INSTITUTIONAL FRAMEWORK OF CORPORATE GOVERNANCE WITH REFERENCE TO THE FORMER YUGOSLAV TRANSITION ECONOMIES

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Abstract
The importance of institutional factors, particularly corporate governance regimes for the successful sustainable development and market-based reform in transition economies has been emphasized in burgeoning literature that has developed.
The issue of best practices in the field of corporate governance is particularly important and debated. It plays a crucial role and maintains fundamental importance in all developed economies. Since corporate governance in former Yugoslav transition economies was not developed in their most important functional segments, it is clear that it could not have contributed to economic efficiency.
This paper examines the underlying causes for extremely reduced role of corporate governance in the mentioned countries. It starts with two hypotheses, namely: first, that the underdeveloped social, political and particularly economic institutional framework are the most significant causes of inefficient corporate governance in the surveyed countries, and second, that the established imbalance in relationships between property-control-corporate governance has dominantly contributed to negative economic results and reduced business environment (in terms of employment, results, business barriers, a chronic lack of investments, etc.).
Key words*: corporate governance, institutions (informal and formal), institutional pluralism, former Yugoslav transitional economies.*

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1. Introduction

There are two main types of organizations that are central in the allocation decisions that result in economic development: the innovative enterprise and the developmental state. Enterprises and states exercise control over the allocation of vast amounts of labor and capital but they differ fundamentally in the ways in which they gain and maintain access to the financial resources that gives them control over allocation of productive resources.

Good corporate governance is needed to secure three essential prerequisites of market economies: a) security of property rights, b) enforcement of contracts, and c) collective action (Dixit, 2009, p. 5). Much private economic activity depends on an adequate provision of public goods and the control of public "bads." In this Dixit include not just physical but also institutional and organizational infrastructure. Provision of social safety nets, facilitation of internalization of externalities, and the control of public bads, for example management of common pool resources, all involve problems of collective action. He considers that the economics institutions are conducive to good corporate governance and therefore to the proper underpinning of well-functioning markets.

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New Institutional Economics (NIE) it is a multilevel concept, which means that institutions can be defined at the level of macro-conditions, at the level of markets, but also at the firm level. NIE is concerned with the choice of a governance structure of economic actors under a given institutional environment, as well as with the effects that various institutional environments have on economic performance and development, and the change of these environments over time.

Deficit institutions' lead to fewer transactions, to less capital investments, and to long-term agreements being avoided. Institutions, whether formal and/or informal, create a governance structure at different levels of interaction within an economy. One important level of interaction is the corporate level. Discussions about the nature of the instutional setting at the corporate level, i.e. discussions of corporate governance, have recently received much attention in both academic and policy making circles. According to many authors, specific institutional frameworks should be in place in order to be able to support a strong corporate governance framework.

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2. Defining corporate governance - Literature Review

Corporate governance is the set of mechanisms needed for managing, growth and development of a corporation at the market, i.e. a set of relationships between the company's management, its board of directors, shareholders and other interested parties. However, one can come across different definitions in the literature, which are specific in a way of emphasizing certain aspects of the studied problem.

There are several ways of defining corporate governance. Shleifer and Vishny (1997, p.737) perceive corporate governance as "*the ways in which the suppliers of finance to corporations assure themselves of getting a return on their investment*". They identify two most common approaches to corporate governance: a) "giving power to the investors using legal protection from expropriation by managers", and b) "ownership by large investors (concentrated ownership)" (Ibid., p. 739). The former approach involves giving minority shareholders the power to control management through legal means, as well as aligning the incentives of management with those of shareholders by creating a specific environment.

Tirole (2001, p. 4) defines corporate governance as "*the design of institutions that induce or force management to internalize the welfare of stakeholders*". Corporate governance focuses on relations between stakeholders (such as capital suppliers (i.e. shareholders and debt holders), board members, managers, employees, suppliers, customers, tax-institutions, and society at large). According to Tirole (Ibid., p. 7), "*the standard definition (of corporate governance – author's note) among economists and legal scholars refers to the defense of shareholder interest*." Corporate governance is the response to typical agency problems between investors and managers of firms, who frequently have divergent interests. Without any constraints, management has no incentive to return any of the profits to the suppliers of finance ex post: they "*might as well abscond with the money*."

Zingales (1997, p. 3) defines corporate governance as "*the complex set of constraints that shape the ex-post bargaining over the quasi-rents generated in the course of a relationship*". These constraints are largely determined by the institutional setting, which may influence contracting relationships between various parties (Postma, Hermes, 2002, p. 3).

Corporate governance institutions are those institutions that determine the playing field of internal and external actors/stakeholders in the firm. Corporate governance can be considered as a form of institutional design. These institutions are mainly path-dependent (historically determined) and mostly determined by the institutional context. Corporate governance contains both internal and external control relationships. Internal control refers to the interplay between management, shareholders, and other stakeholders, such as debt holders and employees. As part of the internal control relationships, boards are usually created as solutions to address agency problems between shareholders and/or other stakeholders on the one hand and management on the other hand. External control refers to regulating agencies, reputational agents, and markets that function as a disciplining device for management, such as financial markets, the market for corporate control, labor markets for management, etc. Relationships between the internal and external control mechanisms reflect the interplay between internal institutions and external forces (notably policy, legal, regulatory, and market forces).

Next to the above mentioned control relationships, which are generally more formal in character, there may also be informal institutions that play a role in corporate governance. Such informal institutions may be firm specific norms and values, management ethos and codes of conduct in business, as well as more general norms and values existing in society at large, self-regulation within a certain industry, and the reputation of a firm in its relations with its competitors, suppliers and customers. The specifications of corporate governance indicate that corporate governance institutions are aimed at supplementing formal contracts between different stakeholders.

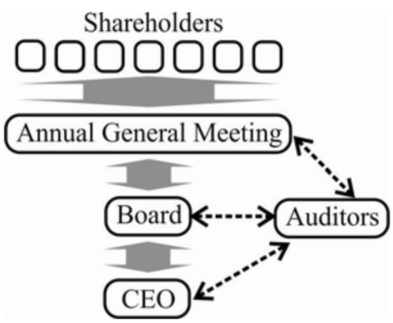
Corporate governance is the set of processes, customs, policies, laws and institutions affecting the way in which a corporation is directed, administered or controlled. The aim of corporate governance is to ensure that companies that are not managed by their owners are run in the best interest of the shareholder. Although in recent years, too much focus has fallen on deterring fraudulent activities and on issues of transparency owing to some scandals of big corporations in the major economies of the world (Tchouassi and Nosseyamba, 2011, p. 198). The basic structure of a corporate system funded on the interplay between the four main corporate bodies (Figure 1), each with its specific role can be illustrated as follows: the shareholders' meeting is a company's highest decision-making body and the forum where the share-holders can directly exercise their power. However, the shareholders always have the right to call an extraordinary general meeting (EGM), at any time and replace the board members. All public companies must have a Chief Executive Officer. The CEO is appointed by the board and is responsible for the day-to-day management of the company according to the instructions issued by the board of directors. Formally, the auditors report to the shareholders, but in practice they also have an important role in supporting the board in its task of overseeing the CEO's running of the company. In corporations, the decision making rights are delegated to the managers by the shareholders to act in the best interests of the principal. This separation of ownership from control implies a loss of effective control by shareholders over managerial decisions and as a result of this, a system of corporate governance controls is implemented to assist in aligning the incentives of the managers with those of the shareholders.

Table 1: Examples of internal and external corporate governance institutions

Institutions	*Internal control*	*External control*
Formal	– Supervisory board – Management team – Shareholders – Workers council – Guidelines and authority relations	– Competition authorities – Laws on, *e.g.,* property rights, bankruptcy and insolvency procedures, and rules regulating enforcement – Exchange rules (stock exchange) – Accounting standards, and auditing and disclosure principles – Reputational agents (financial analysts, accountants, and the like) – Institutional organizations like Central Banks, OECD, World Bank, EBRD
Informal	– Firm specific norms and values – Managerial ethos – Codes of conduct	– Self-regulation in a sector – Reputation (trust) – Societal norms and values

Source: Postma, Hermes, 2002, p. 5

Figure 1: Basic Structure of a Corporate Governance



Source: Tchouassi and Nosseyamba, Ibid., p. 200.

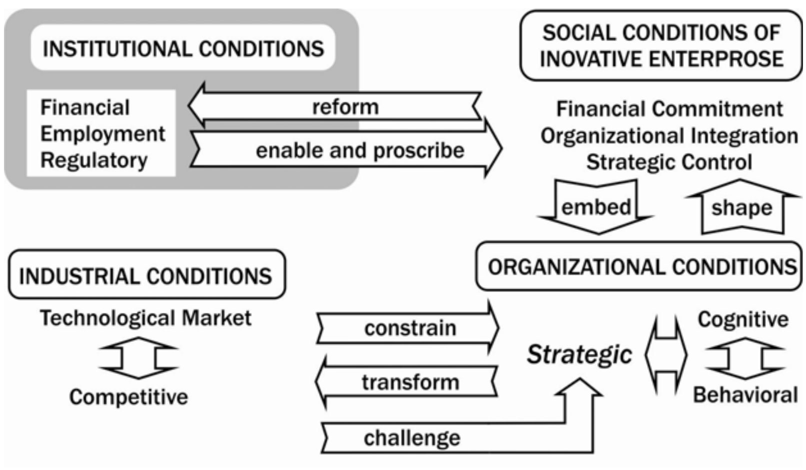
Many scholars have explicitly discussed the link between extensive corporate governance and successful transition outcomes. Estrin (2002, p. 103) contends that corporate governance is an essential component of enterprise restructuring and improving company performance, which in turn is a fundamental aspect of a successful transition. Indeed, "*improving company performance must mean, in part, providing incentives for efficient behavior*" (Ibid., p. 105). Failure to produce these incentives can lead to counterproductive mechanisms occurring within firms: "*If minority shareholders are not protected, then controlling owners or managers have incentives to strip assets from the firm*" (Ibid., p. 112). Such protection requires sound corporate governance practices, leading Estrin to ultimately conclude that "privatization (is not) enough: enterprise reform... also require[s] effective corporate governance" (Ibid., p. 122). This is especially true in transition economies of Central and Eastern Europe, where voucher privatization frequently led to ownership structures that were highly dispersed, and thus less subject to the control of a majority shareholder.

3. The importance of the institutional framework for the development of corporate governance - overview of theoretical concepts

In the paper titled „*Public and corporate governance: The institutional foundations of the market economy*“ W. Lazonick (2001, p. 14) stated that „*there are two main types of organizations that are central in the allocation decisions that result in economic development: the innovative enterprise and the developmental state. Enterprises and states exercise control over the allocation of vast amounts of labor and capital but they differ fundamentally in the ways in which they gain and maintain access to the financial resources that gives them control over allocation of productive resources*“. In further text (p. 16) he points out that „*an analysis of how enterprises, with or without the support of the state, develop the productive resources that are ultimately sold on markets to generate returns requires the identification of the "the social conditions of innovative enterprise*".

The characterization of the process of innovation as collective, cumulative, and uncertain in combination with a comparative- historical analysis of successful economic development in the twentieth century helps us identify three social conditions of innovative enterprise: organizational integration, financial commitment, and strategic control. The form and content of these social conditions of innovative enterprise depend on the relation between prevailing institutional (financial, employment, and regulatory) conditions and organizational (cognitive, behavioral, and strategic) conditions in the economy. In this sense, he uses a specific and original approach and offers a schematic view of institutional conditions in the innovation process (Figure 2).

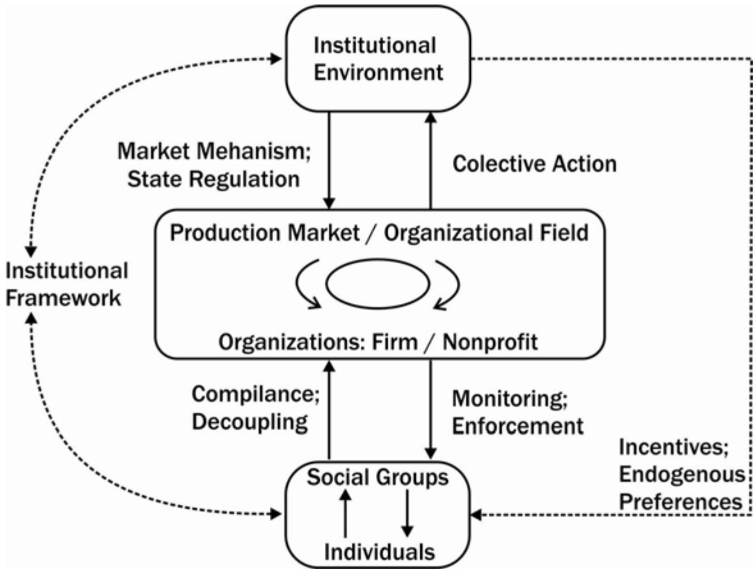
Figure 2: Industrial, Organizational, Social and Institutional Conditions in the Innovation Process



Source: adapted to: Lazonick (2001, p. 17)

A slightly different approach is advocated by V. Nee (2003). Figure 3 shows his schematic presentation of the multi-level causal model for the New Institutionalism. In his opinion the institutional environment presents the formal regulatory rules monitored and enforced by the state that govern property rights, markets and firms - imposes constraints on firms through market mechanisms and state regulation, thus shaping the incentives structure. Further, according to him, as opposed to the proximate network mechanisms at the micro- and macro-levels of individuals and their interpersonal ties, the institutional mechanisms operating at this level are distal. Finally, he points out that Institutional mechanisms encompass the deeper causes because they shape the incentive structure for organizations and individuals, and thereby the contexts in which proximate mechanisms operate.

Figure 3: A Model for the New Institutionalism



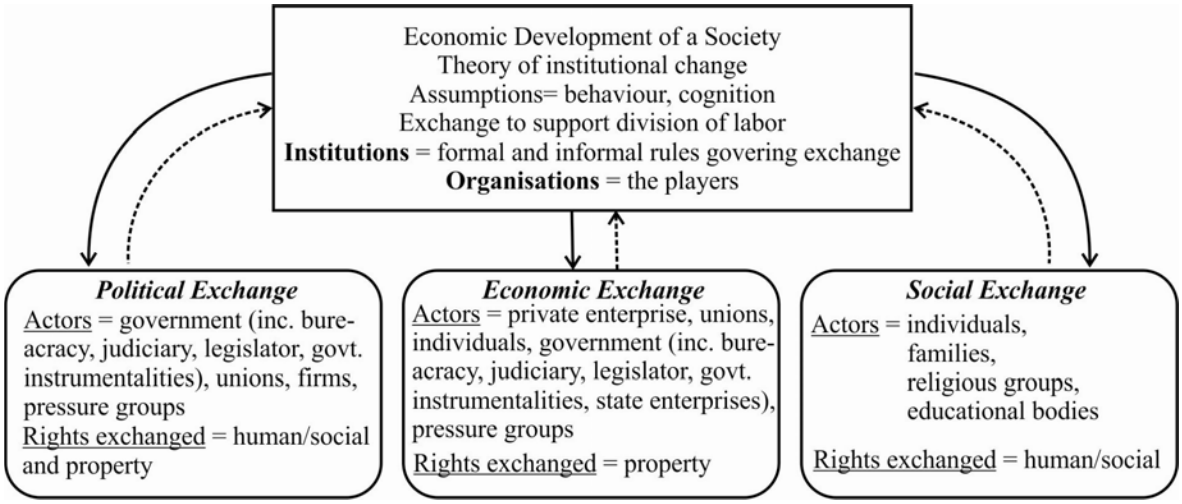
Source: Nee (Ibid., p. 26)

The new institutional economics of studying organizations has been informed by themes of control and coordination, that fall within the domain of corporate governance, which broad definition is exploring the implicit and explicit relationships between the corporation and its constituents. The new institutional economics of North and Williamson have offered frameworks regarding the role of institutions in corporate governance that are rooted in a rational actor model of the corporation. North argues that a national system of corporate governance may be seen as an institutional matrix that provides both the roles to the players and the goals to be pursued by the corporation. Williamson acknowledges the embeddedness of corporate governance arrangements in larger, society-wide systems of institutions (according to: Fiss, 2008, pp. 389-390).

As shown in Figure 4. the branches of New Institutional Economics (NIE) has evolved into three core branches. The framework cascades from a central theory of institutional change, or economic growth, which defines the key relationships linking individuals, governance structures, institutions and the long-run economic evolution of societies. The three branches of analysis are delineated by theories to explain the main forms of exchange conducted by societies: political, economic and social. Economic exchange is the necessary counterpart to the specialization of labor, including corresponding innovations in technology, which facilitates improvements in living standards. The property rights system provides the incentives for economic activity and the allocation of productive effort. Competition policy, deregulation, privatization and the introduction of market-based pricing affect economic choices.

NIE analyses the differential growth and development of societies across time and across geographic space (North, according to: Maitland, Nicholas, and Boyse, 2009, pp. 8-10). NIE posits that societies generate formal and informal institutions to provide certainty and structure to human interaction by inducing co-operation and co-ordination of effort. Political, judicial and economic rules, such as legislation, common law decisions, and government competition and welfare policies are encompassed by formal institutions. The conventions or codes of behavior in a society, including religious rules governing food consumption, respect for the elderly and sharing of common resources among indigenous communities, are informal institutions. Since the individuals have limited and different cognitive abilities, the need for rules arises.

Figure 4: New Institutional Economics: Three Branches of Analysis



Source: Maitland, Nicholas, and Boyse, 2009, p. 24

Institutions are designed to decrease the costs and safeguard exchange. As players, organizations form, shift and, sometimes, decay, in response to the opportunities created by institutions. Governance structures are molding changes in the rules of the game in a complex process of institutional evolution in return. Change may take the form of new legislation or gradual shifts in social attitudes towards, for example, foreign investment, with the effectiveness of each new institution heavily dependent on its enforceability within a society. The institutional context shapes not only the appropriability of rents, it also conditions the nature of the firm's knowledge base and innovative capacity. Learning is not only specific to the firm (or to its accumulated stock of knowledge) but also to the institutional context, in which learning and innovation takes place. Governance structures will emerge and evolve differently, but NIE provide the conceptual framework and theory to analyze how governance structures and the growth of whole societies can be understood (Ibid., p. 23).

In the introductory part of the OECD Principles of Corporate Governance (2004, p. 9), the emphasis is put on the importance of the legal, institutional and regulatory framework for corporate governance. The reason for this lies in the fact that it "*provides guidance and suggestions for stock markets, investors, corporations and other stakeholders in the process of developing good corporate governance*" ... The pluralistic economic institutional framework (which implies an equal and parallel operation of all economic institutions, in combinations determined by the economic structure and the achieved level of economic development) it is impossible to make corporate management become the "*synergy between macroeconomic and structural policies in achieving basic objectives of development polic... and a key element in improving economic efficiency and growth as well as increasing of confidence of investors ... and the level of trust necessary for proper functioning of the market economy*" (Ibid.).

In order for companies to use the resources more efficiently, cut the costs of their use and assist the growth and sustainable development from micro economic positions, we need a broad institutional context in which the market competition, property relations and instruments of macroeconomic policy are in force.

As D. North stated in his Nobel lecture, "*institutions form the incentive structure of a society, and the political and economic institutions, in consequence, are the underlying determinants of economic performance*". The currently dominant view is that institutions are the ultimate determinants of economic performance (e.g., for the latest statements along this line, see Acemoglu et al., 2005; North, 2005).

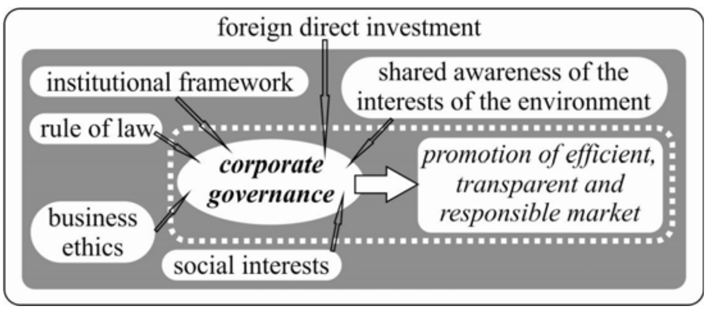
The claim that a country's institutions in general are important for development withstands a good degree of empirical scrutiny. Rodrik et al. (2002) finds that institutional considerations, particularly the rule of law and the establishment of property rights, are the best predictors of differences in income across countries. According to this finding, the institutions are crucial growth determinants.

In addition to institutional constraints, the rule of law, business ethics, social interests and a shared awareness of the interests of the environment are appearing as a framework ofcorporate governance. Naturally, foreign investments are of growing importance for the corporate governance. Only in conditions of positively set institutional and other mentioned frameworks mentioned can the basic goal of corporate governance be achieved- the promotion of transparent and efficient markets with full responsibility of all his subjects.

Informal institutions are in most of transition economies of especial significance in emerging economies where the functioning of formal corporate governance institutions such as corporate ownership rights or relations with external investors is not transparent or well-enforced.

Many studies have shown that they are especially influential in cases of corruption, bureaucratic and legal procedures that the privileged ones simply bypass in cases of clientelism, family run business, log-rolling, the use of connections when accessing concessional loans or information relevant for business decisions, etc. Concentrated ownership structure in most transition economies is rooted mainly in non-market ways of its formation. Therefore it is logical that such a structure is not conducive to the formation of the institutes of corporate governance, which would function with familiar and transparent rules of the game. In this way, blurred ownership monopolies are being reproduced, which especially favored the methodology of quasimonist neoliberal mythology. Just as the market fundamentalism is being fictionally celebrated, which essentially has no effect on the key levers of competition, massive economic freedom, entrepreneurship and effective owners, it is being flapped in the blank in the same way with the legal basis of corporate governance, that look great on paper.

Figure 5: Institutional, international and other factors of influence to the corporate governance



Source: Author's creation

Babic (2010, p. 560) argues that institutional theory of organization explains the origin and the stability of a certain strategy by a number of cognitive, bureaucratic and political processes which hinder the free adjustment of the organization to the conditions of the surroundings. North (1990) invents the term of institutional matrix in order to explain the legal, cultural and normative components of the surroundings. The significance of the institutional matrix lies in the way it shapes the strategic choices and enhances economical activities. Babic (Ibid, p. 561) says correctly that if they formal institutional frame is underdeveloped, the informal rules become more important. The formal and informal institutions act like linked vessels, and that is why when the formal institutions are lacking, the informal institutions based on the personal relations are more important. Finally, Babic (Ibid., p. 564) rightly notices that the discussion on corporate governance always opens an old issue of human existence - a tension between individual freedom and institutional power. We believe that to the extent at which individual freedom does not move into anarchy, such is the one generated by neoliberal economic policy, the institutional power must not become a dictatorship and terror either, but an agreed constraint to opportune behavior and a stimulant to mass entrepreneurship and legal business business, and thus to corporate management.

The lack of institutions in connection with successful market economies is the missing link in development of corporate governance in transition economies.There is a standard set of institutions that have been successful as tools used to control corporations, in the market economies. Institutions are the rules that society established to reduce the uncertainty of human interactions thus becoming the "*rule of the game*" in a society (Yeager, 1999). Formal rules, informal rules and enforcement mechanisms are the three components of institutional framework.

According to S. Estrin and Prevezer (2011, p. 41), the role of formal and informal institutions is crucial for understanding the operating of corporate governance. Their analysis focuses on two related aspects of corporate governance: firm ownership structures and property rights; and the relationship between firms and external investors and it is based on the Helmke and Levitsky (2003) framework of informal institutions. They show „*that for China and some states of India, 'substituent' informal institutions, whereby informal institutions substitute for and replace ineffective formal institutions, are critical in creating corporate governance leading to enhanced domestic and foreign investment. As opposedto the above mentioned countries, there are 'competing' informal institutions in Russia, whereby different informal mechanisms of corporate governance associated with corruption and clientelism disable the functioning of reasonably well set-out formal institutions relating to relations with investors and shareholder rights*“ (Ibid.).

4. Low Level of Institutional Arrangements in Former Yugoslav Transitional Economies

During the period of post-socialist transition, the entire system of inhibiting factors has been working and caused the formation of conglomerate system disfunctionality. The mentioned effect has been synergetic and destructive.

In the period of post-socialist transition in former Yugoslav economies, the institutions haven't faced a "creative destruction", but an inconsistent, non-transparent, interest-oriented quasi-monistic improvisation, resulting in many confusions and negative consequences. It is interesting that certain alibi-economists, in the style of practically substituting institutions by quasi-institutions, exercise the theoretical switching of argument, thus applying retrograde transitional processes to populists and nostalgists of the former system instead of alibi-reformers. Seeking the cause of the transitional crisis outside the institutional milieu has no sense whatsoever. Certain economists ignore the too clear and antinomic difference between certain realistic economic institutions and categories and their quasi-substitutes (e.g. market and deformed market structures, competition and privileged monopoly, conditions for massive entrepreneurship and individual pseudo-entrepreneurship, massive unemployment and individual overemployment, regular business and out-of-market enrichment, freedoms and unfreedoms, pureblood market and cartelization etc.). The unilateral monistic and/or quasi-monistic interpretation of institutional arrangements favours the practical realization of supstitutive phenomena.

The alleged dedication of certain economists - postsocilist reformers to the original economic liberalism and/or neoliberalism is often in disharmony with their non-market monopolistic preferences, anti-institutional arrangements and resulting wealth. The transparent cape of their proclaimed individualism is highly interest-oriented and limited to the narrow layer of privileged individuals. In general, the theoretical proclamation of individualism and economic "imperialism", to a smaller or greater extent, has been implemented in the practice of certain transitional countries. The results are known, and one of them is the ignorance of the corporate management institute. That way, the individual bases of social development have become a permanent and negative road sign on the way to an uncertain and crisis future. The institutional individualism of all (and not only the privileged ones) means the freedom of choice for all. The practice has shown that the rental-oriented behavior, grey economy, “good players” and their “connections” simply substitute the corporate management. It is the proven way of having the shareholders lose both the shares and the dividend. Inconsistent and destructive institutional imitations and improvisations directly affected the destruction of equal conditions for the gaining of private property, competition, wealth distribution and similar. That way, corporate management has been made senseless. In most transitional countries, there is specific braking mechanism in effect. It can be marked as a quasi-institutional monism. The market regulation (generated within the proclaimed neo-institutional economic policy) is practically not acting within its real capacity, but in various reduced and deformed forms of substitutive structures under the direct influence of informal and alternative institutes. In such reduced, macro-economic conditions, it is not possible to form a favourable micro-economic environment for the action of a pureblood corporate management. Quasi-institutions block not only the proclaimed principle of market monism (competition, efficient owners, private entrepreneurship as a massive category etc.) but also innovational processes, knowledge, restructuring of economy and similar. The result is the *crony capitalism* (Berglöf and E. von Thadden, 1999) in which the privatisation of companies by politically favourized persons is quite common.

Corporate behaviour in practice is far from the regular norms and rules since it is controlled by subjective regulators. Distorted and reduced individualism is being imposed as social and civilization norm. In the conditions of a great bankruptcy and reduction of successful companies to an extremely small number, a consistent corporate governance cannot be created or implemented. All conceptual elaborations are being blocked and modified through political decisions and choices motivated by the interests of the “reform” creators. Sustainable development is being delayed as well as the creation of competitive skills and competences etc.

The practice has shown that strong relations can be created between a company, bank and government-party bodies, which determine the bank offering favourable loans to a privileged company. There are also various other malversations and misuses in privatization and expansion of business, especially in connection with the phenomena of asymmetric information, artificial devaluation of property, inflation credits, corruption, monopolistic positions in the market, agency problem (arising when a management runs the company in the way maximising their own interests, while depreciating the ownership of shareholders), etc. Naturally, we should bear in mind that the problem of inefficient company management is much older in the considered economies than the problem of corporate management.

Corporate governance in most countries of the former Yugoslavia began to form in parallel with the privatization process, which allowed the increase of property. All attempts to improve the business environment for the improvement of corporate governance have not led to satisfactory results. They have not followed the modernization of company legislature aimed at strengthening the rights of shareholders. Why? Because in the real institutional framework, numerous forms of quasi-institutional, alternative and informal substitutes existed and functioned, which objectively significantly affected the compliance with the strict rules of the game and constrained the development of corporate governance. Corporate governance in observed transition countries should be based on four basic principles: fairness, transparency, management responsibility to the owners and responsibility of the company before the surroundings. However, already at the first step, the ownership transformation led to the breach of mentioned principles. Privatization does not only stand for the transfer of property rights from the state to private investors, but also a change of control and management in enterprises, protection and specification of property rights, increase of enterprise efficiency etc. Obviously, the consistent application of the principles of corporate governance requires a long process, in which the legislation will be changed, as well as business practices, business standards and ethics, etiquette, etc.

According to the WEF's *Global Competitiveness Index* 2011-2012, which covers 142 economies of the world, all members of the former Yugoslavia take fairly low places(from 57-100). According to selected institutional indicators (Table 2), related to corporate governance, the situation is also unfavorable. This means that the quality of corporate governance is at a low level, except in companies that are owned by known foreign corporations. Basically they have in common the following problems: unstable and non-transparent institutional framework, insufficient knowledge, a high degree of ownership concentration, the possibility of expropriation of small shareholders, underdeveloped capital markets, short business practice, the agency problem between the majority owners (shareholders) and minority owners (shareholders), unprofessional management and the gap between formal regulations and substantive practical application of regulations and institutional arrangements.

Table 2: Selected institutional indicators as factors of impact on corporate governance

Members of the former Jugoslavia	GSI	BR (I)	I (EBF)	I (SAR)	I (ECB)	I (PMSI)	I (SIP)
	Rank/score	Rank					
Slovenia	57 / 4,30	39	54	57	126	127	20
Montenegro	60 / 4,27	57	47	82	82	71	28
Croatia	76 / 4,08	52	89	84	131	125	111
Makedonia	79 / 4,05	69	95	81	113	109	20
Serbia	95 / 3,88	88	130	114	136	140	60
Bosna and Herz.	100 / 3,83	92	134	119	71	139	77

Legend: GSI – Global Competitivens Index; BR - Basic Requirekments; I – Institutions; EBF - Ethical behavior of firms; SAR - Strength of auditing and reporting standards; ECB – Efficacy of corporate boards; PMS – Protection of minority shareholders' interests; SIP - Strength of investor protection;

The high degree of ownership concentration prevents opportunistic behavior of the management (the use of control for their own benefit). However, the big owners with a controlling stake of shares often pursue their interests at the expense of small shareholders and other interest-influential groups. Underdeveloped corporate governance is not able to deal with moral hazard and opportunistic behavior as a primary manifestation of the agency problem. The main problems of corporate governance in the considered countries are: abuse of shareholders' rights, non-transparent ownership structures, direct connection between control and property, inadequate and inexperienced corporate bodies and minimizing the value of the shares of minority shareholders.

The chief economist of the Central Bank of Montenegro N. Fabris believes that "there is great scope for improvement of corporate governance, which is quite low in Montenegro ... Companies that were estimated to have a higher level of corporate governance operate more efficiently. The rights of minority shareholders are not always adequately respected. The practice of election of Board of Directors is often problematic. There is no awareness of the stakeholder approach to corporate governance" (http://www.antenam.net/sajt/index.php/drutvo/4902).

Studies have shown that the level of implementation of corporate governance in the Serbian Republic is 12.4%, which is far below the 10 analyzed countries of Central and Eastern Europe, in which this level ranges from 21.3% in Croatia to 38% in the Czech Republic. Data on the degree of transparency in corporate governance are even worse. In the Serbian Republic this degree is 2.4%, in Croatia 14.8%, in Slovenia 29.6% and so on. (http://www.swot.ba/index.php?modul=vijesti).

For comparison, corporate management in China faces many institutional constraints as well. Unique institutional framework in China determines the current model of corporate governance, which can be described as a control-based model, which is in contrast with market models used in developed Western economies. Chinese firms show higher performance and make decisions in accordance with the interests of shareholders. Their model of corporate governance is rooted in administrative management and the existing formal institutional framework.

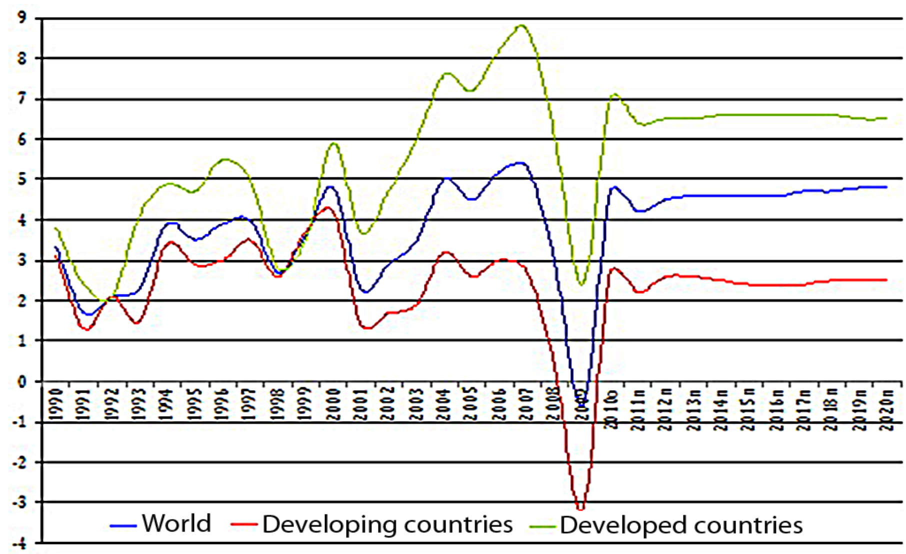
In China, during the last 15 years the discussion on development of an effective system of corporate governance is in the spotlight. Pistor and Xu (2004) report that the Chinese stock market was created in late 1990, and in less than fifteen years it has become the eighth largest stock market in the world. According to the number of joint stock companies, market capitalization, liquidity, and the mobilization of financial resources, the Chinese stock market is far above the relevant markets of most transition economies.

Though the Chinese stock market is still young, it has already generated many participants. According to statistics released by the China Securities Regulatory Commission (the CSRC), more than 70 million investment accounts were opened in China, about 200-300 million of Chinese people, directly or indirectly, have invested in the stock market. In this context, corporate governance is becoming a major problem that needs to be addressed, with the participation of many stakeholders, including regulators, market operators, etc. In order to comprehend the Chinese corporate governance, it must be considered that China has begun to implement reforms in an environment where there was no adequate institutional infrastructure. There was only the dominant monistic environment - institutions of state regulation, which controlled the companies and the shareholders. Therefore, the concentrated ownership structure, insufficiently open financial information and inactive operations (take-over) markets were standard practice of governance. It is considered that the improvement of corporate governance in China depends on whether the overall institutional infrastructure can be improved in the future. It is believed that Chinese officials and business leaders need to improve the performance of corporate governance in the companies in order to increase the chances for continued strong economic growth.

5. Development paradigm shift as a role model for transition economies

The shift of the paradigm of economic development occurred in 2009. For the first time in eight decades negative rates of world GDP were recorded. After two years of severe financial and economic crisis, a long period of restructuring began in 2011, with relatively low annual rates of growth of world GDP (not more than 4.5%). Developed economies have recorded the stagnation of growth rate (2.5%), and progress in restructuring. Some underdeveloped and transitional economies achieve higher rates of economic growth with weak restructuring, so it is considered that this is about the inertial growth with serious crisis shocks threats. (Figure 6).

Figure 6: Annual pace of real GDP in the period 1990-2010. and forecasts for the period 2011-2020 (Growth rates in%)



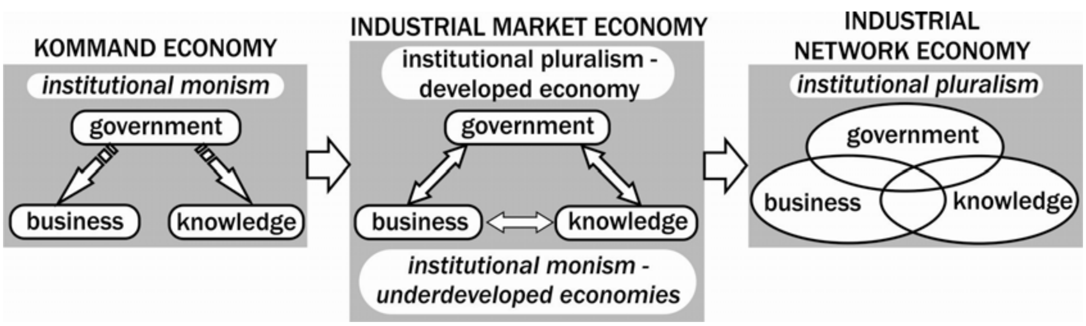
Sources: IMF; Institute of Energy and Finance (Moscow)

It turned out that the usual micro stimulators of economic growth are no longer active. Alternative solutions are being sought. It seems that this is a great opportunity for the consistent application of the principles of corporate governance and the development of a pluralistic institutional environment as its necessary framework. Particularly because the EU strategy "Europe 2020" is based on the idea of environmental and intellectual growth (Green and Smart Growth), which involves the development of a network of cooperation partners (internal and external), which perfectly adapts to the conditions of corporate governance.

A new model of economic growth and sustainable development, in addition to forcing intellectual (high-tech and innovation) and environmental (clean technology, new energy sources) components must be based on institutional pluralism as a general development framework and advanced corporate governance, which includes a networked partnership cooperation and consistent application of all its fundamental principles in business. The synergy of these components is a rational response to the challenges of the crisis. The evolution of cooperation model of economic development carriers shows that there was no partnership in command economy, but a one-way influence of state regulation, that a dual-institutional matrix with different strength of impact on dual relationships (feedback connections) existed in the industrial market economy, while in the post-industrial economy, there is a synergistic interweaving of spheres of influence (Figure 7).

Effective knowledge management is possible only under conditions of appropriate corporate culture and corporate governance, supported by information technology and defined institutional conditions.

Figure 7: Evolution of cooperation model of economic development carriers



Source: Author's creation

6. Conclusion

Corporate governance as a way of managing the corporations has not yet been affirmed in many transition economies. In underdeveloped and / or insufficiently developed institutional environment that exists in most of the transition countries the significant development of corporate governance as an important element of building the microeconomic environment is not possible. In conditions of institutional protection of business and knowledge, the protection of shareholders and investors, which should be provided by corporate management, is not possible.

In reduced institutional, macroeconomic and microeconomic conditions, the formation and consequently the development of corporate governance, which is characterized by a variety of exemplary models of developed economies, is not possible. Therefore, broader social, institutional and economic reforms are necessary for its revival and functioning. The basic institutional foundations of corporate governance (state, market and ownership regulation) in observed transition states were unstable. They broke under the weight of numerous social –pathological changes. Fixing these foundations is a prerequisite for the development of effective corporate governance, and sustainable economic and social development.

By nature, out of the reason of a) the transition from one mode of doing business to another (industrial to post-industrial) and b) radical changes of socio-economic system, corporate governance should have a key role in all economies in transition. The obtained results, however, suggest that this is not the case because it did not achieve its development and impact in its basic functions and domains of action. All answers to the question why is it so, lead to the same causes, which are generated in the institutional environment (primarily political, legal and economic). Instead of a) supporting specific private companies and private businesses in general to capacitate and adjust business based on the principles of corporate governance, and thus help better and faster integration into the proclaimed market earning, b) forcing development of financial markets and c) reducing the barriers to business to attract direct investment in the economic field through known and precise regulatory measures and methods of institutional influence, there have been ignoring of the above, their negation and substitution by alternative substitutes, which were based on the interests of the informal influence groups.

It was logical for ownership transformation (specifically, privatization) to lead to the increased motivation mechanism and positive changes in organizational structures, which would be gradually and functionally adjusted to active participation of corporate governance principles. Naturally, what happened in practice was not illogical (it has its own interest economic explanation), but in terms of realized economic results, it was dysfunctional and contrary to the principles of corporate governance. Few people were interested in the development of the companies while personal gain was of primary interest. This was objectively possible to achieve only in terms of the institutional vacuum.

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