature the author distinguishes three such technical models: the technically straightforward interpersonal communication; interpersonal communication with the assistance of machines, and mass communication by means of the mass media. The last technical model is equated by the author with industrially organized communication. In it the concept of *mass* emerges. However, it is not a sociological term, but a constructional one, characteristic of models.

In the construction of the model of public communication concerning privatization the author sees one consistent tendency. The latter is in the attempt **to make public communication difficult or impossible**. This can be achieved in two ways. The first mode is apparent in the institutional mediation of public communication in the media. The mode is supported by two main models of media activity. In congruence with analytical tradition the author calls them the "white" and "yellow" models. The first is more often used by the institutionally organized public, and the second by media entrepreneurs. The first mediates privatization as an agreed upon reality, and the second as a reality with hostile participants. However, the common task of both models is to hinder the establishment of public communi-

cation on privatization and **“move” it into mass communication, separated from public interest.**

The second mode of weakening public communication on privatization the author sees in impeding the position of the private persons' public to act as an independent communicator on privatization. This process occurs on two levels. The first level is informational. The author says straightforwardly, supporting his words with data, that the public of private persons is in “infomational exile”. Therefore, it cannot, due to a lack of competence, be a competent participant of public communication on privatization. The second level is structural. The author demonstrates that the private persons' public acts practically like the public mediator of imaginary institutions: the imaginary trade union of privatization losers and the imaginary trade union of privatization entrepreneurs. In other words, it **withdraws** from mediating public interest and substitutes it with the projected group interest. This reduction is, according to the author's assessment, a natural consequence of the described “informational exile” of the private persons' public. But also a result of the **systemic** fact that the Croatian society has not (projectively) established the modernizational components of public interest. **Thus, privatization lost the elements of rational assessment of developmental effects.** And relativized the differences between entrepreneurial and speculative behaviour in privatization. All the actors in privatization react to this fact by strengthening group interests and conflictful behaviour which results in the communicational suspension of public interest. And without public interest there is no public communication on privatization, nor is there adequate strategic management of the process.

Aleksandar Štulhofer:
The Process of Privatization in Croatia and the Croatian Public
1996–1998: Return to the Future?

The article deals with the sociocultural background of the perception of privatization in Croatia. In the introductory part it is indicated that the sociocultural dimension of transition has been neglected, especially with regard to the political and economic aspects of which it is often the test of success. Thus analytical differentiation between two important and generically heterogeneous dimensions of the sociocultural background is rare. The first is described by the process of so-called “cultural inertia”, that is the cumulation of sociocultural heritage from the previous system in (the-still-active) collective habits and conceptions. The second dimension has been newly-established and consists of situationally induced reactions, that is newly-formed (instrumental) strategies and collective conceptions emerging as an answer to transition costs, wartime events and corresponding political decisions. Analytical distinction between these two dimensions is of great importance because the domination of either type of sociocultural obstructions demands different reduction strategies.

The second part of the paper analyses the conception that the Croatian public has of privatization. If we have in mind the fact that the process of privatization is the basic mechanism of economic transition, and therefore of the whole postcommunist development, the public’s negative attitude about the current course of privatization can become an important source of transitional obstacles and active resistance to further changes. A lack of “moral legitimacy” of the key economic activities can cause the spreading of a “climate of cynicism” and (suboptimal) opportunistic strategies of behaviour. The first part of the analysis of empirical data, obtained in the research *Privatization in the Eyes of the Croatian Public* conducted on a representative national sample (N=1001) in mid 1998 is mostly descriptive. According to the gathered data, a particularly negative image pervades, characterized by accusations of political abuse and clientelism. As was expected, widespread dissatisfaction influences the evaluation of the political effects of privatization. – negative assessment leads to the situation where the economic efficiency of former social companies becomes overrated and the efficiency of new, privatized companies underrated, and it also leads to the (unsatisfactory) assessment of the capability of new entrepreneurs. The negative estimate is connected with opposing the continuation of the process of privatization through sales of the so-called public companies.

After the descriptive part, concluded by the findings that over three quarters of examinees demand a revision of privatization, the analytical focus is moved towards understanding the sociocultural background of the public perception of privatization. Can this dissatisfaction be attributed to traditional distrust

of the system's institutions, reactions to (unequally and unfairly distributed) transition costs or, to a combination of both factors? The penultimate chapter contains the empirical test of three theoretical models interpreting dissatisfaction with privatization as cultural inertia, situational reactions and a combination of both. The results of regression analyses give explanatory priority to *the model of situationally induced reactions*, although the largest part of the dependent variable's variance remains unexplained.

The final part of the discussion commences with making a distinction between two concepts of corruption, with the stress on clientelist corruption whose elements can easily be recognized in the public assessment of privatization in Croatia. In warning about the structural problems of the battle against clientelist corruption, the author considers in short the negative effects of corruption on sociocultural capital (social capital). An attempt is made to indicate the importance of the strategic re-conceptualization of sociocultural capital as a national resource by mentioning concrete social measures, whose goal is to fight against "the culture of cynicism" and encourage sociocultural capital by developing conditions in which civicism "pays off". Among the measures proposed are: the anti-corruption campaign, transparency of economic decisions, the promotion of independent media, professionalization of government services and the establishment of the institution of professional responsibility as well as revision of the notorious cases of clientelist privatization.

Two Views on Croatian Privatization: The Croatian Public and
Migrants-Returnees on Privatization

This comparative analysis of the results of the research “Privatization in the Eyes of the Croatian Public” contains those questions whose answers have demonstrated statistically significant differences with regard to whether they were given by examinees from a representative sample of the Croatian public on the one hand, or the accidental (available) sample of emigrant returnees on the other. The basic goal of this analysis was, therefore, to establish the possible differences in answers between the Croatian public and migrants-returnees and to try to interpret them sensibly – on a general level of analysis. We say general, because for a more detailed analysis we would have to ensure a representative sample of examinees among the Croatians-returnees. According to our knowledge, such an analysis is not to be expected neither now, nor in the near future (due to a number of reasons). This is why we are focusing here on some general remarks with regard to the interpretation of the differences observed between these two groups of examinees.

Since the results presented here, and in which these differences have been established, make up the majority of the questions from the research, the hypothesis that migrants-returnees see and evaluate slightly differently the problems connected with privatization than the Croatian public can be accepted. The analysis conducted demonstrates that both groups of examinees express dissatisfaction with the privatization carried out so far, while statistically significant differences become evident in the intensity of this discontent, as well as in the preferences of the aspired after goals of privatization. For example, 68% of the Croatian public deems that the results of privatization are unsatisfactory (out of which as many as 2/3 think that they are completely unsatisfactory), while this segment in the group of returnees takes up 45% (out of which a little less than a half considers the results to be completely unsatisfactory).

On the issue of being informed about privatization, although in both groups the majority has some basic knowledge about it, in the group of returnees there are more people who think they are well-informed; however, it is noticeable that the returnees were less frequently informed about this topic through Croatian television programmes (HTV) than the Croatian public.

Most returnees recognize privatization in Croatia as the transformation of social ownership, while the Croatian public interprets it as the distribution and sale of shares. Otherwise, for the returnees, a more desired mode of privatization is a combination of sales and distribution of shares to all citizens, while a part of the Croatian public prefers exclusively the distribution of shares to workers in companies.

With regard to the pace of privatization, most examinees from both groups state that it should be slower, but it is significant that 10% of the Croatian public thinks it should never have even been started because the previous form of ownership was better. This attitude is even more obvious in the question on the efficiency of companies, where as much as 35% of the Croatian public states that the same companies were far more successful before the process of privatization.

Returnees would rather see company managers as owners of privatized companies, while the Croatian public thinks it should be the workers. Furthermore, returnees are more in favour of foreign capital entering Croatian firms and for the privatization of state and public firms.

Of all the desirable goals of privatization, returnees consider the development of market economy more important, like in Western countries, and also gathering funds for the rebuilding of areas destroyed in war, while from the viewpoint of the Croatian public these goals are retaining workposts and the fair distribution of wealth on those who created it.

In contrast to the Croatian public, which singles out no one to be given credit for the positive results of privatization (since most think there have been no positive results), returnees merit the President of the Republic of Croatia, the Government of the Republic of Croatia, the Croatian Privatization Fund and the Ministry of Privatization, as well as the new owners/managers of companies. The returnees are also less critical of those responsible for poor results (except of the Croatian banks which are held more responsible than by the examinees from the sample of the Croatian public).

And finally, although both groups deem that privatization is linked with most of today's social problems, it has become evident that attitudes on that issue in the Croatian public are much more extreme than those of the returnees. Therefore, the opinion of most returnees is that control/revision of privatization should be conducted only in those cases which have been proved wrong. However, the majority of the Croatian public states that revision is necessary in all cases of privatization throughout Croatia.

In the short period of transition Croatian society has tried to make up for a hundred years' historical delay in forming its national state, in creating civil political awareness and the orientation to market economy. Taking this step from the historical discontinuity called socialism is a very demanding and long-lasting process. Rapid privatization and marketization leave unwanted traces at the social level: the growth of unemployment, the fall of production, labour without pay, uncertain pensions etc. Therefore, there has often been present in the public an ambivalent relationship towards the novum of capitalist reality: on the one hand, the public is united in the need to eliminate traces of socialist collectivism, and on the other hand, it often neither accepts the technology it is carried out by, nor the people who are conducting the process.

This discrepancy – between the *belief* in the realization of a better future (civil democracy, affluent society) and the *trust* in the actors and models building this new future – is particularly expressed in the attitudes of the public towards the *realization of privatization*.

About privatization itself, the public is mostly informed superficially. The reason for this may lie in an *elitist* approach or lack of interest of the general public. It could be a matter of a *yet unprepared* public for such topics, but it cannot be stated that these topics do not concern the public, which is especially sensitive to *irregularities in privatization*. This issue is currently of great importance not only because of media back-up, but also due to the social insecurity of the working population and the many classes of society in search of causes for such a situation.

The research has shown that dissatisfaction is expressed in the public with the results of privatization. The more the population is educated the greater the discontent. However, in spite of the difference in education the fear for *social security and social justice* is equally important to all. *Developmental goals* are also marked as highly desirable by the public.

The state and banks have not won the public's trust as the new owners. The greatest percentage of trust is given to workers and managers alike. This indicates the conclusion that those who are trusted most are the people directly connected to production.

Especially low is the trust placed in institutions conducting privatization. (The Ministry of Privatization, The Ministry of Finances, the legal system). Less trust is expressed by those examinees whose education is higher. Working status also influences the degree of trust in these institutions: it is lowest in the group of entrepreneurs, employers and experts.

Latent dimensions (discovered by Varimax rotation) indicate two orientations in the *perception of social justice*: a more strongly expressed orientation to the *pro-socialist* way of equating

the needs and salaries, while the other is directed at *market-liberal* values in view of acquiring material wealth and payment for labour and responsibility.

In the *perception of the importance of developmental goals* it is also possible to distinguish between two orientations – the more pronounced liberal-democratic built on the values of stable democracy, depolitization of economy and marketization as a path to European integration. The second is less expressed, and it advocates *traditionalism and state paternalism*.

The existence in public of juxtaposed orientations regarding social justice and developmental goals, is sufficient confirmation that the privatizational novum does not contain the same sign for various social, professional and even political groups. Although an inevitable process of the transitional period, privatization has brought the *majority of the population* social insecurity, but it has also offered them developmental goals. While social insecurity has directed the public to a *déjà vu* mode of social care, the developmental goals have put before the public *new values* – political freedom, civil culture, market-economy values – all as a first step to entering the world of democracy.

The main objective of this paper was to analyse the current process of privatization in Croatia as a form of distribution of resources and goods in a given time and space, in the context of relevant sociopsychological theories of justice. Special attention was paid to the principles according to which distribution had been carried out, to perceived groups – executors of the distribution and to perceived effects and consequences of such a distribution of resources and goods. The analysis was empirically based on the Croatian citizens' social perception of the privatization process in the year 1998 (representative sample of the full aged population of Croatia, n=1001).

The author arrived at the following conclusions:

The process of privatization in Croatia, in the context of a general understanding of justice by the majority of Croatian citizens, their expectations with regard to the implementation of a just principle of distribution, for the purpose of being given fair owners and attaining the desired effects of privatization, has produced, in terms of the applied principles of distribution, existing owners and achievements, their general dissatisfaction with privatization. Croatian citizens think that privatization was carried out according to unjust principles, achieving, therefore, effects considered to be undesirable and unfair. With regard to socioeconomic status in a broader context, most inclined towards such an opinion and attitudes is the population of citizens which we could, according to the criteria of Western democracies, consider as middle class (a more educated, work-capable, urban, richer and more informed part of the population regardless of party-membership or other characteristics).

From the analysis of Croatian citizens' opinions and attitudes on privatization, in the context of the mentioned principles of distribution, it is clear that the Croatian citizens expected a distribution which would be closest to "the principle based on equality", while in reality distribution was mostly conducted according to "the principle based on participation and contribution". It should be also observed that the results indicate that the evaluation of the intensity of participation and contribution, i.e. merits, was given by those perceived as the greatest winners in the privatization process. Most Croatian citizens, especially the population considered to be middle class, express thus the opinions and attitudes that the greatest winners in the privatization process are political and managerial structures, regardless of their party-membership, formed from inherited and newly-formed structures in the transitional period from socialism to capitalism. On the other hand, according to most citizens, in congruence with their commitment to the principles of equality and solidarity, the greatest losers are agricultural workers, peasants, workers, experts, scientists and cultural work-

ers. The social consequences of the application of the prevailing principle mentioned , according to theories of social justice, can be expected, on the psychological level (anger, depression, suicidal tendencies, alcoholism etc.), and on the social level (different forms of social revolt and strikes of employees in privatized and public companies).

Mass privatization is, as part of broader privatizational changes in former postsocialist countries, a process in which a considerable amount of state ownership is transformed into the ownership of a large and dispersed group of private persons in a relatively short period of time. The basic purpose of this paper would be to describe, based on straightforward empirical data and in the context of the Croatian project of mass privatization, some fundamental dimensions of a newly established relationship between managers and new institutional owners – privatization investment funds. In the paper an attempt is made to outline the basic behaviour strategies of these funds and indicate possible directions of the evolution of managerial control in Croatian companies.

Our analysis has demonstrated that the behaviour of managers in a large number of companies designated for mass privatization follows the logic of classical managerial control, although we have noticed that in some companies the influence of ownership control and interest structures in the company's surroundings is slightly more significant. For fear of not being able to retain the positions acquired, some managers consciously develop various forms of defensive behaviour. While in certain companies chaotic processes of systematic destruction and theft of the companies' property is under way, performed by managerial structures and informal alliances within and without the companies themselves. However, whether or not they are among the principal actors of plundering or creative, business-oriented modes of behaviour, managers mostly express the wish to increase their co/ownership shares in contemporary companies. This means that in the long run they want to preserve their personal position and legitimize their professional role in the duality of the company's professional manager and increasingly more important co/owner.

As regards the new institutional owners, it seems that their emergence in mass privatization is characterized by several features. First, the PIFs have successfully completed their role of "gatherers" of privatizational coupons (points). From the overall offer of privatization points (1.608.664.445), in three rounds of privatization auctions individuals kept back 89.004.947 points or 5.53% for individual contention for companies. So they appeared on the scene as new co/owners of companies in considerable numbers. Second, the overall realization of the massprivatization project prevented the PIFs at the very beginning from rapidly acquiring majority co/ownership shares in auctioned companies. These were companies – according to PIF managers' opinions – characterized by generally poor business transactions and even poorer business outcomes. This prevented them from acting more quickly and decisively in companies on a structural level, slowed down authoritative ownership contacts with com-

pany managements as well as serious discovery of possible strategic investors for (still) better-standing companies within their portfolio. The latter also encouraged the development of plundering styles of behaviour in those companies formally taken over by the PIF. At the same time, the rules of the game stimulated, in this phase, cooperative forms of behaviour among the (seven) funds themselves.

Third, almost all privatization funds chose, with regard to their company portfolio, in the long run the “exit strategy”. This means that all of them wanted to sell the companies as soon as possible to prospective investors – domestic or foreign. If we have in mind that one of the official goals of mass privatization was also that the PIFs should appear as “restructuring mechanisms” in privatized companies, it follows that PIFs will not appear in this role as was expected. Either due to the structural factors mentioned, or because of the limited human potential at their disposal, or due to a large number of bad companies, the PIFs in this short period of time have followed simultaneously several ad hoc modes of action: a) referring to goal-directed restructuring of a small number of better companies from the portfolio (“star companies”), in cooperation with domestic or prospective foreign investors; possibly quite autonomously resorting to the restructuring of several companies at a time, if a better price is subsequently expected at the company market as well as possible interest of foreign investors in them in a certain period of time; b) companies with very small co/ownership shares, without particular market value or of relatively low market value are sold to interested (mostly) domestic buyers, either to the managements of these same companies or to domestic entrepreneurs; c) in a large number of “remaining companies” the “primary situation diagnosis” is just under way; cooperation is required from company managements and fear reduced of radical moves, in order to prevent, at least in that way, the destruction of companies.

The problem of corporative management arises with the separation of the function of management from ownership, and tries to find the best way for protecting the interests of capital owners in circumstances of modern impersonal corporation. In transitional postsocialist countries this problem has an additional dimension, since former state and social corporations were mostly not well managed, nor was such management presented as a dominant goal-function. Thus, in corporative management a great deal of effort is spent on restructuring in the broadest sense of the meaning.

Different modes of privatization create various owners of capital, and consequently various definitions of interests and mechanisms of their protection.

Mass privatization programmes have from the very start demonstrated virtues of rapid realization and relative fairness due to the involvement of a large number of citizens, but also a great deficiency for fear of missing the basic purpose for which privatization was started in the first place: the emergence of a responsible owner and all the advantageous economic consequences he could produce. The dispersed base of individual small shareholders without capital and knowledge on shareholding as a form of ownership was ideal both for the irresponsible behaviour of managements over which there was no control and for their falling prey to corporative predators.

Thus in the period between the implementation of mass privatization and the re-concentration of ownership based on actual market demand, a specific institutional investor had to be introduced who could cope with the postprivatizational situation, establish financial control over business transactions (a more comprehensive restructuring and more optimal vision of development were left to future strategic investors, industrial partners), who could help the development of the capital market and above all carefully represent the interests of the majority of shareholders who would have otherwise been deprived of adequate expert representation, finally losing the property they had been given. The first institutional mediators in a mass privatization programme appeared in the first wave of coupon privatization in former Czechoslovakia in the early nineties, and were conceived in analogy to investment funds of more developed capital markets. They acted without adequate control and under extremely liberal regulations, so there emerged more than five hundred of them making control over them even more difficult. A very similar role was played by funds in another big privatization project, the one in Russia.

The first experiences showed that the analogy to portfolio institutional investors who were passive by definition was not a very lucky one. Investments that were subject to mass privatiza-

tion in transitional countries were particularly non-solvent (there were no interested buyers on the market, especially not for minority shares of non-transparent firms), and every step had to be watched in order to prevent a further fall in their value caused by bad management.

Therefore, the model of the investment fund acting as a pure portfolio investor not in the least interested in management soon had to be abandoned.

Changes in the legislation enabling the investment funds to take over larger packages of certain companies meant transition towards a hybrid between a risky venture capital fund (for the most part investing in new projects and taking over relatively large shares) and a restructuring holding (which outrightly appoints the management and gets involved in business decisions). None of these two aspects has proved particularly successful; the first because of a lack of numerous strategic investors that would leave the funds a sufficient dose of sustainable passiveness, inversely proportional to management costs (and that cost is, of course, transferred to the final users, fund shareholders who have, in the transitional case invested rights in the form of coupons, vouchers or certificates), the second due to a lack of any internal resources in the field of specific industrial knowledge, and a lack of financial means to buy these skills on the market.

Croatian privatization investment funds appeared chronologically after the experience of other countries had already been known to the expert public, so the legislator tried to avoid their mistakes.

For corporative management the best solution is in the form of a strategic industrial partner, preferably foreign investor, which was not possible to achieve due to an immense mass of privatized companies and the destructive role of time.

The management and employee buyout (MEBO) is an attempt at overcoming the dichotomy of management (in this case of the overall economic activity of the firm) and ownership. Arguments for this method to the purpose of improving corporative management were that the ownership legitimacy of the management and all employees would bring about additional identification with the company, an increase in motivation and in the multi-layered control system emerging from the awareness of a connection between the position of owner and worker with the successful development of the business. Due to its role in breaking the internal resistance towards privatization and its pronounced democratic quality, this method was particularly popular in a number of transitional countries, including Croatia, whose small shareholders comprise the largest group of owners, among whom the majority are employees. However, this form of paraownership self-management contains many more negative implications for corporative management: it gives the managements, as shareholders who are more equal than others (because they have executive authority in the world of labour) great manipulative space. Therefore, the executive stratum con-

trols the owners, thus turning the protection of owners' interests upside down. Furthermore, the only basis for the management's legitimacy (as a partial owner wanting to have control over all the ownership) is a moderate dissatisfaction of the employees, caused by not carrying out the unpopular measures of restructuration. It is frequent that such companies eliminate with difficulty the centres of cost and suffer from the pressure of wages. A consequence of this parasitism over companies is usually the impossibility of further business undertakings. In the case of Croatia, bankruptcy is more an exception than a rule, while the pressure is resolved according to the principle *deus ex machina* in the form of the state which agrees to use the taxpayers' money for sanation thus making room for another cycle of irrationality.

In addition to not having a direct strategic investor as the only real restructuration agent, the companies were also overindepted, which was an outright threat to their closing down and producing an increase in unemployment. Thus the governments thought they could catch two flies at once and give a moderate managerial function to the banks making them transform their unpaid debts into investments. Since the banks' industrial expertise is as bad as that of the investment funds, they were considered to have an array of quite specific tools for imposing better corporative management. First, due to their long-term credit relationship, they were well acquainted with the business transactions and flow of money, which cannot be compared to the superficial insight of other passive portfolio investors. Furthermore, due to this credit relationship, they had an additional stick for disciplining companies through the threat of withholding financing.

However, crediting one's own stock ownership accumulates risk and causes a very clear conflict of interests. Namely, the value of stocks and the ability to return debts are directly connected (although not always coordinated in time), thus failure in any of these means a certain loss in the other. Furthermore, the bank is never the only owner, but one of the stockholders and in that case it plays a role similar to the stockholder who is the supplier of any other goods or services, and whose primary interest is to find a market for his basic field of work, (ab)using his position of owner exclusively in the interest of his basic field of work. Thus the bank can create a balance of benefits and losses and decide on the strategy of finding a market for expensive loans, wherein it gains with regard to loans, while losing with regard to ownership by placing the company in a disadvantageous position. However, in such a scenario the bank is the only one to gain at the cost of other stockholders, additionally ensuring its interests by writing in a mortgage on real estate, which amounts to ownership rights based on two principles. This explains the fact that banks took over, in a small number of cases, more owners' shares than was necessary to ensure a market for their banking services.

The conclusion is that investment funds as participators in the privatization process are certainly not the happiest instrument of corporative management, since postsocialist corporations have a great need for restructuration, which represents a high degree of financial but also specifically industrial activity, and whose only match is a strategic partner. However, in addition to certain conditions whom I believe have been fulfilled in the Croatian model, investment funds could be an adequate transitive solution, factors which will insist on costs' control and actively be on the lookout for ultimate owners. As such they are especially superior to a dispersed mass of individual stockholders, and express a far lesser conflict of interests than banks in the roles of owners, or than the employees in which the executive stratum combines the legitimate monopoly of management with unauthorized monopolization of ownership control at the expense of other stockholders' property.