

MBO SYSTEM OF MANAGING THE PRODUCTION IN SMALL AND MEDIUM-SIZE ENTERPRISES *

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Abstract. *Strategic management of business activities is the basis of every enterprise concerning its involvement in international business. It is a necessary condition, which allows an enterprise to be leading in technique, technology, production, marketing activities and entire business organization. The paper deals with the problems of managing the produce-buy and buy-rent projects in strategic management. The problems are based on the management by objectives, having a direct product profit as the objective.*

1. INTRODUCTION

Strategic management based on management by objectives and management of projects is aimed at providing a contingent approach in business operations of the enterprise and its operating units and, in the long run, at accomplishing direct product profit as its ultimate objective, alongside with the coordination of sales, consumer, competition and socio-economic dimensions in the realization of business targets.

As we are living in the times of increasingly rapid changes, technological, economical, political and social factors not only influence the acceleration of changes, but they induce the need of creating new theory and practice of business operations and management. Therefore, the role of management is to provide adjustment of the enterprise to its environment and to seek for new directions of development, i.e. new vision of social and economical system, through new forms of property relations, new production relations, a new marketing concept of doing business that would be complementary to the long-term state economic policy and based on a substantial knowledge and entrepreneurship, as well as on the aspect of management in all the spheres, in particular in the field of production.

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2. PRODUCTION MANAGEMENT IN SMALL AND MEDIUM-SIZE ENTERPRISES

To employ this manner of managing the production in our country, it would be necessary to perform transformation of enterprises within the framework of total economy restructuring. The transformation should be related to property, market, organization and management, in order to create new production relations, new forms of property, a new marketing concept of doing business (integral market), all aimed at:

- entrepreneurial behavior of enterprises,
- efficient management (strategic planning, modern organization and control),
- full flexibility of enterprises, and
- finally, its participation in both local and global markets, followed by partner relationships among producers and between producers and trade.

These business partners may only be found among small and medium-size enterprises, for which the concept of production revitalization is actually required. It is not possible to determine which revitalization concept it should be, as there are no universal recipe, but there certainly are different approaches or strategies. Basically, the strategies should contain fixed and clearly defined goals, partial policies and specific institutions for their accomplishment. They are based on production revitalization within sectors, branches and enterprises, as well as on different grouping of products. The state, as a catalyst of development, should support it all, and in a short term, as it should ensure economic stability of enterprises, a redistribution among them and a short-term satisfaction of consumers. This would be the strategy of economic recovery that would have to be based on experiences of the countries with market economy, while it would have to be grounded on the business operations of small and medium-size entrepreneurs who are able to meet special circumstances by adjusting to the market more easily and satisfying the demands of consumers more successfully. It is much easier for such enterprises to solve the investment, programming and other problems in the field of production, and thus find the solutions for structural changes and stabilization of economy. These are the enterprises that may easier and faster penetrate the global market by entering "strategic alliances". Such organizational association of economic subjects should be based on a "developmental strategy" that is underlain by "know-how" and general flexibility, followed by partial strategies, like category management - the management of product groups and other strategies, whose final phase should include the direct product profit. These organizational forms represent the opportunity not only to the transition economies, but to the others as well in this uncertain world in which one should not be alone in business, to enable the enterprise configuration, modular production, cooperation with partners, multi-variable planning and "buy" solution, thus providing the transition to variable costs, international standards of success and general production quality.

It is of essential importance for producers to recognize the strategy of producing or buying, due to the technological and competitive conditions of current business operations in a turbulent environment with de-conglomeration of activities, and to choose the strategy that will enable their transition from fixed to variable costs, thus providing them greater flexibility. This also imposes numerous questions related to suppliers, as their role has to be changed and new business relations, based on mutual interests and relationships of interdependence have to be formed.

This strategy is characteristic of the products made on the basis of allied technologies. Elementary decision criteria are the own production costs and the supplier's purchase price, by the comparison of which the adequate product price is derived. However, in forming of both prices (cost price and purchase price), numerous questions arise, such as: the period for which they are fixed, relevance of their particular elements, like, for instance, freight charges or provision in the purchase price, or expenses for buying patent rights and other costs in the cost price. For this reason, the choice of a strategy should be based on total costs as opposed to total income, which refers at the same time to the product profitability break-even point. To put it more precisely, a product is profitable in one's own production when the quantity of demands overgrows the break-even point, that is the point of the intersection of total purchase costs and total production costs. All the discounts given by the supplier (rebates, indemnities, commercial discount) should certainly be included and counted in proportion with the costs of storage and stocks of these products (semi-finished products, components, etc), while on the other hand, the enterprise unused capacities and expenses that the enterprise has even if there is no production should be considered (depreciation charges, wages of employees, maintenance and cleaning costs, etc).

The policy of stocks of semi-finished products, components and similar has to find its place in the mix of supply elements, taking care of the production process security on one side and of the profitability of keeping stocks on the other. For this reason, the management of stocks and selection of purchasing system have to be discussed. Both of them are conditioned by a series of factors, such as: the type of stocks, the kind of demand, the costs of keeping stocks, the costs of purchasing, purchase periods, the type of suppliers, etc. In other words, it may all be reduced to the selection and evaluation of suppliers that are nowadays regarded as business partners in the accomplishment of enterprise goals and returns. In this respect, the suppliers are being given a new partnership role, with mutual interests and interdependent relationships. This strategic production cooperation with suppliers may take various forms: from manufacturing under license, over assembly production and co-production, to strategic partnerships and alliances, or through tie-in arrangements (barter, by-back, offset transactions) and so on.

All of these cooperative dealings with suppliers have certain advantages, being that the parties in these activities retain their respective statuses of independent business organizations in clear market transactions, while coordination and cooperation are introduced within their own organizations, leading to the accomplishment of their mutual goal and, finally, to profit making.

Considering the unused capacities and expenses arising even if there is no real production, variable costs of additional production should be introduced in order to fix minimum cost prices of the own production that should be compared with the purchase price of the supplier. This could not be applied if bottlenecks appear in the production (one or several of them), as in such a case additional costs would have to be taken into account, including risk and uncertainty.

At the end, it may be concluded that, in deciding between one's own production and purchase, the crucial determining factors should be manufacturing costs (costs of preparations, production and purchase) in the field of production, and selling costs (costs of advertising, distribution channels, etc) in the field of sales, compared to the demand for and sales of the product. In this respect, a pure individual production (so-called vertical

integration) or purchase from suppliers should not be discussed nowadays, but some other forms of alternative strategies should rather be taken into consideration, like partial integration, long-term contracts with suppliers, and similar. In the shortage of raw materials, unused capacities, inaccessible market and lack of cooperation in research and development, such strategies provide cooperation and maintain the enterprise independence through arrangements in physical logistics.

3. MANAGEMENT OF PRODUCTION PROBLEMS

A great number of production problems, as the most significant within an enterprise, shall be herewith discussed as the problems of the product, its reproduction process and its total quality assurance within a flexible production.

The product problems may, in fact, be regarded as solutions to be found in the framework of the product strategy. They should refer to:

- size, structure and behavior of the target market,
- positioning and selling of the product,
- planned price of the product,
- distribution of the product,
- marketing activities related to the product,
- marketing mix of the product, and
- profit objectives that the enterprise should achieve by the product.

This strategy is based on determining the amounts of sales, costs (of production and sales) and expected returns. Of course, total risk that may appear should be anticipated in this. Products have to be classified in order to clearly determine product problems and, subsequently, problems of their production and storage. The classification is carried out according to the differentiation in relation to the preferences of consumers, total costs of production and turnover and the rate of profit. A substantial role in the costs is given to the level of production process flexibility, partially or completely to the production economies of scale, and to the existence or nonexistence of specific quantity of stocks.

The strategy of product reproduction process should reflect in shortening the reproduction cycle and improving the product quality in relation to the needs, expectations and requirements of consumers, which may be regarded as the opportunity for the enterprise to realize its product in the market.

The management of the reproduction cycle shortening or of the cycle from the moment of realizing the needs of consumers to the moment of their satisfaction may be performed on the grounds of Time-Based Management (TBM) [2]. This method mainly affects the organizational factors and eliminates the activities in the segments of the enterprise organizational structure. For example, the preparation unit costs are lowered by assessing the optimum range of products, the elimination of expenditure-increasing activities contributes to the increase of returns, and so on.

The Total Quality Management (TQM) within an enterprise requires the submission to specific principles and the usage of all the resources (enterprise factors) that is more rational. These principles should be fully obeyed by the managers of quality, not only in the field of the reproduction process, but related to the whole enterprise, that is, to the entire

business operations of the enterprise and to all its organizational structures. The ultimate aim should be that only the products in good order might reach customers.

A successful management of production and entire business operations has to take care of these two systems, as this is the only way to establish a correct relationship between the consumer and the supplier.

All of this requires a complete enterprise flexibility (internal and external), for which an optimal combination should most certainly be found. Based on the modern apprehension of technology, a flexible production in our medium-developed enterprises should include hardware (equipment, machinery, plants), software (manner of using the equipment, machines, plants), as well as "orgware" (organization, management) and "brainer" (knowledge, qualified personnel, scientific-theoretical learning) [1]. It is characterized by: rationality, awareness that the preparation in the working place represents expenditure, faster modifications in production (replacement of tools, for instance), application of operational models, marketing mix optimization, low engagement of capital and high coefficient of its turnover, low production costs and full satisfaction of consumers. It is sometimes necessary to follow the strategy of the economy of expansion in order to lower the costs in flexible production. It may be possible only if the business operations are performed in a group of complementary and organizationally connected firms, where the effect of synergy is expressed in manufacturing a product or a group of products. This effect is realized in the associations of enterprises ("strategic alliances"). "Strategic alliances" have originated from technological and market distances existing among enterprises, as well as from the aspirations towards the market globalization and the strategy of internationalization. These alliances are the partnerships of two or more international companies that should win the global market and they represent global partnerships in all the strategies. They should act as the mechanisms for the realization of strategies in the global market. Their knowledge in the fields of products, production, management and competitive advantages in internal and external factors should underlie their advantages, as opposed to the threats arising from joint ownership that integrates different systems of values, various organizational cultures and other elements, which usually hinder the processes of decision-making and control.

All of this provides the conditions for the CAD/CAM (Computer Aided Design/Computer Aided Manufacturing) production system necessary to ensure an optimal combination of total flexible production alongside with the economical production, i.e. the accomplishment of production differentiation with the economy of scale.

This approach is based on the managerial aspect of connecting internal and external production factors, as formerly discussed by Thomas Gunn. It has to include the factors (internal and external) that are essential for the synergy in the enterprise, their impact on the current business policy of the enterprise and its future developmental policy in order to create the conditions for the competitive advantage of the enterprise. Therefore, the management of production factors resolves the problem of the flexibility of production and entire business operations with coherent activities, ensures the returns and provides the growth and long-term profitability to the enterprise.

Regarding the above-said, the concept of SPO (situation, point, option) [2] is imposed in the production strategy selection, particularly in the conditions of enterprise transformation and restructuring. The production strategy must be closely connected with the enterprise developmental strategy (OE-Strategic, Organisationsentwicklungs Strategic). This

strategy should ensure the enterprise efficient and effective business operations and its organizational association in all levels and areas. Based on know-how and general flexibility, it should provide the growth of capacities for work and production, and thus the general development, as well.

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MBO SISTEM UPRAVLJANJA PROIZVODNOM U MALIM I SREDNJIM PREDUZEĆIMA

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Strategijsko upravljanje poslovnom aktivnošću je osnov svakog preduzeća za njegovo uključenje u internacionalne poslove. To je uslov da ono vodi u tehnici, tehnologiji, proizvodnji, marketing aktivnostima i kompletnoj organizaciji poslovanja. Rad obradjuje problematiku upravljanja projektima proizvoditi - kupovati i kupovati - zakupiti u strategijskom menadžmentu. Problematika u osnovi bazira na objektivnom menadžmentu, a sve sa ciljem ostvarenja profita.