

COOPERATION OF SOUTH SERBIAN ENTERPRISES WITH STRATEGIC PARTNERS *

UDC 658.114(497.11-13)

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Abstract. *This paper has resulted from the authors' attempt, based on theoretical discussion and the results of their own empirical research, to confirm the assumption that a wider inclusion of strategic partners could accelerate the privatization and restructuring processes in our enterprises. The fact should therewith be pointed out that the transition process is delayed in Serbia as compared with other countries in the region. A significant number of companies have not yet made adequate preparations in the sense of capital assessment, analysis of their own strengths and weaknesses, analysis of opportunities and threats in the environment and similar. In this, the attractiveness of our companies for strategic investors shall substantially depend on the sectors these companies belong to, as well as on the interest of particular foreign companies in the country's resources or market. The selection of a strategy for entering our market shall also be related to this. However, notwithstanding these limitations, privatization and restructuring represent a solid basis for an increase in the industry efficiency and a stimulus for the development of small and medium-size enterprises, embodied in the strategic trend of Serbian industry development.*

1. INTRODUCTION

The economic conditions of discontinuity in business operations, imposing a dynamic and complex environment, require a contingent approach based on the management of uncertain circumstances, avoidance of risks and usage of opportunities. Instead of a large-scale production and a classical production volume system followed by cost reduction, this approach enforces the orientation towards customers and respect for their needs, wishes, preferences and capabilities, thus inducing flexible production and total flexibility of enterprises. In this respect, the creation of an "intelligent company" (or reengineering of the existing one) is required. In developed market economies, such a company urges

Received April 20, 2001

* The paper is prepared within the framework of the Research Project "Strategic Management of Small and Medium-Size Enterprises' Production" which is supported by the Serbian Ministry of Science, Technologies and Development [No. 1779]

new approaches in providing efficient employment and exhaustion of resources and their transformation into market-acceptable outputs. Alongside with developed management and improved developmental research activities, the essential prerequisites for the company development are a total flexibility of the company (from the reproduction process elements and stages to business functions) and a new approach to prognosis (contemporary programs and analyses applied in strategic planning - portfolio analyses, PIMS program and other). These prerequisites result in a wide and fast supply of the market with minimum business operational costs, thus enabling coordination of selling, consumer, competitive and socio-economic dimensions in the realization of business goals. The analysis of demand factors determines offer possibilities, new consumers of offered products and various product differentiation options. It also enables comprehension of the market supply with the products, market share of the company and other elements.

To implement such management of the production in our country, it is necessary to transform enterprises in the framework of the entire economy restructuring. The restructuring would have to be in the spheres of property, market, organization and management in order to provide new production relationships, new ownership forms and new market concept of business operations (integral market). It will give rise to entrepreneurial behavior of companies, efficient management (strategic planning, modern organization and control), full flexibility of companies and, finally, participation of companies not only in local but in the global market, followed by partnerships among manufacturers, between manufacturers and suppliers and manufacturers and trade.

Only small and medium-size enterprises could become the business partners in this respect. These enterprises are, in fact, in need of a concept for their production recovery. It is hard to say which revitalization concept it should be, as there are no universal solutions. However, there certainly are different approaches to the issue, that is various strategies for it.

2. RESULTS ACHIEVED BY SOUTH SERBIAN ENTERPRISES IN PRIVATIZATION AND RESTRUCTURING

In discussing the privatization and restructuring of enterprises in our country, the following facts should be taken into account:

First, at the beginning of the transition process in Eastern Europe, many eminent economists, like Lipton and Sachs, pointed out the unbreakable connection between the privatization and restructuring processes [1, pp. 388-409]. Namely, the restructuring of a company, as an indispensable precondition for business efficiency development, could not be possible unless the previous company privatization were carried out. This is needed as the owner of the company has to be determined and it has to be known how (or whether) the owner shall transfer the control to the management, as well as how the owner shall provide investment funds. It is in the privatization process where the protagonists and financial resources for the company restructuring have to be established.

Second, the privatization of business organizations would have to be preceded by their decomposing (disintegration) into smaller (but sound) business entities that would represent a basis for the development of the sector of small and medium-size enterprises. The characteristic of the whole Eastern Europe [2, pp. 12-22] is that the potentials for small business sector development are modest, as relatively small number of people dispose of

enough capital to launch their own business projects, while the possibilities of the banking systems to provide access to capital are limited. Enormous capital (in buildings, equipment, human resources) is still concentrated within big state and socially-owned companies. Due to their size, capacities, numbers of employees and their general importance for the economy of our country, the privatization of these enterprises shall affect numerous individuals, families and organizations that depend on them. Therefore, the possibility to foster the development of small and medium-size enterprises by their decomposition and subsequent privatization of particular organizational units is considered a very serious project.

Third, the privatization and restructuring of big socially-owned companies is lagging in our country. The results of the poll, conducted by the authors of this paper in a sample of 20 big and medium-size companies from four towns in South Serbia, bear witness to this.

The survey included the following enterprises sorted by towns and industries:

In Nis: D.P. DIN (tobacco industry), D.P. Nissal (metal-processing industry), D.P. Niteks (textile industry), D.P. Zitopek (food industry), D.P. Jastrebac (industry of pumps), A.D. Vulkan (industry of rubber), MIN Holding Co – A.D. Lokomotiva (industry of machines), MIN Holding Co – A.D. Skretnice (industry of machines), EI – Industrijska elektronika D.O.O. (industry of electronics), EI – Cegar D.O.O. (industry of electronics), EI – Jugorendgen D.O.O. (industry of electronics)

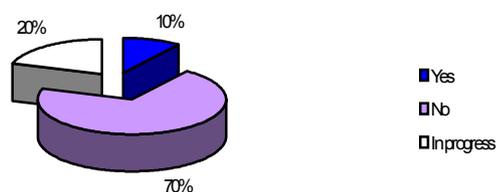
In Vranje: Kompanija SIMPO A.D. (industry of furniture), HK PK JUMCO (textile industry), HK Kostana – "KO-SPORT" (foot-wear industry), A.D. Alfa-plam (manufacturer)

In Pirot: TIGAR A.D. (industry of rubber), I.O. "1. maj" (textile industry)

In Leskovac: A.D. Zdravlje – P.J. (chemicals and pharmaceuticals), H.I. Nevena (chemical and industry of cosmetics), D.P. "Zeke Veljkovic" (industry of stockings).

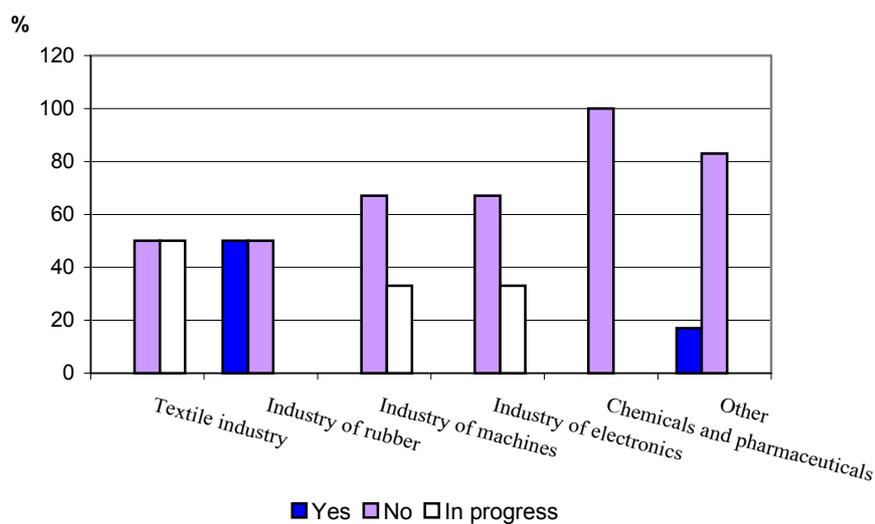
The survey showed that small percent of interviewed companies **started or completed the process of privatization**. If we exclude the 15% of interviewed enterprises which completed the privatization according to former regulations, a large percent of enterprises of south Serbia (50%) haven't even started the process of privatization, while in 35% of interviewed enterprises the process of privatization is taking place, i.e. either tender or auction sales are in progress.

In connection with the question whether or not they have created **the plan and programme of restructuring**, the total of 70% of interviewed enterprises of south Serbia responded they have not, 20% said it was in the process of creation and only 10% said to have the programme. Since restructuring is not an obligation for enterprises with successful business, one might expect such a reply. But when we know that the large percent of these enterprises made a loss in business in the last year, it can come into view that there is an absence of interest of management in the enterprise for an improvement of the situation through the implementation of active measures of restructuring that would increase the total value of these enterprises before the privatization.



Source: Our own empirical research

Chart 1: Percentage of enterprises which have completed the programme of restructuring (total for south Serbia)



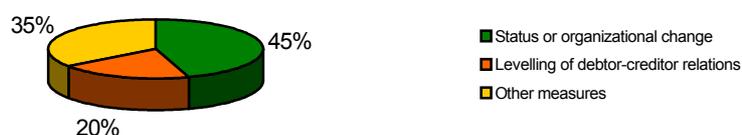
Source: Our own empirical research

Chart 2: Percentage of enterprises which have completed the programme of restructuring (shown by industries)

As far as the chosen **type of restructuring** is concerned, the largest percent of interviewed enterprises (45%) is choosing some of the forms of status or organizational changes (by joining dependent enterprises together, or by taking over or dividing the enterprise into several legal subjects, by selling out some parts of the enterprise, through transfer of ownership, or through the change of organizational form of the enterprise, change of its internal organization or by renouncing the non-profit activities - disinvestment).

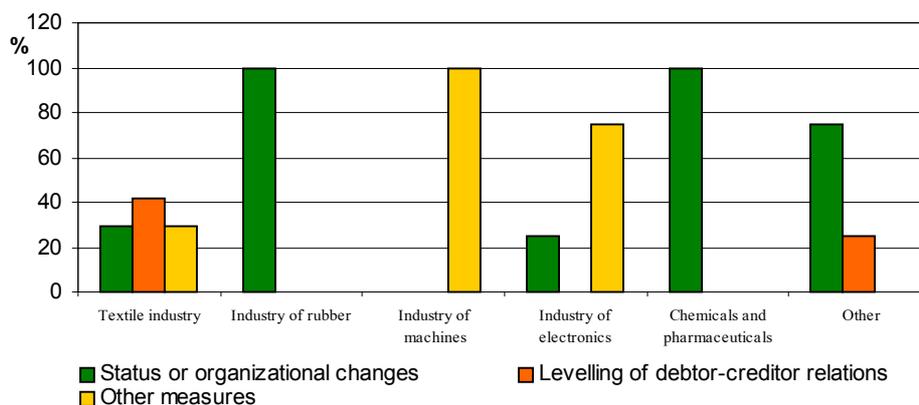
The smallest number of enterprises favored the restructuring through leveling of debtor-creditor relations, i.e. 20% of interviewed enterprises, and other measures (re-capitalization, reduction of number of employees – downsizing) would be used for restructuring of 35% of interviewed enterprises.

It is interesting that enterprises in the industry of rubber showed the greatest interest for status and organizational changes and the same situation is with the chemical industry and the industry of cosmetics, while the most interest for "downsizing" (by reduction of surplus labour) is shown in enterprises in industry of machines.



Source: Our own empirical research

Chart 3: Chosen type of restructuring of enterprises (total for south Serbia)

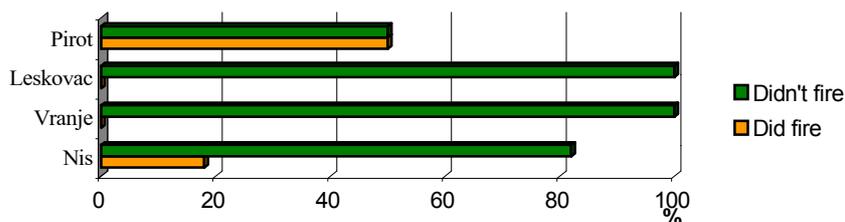


Source: Our own empirical research

Chart 4: Chosen type of restructuring of enterprises (shown by industries)

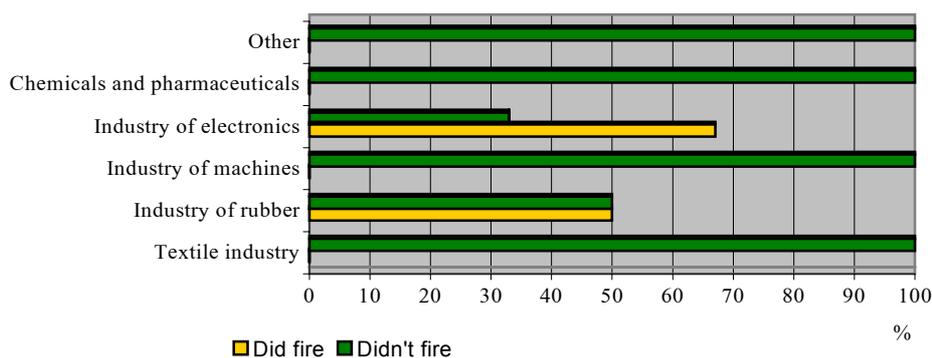
Regarding privatization and restructuring so far, there has been reduction of surplus labour already, and that was the case in enterprises in the industry of rubber and electronics, but a large percent of interviewed enterprises (85%) made no reductions in total number of workers, which is an indication of still present great fear of social disturbances and dissatisfaction of workers. There is a certain inactivity and apathy of enterprises in the process of solution of this rising question of surplus labour, and it can be shown through a very small percent of enterprises which have completed **the social programme** or have taken a number of measures to solve the problem of surplus workers. Such measures, even if they have been taken by now, mostly turn out to be a one-time financial aid

or suitable forwarding charges for a permanent leave of workers or a simulation enter the labour market until acquiring conditions for full pension. This shows that there is no systematic approach for solution of problems of surplus labour in these enterprises.



Source: Our own empirical research

Chart 5: Percentage of enterprises which have fired the workers (shown by towns)



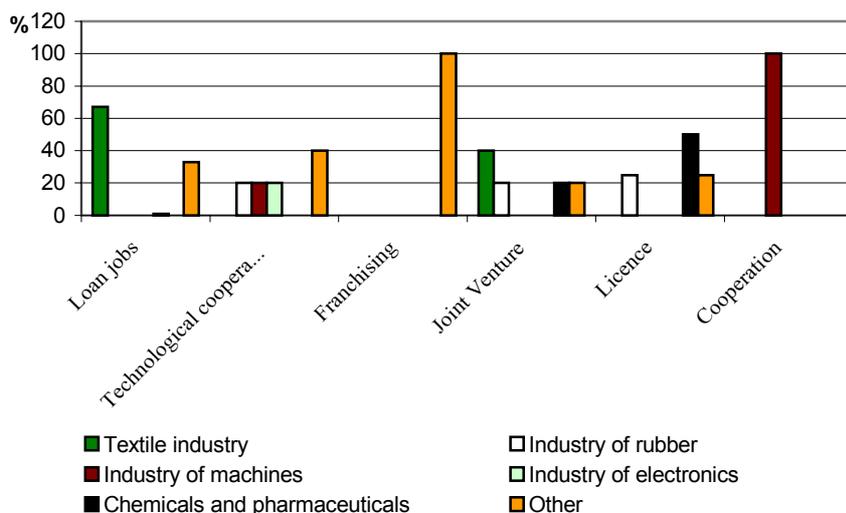
Source: Our own empirical research

Chart 6: Percentage of enterprises which have fired the workers (shown by industries)

3. POSSIBILITIES AND POTENTIALS OF SOUTH SERBIAN COMPANIES FOR ENTERING STRATEGIC PARTNERSHIPS

Questionnaire data analysis showed that enterprises in south Serbia had numerous and different forms of strategic partnerships with foreign enterprises in the past, even during the last decade which was burdened with numerous problems due to sanctions and isolation. The most frequent were the so called "loan-jobs" (27% of interviewed enterprises), one can say one of "traditional" forms of cooperation between enterprises in our textile industry and job from abroad. They are followed by some forms of a technological cooperation and joint ventures (with 23% of interviewed enterprises each) which have been

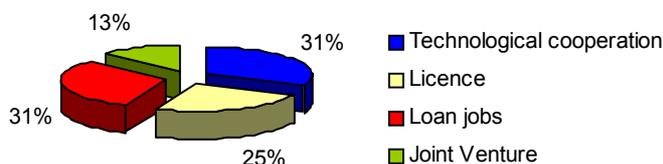
present in almost every industry and particularly in electronic and machine industry, and purchase of licences with 18%, which was very much represented in cosmetics and pharmaceuticals. The smallest representation in the sample was for the franchising and other forms of cooperation with 4,5% each, for the interviewed enterprises which mentioned this form of collaboration. The representation of each individual form of strategic partnership shown through the list of industries is given on the chart 7.



Source: Our own empirical research

Chart 7: Forms of strategic partnerships in the previous period in enterprises of south Serbia (shown by industries)

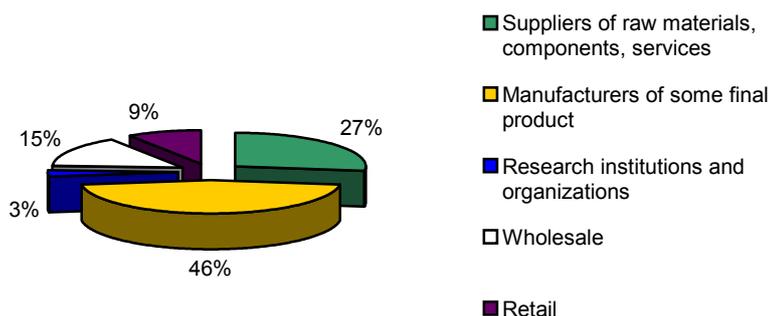
Interviewed enterprises plan to continue with the strategic partnerships in the current year and mostly technological cooperation and "loan-jobs" with 31% each (for the interviewed enterprises), then licencing (25% of enterprises), while the lowest number of enterprises plan joint ventures in the current year (13% of interviewed enterprises).



Source: Our own empirical research

Chart 8: Planned forms of strategic partnerships in the current year (total for south Serbia)

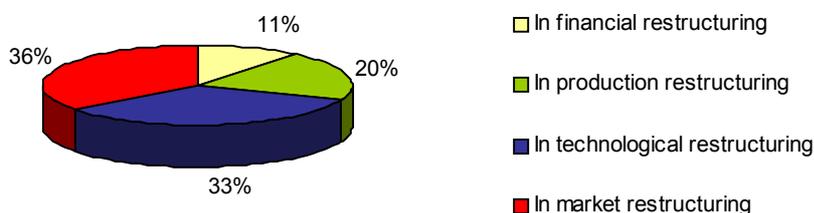
When it comes to **the activity of the potential strategic partners**, the most representation goes for the manufacturers of final products (46%), and then suppliers of raw materials, components and services with 27%. It is interesting that only 3% of interviewed enterprises see potential strategic partners in research organizations and institutions, which points out the lack of correlation between the economy and science.



Source: Our own empirical research

Chart 9: Economic activity of potential strategic partners (total for south Serbia)

The role of potential strategic partners in the coming restructuring is mostly expected in market restructuring (36%) through joint export, or through entering on a foreign market, help in introduction of modern marketing concepts and skills and other. Then comes the participation in technological restructuring (which we expected to produce the largest interest of our economic entities) with 33%, followed by production restructuring (help in introduction of new products into the production programme) with 20%. The least interest was shown for the participation of strategic partners in financial restructuring (11%), what seems to be illogical to a certain extent, because it is hard to expect larger interest from a strategic partner for technological or production restructuring of the enterprise, if that partner doesn't have some participation in the capital ownership over the economic entity.



Source: Our own empirical research

Chart 10: Role of a strategic partner in different forms of restructuring

Our companies are obviously greatly interested in the engagement of strategic partners in the forthcoming privatization and restructuring. However, the question has been raised regarding the opportunities and threats for strategic partners to enter our country. The possibilities would differ depending on whether a foreign company is interested in our country's resources or market [3, p. 5].

For the foreign companies interested in resources, the opportunities are:

- Trained and cheap labor,
- Fixed capital available at prices below its real value, due to the lack of interested investors and the Government attempts to conclude the privatization process as fast as possible,
- Support of the Government for direct foreign investments and creation of necessary institutional conditions thereupon (the Law of Foreign Investments),
- Forthcoming unification of regulations and legal provisions with the regulations of EU and other international organizations (IMF, GATT and other).

For those foreign companies interested in our market, the opportunities are reflected in:

- Potentially large market,
- Solid medium-term and long-term growth potentials, upon the economic recovery,
- Competitive advantage in relation to local manufacturers, regarding especially high-technology products and services,
- Possibilities of repatriation of profits and restitution of return on investments,
- Popularity of foreign brands of consumer goods, due to intensive promotional activities and aggressive advertising.

Threats are reflected in still unstable political situation, unresolved property relations and unsettled issues related to investment and profit security.

Nevertheless, according to the opportunities, foreign strategic partners may be expected to enter, but their interest in investment shall vary depending on the branch of economy to which particular companies belong.

For foreign companies primarily interested in resources, the sectors with the most convenient balance of opportunities and threats are the branches employing skilled but cheap industrial labor force (like, for example, in assembly-line production). Attractive sectors shall also be those competitive rather by low costs than by high quality (for instance, heavy industry, machine-building industry, metallurgy, steel industry, and similar), as well as those falling under no protectionistic policies of western markets (like healthy foods production, textile industry, and so on).

For foreign companies showing interest in the market, the best growth opportunities lie in the sectors that were underestimated in planned economy. Most often, this refers to the consumer goods in general, and to end-consumer electronics in particular, as well as to services, like tourist trade, hotel industry, banking business, insurance and similar.

The most preferable market access strategy of strategic partners shall be through joint ventures. As shown in the empirical research, joint venturing existed in the previous period, but the share of western companies was limited to 49% of joint venture ownership for many years. The existing joint ventures have most frequently been designed as partnerships with western companies, in which they provide mix of know-how (technological process, production technology, as well as management of skills) and physical capital,

while local companies provide labor, location, facilities and certain specific skills and knowledge. Local companies may also provide access to local resources and input suppliers. The most efficient joint ventures were often based on particular agreements on technological cooperation or included licenses for the manufacture of specific products (in high-technology production, for example).

4. CONCLUSION

Our conclusion is that the strategy of economic recovery and stabilization should find its grounds in company restructuring, primarily in sustained industrial revival, through different strategies that should also enable companies to enter the global market, which has to be their ultimate goal alongside with survival. The term "ultimate goal" is used because it is impossible to appear and succeed alone nowadays in the uncertain world. Thence, small and medium-size enterprises have to resolve numerous problems related to the revitalization and stabilization of our economy through "strategic alliances" - associations of companies, or through various types of cooperation with foreign partners.

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KOOPERACIJA PREDUZEĆA JUŽNE SRBIJE SA STRATEŠKIM PARTNERIMA

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Ovaj rad predstavlja pokušaj autora da teoretskim razmatranjima i na osnovu rezultata sopstvenih empirijskih istraživanja potvrde pretpostavku da je širim uključivanjem strateških partnera moguće ubrzati procese privatizacije i restrukturiranja naših preduzeća. Pri tome, moramo istaći činjenicu da se u Srbiji kasni u sprovođenju tranzicije u odnosu na druge zemlje iz regiona. Ne mali broj preduzeća nije izvršio adekvatne pripreme u vidu procene kapitala, analize svojih snaga i slabosti, analize šansi i opasnosti iz okruženja i sl. Pri tome, aktraktivnost naših preduzeća za strateške investitore zavisiće u mnogome i od sektora kojem ta preduzeća pripadaju, kao i od toga da li je strana kompanija zainteresovana za resurse ili za tržište naše zemlje. Od toga će zavisiti i izbor strategije ulaska na naše tržište. Ali, bez obzira na ta ograničenja, privatizacija i restrukturiranje predstavljaju dobru osnovu za povećanje efikasnosti privrede, a takođe i podsticaj za razvoj sektora malih i srednjih preduzeća, što je i strateški pravac razvoja privrede Srbije.