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Review
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THE OWNERSHIP STRUCTURE AS A CORPORATE GOVERNANCE MECHANISM IN SERBIAN HOTELS

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Abstract:

This article analyses the development in Serbian tourism sector during the last decade. The article is focused on the ownership structure and company performance in the light of corporate governance theory and the actual privatisation process. Previous research has proven that Serbian state is a poor and passive owner, whereas private owners and employees are more active and more interested in their company's economic performance. This article shows that the transition to private ownership in the Serbian hotels sector has not been finished. Consequently, state-owned and investment funds remain important owners of Serbian hotels. The financial performance of hotel companies is below average in the economy and can be correlated with the current ownership structure. Since the current ownership structure has a negative impact on the hotel sector competitiveness, an ownership change is needed to boost the sector's competitiveness and the competitiveness of Serbia as tourist destination.

Key words: ownership, structure, performance, hotel companies, Serbia.

INTRODUCTION

The Serbian corporate governance system has been highly influenced by the privatisation process that took place at the beginning of the 1990s. An important characteristic of Serbian privatisation process has been a high interference of artificially created state-owned and investment funds. During privatisation 40 percent of companies' shares were distributed through a free transfer to quasi-state and state-owned funds. The remaining 60 percent were privatised to insiders (internal privatisation) or outsiders (external privatisation). Better performing companies were

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privatised internally, while poorly performing companies ended up in hands of state-owned and tender.

Serbian hotels were performing poorly at the start of the 1990s. Besides poor performance, the main characteristics of Serbian hotel governance were the following: a relatively high concentration of ownership, low ownership share of foreign owners, high ownership and decision-making power in the hands of state-owned and investment funds and relatively low ownership shares in the hands of insiders (employees and managers).

The corporate governance and ownership structure in the Serbian hotel industry has not been investigated so far. The paper highlights the ownership structure and performance of Serbian hotel companies.

THE CORPORATE GOVERNANCE SYSTEM IN SERBIA

Corporate governance has traditionally been associated with the 'principal agent' or 'agency problem'. The principal agent relationship arises when the owner of a company is not the same person as its manager. This 'separation' results in the following: business failures, takeovers, managers expropriating their rights by paying themselves enormous salaries, investors only concerned with short-term objectives, etc.²

Privatisation set context for shaping the corporate system in Serbia. Approximately 50 percent of Serbian companies have chosen internal distribution and internal buy-out as a privatisation method. Internal privatisation was such a 'popular' method in Serbia since companies opposed the artificially created owners, such as investment and state-owned funds and strategic outside owners. Artificially created state-owned and investment funds were planned to be the 'initial owners' that sell their ownership shares to private owners in the so-called secondary privatisation. In the given circumstances, state-owned and investment funds appeared to be good temporary owners and it was proven that the companies sold by funds to private owners performed better.

However, state-owned and investment funds were not planned to be long-owners. Furthermore, privatisation resulted in the introduction of a two-tier system of governance. Most privatised companies opted for the form of a joint-stock company and introduced the Supervisory Board as a monitoring body. The main roles of the Supervisory Board are: to hire and fire managers, shape the compensation package for managers, monitor management actions and company performance. The low involvement of foreign ownership is one of Serbia's corporate governance weaknesses. However, it can be claimed that this weakness is even greater among hotel companies.

² The Cadbury Committee (1992) defines corporate governance as a system by which companies are directed and controlled. The OECD defines it as a set of relations among a firm's management, its board, shareholders and stakeholders, which is one of the key elements that improves a company's performance, the fluctuation of capital markets, stimulating the innovative activity and development of enterprises.

THE SERBIAN HOTEL INDUSTRY

Hotel capacities in Serbia have not been harmonized with the modern requirements of the tourist market, especially foreign tourist demand, neither in their scope, nor structure or quality. After 1990, the number of international and domestic tourist arrivals plummeted. The situation stabilised in 2001. In the last six years, further growth trends have been observed, with the record of 2,1 million tourists in 2007. In the same year 7.717.023 overnight stays were realised and tourism receipts totalled EUR 486 milion. Approximately 60 percent of international tourist arrivals included Russian, Slovenian, Italian, Greece, German and tourists from the BiH.

Important elements of a destination's competitiveness are the attributes of tourist supply, such as accommodation capacities. Accommodation capacities in Serbia have not increased significantly in the last 15 years.

Table 1: Territorial distribution of hotel capacities of Serbia (2006)

Territory/place	Number of rooms	Structure (%)
Total	37145	100,0
City and administrative centers	6297	14,9
Spa places	12008	31,5
Mountain places	7679	25,1
Other touristic places	8551	20,8
Other places	2610	7,7

Source: Statisticki godisnjak Srbije 2007, p.324.

In hotel industry of Serbia, on the economic point of view, it is desirable, that in accommodation sector is dominated by those capacities which have the most economical impact, accordingly which have the influence on the basic macro economical aggregates (gross domestic product, balance of payments, employment). Those are, indubitable, hotels and similar establishments (basic accommodation facilities), which are taking part in total structure of accommodation facilities in tremendously low level. That problem has been seriously considered through Master plan for developing tourism in Serbia 2020, so that official projections predict dynamic quantitative and qualitative development of hotel's accommodation structures, against projected regression and stagnation in other collective accommodation establishments (strategic and operational developing policy as support to projected qualitative and quantitative reconstruction of Serbian lodging industry).

Table 2: Number of beds in the basic and complementary buildings for lodging (%)

Year	Total	Basic	Hotels	Motels	Pansions	Touristic apartments	Complementary	Private rooms
2000	100	49,9	37,9	4,7	1,8	2,8	50,1	21,4
2006	100	55,7	42,0	4,3	1,8	6,2	44,3	14,0

Source: Statisticki godisnjak Srbije, 2007, p.325.

In the privatisation process of the Serbian economy hotels companies were less attractive to private owners. Comparasion which of Slovenian economy hotels companies, thus they kept a high percentage of state-owned fund ownership. The researsh confrimed that state ownership in the hotel sector is significantly higher than in other sector of the Slovenian economy.

Consequently, hotels have lower ownership shares controlled by private capital and employees than companies in other sector (Comparasion of Serbian hotels industry). Previous studies have also shown that state-owned funds have a negative influence on the performance of companies in which they hold ownership shares due to their passive investment policy and the fact that the state often pursues not only economic but also political interests³.

Table 3: Comparasion of Ownership Structure in Hotels and Other Companies in Slovenia with Serbia

Ownership groups	Comp. hotel SLO	Comp. other SLO	Comp. hot. SRB	Comp. other SRB
State-owned funds	53	1097	3	1122
Investment funds	53	1095	4	321
Banks	52	1093	5	78
Foreign Companies	18	481	18	235
Domestic companies	18	476	22	654
Employees	41	979	11	89
Managers	51	1037	9	65
Minority owners	52	1091	43	789
Others	47	1093	78	1056

Source: Knezevic-Cvelbar Lj., and Mihalic, T., Ownership Structure as a Corporate Governance Mechanism in Slovenian Hotels, Privredna kretanja i ekonomska politika, Zagreb, No.11-12/2007, pp.27-52.

The financial and economic performance of Serbia hotel companies is analysed by experts end show that Serbian hotel companies performed worse than other Serbian companies in economic and financial terms. This is even poorer when compared to the international hotel companies. This poor financial performance is characterised by significantly lower return assets (ROA), return on equity (ROE) and profit margin values.

Table 4: Comparasion of the Srbian and International Hotel Company Performance

Categoria	ROA (avertage for period 2004-06)	ROE (avertage for period 2004-06)	Profit margin (avertage period 2004-06)
Serbian hotels	0,14	0,21	0,41
Accor	3,02	9,1	8,61
Hilton	2,42	8,12	18,94
Intercontinental	4,61	10,48	13,85

Source: Hotels, 2008.

³ Knezević Cvelbar, L, 2007, «Performance, ownership and management turnover in privatized Slovenian companies», Eastern European Economics, forthcoming.

The poor economic performance was also reflected in the losses incurred by the majority of Serbian hotels. Authors believe that cost ineffectiveness is the main reason for the poor economic and financial performance of Serbian hotels. Furthermore, they claim that the current corporate strategies would lead Serbian hotel companies into bankruptcy.

In order to compare ownership and performance characteristics between hotels and other companies in Serbia, the sample was divided into two groups. The ownership identity, the following groups of owners were recognised: state-owned funds, investment funds, foreign companies, domestic companies, employers, managers, banks, minority owners and other owners. On the contrary, employees, foreign companies and other owners have lower average ownership shares in other Serbian companies than hotel companies. This means we can confirm that the internal privatisation did not take place within hotel companies in Serbia.

CONCLUSIONS

The development of hotel industry in Serbia was expected to get a new swing with the adoption ownership method as a corporate governance mechanism. As a logical consequence of recognizing the tourist product as the key instrument of development policy the hotel business, need to be developed further through:

- restoring capacities (brown field investments), and in particular
- new investments (green field investments);

In each specific case the management of hotels companies that decide to take on new investments is at the point of considering whether to introduce new products on the market with all implications this bears on the growth and development of personal business. The application of the concept of corporate social responsibility is one of the basic prerequisites for the achievement of business excellence of the part of Serbian enterprises in hotel industry.

Development of hotel industry in Serbia and its harmonisation to the European and world standards does not only involve the entry of international chains onto our market, reconstruction of the existing or erection of new hotels, but also development of research in this field aimed at getting deeper theoretical insights and their use in practice as ownership structure as a corporate governance mechanism in Serbian hotels. Foreign companies, employees and banks have lower ownership shares in the group of other Serbian companies compared to the hotel companies.

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