ECONOMIC ANNALS, Volume LX, No. 205 / April – June 2015
UDC: 3.33 ISSN: 0013-3264

DOI:10.2298/EKA1505007C

*Božidar Cerović**
*Jan Svejnar***
*Milica Uvalić****

WORKERS' PARTICIPATION IN A FORMER LABOUR-MANAGED ECONOMY: THE CASE OF SERBIAN TRANSITION[1]

ABSTRACT: *It is well known that Serbia – along with the other Southeast European successor states of former Yugoslavia – emerged from a country recognized for its specific labour-managed institutional arrangement. The paper recalls the main premises of the literature on the labour-managed firm and the theoretical contributions on participatory forms of management that seem most relevant to a transition economy like Serbia's. It proceeds to analyze the main changes that occurred in Serbia during transition to a market economy, illustrating some of its specific features and how privatization led to the conversion of workers self-management into property rights. In order to analyze the role of employees in decision-making, and more generally their current position in privatized and newly established private firms, a survey was undertaken in 2013 based on a questionnaire for managers in 69 Serbian firms. The survey suggests that internal relations in enterprises are relatively undeveloped, particularly regarding the distribution of responsibilities in decision making at various organisational levels, hampering the efficient fulfilment of firms' objectives. It appears that decision-making processes are usually designed in such a way as to give an excessive role to the owner as the exclusive decision-maker. The position of workers seems to be particularly poor regarding their rights to be informed, to make proposals, and/or to participate in decision-making in general. Moreover, even traditional workers' rights are neglected (unionization, collective bargaining etc.). The survey also suggests that in those firms with a more active role of workers, there is a higher degree of workers' satisfaction and loyalty to the firm.*

KEY WORDS: *Workers' participation, Transition, Serbian economy, Workers' rights, Workers' satisfaction and loyalty.*

JEL CLASSIFICATION: J54, J83, O52, P31

* University of Belgrade, Serbia
** Centre on Global Economic Governance, SIPA, Columbia University, New York, USA
*** University of Perugia, Italy

1 An earlier version of the paper was presented at the 17th Conference of the International Association for the Economics of Participation (IAFEP) held at the *Universidad de la República* in Montevideo, Uruguay on 16-18 July, 2014. The authors are grateful to the participants of the conference for useful comments and suggestions. The authors would also like to thank Aleksandra Nojkovic for her helpful advice regarding probit estimates.

1. INTRODUCTION

Fifty-five years after Benjamin Ward's (1958) seminal paper that marked the start of labour-management theory and twenty-five years into the transition process in Eastern Europe, this paper offers some insights regarding the role of workers in enterprise decision-making in Serbia, the largest successor state of former Yugoslavia. It is well known that Serbia and other countries born after the disintegration of socialist Yugoslavia emerged from a country that for decades had been distinguished for its specific labour-managed institutional arrangement. Yugoslavia's unique economic system stimulated considerable academic interest for several reasons (Estrin and Uvalic 2008: 665). First, the Yugoslav model was of great interest as an example of a potential "third way" between capitalism and socialism. Second, the extension of the principles of democracy in decision-making was viewed by many as an objective for an economic system in its own right, combining the efficiency properties of a competitive market economy with the ethical and moral superiority derived from democratic workplace decision-making. Academic interest in self-managed socialism was swept away with the fall of the Berlin Wall in 1989, which brought radical transformation of the economic system in Eastern Europe, including former Yugoslavia, through transition to a market economy. The demise of the communist experiment came after a decade of sharply deteriorating economic performance and rising political unrest in Yugoslavia, directly contributing to the country's break-up in 1991 and damaging the credibility of the labour-managed variant of socialism (Estrin and Uvalic 2008: 667).

Have any features of the Yugoslav model of self-management been preserved in Serbian enterprises? This question has hardly been explored in the transition literature, except as a side issue within the broader context of privatization (Uvalic 2004). Whether the legacies of self-management have been buried forever or their traces are still felt is a relevant question from today's perspective, considering that the country has had a particularly troublesome transition and has recently faced a deep economic crisis. The paper analyzes the institutional changes that occurred in Serbia during transition to a market economy, particularly looking into the role of workers in enterprise decision-making and the general position of employees in privatized and newly established private firms. It is based on a 2013 survey of 69 Serbian firms, undertaken with the aim of exploring internal relations within firms and evaluating whether any elements of the previous model of self-management have survived.

The paper is structured as follows. After this brief introduction, in section 2 we consider some of the contributions to the theoretical literature on the labour-managed firm, particularly those that explore workers involvement in the process of decision-making which are most relevant in the present Serbian context. Section 3 describes Serbia's delayed transition, economic reforms and the new institutional arrangements introduced over the past twenty-five years, drawing attention to the key systemic changes. Sections 4 and 5 give a detailed account of the survey of Serbian firms based on a questionnaire for managers, which explored internal relations, the presence of practices of employee involvement and the degree of worker satisfaction and loyalty. Section 6 presents the conclusions.

The paper focuses on Serbia, a country that has changed its statehood five times over the last twenty-five years. After the Socialist Federal Republic of Yugoslavia broke up in 1991, two of its six republics, Serbia and Montenegro, formed the Federal Republic (FR) of Yugoslavia in April 1992. In 2003 the FR Yugoslavia changed its name to the State Union of Serbia and Montenegro. In May 2006 Montenegro voted for independence in a referendum, so in June 2006 Serbia and Montenegro became two independent states. The final change occurred when Serbia's southern province of Kosovo unilaterally declared independence in February 2008 (although Kosovo remains unrecognized by 45% of UN members). Serbia is the primary focus of this paper, but occasionally we will also need to refer to the country Serbia was part of previously.

2. THEORY: WHY INVOLVE WORKERS?

The theoretical literature on the labour-managed firm (LMF) has been developed in reference to both the western cooperative and the Yugoslav self-managed enterprise. The basic model that laid the foundations of the literature, often referred to as the Ward-Domar-Vanek model (see Ward 1958; Domar 1966; Vanek 1970), suggests the presence of a number of inefficiencies, due to the income per worker maximand which distinguishes the labour-managed firm from the capitalist profit-maximizing firm (for a survey, see Bartlett and Uvalic 1986). The short-term inefficiencies include the maintenance of above-optimal employment levels because of the reluctance to lay-off workers and the inefficient allocation of labour due to the rigid response of the labour-managed firm to changes in product price, technology, and capital rental. Medium and long-term inefficiencies mainly derive from the labour-managed firm's limited property rights, which cause a bias against the reinvestment of net income in the enterprise and distortions in project selection in favour of projects paying off quickly, due to workers' short time horizons. Specific problems of finance will also be present, since the labour-managed firm will have to borrow funds on the capital market, which is likely to lead to its high dependence on external finance. This in turn may cause the principal agent problem, i.e., conflict between the owner of capital and its user; and the moral hazard problem, arising from the risk associated with debt finance.

Subsequent developments of the theory have suggested, however, that under alternative assumptions many of the alleged short-term inefficiencies could be avoided. In the practice of workers cooperatives – in Italy, France, or Spain's Mondragon cooperatives – many problems have been successfully overcome through specific institutional arrangements. Moreover, a growing empirical literature has shown that the most important theoretical propositions have often not been verified in practice (Bartlett and Uvalic 1986; Estrin and Uvalic 2008).

The literature has further evolved to include various forms of workers participation in capitalist enterprises, encompassing employee participation in decision-making, in ownership and in enterprise results. Forms of employee participation in decision-making range from information disclosure and consultation to minority or full parity codetermination. Employee participation in enterprise results, also referred to as financial participation or PEPPER schemes (Promotion of Employee Participation in Profits and Enterprise Results) include both profit-sharing and employee share ownership. Ever since the early 1990s, when the first PEPPER Report (Uvalic 1991) was prepared and when, in July 1992, a European Council Recommendation on PEPPER was adopted, the European Union (EU) has actively promoted these schemes. Among the main reasons for the EU's active support of PEPPER schemes is the conviction that they are likely to have beneficial effects, particularly on workers' productivity and enterprise competitiveness (Uvalic 2006).

A specific branch of the literature on workers participation has explored the link between various forms of employee involvement in decision-making and enterprise performance, initially inspired by the German system of Mitbestimmung and later expanded to include more general cases and economies in transition. A large part of the literature on the codetermined or participatory firm in the capitalist environment has focused on essentially distributional issues (see Svejnar 1982a, 1982b). In Svejnar's (1982a) participatory firm, shareholders, managers, and workers codetermine the firm's overall objectives. A "variable power" bargaining model is used, which formalizes the practice of codetermination as the solution to a bargaining game. The firm then acts as to maximize a multiplicative function of shareholders' utility, managers' utility and workers' utility. In "model I" the utilities are specified as the simple unit prices of the relevant factor input, net of reservation prices. The utilities are defined exactly over the equilibrium sets of factor inputs, so that only the interests of those agents actually employed in the firm are taken into account; the system of participation is company-specific. This is held to be relevant for the German system of Mitbestimmung where employee representatives on the board of directors and works councils represent the interest of employees. The solution to the maximization problem indicates that factors are employed up to the point at which their marginal productivity is equal to the sum of the reservation wage and a share in the enterprise profits determined by the participants' relative bargaining power. This is an inefficient equilibrium, since factor input use is restricted relative to the benchmark case of a perfectly competitive profit-maximizing private firm, so the short-run behaviour of the codetermined firm is similar to that of the labour-managed firm, unless a mechanism exists such as unrestricted entry and exit of firms into an industry to ensure zero profits (Bartlett and Uvalic 1986: 19).

An alternative formulation, Svejnar's "model II" (Svejnar 1982a), recognizes that it would often be unrealistic to limit the interests which are represented in the codetermination process to those currently employed or associated with the firm. The wider constituency of union members both in and outside the firm, for example, might be regarded as interested parties in the codetermined process. In this model the utilities which are the subject of model I are augmented by an amount x/*x,* where x is the firm's equilibrium employment level of a factor, and *x* the membership of the broader constituency. In this case the solution to the maximization problem gives equality between the factor marginal product and its reservation price, and codetermination is allocatively efficient. In the German case there are important institutional features that might make model II more applicable (Barlett and Uvalic 1986: 20). In the early 1980s there was apparently consistent support for the view that workers' participation in management causes higher productivity. This result was supported by a variety of methodological approaches using diverse data and for disparate time series (Jones and Svejnar 1982: 11), though some evidence from Germany suggests that codetermination had no significant effect on productivity (Svejnar 1982c).

A similar theoretical framework was later applied to Yugoslavia (Prasnikar, Svejnar, Mihaljek, Prasnikar 1994) in order to develop a multi-party model of enterprise behaviour, with the management, workers and government authorities being the decision-makers. The model captures the behaviour of Yugoslav enterprises in the 1970s and 1980s, but also enterprises in transition economies and public sector bargaining in western countries. Estimating the model on Yugoslav firm-level data from the 1970s and the 1980s indicated that the perverse behaviour predicted by the Ward-Domar-Vanek model of labour-managed firms is not supported by the data, as firms place emphasis on both wages and employment (Prasnikar, Svejnar, Mihaljek, Prasnikar 1994: 728).

The above theoretical model in its different variants seems to depict quite well the Serbian enterprise during transition in the late 2000s, for several reasons. The multi-party framework is relevant for analyzing enterprise behaviour in a transforming socialist economy in general, and therefore the Serbian enterprise during transition as well. In addition, various forms of workers involvement practices in Serbia correspond roughly to those analyzed in the above-described models, including workers consultation, participation in some enterprise decisions, their presence on company boards or indirect influence through trade unions – as will be seen in our later analysis of internal relations within Serbian firms today (sections 4 and 5). The described models offer a sound theoretical framework for this paper, but could also be used for future research on the behaviour of the Serbian firm in transition.

3. SERBIA'S TRANSITION: CONVERTING SELF-MANAGEMENT INTO PROPERTY RIGHTS

Serbia's transition to a market economy has been particularly complex and in many ways unique (Uvalic, 2010). The pro-market economic reforms introduced in late 1980s by the last Yugoslav government were short-lived, since the political events of the early 1990s – the break-up of the Yugoslav federation, military conflict and international sanctions – brought reversal in many areas. After the creation of the new Federal Republic of Yugoslavia in 1992, consisting of two republics, Serbia and Montenegro, some institutional arrangements, such as a new privatization law adopted in 1992, were implemented to replace the previous economic system, despite high political and economic instability. However, the priority of political over economic objectives, inconsistencies in the economic policies of the Serbian government throughout most of the decade, frequent changes in legislation and lack of willingness to implement radical reforms in certain important areas crucially influenced reversals in the initiated reforms and the slowing down of the transition to a market economy (see Cerovic 1999, 2000).

In addition to delays in implementing some fundamental economic reforms, Serbia's case is specific regarding property reforms and related changes of the system of workers self-management. Among all the successor states of former Yugoslavia, Serbia preserved certain institutions of the former self-management system for the longest (at least on paper). In part, this was due to political instability that caused delays in transition-related reforms such as privatization, but it was also due to the ideological continuity of Milosevic's Socialist Party (the winner at the first multi-party elections in Serbia in January 1990) with the League of Communists of Serbia, as well as reform reversals such as increasing the share of state ownership (see Cerovic 1999). These factors strongly influenced the earlier privatization legislation - laws adopted in 1992 and 1997 were based on privileged sales on a voluntary basis to primarily employed workers and managers - with only modest results.

It ought to be recalled that in 1989 the initial conditions regarding the property regime were somewhat different in socialist Yugoslavia than elsewhere in Central and Eastern Europe. The specific features of the Yugoslav economic system crucially influenced the privatization process in all its successor states after the country disintegrated in 1991. Under the system of "social property" that was introduced in Yugoslavia in the early 1950s, no one had property rights over enterprise assets, which officially belonged to society as a whole (Uvalic, 1992). Enterprises had the right to use socially owned assets and to appropriate their product, but were never given full property rights, since some important rights remained firmly in state hands. Nevertheless, because self-management had ensured workers ample decision-making rights and the property regime was ambiguous, many workers felt they were the real owners of their enterprise, in line with the frequently held view that with the passing of time "group" property - namely property of the employed workers - had unofficially replaced social property.

At the beginning of the transition these specific features of the Yugoslav economic system rendered privatization in its successor states more complicated than elsewhere (Uvalic 2004). Since enterprises were owned "by everyone and no one", who was authorized to sell them - the state, the enterprise, the employed workers? And to whom would the proceeds from privatization go? Because of the ambiguous system of property rights in Yugoslavia, in the early 1990s all its successor states, including the republic of Montenegro within FR Yugoslavia, decided to first eliminate social property completely through various methods of "re-nationalization" and proceed with privatization later. The only exception was Serbia, where only a handful of strategic firms (though representing 40% of the Serbian economy's capital) were renationalized in the early 1990s, while the bulk of the economy remained in social property, to be privatized according to new laws adopted in 1992 and 1997. The prevailing position of the Serbian government until 2001 was that social property should remain one of the main property forms, although under a more direct state control than before.

Since social property survived much longer in Serbia than elsewhere, workers self-management, essentially their participation in enterprise decision-making, formally also remained present somewhat longer in Serbian enterprises than in surrounding countries, primarily in those enterprises that were not partially or fully privatized or re-nationalized. According to the provisions of the 1994 Serbian Company Law, a socially owned enterprise is managed by its workers while a mixed ownership enterprise is managed by both its shareholders, proportional to the share of invested capital, and employed workers, proportional to the share of social property. Although a new Company Law was adopted in 1996 which substantially reduced these rights, this law and subsequent changes to the law still envisaged the existence of a socially owned enterprise assuring workers concrete rights. Moreover, in the early 2000s after the fall of the old regime, many enterprises had effectively not implemented the 1996 regulations but still operated according to the provisions of the 1994 Company Law. In Serbia, for longer than in the other countries of former Yugoslavia, the property rights of a socially owned enterprise remained ambiguous, divided among three collective agents – employed workers, the enterprise, and the state – where none of them had full control and ownership over the whole bundle (Uvalic 2004, 2010).

These are some reasons that explain why in late 2000 the Serbian economy was one of the least privatized of all transition economies, with the private sector contributing less than 40% of GDP (Uvalic 2010). Serbia was also the only republic of former Yugoslavia where social property was maintained as a property form until as late as 2006. In the early 2000s there were legal obstacles to the abolition of social property. Article 56 of the Serbian 1990 Constitution (still in force in 2001) continued to guarantee the equal treatment of all forms of property - social, state, private and cooperative - while the Company Law continued to give, at least formally, certain rights to workers on the basis of social property. Nevertheless, in practice workers' rights were often not respected and in many cases it was the state, through the management boards, that controlled key enterprise decisions. It was only in the new Serbian Constitution, adopted after a long delay in 2006, that these provisions were modified. The principle of guaranteeing all types of property, as in the previous Constitution, was maintained, but the only property forms now mentioned are private, cooperative and public property, envisaging that 'remaining social property will be transformed into private property' (Constitution of the Republic of Serbia, 2006, Art. 86).

4. RECENT FEATURES OF WORKERS' PARTICIPATION IN SERBIA

A survey of Serbian firms was undertaken in 2013 in order to explore whether workers in Serbia were active in the decision-making process and which were the main forms of their involvement in enterprise policies. Data was collected through a questionnaire for managers in 74 Serbian firms; once those that had provided incomplete or inconsistent data had been excluded the number remaining was 69. In selecting the firms we had to stick to the "snow-ball" method due to limited resources for the research, but tried to cover the most representative industries and firm types in terms of size and ownership. The survey was based on a more general questionnaire developed by Prasnikar et al. (2012) on various issues regarding intangible capital, among which the most relevant to our topic were the analysis of internal relations, workers' involvement in decision-making, and general decision-making practices. These issues will be analyzed from several perspectives:

- To what extent are strategic decisions recognized and separated from operative decisions?
- What level of cohesion in decision-making has been achieved in terms of harmonious relations between owners, managers, and workers?
- What kind of loyalty do workers exhibit towards their firms and are they ready to undertake risks that their firms could face?

We have tried to investigate how these elements affect employee satisfaction and/or how much they add to a firm's internal cohesion and/or its overall social capital as a factor for potentially improving business performance.

The enterprise sample structure is reported in Table 1. Within the sample a distinction was made between firms in manufacturing and services, domestic and foreign-owned firms, and small, medium, and large firms.

Table 1. Serbian enterprises: sample structure

	Number of firms
Total	69
Manufacturing (and similar)	45 (65%)
Services	24 (35%)
Foreign-owned	17 (25%)
Domestic-owned	52 (75%)
Small (< 50 employees)	26 (38%)
Medium (50<employees<200)	21 (30%)
Large (>200 employees)	22 (32%)

In order to discover whether firms were able to recognize specific features of strategic decision-making the first question managers were asked concerned their general approach to management. The question was whether their firms systematically separate strategic from current operative decisions at various levels of decision-making. Forty-four firms (63%) confirmed that they separate strategic from current operative decisions; among them medium-sized and large firms mostly confirmed this management practice (86% and 91% respectively), while the majority of negative answers came from small firms (20 or 77% of firms with less than 50 employees), which is understandable to a certain extent. A remarkable difference appears between the group of Foreign Owned Firms (FOF) (14 or 82% positive answers) and Domestically Owned Firms (DOF) (30 or 58%), suggesting better management practices in foreign companies.

Similar results were obtained from managers' responses to the question regarding harmony and coordination between owners and managers in strategic decision-making over a five-year period (2008-2012). Forty-two firms (60%) declared that their managers and owners acted harmoniously, including 27% of small firms, 71% of medium firms, and 91% of large enterprises. Thus a clear difference was again found according to firm size, in favour of larger firms. In addition, there was a notable difference between FOF and DOF: 13 or 77% of FOF reported harmonious relations as opposed to 29 or 56% of DOF.

Finally, the managers were asked whether strategic decisions are coordinated between owners, managers, and workers, namely along the entire agency chain. Thirty-four respondents (49%) confirmed such practices, but again with a net distinction between FOF and DOF. Positive responses to this question were obtained from 11 FOF (or 65%), and from 23 DOF (44%). The size of firms also makes a difference: 23% of small, 57% of medium, and 73% of large firms confirmed such practices.

We may conclude that most enterprise managers in our sample do recognize the difference between strategic and operative decisions. However, additional analysis suggests that the use of this knowledge is still at a preliminary stage and is particularly underdeveloped regarding communication among various organisational levels of the firm. Not surprisingly, we may also conclude that managerial practices are better developed in FOF compared with DOF. The least favourable situation is in smaller firms, which is an already noted phenomenon due to the over-representation of owners who usually also act as managers and frequently become an obstacle to their firms' further development.

In our research we were particularly interested in exploring the relations between managers and workers, the general position of employees, and workers' attitudes in the new environment of private firms during transition. In essence, we investigated three groups of questions:

- Is there any form of workers' participation in decision-making?
- Are there trade unions in the firm?
- Are workers ready to participate (or averse to participation) in their firms' risks?

In Table 2 the surveyed firms have been classified according to type of ownership (foreign or domestic) and size (small, medium, large). We additionally present the results for "old" firms that existed in former Yugoslavia and have mostly been privatized (with few exceptions).

Table 2. Workers' participation and risk aversion (number of firms and in %)

	All firms	**FOF**	**DOF**	**Small**	**Medium**	**Large**	**"Old"**
Participation in decision-making							
Right to be informed	48 (70%)	13 (77%)	35 (67%)	13 (50%)	15 (71%)	20 (91%)	21 (96%)
Free to make proposals	37 (54%)	8 (47%)	29 (56%)	12 (46%)	10 (48%)	15 (68%)	18 (82%)
Members of the board	16 (23%)	4 (24%)	12 (23%)	3 (12%)	4 (19%)	9 (41%)	11 (50%)
Trade unions (TU)							
TUs exist and are active	23 (33%)	9 (53%)	14 (27%)	0 (0%)	5 (24%)	18 (82%)	22 (100%)
Risk participation							
Ready to "do something more"	50 (73%)	14 (82%)	36 (69%)	15 (58%)	18 (86%)	17 (77%)	19 (86)
Stay if offered a better paid job	32 (44%)	11 (65%)	19 (37%)	9 (35%)	8 (38%)	13 (59%)	16 (73%)
Willing to invest in the firm (financially)	12 (17%)	4 (24%)	8 (15%)	7 (27%)	2 (10%)	3 (14%)	4 (18%)

Managers in 48 firms (70%) confirm that they do inform workers properly, which indicates that the right to be informed is widely accepted, though predominantly in larger firms. However, when exploring what this means in reality by asking what kind of information is presented, we received differing answers. The type of information ranged from "publicly presented decisions" (usually on the board or sometimes in internal bulletins with no previous consultation with workers) to regular meetings and discussions with employees (nine examples) regarding new products, offered projects, business plans, investment etc. However, a notable number of managers stressed the pointlessness of these forms of information, arguing that owners are the only ones that ought to be in charge (thus excluding even managers).

As to more developed practices that involve workers in decision-making, only slightly more than half of the firms in the sample (54%) offer employees the opportunity to make suggestions and/or concrete proposals. This practice is somewhat more developed among manufacturing firms (56%), which could be explained by the fact that they are predominantly larger firms, usually more open to workers' participation. FOF lead in the practice of informing workers, but are more reserved when it comes to workers' rights to make suggestions and particularly when it comes to their participation on boards. However, firm size seems to be an important factor regarding workers' participation rights: in all three forms of participation we investigated the percentage of firms exercising such practices increases with firm size.

The data on trade unions (TU) presents an interesting and rather unusual picture. It seems that the existence of trade unions in Serbian firms is a neglected and even ignored practice.[2] Indeed, there are 23 (mostly large) firms (33%) with active TUs, while in 12 of them more than one TU organisation is active. Only 7 firms (10%) report that trade unions concern themselves with the firm's economic performance. It is also noticeable that twice as many FOFs have active trade unions (53%) than do DOFs (27%).

Deeper analysis can further clarify some of the issues regarding TU activity. A first review of the data might lead to the conclusion that TUs are predominantly active in joint stock companies, and only partially within limited companies; or, alternatively, mainly in large companies and sometimes in medium-sized firms. However, although more frequently found in large firms, TU activity actually has little to do with the legal status or size of the firm. More in-depth analysis shows an astonishing fact: 22 of the 23 firms that report active TUs are firms that existed

2 This is similar to the result found in another part of the questionnaire that deals with wages. When asked whether their wages comply with collective bargaining schemes, a large majority of firms (75%) could not give a precise answer, demonstrating that it was not a matter of concern (see Cerovic et al. 2014). For a detailed analysis of trade unions in Serbia in the early 2000s, see Uvalic (2005).

in the pre-transition period (former Yugoslavia) and/or were bought by firms with a similar history (and legacy). There is only one medium-sized new private firm that reports the existence of TU activity. It is also important to note that among the group of "old" firms, TUs exist and act regardless of whether these firms were privatized (18) or not (4). We may therefore conclude that TUs act predominantly on the basis of habituated practices inherited from the previous system rather than on the basis of the firms and the TUs' willingness and/or readiness to actively support workers and their rights during transition.

Alternatively, this could be attributed to employees' values inherited from old institutional arrangements (regardless of what the real role and position of the "socialist" trade unions were under the communist-led self-management system). This conclusion is supported by the data on workers' participation in firms that existed in the former Yugoslavia. As can be seen from Table 2, in the majority of "old" firms there is a more diffused practice of various forms of worker participation in comparison with other firms. Within the group of "old" firms, 96% report the presence of workers' right to be informed, 82% report workers' right to make proposals, while 50% actually have worker participation on company boards. It is remarkable that three of the companies that have worker participation on the company board are under government control, in two companies there is a relatively high percentage of employee/management (internal) shareholding, while in the remaining four cases the owners are two foreign and two domestic proprietors.

In addition to more developed participation practices, in "old" firms the workers seem to exhibit a much higher level of loyalty. Eighty-six per cent of firm managers claim workers are ready to "do something more" for the company and 73% expect workers to stay with the firm even if they are offered a better paid job elsewhere. This is particularly remarkable if we consider that three of these firms are in poor economic conditions. If we exclude these poor performers, the percentage is even higher than previously reported for the whole group.

5. WORKERS' SATISFACTION AND LOYALTY TO THE FIRM

The above issues bring us to another important subject: is there a link between workers' rights and their satisfaction and loyalty to their firm? The fact that we analyze this issue according to managers' answers is of particular interest for at least three reasons. Firstly, it will be shown how managers perceive the loyalty and satisfaction of their workers. Secondly, as the relevant questions are found in separate parts of the questionnaire and are not necessarily answered by one person only, we can obtain more balanced responses, while "desirable" answers are less possible. Thirdly, any positive interrelationship in managers' answers regarding workers' satisfaction and the rights they enjoy should be understood as an important guideline for developing managerial practice, despite the reluctance concerning workers' rights found in the observed firms and presented in the previous section.

In trying to relate data on workers rights and participation to their loyalty to the firm, we introduced two corresponding indicators. The indicator of Workers Rights (WR) sums positive answers to five questions on the existence of a TU, TU involvement in the issues of firm's productivity, competitiveness and performance, workers' right to be informed, their right to make proposals (without compulsory acceptance of their proposals by management), and workers' representation on company boards. Thus the WR indicator has values from 0 to 5. The indicator of Workers Loyalty (WL) which is related to the first indicator, sums positive answers to three questions: whether workers are ready to "do something more" for their firm, whether they will stay with the firm if offered a better paid job, and whether they are ready to invest financially in the firm. Hence the WL indicator takes values from 0 to 3.

Two-thirds of all firms in our sample – 46 out of 69 (66.67%) – have a WR score of between 0 and 2, with an average below 1 (0.96). In these firms the average assessed score for WL is 1.11, and only five firms in the group report the existence of a TU. If these firms are further divided into two sub-groups, one with a zero score for WR (20 firms do not recognize any WR as defined above) and the other with WR scores between 1 and 2, the WL average score values are 0.75 and 1.4 respectively for each sub-group.

In the remaining group of 23 firms with a higher degree of workers rights, the WR score ranges from 3 to 5, while the reported average score for WL reaches 1.74. The result is even better when we exclude two firms undergoing the "restructuring process" in the observed period. These firms are subject to a special programme conducted by government agencies and face restricted autonomy of management, including workers' participation. They have been in poor economic condition for more than a decade (or probably even longer, since the 1990s) and so their workers are ready to leave the firm, if possible, which certainly diminishes WL values. When these two firms are excluded from the analysis we remained with a group of 21 firms with an average WR score of 3.67, while the average WL score moves up to 1.86. These results indicate a link between the two sets of indicators:

managers assess workers' loyalty as stronger when the firms have more workers' rights.

A similar result is obtained if we classify firms according to size. In general, higher workers' rights are anticipated in bigger firms, as well as higher levels of WL, and this was confirmed in our sample. In large firms (over 200 employees) the average level of WR is 2.9 and in medium-sized firms (51-200 employees) it is 1.67, whereas in small enterprises it is only 1.08. Correspondingly, the level of assessed WL diminishes from 1.6 in large firms to 1.33 in medium-sized firms and to 1.19 in small firms.[3]

We continued our analysis by adding to the WL indicator positive answers to the question whether managers consider workers in their firms to be at least as content as in other enterprises that are their competitors in the same market. Thus we constructed a composite indicator on workers satisfaction and loyalty (WSL) that takes values from 0 to 4.

Applying the WSL indicator to the analysis only confirms the already reported basic results. In the group characterized by lower WR scores (0-2) the average WSL score is also below average (1.84), and it is even lower in the group with zero WR score (1.4). In the group with higher WR scores (3-5) the average WSL score reaches 2.65, while after exclusion of the two firms undergoing restructuring it moves up to 2.81. Similarly, the level of assessed WSL diminishes from 2.39 in large firms to 2.14 in the medium-sized firms and to 1.92 in small firms.

The results for all groups clearly demonstrate that a higher level of workers' job satisfaction and a higher level of loyalty to the firm can be expected if internal relations are more favourably organized regarding labour, and in particular if there are some elements of worker participation. Such a conclusion is related to the fact that sometimes we find firms that do not have an active TU, but nevertheless report certain forms of worker participation (at least regarding the right to be informed or to advance proposals regarding the firm's business), which undoubtedly points to participation practices as an important element of a firm's internal relations, resulting in the superior behaviour of employees regarding firms' objectives and on-job tasks.

3 For precision's sake, we took out from the large firms sub-sample the two firms under restructuring with extremely poor performance, which changes the figures obtained only marginally (WR is slightly higher and WL is slightly lower), but this does not modify the general conclusions reported earlier.

However, when introducing notions like worker satisfaction in our analysis we have to check for another and even more recognized factor of worker satisfaction in the economic literature (as an objective of rational economic behaviour): wages. At first sight, our previous conclusion regarding the link between WSL and WR could be in question if we introduce the level of wages corresponding to our groups of firms in regard to WR. Indeed, in the group with zero WR we also find the lowest number of firm managers that report high wages: only six, or 30%, in the group (the question asked was whether workers in the firm are among those that are better paid in the economy as a whole). This percentage becomes higher in subsequent groups with an increasing WR score. Thus, in the second group (WR between 1 and 2) there are 9 firms (36%) that report high wages, while the highest percentage is found in the third group (WR score 3-5): 12 firms or 50% in the group. This could suggest that worker satisfaction and loyalty come primarily from better-paid jobs, rather than from better-developed WR, which would agree with theoretical propositions on rational economic agents.

In order to check this hypothesis, we started with an analysis of 27 firms that reported high wages. Within the group there are as many as 9 firms (33.33%) with a low WSL score (0 or 1) and another 4 firms (14.82%) with WSL score 2, which is below the average value (2.12). Only 14 (51.85%) managers of the firms with high wages assess WSL as being high (3 or 4). The distribution of answers is also interesting: managers that assess lower levels of WSL usually state that their workers are content but assess their loyalty with low grades (they rarely expect workers to "do something more" for the firm and never expect them to invest or remain if offered a better paid job elsewhere), confirming indirectly the belief that only high wages make workers happy. However, in the group of 13 firms with a lower WSL score, 9 firms (69.23%) also exhibit a lower level of WR (0-2). On the other hand, among the remaining firms that pay lower wages we find 13 firms with a high WSL score (3 or 4). In this group there are 7 firms with relatively high WR scores (3-5), 3 firms at the upper low level (WR score 2), and only one with a zero WR score. These data once again draw attention to the role of WR: the mere fact that workers earn more does not seem to ensure their satisfaction and loyalty to the firm, unless it is supported by better-developed internal relations that recognize workers traditional rights (TU) and the importance of participation.

Finally, we compared WSL with overall decision-making practices represented by managers' answers to the three related questions: whether strategic decisions are separated from operative ones; whether managers and owners act in accordance; and whether decisions in the firm are harmonized along the entire agency chain, between owners, managers, and workers. We introduced an indicator on decision-making practices (DM) summing up positive answers to these questions that takes values from 0 to 3. We suppose that a higher DM score represents a better and more harmoniously organised decision-making process within a firm. It appeared that WSL was also related to the quality of decision-making: the higher the score for the three characteristics regarding decision-making practices, the higher the level of WSL. Thus, for example, the group of firms with a higher WSL (3 or 4) demonstrates a higher average value of DM (2.0), while the group of remaining firms with lower WSL (0-2) exhibits a lower DM average score of 1.56. Alternatively, firms with the highest scores for DM (3.0) have a noticeably higher score for WSL (2.38 on average) than the remaining firms with a lower value of DM (average WSL equals 1.92).

Similarly, and in agreement with the results from the previous section, small firms seem to have the least developed decision-making systems (they are particularly lacking harmony along the agency chain; average DM=0.73), followed by a low average score for WSL (1.92). Decision-making is advanced in medium-sized firms (DM=2.18) and WSL is also higher (2.14), while in the large firms DM reaches 2.52 with the highest score for WSL of 2.33. However, it should be noted that this interrelationship between DM and WSL is also linked to the previously discussed indicator of workers rights (WR), since higher DM scores are connected with higher WR values[4].

In order to further clarify our findings and make them more precise we tested several probit models. We first tested two binary probit models (1 and 2) where the dependent variable was a positive answer to the question whether workers are ready to "do something more" for the firm. The independent variables in model 1 were: (a) WAGE indicating wage level (positive answers to the question whether the workers are among the better paid in the economy), (b) LAB for number of employed, to represent the size of the firm, (c) WR as defined before, (d) DM as defined before. In model 2, instead of variables (c) and (d) we included as a new variable the simple sum of these two variables (WR+ DM).

We also tested another two probit models (3 and 4) where the dependent variable was a positive answer to the question whether workers will stay with the firm if offered a better-paid job, while the independent variables remained the same

4 Since we have already demonstrated above that WR rises with the size of the firm (from 1.08 in small forms to 2.9 in large firms) we can only add that in the group of firms with high DM values we also find high WR scores: in the group with the maximum DM (3.0) WR goes up to 2.69 on average, while in the remaining group with lower DM scores its average value is only 1.22.

as those used in models 1 and 2 respectively. The results for the four models are reported in Table 3.

Table 3. Binary probit models for the sample of Serbian firms

Dependent variable→	Workers are willing to "do something more" for the firm		Workers will stay with the firm if offered a better paid job	
Model→	(1)	(2)	(3)	(4)
Independent variables↓	Coefficient (Probability)	Coefficient (Probability)	Coefficient (Probability)	Coefficient (Probability)
Const	-0.177288 (0.5300)	-0.200764 (0.4820)	-0.859130 (0.0022)	-0.861861 (0.0026)
WAGE	-0.050536 (0.8967)	0.143442 (0.7191)	0.460816 (0.1951)	0.350604 (0.3018)
LAB	-0.000107 (0.5211)	-0.000131 (0.4449)	0.000185 (0.3086)	0.000206 (0.2455)
WR	0.086349 (0.5587)		0.228351 (0.0552)	
DM	0.455585 (0.0025)		-0.008132 (0.9561)	
WR+DM		0.245883 (0.0118)		0.126314 (0.0785)
Log likelihood	-33.49652	-34.59678	-41.99125	-42.55062
Avg. log likelihood	-0.485457	-0.501403	-0.608569	-0.616676
McFadden R-sq	0.175122	0.148027	0.111080	0.099239
No. of observations (0/1)	19/50	19/50	39/30	39/30

As can be seen from Table 3, according to managers' answers, decision-making practice (DM) is the only significant factor in Model 1 that impacts workers' readiness to "do something more" for their firm, while in Model 2 the sum of WR and DM significantly affects such workers' behaviour. On the other hand, in Model 3 it appears that only WR significantly influences workers to stay with their firms even when offered a better-paid job elsewhere, while in model 4 it is the sum of WR+DM that facilitates such a decision. All results highlight the importance that the survey's respondents attribute to WR and DM in raising aspects of workers' loyalty to their firms. Although when asked directly, managers are not always ready to confirm this finding, it appears that harmonious relations along the agency chain and a more active role for workers are indirectly recognized as crucial for establishing a higher degree of employee loyalty.

We also tested two ordered probit models where the dependent variable was WSL as defined before, while the sets of independent variables remained identical to the previously tested binary models. The results are reported in Table 4.

Table 4. Ordered probit models for the sample of Serbian firms

Dependent variable→	Level of WSL (0,1,2,3,4)	
Model→	(5)	(6)
Independent variables↓	Coefficient (Probability)	Coefficient (Probability)
WAGE	0.049457 (0.8622)	-0.049259 (0.8607)
LAB	3.48E-05 (0.8339)	5.78E-05 (0.7000)
WR	0.243126 (0.0379)	
DM	0.009386 (0.9404)	
WR+DM		0.141030 (0.0393)
Cut-off point 1	-0.962436 (0.0003)	-0.943169 (0.0005)
Cut-off point 2	0.166916 (0.5177)	0.181425 (0.4788)
Cut-off point 3	0.820920 (0.0026)	0.827787 (0.0026)
Cut-off point 4	1.664674 (0.0000)	1.652078 (0.0000)
Log likelihood	-100.9979	-101.8180
Avg. log likelihood	-1.463738	-1.475624
Pseudo R-sq	0.046616	0.038874
No. of observations.	69	69

Although in Model 6 the joint variable WR+DM significantly affects the level of WSL, it is evident from Model 5 that it is primarily due to the fulfilment of workers rights (WR). Moreover, it is remarkable that almost every step to a higher level of WSL is significantly based on improvements in WR implementation: all cut-off points are highly significant except for the step from 1 to 2; this exception probably comes from the fact that some managers equate workers' satisfaction with higher wage levels only, and may not relate it to a higher level of worker loyalty (discussed earlier). It is also noticeable that similar to the other models tested (1-4), variables like wage level and/or firm size remain clearly insignificant with no important effect on the level of WSL.

Summarizing all the findings, we can conclude that there is an evident and positive connection between WSL (including some of its constituent elements) and harmonious decision-making practices, with a firm's compliance with workers rights taking first place, and including various forms of participation. It is particularly important to stress that all the results obtained are based on managers' opinions, despite the fact that when asked directly they are not particularly in favour of workers' participation. Such an attitude has resulted in a relatively low level of workers' rights within the analyzed sample of Serbian firms.

6. CONCLUDING REMARKS

Our analysis based on a recent managers' survey of 69 Serbian firms suggests that managers underestimate the relative importance of internal relations, thus hampering the efficient fulfilment of enterprise objectives. It appears that decision-making processes are frequently not properly designed, leaving an excessive role to the owner as the exclusive decision-maker and inducing discrepancies in task-fulfilling along the agency chain. In addition, the position of workers is frequently poor, particularly regarding their right to be informed, to make proposals, and to participate in decision-making in general. Moreover, even traditional workers' rights are often neglected (unionization, collective bargaining, etc.). However, when these aspects of internal relations are more developed, a higher level of worker satisfaction and loyalty to the firm was identified. The problem of workers' non-involvement is particularly evident within smaller and domestically owned firms, whereas in foreign owned firms internal relations are usually developed with more care. We conclude that inadequately established processes of decision-making and unsuitable internal relations in general result in a lower probability of improving cohesion within the firm, something that eventually can hamper economic performance.

On the basis of the surveyed Serbian enterprises, it seems that currently participation practices are not very diffused. Should this be considered a loss, or the most rational choice? The decision to definitively abandon the model of self-management and convert workers self-management into private property rights was taken in practically all successor states of former Yugoslavia, yet in some countries like Slovenia the desire to maintain some continuity with the past legacy led to the adoption of a co-determination law and to a privatization model based on partial employee share ownership. In the other successor states of former Yugoslavia, after the country had disintegrated and the transition to a market economy had begun in the newly created independent states, much of the blame for the demise of the Yugoslav federation and the failure of its specific model of market socialism was put on its self-management features, disregarding other important factors that have undoubtedly played a more fundamental role. These include socialist features of the Yugoslav economic system that were present throughout Eastern Europe (including soft-budget constraints and state paternalism); complicated procedures introduced by the Associated Labour Act in the early 1970s (e.g., social compacts and self-managed agreements which, instead of further developing the self-management model, effectively reduced the freedom of enterprises to take decisions independently); the 1974 Yugoslav Constitution, which introduced extreme decentralisation in almost all areas of economic policy, giving rise to "economic nationalism" and fuelling a divergence of interests among its constituent parts; and increasing reliance on foreign loans to finance economic growth and development, which eventually led to a serious debt crisis in 1982. All of these factors and still others - primarily the deep political crisis - are undoubtedly more important in explaining the demise of the Yugoslav socialist market model than its self-management features (Uvalic 1992). Moreover, a number of socialist features of the Yugoslav economic system continuously suppressed self-management, effectively never allowing its full development (Cerovic 1992; Prasnikar and Svejnar 2007; Uvalic 1992).

From a historical perspective, for Serbia as for other successor states of former Yugoslavia, it may have been wiser to implement a model that provided continuity instead of a radical break with the past. More frequently, the "politically correct" models of privatization and corporate governance were chosen, ignoring the heritage of self-management and residuals of the past system. Arguments of economic efficiency have frequently prevailed over those of social justice. Abandoning most elements of the previous system of workers' active participation in decision-making, at least in Serbia, does seem to have been a suboptimal choice, judging from the results of our survey. It is precisely enterprises that have secured stronger workers rights that have obtained a higher degree of employee satisfaction and loyalty. Our analysis will hopefully serve to guide Serbian enterprises in forthcoming years to consider the advantages of sharing business information with employees, inviting them to participate in decision-making, and providing other channels to ensure workers rights, which ultimately could provide improved enterprise performance in the long run.

REFERENCES

Bartlett, W. and M. Uvalic, (1986). "Labour-managed Firms, Employee Participation and Profit-sharing - Theoretical Perspectives and European Experience", Special Issue of *Management Bibliographies & Reviews*, vol. 12, no. 4, Bradford

Cerovic, B., (1992). "Labour-managed Firm in a Transition Process – a sketch for economic analysis", in: *The Man in the Socio-economic System*, General Confederation of Trade Unions, Academy of Science of Russia *et al.*, Moscow, pp. 373-390.

Cerovic, B., (1999). "Costs of the Delay: Comparing Yugoslavia with Other Transition Economies", in: *Recent Developments and Problems in the Transition Economies*, St. Cyril and Methodius University, Faculty of Economics, Skopje, pp. 55-66.

Cerovic, B., (2000). "Economy of FR Yugoslavia: Transition or Pre-transition Economy", Ljubljana University, Faculty of Economics, *Working Paper Series*, No. 97, 2000.

Cerovic, B., S. Mitic, A. Nojkovic, (2014). "Improving Competitiveness of Serbian Firms: the Role of Intangible Capital", in: *Proceedings of the 10th International Conference of ASECU, Towards Post-Crisis Prosperity: Alternative Economic Policies and Institutional Reforms in Southern and Eastern Europe*, Cluj-Napoca, pp. 264-294.

Domar, E. D., (1966). "The Soviet collective farm as a producer cooperative", *American Economic Review*, Vol. 56, no 4, pp. 737-57.

Estrin, S. and M. Uvalic (2008). "From Illyria towards Capitalism: Did Labor-Management Theory Teach Us Anything about Yugoslavia and Transition in its Successor States?" 50th Anniversary Essay, Special Issue of *Comparative Economic Studies,* vol. 50, pp. 663-696.

Jones, C. D. and J. Svejnar (1982). "The economic performance of participatory and self-managed firms: A historical perspective and review", Chapter 1 in D. Jones and J. Svejnar (1982), *Particip*atory *and Self-Managed Firms: Evaluating Economic Performance,* Lexington Books.

Prasnikar, J., J. Svejnar, D. Mihaljek and V. Prasnikar, (1994). "Behavior of Participatory Firms in Yugoslavia: Lessons for Transforming Economics," *Review of Economics and Statistics*, LXXVI(4), pp. 728-741 November.

Prasnikar, J. and J. Svejnar (2007). "Investment, wages and corporate governance during the transition: Evidence from Slovenian firms", in S. Estrin, G. W. Kolodko and M. Uvalic (Eds.) (2007), *Transition and Beyond*, Basingstoke, Palgrave Macmillan, pp. 149-173.

Prasnikar, J., T. Redek, F. Memaj (Eds.), (2012). *Albania: The role of intangible capital in future growth*, Faculty of Economics, Ljubljana.

Svejnar, J. (1982a). "On the Theory of a Participatory Firm," *Journal of Economic Theory,* 27(2), pp. 313-330.

Svejnar, J. (1982b). "Employee Participation in Management, Bargaining Power and Wages", *European Economic Review,* 18(3), pp. 291-303.

Svejnar, J. (1982c). "Codetermination and productivity: Empirical evidence from the Federal Republic of Germany", Chapter 10 in D. Jones and J. Svejnar (1982), *Participatory and Self-Managed Firms: Evaluating Economic Performance,* Lexington Books.

Uvalic, M. (1991). *The PEPPER Report - Promotion of Employee Participation in Profits and Enterprise Results,* Commission of the European Communities & European University Institute, Florence & Brussels (published in English, French and German), *Social Europe*, Supplement 3/91, Office of Official Publications of the EC, Luxembourg.

Uvalic, M. (1992). *Investment and Property Rights in Yugoslavia - The Long Transition to a Market Economy,* Cambridge, Cambridge University Press. Reprinted in paperback in 2009.

Uvalic, M. (2004). "Privatisation in Serbia: The difficult conversion of self-management into property rights", in Virginie Pérotin and Andrew Robinson (Eds.), *Advances in the Economic Analysis of Participatory and Labor-Managed Firms,* Volume 8, pp. 211-237.

Uvalic, M. (2005). "Labour Movement in Serbia: Seeking Representation, Struggling for Acceptance" in D. Dimitrova and J. Vilrokx (Eds.), *Trade Union Strategies in Central and Eastern Europe: Towards Decent Work,* Budapest, International Labour Office, pp. 153-200.

Uvalic, M. (2006). "Employee ownership – Western lessons for the Eastern new EU member states", in J. Lowitzsch (Ed.), *The PEPPER III Report: Promotion of Employee Participation in Profits and Enterprise Results in the New Member and Candidate Countries of the European Union,* Berlin: Inter-University Centre, pp. 46 – 68.

Uvalic, M. (2010). *Serbia's Transition – Towards a Better Future,* Basingstoke, Palgrave Macmillan and New York, St. Martin's Press. Expanded edition in Serbian: *Tranzicija u Srbiji – Ka boljoj buducnosti,* Belgrade: Zavod za udzbenike, 2012.

Vanek, J. (1970). *The General Theory of Labor-managed Market Economies*, Ithaca and London: Cornell University Press.

Ward, B. (1958). "The firm in Illyria – Market syndicalism", *American Economic Review,* Vol. 48, no. 4, pp.566-89.

Received: April 05, 2015.
Accepted: June 20, 2015