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THE IMPACT OF LEGAL FORM CHANGE ON PROFITABILITY: THE CASE OF COMPANIES IN THE REPUBLIC OF SERBIA

Uticaj promene pravne forme na profitabilnost– slučaj kompanija u Republici Srbiji

Abstract

The paper aims to examine whether and in what direction and extent the companies' profitability changes after their legal form transformation. The research includes 71 companies that changed their legal form between 2013 and 2021 in the developing and transition economy of the Republic of Serbia and relies on hand-collected data from the financial statements for the year of legal form transformation and the next two years. All observed companies transformed from a stock company into a limited liability company. The profitability is measured by return on equity and return on total assets. Generally, we find that the profitability at the sample level increased in the year after legal form transformation, but decreased in the following year. However, those changes in profitability are not statistically significant. Additional analysis based on the sample disaggregation from the aspects of company size and activity reveals some statistically significant differences, which indicates that the changes in the profitability indicators but also their determinants after the legal form transformation are not the same for all kinds of companies. The increase in the profitability of total assets is most pronounced in medium-sized companies and is also detected in production companies. The research results may be useful for owners and managers who consider a change in the legal form of their companies, but also financial analysts and theorists and practitioners in the field of financial accounting and reporting and business finance.

Keywords: *legal form transformation, profitability, Serbian companies*

Sažetak

Cilj rada je da se ispita da li se, u kom smeru i kojim intenzitetom menja profitabilnost preduzeća nakon promena njihove pravne forme. Istraživanje obuhvata 71 preduzeće u Republici Srbiji, kao zemlji u razvoju i tranziciji, koje je promenilo pravnu formu u periodu između 2013. i 2021. godine, a sprovedeno je na osnovu podataka iz finansijskih izveštaja za godinu u kojoj je promenjena pravna forma i naredne dve godine. Sva posmatrana preduzeća transformisala su se iz akcionarskog društva u društvo sa ograničenom odgovornošću. Profitabilnost je merena pomoću racija rentabilnosti sopstvenog kapitala i racija rentabilnosti ukupnih sredstava. Generalno, utvrdili smo da se na nivou uzorka profitabilnost povećala u godini nakon one u kojoj je izvršena promena pravne forme, ali da se smanjila u sledećoj godini. Međutim, te promene pokazatelja profitabilnosti nisu statistički značajne. Dodatna analiza zasnovana na podeli uzorka iz aspekata veličine i delatnosti preduzeća otkriva određene statistički značajne razlike, što ukazuje na to da promene pokazatelja profitabilnosti, ali i njihovih determinanti nakon promene pravne forme nisu iste za sve vrste preduzeća. Porast profitabilnosti ukupnih sredstava najizraženiji je kod preduzeća srednje veličine, a uočava se i kod proizvodnih preduzeća. Rezultati istraživanja mogu biti korisni vlasnicima i menadžerima koji razmatraju promenu pravne forme svojih preduzeća, ali i finansijskim analitičarima i teoritičarima i praktičarima u oblasti finansijskog računovodstva i izveštavanja i poslovnih finansija.

Ključne reči: *promena pravne forme, profitabilnost, kompanije iz Republike Srbije*

Introduction

The decisions made in the process of business entities' establishment have significant long-term impacts on their operations, wherein the decisions regarding legal form, business activity, and entity size particularly affect their corporate reporting in the years after establishment. Those decisions are important because they influence an entity's duty or right to apply particular general purpose financial reporting basis (full International Financial Reporting Standards – IFRSs, International Financial Reporting Standard for Small and Medium-sized Entities – IFRS for SMEs, and Ordinary of the Minister of Finance, in Serbia), the content and level of details of a regular set of general purpose financial statements, the frequency of this set, the obligation of financial statements audit, and mandatory forms of corporate reporting. According to the Serbian Law on Companies [38, par. 8], a business entity may be organized in one of the following legal forms: (1) general partnership, (2) limited liability partnership, (3) limited liability company, and (4) stock company, including European stock company (*Societas Europea*) [38, par. 577a]. Business activity in the Republic of Serbia may also be organized in the form of entrepreneur (according to the Law on Companies), government (state-owned) company (according to the Law on Government Companies), and cooperative (according to the Law on Cooperatives).

Establishing a business entity necessarily requires choosing a legal form [31, p. 201], whereas the owners determine the legal form that is the most suitable for carrying out the chosen business activity [8, p. 3]. A study by Cole and Sokolyk [10] shows that the decision regarding the initial legal form of an established business is typically influenced by considerations such as access to sources of financing, the owner's responsibility for the company's obligations, risk exposure, and taxation. However, legal form could be changed during business life under the influence of one or more factors. Legal form change doesn't affect the going concern assumption regarding an entity, which means that it essentially continues to exist, i.e., that there is no discontinuity in its business. An entity could be transformed into any legal form allowed by the Law on Companies if it meets all the conditions to be registered in the new legal form [35, p. 55]. Generally, regardless of the diversity in possible concrete motives for legal form change and given the purpose of making a profit as the fundamental company goal, it could be expected that owners and managers conduct legal form transformation (change) in order to enhance entities' performance, i.e., to enable entities to be more profitable. In that regard, the subject of this paper is flow of the return on equity (ROE) and return on (total) assets (ROA) as the most important profitability indicators of the Serbian enterprises that changed legal form. The objective of the paper is to examine the variations in the profitability of enterprises after legal form change. In that sense, we formulated the following research question: Do ROE and ROA change after legal form transformation, and, if so, in what direction and extent?

In the context of the research question, the paper examines whether the influence of legal form change on ROE and ROA is dependent on entities' size and activity. In that regard, the research is expected to reveal the conditions in which the influence of legal form change on profitability is the most pronounced.

The importance of this paper stems from the fact that studies regarding the impact of legal form change on profitability are scarce. The impact of some transformation processes such as mergers and acquisitions on profitability are examined in many studies conducted both in Serbia and other economies [for example, 44; 22; 15; 23; 13], but that does not apply to the impact of legal form change (legal transformation). To the authors' best knowledge, this is the first study on the impact of legal form change on Serbian companies' profitability. This study is complementary to the study that examines whether and in what direction legal form change impacts liquidity and leverage indicators of Serbian enterprises [17]. Serbia is suitable for exploring such impact as many companies have changed their legal form as a direct or subsequent consequence of the process of ownership transformation, i.e., the process of privatization of so-called socially-owned enterprises established in the conditions of a socialistic social order. Namely, many so-called socially owned enterprises first became stockholder companies and then were transformed into limited liability companies when the number of stockholders reduced as a consequence of

the ownership concentration through share purchases by dominant stockholders.

Apart from the introduction, conclusion, and references, the paper consists of three sections. In the first section, a theoretical background regarding legal form change with reference to the applicable regulatory framework in Serbia is presented. This is followed by an explanation the research sample and methodology. In the third section, the results of the conducted empirical research followed by a discussion are shown.

Legal Form Change: A Legal and Theoretical Background

Legal form change in the Republic of Serbia is regulated by the sixth part of the Law on Companies [38, par. 478-482], according to which legal change does not affect the companies' legal subjectivity, as the same company continues to exist but in another legal form. In other words, in the case of legal form change, the company of the previous legal form is not deleted from the business register (so the company of the new legal form is not registered), but only legal form change is registered. The transformation into another legal form is marked as "a pure legal form change" in the literature [e.g., 35, p. 56]. According to Serbian Law on Companies, any transformation of the legal form (regardless of whether it is a business with personal unlimited liability or with limited liability of the owner or a mixed combination) in any direction is permitted. The latest changes of the mentioned law, conducted in March 2025, introduced the transformation of a stock company into a European stock company and reversed [38, par. 577t-577u]. In addition, the Law on Management of Companies Owned by the Republic of Serbia [39, par. 42] allows the transformation of a government company into a limited liability company or a stock company.

However, in some cases, legal form change implies the liquidation of a legal entity followed by the establishment of a new entity (with a new legal form). This form of transformation is marked as re-establishment [32, p. 87; 35, p. 56]. An example of re-establishment is the transformation of an entrepreneur or a cooperative into other legal forms [38, par. 92; 37, par. 5]. Legal form change could also be conducted in the context of merger and acquisition transactions. The transformations in previous cases are not considered "a pure legal form change" [35, p. 56]. Companies in liquidation and bankruptcy cannot change their legal form except as a way of reorganization under the Law on Bankruptcy [36, par. 157].

Several factors could motivate enterprise owners to change legal form to improve profitability, but also financial position, and/or cash flows of the enterprise. In many cases, the decision regarding legal form change is not motivated by only one reason. Enterprise owners should look at both the positive and negative effects of giving up one and transforming to another legal form [35, p. 59]. The motives should be taken into account at the beginning of the legal form change process, i.e., in the preparation phase. According to the Law on Companies, the statement on the need for implementation of a legal form change is one of the documents that have to be prepared and delivered to the members of the owners' assembly before the final decision on legal form change. That statement, inter alia, contains the reasons, i.e., motives, of legal form change and the analysis of its expected effects [38, par. 479]. By analyzing the content of this document, we found that the motive for the legal transformation of the sampled companies in most cases was to improve profitability and other performances, which inspired us to conduct this empirical study.

Merz [25] points out that enhancing credibility and improving capital access are primary motives for legal form change. Generally, the transformation from a general partnership or a limited liability partnership into a limited liability company, and finally to a stock company increases the credibility of an enterprise and results in accessing more capital through increased investor confidence, greater access to credits, and more ways of funding the business. More precisely, the transformation into a publicly held stock company (publicly traded stock company) could provide access to the organized capital market (stock exchange). In addition, the increased reputability can also help the company attract clients and business partners [25]. Limiting owners' liability to the capital contribution and risk reductions for owners of general partnerships, limited liability partnerships (except for limited partners), and

entrepreneurs could also be motives for the transformation into a limited liability company or a stock company [7]. A research by Bilicka & Raei [6, p. 129] also argues that "firms that are organized into forms that provide liability protection have more debt, higher credit scores, and are more innovative than firms without liability protection". Both a limited liability company and a stock company offer limited liability protection to their owners because they are only at risk of losing the amount they invested in the company. In that sense, as business operations expand and the enterprise is faced with increased risk, it may be a good reason to transform an entrepreneur, a general partnership, or a limited liability partnership into a limited liability company or a stock company [25]. This could be explained by the fact that unlimited liability makes an entrepreneur, a general partnership, or a limited liability partnership unattractive due to the owner's real fear of losing his or her wealth if the business operations fail. If a limited liability company or stock company goes bankrupt, lenders cannot take the personal assets of the owners [16, pp. 30-32]. Therefore, capital maintenance of limited liability companies and stock corporations, although required by law, is in the best interest of both creditors and owners. Considering the risks mentioned above, the legal form of the company may affect its earnings profile. According to Bigus, Georgiou and Schorn [5], German corporations are more likely to employ conservative accounting methods, have more income smoothing, and declare lower earnings than sole proprietorships and partnerships. Although it may seem surprising, these results are actually based on the fact that reported partnership earnings are significantly affected by the agency problem of debt. Previous findings are also confirmed in the latest study by Bigus and Georgiou [4, p. 385] using a sample of European companies. They find "robust evidence that full-liability firms exhibit about 20–25% less timely loss recognition than limited-liability firms".

The main disadvantages of stock companies are high costs and formal requirements at the time of establishment and during its functioning [33, p. 13]. For example, Breit [7] points out that the recurring costs of stock companies are about 30% higher than the costs of entrepreneurs or partnerships. Furthermore, publicly held stock companies are more exposed to reporting costs than entities in other legal forms. Reporting costs are the costs to which a company is exposed in the context of fulfilling the duties regarding financial reporting and other corporate reporting forms immediately after establishment and during its business life. If owners of a publicly held stock company do not want their company to be part of the organized capital market and/or they tend to reduce reporting costs, they could decide to transform such company into a closely (privately) held stock company or a company of some other legal form. In the USA, a significant motive for voluntary delistings is the rise in administrative costs for listed companies, especially under the influence of the Sarbanes-Oxley Act [24, p. 733]. Thomsen & Vinten [41, p. 793] point out that "dramatic increase in delistings from stock exchanges in the USA and Europe … has been partly attributed to increasing administrative costs in listed companies". Generally, the management of limited liability companies and especially stock companies is more complicated, and therefore more expensive than the management of general partnerships and limited liability partnerships and entities organized as entrepreneurs. Striving to simplify the management process and reduce the cost of management could be a motive for transformation from a stock company or a limited liability company into a general partnership, a limited liability partnership, or an entrepreneur, especially if the company has a few owners or only one owner. Konno & Itoh [19, p. 152] find that the concentration of shareholders has a significantly positive effect on the voluntary delisting of companies in the construction and real estate sectors from the Tokyo Stock Exchange between 2004 and 2014.

Finally, taxation of owners and/or corporations can be also an important driver of the legal transformation of an organization [14]. In jurisdictions where corporations and partnerships are taxed differently, a change of legal form affects the company itself and/or its owners [9], especially if shareholders are resident in another country (for more information, see: [34]). Given the differences in taxation between individuals and companies, owners typically weigh up which legal form of their business will result in lower tax payments. Therefore, "the tax-optimising choice of legal form can be used as an instrument for

tax planning and internal financing" [18, p. 275]. In addition, there is evidence that another taxation issue - the complexity of tax accounting - may also affect the choice or change of a company's legal form, especially in the case of small businesses [3]. Undoubtedly, the legal form of a company should not be determined solely on the basis of tax considerations. The previously highlighted advantages of doing business in the form of a corporation should be an additional, equally valid criterion for deciding on the legal transformation of an organization from a personal liability model to a limited liability model. Therefore, owners "will choose the corporate form as long as the non-tax benefits exceed the net tax loss of the corporate form" [11, p. 480]. In this context, the most commonly highlighted non-tax benefits are the limited liability of the owner and access to financing sources [30; 1]. A change in legal form under Serbian tax law does not affect the taxation of profit, since undertakings of all legal forms are subject to this tax obligation. Accordingly, the Serbian tax law treats tax losses of the former legal structure in the same way as those of the new legal structure [40, par. 33], which from the perspective of the motive for the legal form transformation cannot be considered as the trigger for such a decision.

Previous reasons for legal form change are caused by the will of enterprise owners and they are primarily motivated by expected economic benefits for owners, regarding improvement of financial position, financial performance, and/or cash flows of the enterprise. When a legal form change is conducted as a consequence of the owners' will, it is considered a voluntary one. On the other side, there are also cases of forced legal form change. The examples of situations in which a legal form change is inevitable are: (a) the transformation of a limited partnership into a limited liability company or a stock company when all unlimited partners dropped out from the company, (b) the transformation of a limited partnership into a general partnership or an entrepreneur when all limited partners dropped out, and (c) the transformation of a partnership into any legal form that allows one owner when only one partner remains. Furthermore, legal form change may be perceived from the aspect of change in the owners' risk protection. When the owners' risk protection remains the same after a legal form change, the change is labeled as vertical (for example, the transformation from a limited liability company to a stock company and reversing). When the owners' risk protection is modified as a consequence of legal form change, the change is labeled as horizontal (for example, the transformation from a general partnership to a limited liability company and reversing) [26, p. 172].

A legal form change may be conducted: (1) without a change in the number of owners and (2) with a change in the number of owners. This distinction is important because it affects not only procedural and legal issues [46; 45], but also financial and accounting treatment of legal form change [35; 32; 20; 12]. The decision to change legal form is made by the owners, whereby it is not always necessary that all the owners agree with legal form change, depending on the applicable provisions of the Law on Companies, but also on the company (internal) regulation. This means that some owners may be against that change or abstain from voting regarding the change. Such owners are marked as disagreeable owners. They can decide to withdraw from ownership of the company. If they decide to withdraw, the company has to pay them an indemnity in the amount that belongs to them according to their share in the net assets of the company. In that case, the number of owners is changed, i.e., reduced. The calculation and accounting treatment of indemnity makes the process of legal form change more complex. In contrast, accounting for legal form change without change in the number of owners is relatively easy as it only includes reclassification (renaming) of equity components, especially the components of registered (stated) capital. For example, in the case of transformation from a stock company into a limited liability company, share capital becomes equity interests in limited liability company, whereas, in the case of reverse transformation, the reclassification is quite the opposite. The transformation of a partnership into a limited liability company or a stock company leads to the reclassification from capital contributions into equity interests in a limited liability company or share capital. The reverse transformation leads to opposite reclassification, wherein it is recommended in the literature [35, p. 65] that some other equity components, i.e., share capital, share premium, reserves originated from net income,

retained earnings and accumulated loss, are also included into capital contributions (in addition to share capital or equity interests in limited liability company). Revaluation reserves accumulated as a consequence of the revaluation model for subsequent measurement of intangible assets other than goodwill (if there is an active market for them), owner-occupied property, plant and equipment, and bearer plants under IAS 16 and IAS 38 could also be included into capital contributions, but only if those reserves are eligible to be included into retained earnings [28, p. 60].

If disagreeable owners decide to withdraw, previously explained reclassifications of equity components will also be performed, but additionally, the company has to recognize a liability to those owners and subsequent fulfillment of this liability. In Serbia, it is a short-term (current) liability, because its maturity date is 75 days starting from the date of the decision to change legal form at the owners' assembly [38, par. 475]. In order to measure the liability, it is necessary to determine the amount of the indemnity attributable to disagreeable owners. In the case of a publicly held stock company, if certain conditions are met, that amount is determined concerning the market values of shares [38, par. 259 and 475]. If the conditions are not met and in the case of a closely held stock company, the amount is determined by comparison of (a) the book value of shares at the date of convening a meeting of the company assembly to decide on legal form change and (b) estimated value of shares on the same day, whereby the higher amount is applicable [38, par. 475]. A similar approach applies in the case of disagreeable owners of a limited liability company unless it is differently regulated by the company establishment act.

Research Sample and Methodology

Our sample comprises 71 Serbian companies that changed legal form in the period from 2013 to 2021. The potential sample companies were identified by searching the terms "legal form change", "draft decision on legal form change" and "decision on legal form change" on the internet. After identifying the potential sample companies, their legal form changes were confirmed by reviewing the notes to the financial statements of those companies available on the official website of the Serbian Business Registers Agency (SBRA). The majority of legal changes in the sample were performed during 2015 (23.94%), and 2014, 2016, 2018 (14.08% in each year). The sample structure from the aspects of size, activity, and statistical region of companies is shown in Table 1.

Table 1: Sample structure

	No.	%
*Company size**		
Micro	13	18.31
Small	27	38.03
Medium-sized	24	33.80
Large	7	9.86
Activity		
Production	44	61.97
Trade	6	8.45
Services	21	29.58
Statistical region		
Belgrade City	17	23.94
Vojvodina	38	53.52
Šumadija and West Serbia	11	15.49
South and East Serbia	5	7.04

* Classification is based on the Accounting Law applicable in the year of legal form change.
Source: Authors' calculation

All observed companies changed legal form by transforming from a stock company into a limited liability company. In 63 (88.73%) cases, the available data suggests that there was no change in the number of owners after conducting legal form transformation. Such a change was identified only in one case. In 7 (9.86%) cases, it was impossible to determine whether the number of owners changed or remained the same. A legal entity is the only owner in the case of 40 (56.34%) companies, and two legal entities are the owners in the case of 8 (11.27%) companies. One natural person is the owner in the case of 3 (4.23%) companies, and two natural persons are the owners in the case of 2 (2.82%) companies. The rest of the companies in the sample have more than two owners (at least one legal entity or at least one natural person) with different combinations. On average, 25.65 years elapsed between the establishment date and the date of the first statement of financial position after legal form change, whereas the most frequent interval is 21.73 years. The minimum elapsed time between the mentioned dates is 4.47 years; the maximum is 75.88 years; whereas the median value is 22.97 years.

The research relies on hand-collected data from individual financial statements of sample companies available on the website of the SBRA. The reporting period is equal to the calendar year in the case of all sample companies. For each sample company, we analyzed the statement of financial position at the end of the year of legal form change (year *t*) and the next two statements of financial position (at the end of years *t+1* and *t+2*), as well as the statements of profit and loss (net income) for each of the mentioned years (the year of legal form change and the next two years, i.e., *t*, *t+1*, and *t+2*), which means that we examined 213 annual sets of financial statements (71 sample companies multiplied by three reporting periods). Slightly more than half of the examined sets of financial statements, i.e., 108 (50.70%) sets, were the subject of external audit, whereas the auditor's opinion is unmodified (positive with or without emphasis of matter) in 92 cases (85.19%) and modified in 16 (14.81%) cases. Although the quality of input data in this context is dominantly satisfactory, the main limitation of this research is the fact that almost half of the examined sets of financial statements (105 or 49.30%) were not subjected to external audit.

The profitability of observed companies is measured by (a) ROE, (b) ROA computed by using earnings before interest and taxes (EBIT) in the numerator – ROA_{EBIT}, and (c) ROA computed by using earnings before interest, taxes, depreciation, and amortization (EBITDA) in the numerator – ROA_{EBITDA}. Malinić [21, p. 58] points out that ROE is "the most popular and widely used measure of profitability". It measures the profitability of an enterprise from the owners' perspective. ROE is a function of both operating profitability and the financing choices made by management [47, pp. 155-156]. While ROE is more interesting to current and prospective (potential) owners, because it shows the effectiveness of the use of net assets, ROA can be very significant for management as a control tool. This does not mean that ROE has no significance for management [43, p. 314], who is responsible for operating the business in the owners' best interest [2, p. 426]. ROA is one of the financial ratios that is inconsistently defined in the literature and, therefore, differently calculated in practice as its numerator is the subject of different opinions. Different versions of ROA are complementary as they provide insight into the profitability from various aspects. Although ROA is often calculated by using net income in the numerator, in the context of this research we opted for ROA_{EBIT}, as EBIT neutralizes the influence of the funding sources and tax position on the profitability, and ROA_{EBITDA}, as EBITDA, in addition to neutralizing the previous effects, neutralizes the effects of accounting policies and judgments regarding depreciation and amortization of non-current non-financial assets [27, pp. 300-302]. To measure the determinants of the mentioned profitability indicators, we also calculated Equity Turnover Ratio (EQTR) and Return on Sales (ROS) as the components (factors) of ROE, Total Assets Turnover Ratio (TATR) and EBIT margin as the components (factors) of ROA_{EBIT}, and EBITDA margin, which, in addition to TATR, is a component (factor) of ROA_{EBITDA}. The calculation process of the mentioned variables is shown in Table 2.

In the case of insolvent (over-indebted) companies, whose assets do not cover their liabilities, ROE is not usable [27, 344]. More specifically, four sample companies were insolvent on average in all three observed years; two companies were insolvent on average in two years; whereas one company was insolvent on average in one year. The insolvent companies were excluded from ROE

Table 2: Profitability indicators

Variable	Definition
ROE (in %)	(Net income / Average equity) × 100; EQTR × ROS
EQTR	Sales / Average equity
ROS (in %)	(Net income / Sales) × 100
ROA_{EBIT} (in %)	(EBIT / Average total assets) × 100; TATR × EBIT margin
TATR	Sales / Average total assets
EBIT margin (in %)	(EBIT / Sales) × 100
ROA_{EBITDA} (in %)	(EBITDA / Average total assets) × 100; TATR × EBITDA margin
EBITDA margin (in %)	(EBITDA / Sales) × 100

analysis (but not in the context of ROA analysis) for the years when they were insolvent.

To examine the differences between the mentioned profitability ratios in three different (consecutive) periods, we used the Friedman test. The decision to use this non-parametric test is supported by the fact that preliminary analysis shows that the distributions of variables (profitability ratios) do not approximate normal. To determine statistical significance, we used the 0.05 probability level (α). In the cases with statistically significant differences, we used Wilcoxon signed rank tests with Bonferroni correction [29, pp. 237-238]. In that sense, as two tests were conducted, we used the corrected probability level of 0.025 (α / 2). The data is processed using IBM® SPSS® Statistics 26 software package and Microsoft Excel program.

Research Results

Analysis of ROE. The analysis based on a comparison between period *t+1* and period *t* shows that ROE increased in 53.13% of companies and decreased in 46.88% of companies. In the same temporal context, the percentage of companies with an increase and decrease in ROS is almost the same as in the case of ROE (53.23% and 46.77%, respectively). The EQTR analysis based on the comparison of the abovementioned periods shows that more companies decreased than increased the efficiency of net assets (53.97% versus 46.03%). The analysis for the periods *t+2* and *t+1* reveals that more companies decrease than increase ROE (53.85% versus 46.15%). The direction and percentages are almost the same in the case of ROS (53.23% versus 46.77%). EQTR analysis in the same temporal context reveals that more companies decreased than increased the efficiency of net assets (57.14% versus 42.86%). Both temporal context analyses (*t+1* versus *t* and *t+2* versus *t+1*) show ROE increase and decrease in the same percentage of companies (23.08%). In the case of 29.23% of the sample companies, ROE first increased and then decreased, whereas the reverse was in 23.08% of companies. However, changes in ROE and its determinants are not statistically significant on the sample level (Table 3). An overview of medians shows that ROE increased in period *t+1* in comparison with period *t*, but decreased in period *t+2* in comparison with period *t+1*, whereby the median value in period *t+2* is less than in period *t*. The trend of mean ranks for ROE is consistent with the mentioned median trend. ROS median trend is similar to the ROE median trend, but the median in period *t+2* is higher than in period *t*. This finding is consistent with mean ranks for ROS. Median values for EQTR show that the efficiency of net assets increased during the observed periods. However, mean ranks show the reverse.

The additional Friedman tests based on dividing the sample by company size also reveal that changes in ROE are not statistically significant. In micro, medium-sized, and large companies, the median ROE first increased and then decreased, whereas in small companies it decreased during the observed periods. The changes in ROS are not statistically significant, too. In micro and small companies, the median ROS first decreased and then increased, whereas in medium-sized and large companies the flow of ROS was reversed. The changes in EQTR are statistically significant only in the case of large companies ($\chi^2 = 6.333$, df = 2, p = 0.042). The results of two Wilcoxon Signed Ranks Tests (*t* versus *t+1* and *t* versus *t+2*) do not reveal a statistically significant difference in EQTR in period *t*+2 versus period *t* (Z = -2.201, p = 0.028 > 0.025). However, the difference is large according to the effect size indicator (r = 0.635).

Table 3: Results of Friedman tests for ROE and its determinants

χ^2	df	n	p	Median			Mean Rank		
				t	*t+1*	*t+2*	*t*	*t+1*	*t+2*
ROE									
0.384	2	64	0.825	6.080	6.490	4.855	1.98	2.06	1.96
ROS									
0.667	2	61	0.717	5.230	6.080	6.020	1.93	2.07	2.00
EQTR									
4.489	2	63	0.106	0.970	1.010	1.050	2.17	2.02	1.81

Source: Authors' calculation

The median EQTR in large companies was 6.52 in period *t* and 3.28 in period *t+2*. The median EQTR increased in micro companies, decreased in small companies, and firstly increased and then decreased in medium-sized companies, but the changes are not statistically significant.

Friedman tests based on dividing the sample by the activity of companies also show that changes in ROE and its determinants are not statistically significant. In production companies, the median ROE first increased and then decreased, whereby the median in period *t+2* is less than in period *t* (as on the sample level). The median for trade and services companies decreased during the observed periods. The trend of the ROS median is the same as in the case of trade and service companies – a decrease followed by an increase, whereby the median in period *t+2* is less than in period *t*. In the case of production companies, median ROS increased in period *t+1* versus *t* but decreased in period *t+2* versus *t+1*, whereas the median in period *t+2* is higher than in period *t*. The EQTR for trade companies decreased during the observed periods. In the case of production companies, EQTR first increased and then decreased, whereas in the case of service companies, the flow of EQTR was reversed.

Analysis of ROA_{EBIT}. In 60.56% of companies, ROA_{EBIT} increased in period *t+1* versus period *t*, whereas this indicator decreased in 39.44% of companies. The comparison of period *t+1* and period *t* shows that the percentages of companies with an increase and a decrease in EBIT margin are almost the same as in the case of ROA_{EBIT} (60.29% and 39.71%, respectively). The efficiency of total assets measured by TATR increased in period *t+1* versus period *t* in 57.35% of companies, whereas the reverse was in 42.65% of companies. The comparison of period *t+2* and period *t+1* shows that ROA_{EBIT} increased in 49.30% of companies and decreased in 50.70% of companies. In the same temporal context, EBIT margin increased in 47.76% of companies and decreased in 52.24% of companies. The efficiency of total assets increased in period *t+2* versus period *t+1* in 40.30% of companies and decreased in 59.70% of companies. Both temporal context analyses show that ROA_{EBIT} increased in 26.76% of companies and decreased in 16.90% of companies. In 33.80% of companies, ROA_{EBIT} first increased and then decreased, whereas the reverse was in 22.54% of companies. As in the case of ROE, the changes in ROA_{EBIT} and its determinants are not statistically significant on the sample level (Table 4). The trend of the median ROA_{EBIT} is the same as in the case of ROE – an increase in period *t+1* versus period *t* and a decrease in period *t+2* versus period *t+1*, whereby the median in period *t+2* is less than in period *t*. The ROA_{EBIT} mean ranks first increased and then decreased. The median EBIT margin increased during the observed period, whereas the median ranks first increased and then decreased. The median TATR shows that total asset efficiency decreased during the observed period. However, mean ranks first increased and then decreased.

The analysis based on dividing the sample by company size shows that changes in ROA_{EBIT} are statistically significant only in the case of medium-sized companies ($\chi 2 = 10.083$, df = 2, p = 0.006). The results of Wilcoxon Signed Ranks Tests show that ROA_{EBIT} statistically significantly increased in period *t+1* versus period *t* (Z = -2.629, p = 0.009 < 0.025). The median ROA_{EBIT} increased from 3.78% to 4.57% and that difference is medium (r = 0.379). The median value for micro, small, and large companies first decreased and then increased, but the changes are not statistically significant. The EBIT margin analysis from the same aspect shows the same results –

Table 4: Results of Friedman tests for ROA_{EBIT} and its determinants

χ^2	df	n	p	Median			Mean Rank		
				t	*t+1*	*t+2*	*t*	*t+1*	*t+2*
ROA_{EBIT}									
1.606	2	71	0.448	4.320	4.470	3.810	1.90	2.11	1.99
EBIT margin									
2.418	2	67	0.299	6.310	6.980	8.140	1.87	2.13	2.00
TATR									
3.219	2	67	0.200	0.670	0.640	0.630	1.97	2.16	1.87

Source: Authors' calculation

the changes in EBIT margin are statistically significant in the case of medium-sized companies ($\chi2$ = 8.583, df = 2, p = 0.014), but not in the case of the rest of companies, where median value first decreased and then increased. The median EBIT margin in medium-sized companies increased during the periods covered by the analysis (4.78%, 6.86%, and 7.98%, respectively). This increase is statistically significant and the differences are medium-sized (r = 0.3) in both conducted Wilcoxon Signed Ranks Tests: *t* versus *t+1* (Z = -2.457, p = 0.014 < 0.025) and *t* versus *t+2* (Z = -2.257, p = 0.024 < 0.025). The changes in TATR are not statistically significant from the aspect of company size. In micro companies, the median TATR decreased during the observed periods, whereas in small, medium-sized, and large companies it first decreased and then increased.

The analysis based on dividing the sample by company activity shows that the changes in ROA_{EBIT} are statistically significant in production companies ($\chi2$ = 6.682, df = 2, p = 0.035). Wilcoxon Signed Ranks Tests with Bonferroni correction did not reveal statistically significant differences. In that sense, the indicator of the effect size (r = 0.2) shows the small difference in median ROA_{EBIT} in period *t* (4.25%) versus period *t+1* (4.84%) and period *t+2* (4.52%) versus period *t* (4.25%). In trade companies, the median value decreased during the analysis, whereas in service companies it first decreased and then slightly increased, but the changes are not statistically significant. From the same aspect, the changes in EBIT margin and TATR are not statistically significant, and trend analysis shows that median values first decreased and then increased.

Analysis of ROA_{EBITDA}. The analysis based on the comparison between period *t+1* and period *t* reveals more companies with ROA_{EBITDA} decrease than its increase (54.41% versus 45.59%). In the same temporal context, the percentage of companies with an increase and a decrease in EBITDA margin is 52.94% and 47.06%, respectively. The comparison of periods *t+2* and *t+1* also shows that the percentage of companies with an increase in ROA_{EBITDA} is higher than the percentage of companies with a decrease in that profitability indicator. However, the difference is smaller than in the previous temporal context (50.75% versus 49.25%). The comparison of period *t+2* and period *t+1* shows that the EBITDA margin increased in the case of 49.25% of companies, whereas that indicator decreased in the case of 50.75% of companies. Both temporal context analyses show that ROA_{EBITDA} more often increased than decreased (23.88% versus 17.91%). ROA_{EBITDA} first increased and then decreased in 31.34% of companies, whereas it first decreased and then increased in 26.87% of companies. Table 5 shows that the changes in ROA_{EBITDA} and its determinants are not statistically significant on the sample level. The median increased in period *t+1* versus period *t* and decreased in period *t+2* versus period *t+1*, whereby the median in period *t+2* is less than in period *t*, as in the cases of ROE and ROA_{EBIT}. An initial increase and then a decrease are also shown by mean ranks for ROA_{EBITDA}. As in the case of EBIT margin, the median EBITDA margin increased during the observed period, whereas median ranks first show an increase and then a decrease. TATR, as the second determinant of ROA_{EBITDA}, is discussed above in the context of ROA_{EBIT} analysis.

We additionally find that changes in ROA_{EBITDA} are statistically significant in medium-sized companies ($\chi2$ = 7.600, df = 2, p = 0.022). The Wilcoxon Signed Ranks Test shows a statistically significant difference when period *t* and period *t+1* are compared (Z = -2.600, p = 0.009 < 0.025), wherein the difference is medium (r = 0.4). The median

Table 5: Results of Friedman tests for ROA_{EBITDA} and its determinants

χ^2	df	n	p	Median			Mean Rank		
				t	*t+1*	*t+2*	*t*	*t+1*	*t+2*
ROA_{EBITDA}									
0.148	2	71	0.928	6.740	7.380	6.310	1.96	2.03	2.01
EBITDA margin									
0.209	2	67	0.901	11.810	11.140	12.610	1.97	2.04	1.99
TATR									
3.219	2	67	0.200	0.670	0.640	0.630	1.97	2.16	1.87

Source: Authors' calculation

ROA_{EBITDA} increased in period *t+1* (7.25%) versus period *t* (6.19%). The changes in ROA_{EBITDA} in companies of other sizes are not statistically significant. In small companies, the median decreased during the interval of analysis, whereas in micro and large companies it first decreased and then increased. In medium-sized companies, statistically significant differences regarding the EBITDA margin ($\chi 2 = 6.333$, df = 2, p = 0.042) are also identified. The results of the Wilcoxon Signed Ranks Test that compares period *t* and period *t+1* reveal statistically significant differences ($Z = -2.400$, $p = 0.016 < 0.025$), which is not true in the case of the test that compares period *t+1* and period *t+2*. The median in period *t+1* (11.74%) is higher than the median in period *t* (11.25%), and that difference is medium (r = 0.3). In micro companies, the median value increased; in small companies, it first decreased and then increased; whereas in large companies, it first increased and then decreased. The analysis based on dividing the sample by company activity shows that the changes in ROA_{EBITDA} are not statistically significant. In production and service companies, the median first increased and then decreased, whereas in trade companies, it decreased during the period of the analysis. The changes in EBITDA margin also are not statistically significant from this aspect.

Conclusion

When establishing a company, the owners choose a legal form in accordance with the business objectives of the newly established company. The legal form chosen at the time of establishment is not definitive and owners may decide to change it during the company's business life. In that regard, this research examines a sample of 71 companies in Serbia that changed legal form by transforming from a stock company into a limited liability company between 2013 and 2021.

When the companies of all kinds are observed together, ROE, ROA_{EBIT}, and ROA_{EBITDA} at the sample level increased in the year after the legal form change, but decreased in the following year. However, the changes in those profitability indicators, as well as the changes in their determinants (EQTR, ROS, TATR, EBIT margin, and EBITDA margin), are not statistically significant. The profitability of total assets (measured by both ROA_{EBIT} and ROA_{EBITDA}) of medium-sized entities increased by medium intensity in the reporting year after the year of legal form change as a consequence of an increase in the measures of profit margin (both EBIT margin and EBITDA margin), i.e., the share of profit measures (EBIT and EBITDA) in sales, of medium intensity. The efficiency of net assets decreased noticeably in large companies in the sample after the legal form change, as EQTR (ROE determinant) decreased, but there is not enough evidence that this effect is pronounced in the population of large companies that have changed legal form in Serbia. The previous findings suggest that the changes in profitability indicators and their determinants after the legal form change are not the same for all kinds of companies. ROA_{EBIT} slightly and statistically significantly increased in the production companies in the two-year interval after the legal form change. However, the effects of legal form change on the same profitability measure in the context of a one-year perspective are not statistically significant. This finding implies that the changes in profitability of total assets of production companies after the legal form change are more pronounced in the long-term than in the short-term perspective.

The results regarding the changes in profitability indicators and their determinants after legal form change should be taken with caution as the influence of legal form change might be combined with the influence of other restructuring measures conducted in enterprises. In transition economies such as the Serbian one, legal form change has often been an integral part or consequence of ownership transformation. Therefore, the changes in profitability indicators and their determinants do not necessarily imply the impact of legal form. Nevertheless, the research results may be useful for owners and managers that intend to change the legal form of their enterprises because profitability indicators used in this paper (and other relevant accounting indicators) are widely used in Serbian companies [42, p. 52], but also for financial analysts and researchers and practitioners in the field of financial accounting and reporting and business finance.

The research results should be used in the light of some other limitations. The analysis captured enterprises

from only one country and only one legal form change combination. Therefore, the results could be the basis for future research regarding enterprises from countries with similar levels of economic development and also other legal form change combinations. Future research also should encompass more reporting years. The list of financial reporting bases in Serbia consists of three bases: (1) full IFRSs, (2) IFRS for Small and Medium-sized Entities, and (3) the Ordinance of the Minister of Finance. We did not examine the impact of alternative accounting policies allowed by the mentioned financial reporting bases and changes in accounting policies after legal form change (such as those caused by moving to a simpler basis after transformation from a stock company to a limited liability company) and the impact of alternative accounting policies on profitability. We leave these questions for future research.

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