

# The Serbian Companies Organizational Restructuring Procedures

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This paper deals with procedures used in restructuring of Serbian companies. The phases of the procedures are identified and described. The paper deals with organizational restructuring of the company via identifying the need for organizational restructuring, defining the goals of organizational restructuring, preparing a survey and analysing the current situation, diagnosing and evaluating existing situation, suggesting new organizational organization and finally choosing new organization scheme that will be implemented.

**Key words:** organization, restructuring, management

## Postopki organizacijskega prestrukturiranja v srbskih podjetjih

V prispevku so obravnavani procesi prestrukturiranja v srbskih podjetjih. Identificirane in opisane so faze postopkov. Prispevek obravnava organizacijsko prestrukturiranje podjetja potem, ko je bila potreba za čem takim ugotovljena, opredeljeni so cilji organizacijskega prestrukturiranja, priprave na raziskavo in analiza trenutne situacije, diagnosticiranje in ovrednotenje obstoječe situacije ter predlog nove organiziranosti z izborom nove organizacijske sheme, ki bo vgrajena.

**Ključne besede:** organizacija, prestrukturiranje, management

## 1 Introduction

Numerous changes and problems evolving from the environment or existing within the Serbian transition society and economy in general have led to a significant economic crisis. To overcome this state of affairs it is necessary that significant changes in economy and in the companies should be made. The majority of companies will have to undergo some general changes meant to provide for an increase in production, a more rational allocation of any kind of resources and reduction of costs as a whole, for the improvement of the efficiency of investment and the like. In addition, there is a great number of changes and transformations that may be performed in any company, all in order that business position be improved and the crisis be overcome.

Given the overall situation the Serbian companies are in, restructuring of the companies is necessary. This should include all the areas of functioning and development of a company and be realised as a property, programme, market, technology, organisation and management restructuring (Jovanovic, 2003; Jovanovic, 1998).

In the present situation, the changes that are most important are those in the field of products and production

programmes. That is, we have a complete programmed restructuring of companies followed by investing into the development of the company as well as by realisation of appropriate investment projects. Currently, it is only organisational changes, i.e., organisational restructuring of companies that is carried out in this country, and this cannot contribute to the development of the company only by itself, without an appropriate programmed restructuring and new technology implementation (Jovanovic, 1999).

Since programme restructuring is most important for our companies, and having in mind that property transformation is in progress, the procedure should start with a survey and an analysis of the company's activity.

A detailed survey and analysis of the existing situation in the company include the market, programme, technical-technological, organisational-management, personnel and financial analysis. The survey and the analysis offer the basic elements to diagnose and evaluate the situation, which are to show whether there is a need for wholesome and prompt changes, partial changes in some areas of business or minor changes in one particular area of business (Doppler & Lauterburg, 2000; Genus, 1998). They form the background upon which new solutions are pro-

posed, related in the first place to programme transformation and to introducing new programmes and products, but also to a possible implementation of new technology, capturing new markets, organisational transformation and the like (Kotter, 1996).

This work presents the results of a research and the procedure of the organizational restructuring of the Serbian companies that are currently carried out. The procedure includes programme, organisational and management transformation of the company and has been applied in a number of Serbian companies by the team of experts from the University of Belgrade, led by the author of this work. The research presented in the work deals with the Serbian companies; nevertheless, the restructuring procedure presented here may be applied to companies in other countries in transition too (Jovanovic, 1998).

According to the poll that was conducted among top and functional managers in 50 Serbian companies, it can be determined that 80% of the managers considered that the largest number of companies in Serbia, after long-term political and economical crisis, have lost their markets and that their programmes have become out, and that they need programme restructuring. Over 90% of the managers have written down that existing company organization in Serbia is weak and out of date and needs organizational restructuring. These and other facts were the foundation for defining the described restructuring concept that was enforced in 15 companies in Serbia and has shown good results, especially in small and medium enterprises (Jovanovic, 2003; Jovanovic, 1998).

## 2 Programme Restructuring of the Company

The programme restructuring of the company include an analysis of the existing products and production programmes, a definition and evaluation of the existing programmes and their sections, as well as a research into and introduction of new products and production programmes in order that the market position of the company be improved and the efficiency of its activities be enhanced.

The analysis of the current state of affairs is in the first place meant to determine the market justification and economic efficiency of the existing products and production programmes, and, on the basis of that, to decide in favour of abolishing the old and introducing new products and programmes. This is a very complex process which is to be carried out carefully and in an organised way, in accordance with a previously defined procedure that includes all relevant phases and activities.

On the basis of previously performed theoretical and empirical research (Jovanovic, 2000; Jovanovic, 1998) we propose the following procedure, somewhat larger than the programme restructuring itself since it may be included into the necessary property, organisational and management changes and transformations. The procedure consists of the following phases:

1. The survey and an analysis of the current state (market, programme, technical-technological, organisational and management, personnel and financial analysis).
2. The diagnosis and evaluation of the situation.
3. The proposition of possible solutions.
4. The organisational-property restructuring (if not previously carried out).
5. The analysis of new programmes at disposal.
6. The choice of the new programme (selection and decision-making).
7. The development of the new programme (the programme itself is developed).
8. The new programme implementation (acquisition of knowledge from outside).
9. The pre-investment study (Prefeasibility study).
10. The investment programme (Feasibility study).
11. The financial construction.
12. The technical documentation.
13. The realisation of investments.
14. The final organisational-management definition of the company (Jovanovic, 2001).

The procedure quoted above and aimed towards the programme restructuring of the company stems from a wholesome survey and a detailed analysis of the overall activity of the company. Such a wholesome insight and analysis of the situation of the overall business of the company is meant to give a relatively clear insight into of the present state and any relevant areas of activities of the company and provide for the diagnosis and the evaluation of the situation which are further to suggest changes to be implemented in order that the company should work better and more efficiently (Wheelen & Hunger, 1995).

The diagnosis and the situation evaluation are followed by the definition as well as the proposition of new solutions that may be related to company restructuring and transformations in various areas. Sometimes it is only organisational transformation of the company that is necessary for the results to be obtained. The situation in which the majority of Serbian companies are now, however, demands that programme restructuring be done in the first place, and this is to be followed by capturing new markets.

The following step in the procedure of restructuring should include the research into and the analysis of new programmes available, taking into account various possibilities and offers in this field, the new development programmes catalogues, data bases on new programmes etc. (Porter, 1980; Porter, 1998). If a detailed analysis is carried out, there is a strong basis for decision making and the choice of the appropriate programme is obtained. There may appear two possibilities for further work on programme restructuring. The company may develop and implement the new programme by itself, using technological or consultant help from outside if necessary, or it may acquire a licence and in this way ensure a prompt way to obtain and implement the new programme (Gouillart & Kelly, 1995).

When all this is accomplished it is necessary to invest into ensuring new production, i.e., to make appropriate

investment projects and make sure that they are realised, so a new programme is implemented into the company. The whole procedure usually ends in organisational-management transformation and the final modelling of the company organisation.

At the company's very programme transformation level, the practical implementation procedure may include the following tasks:

1. An analysis and evaluation of the existing programmes.
2. Making decisions on the existing programmes.
3. Research into new programmes.
4. Research into whether the programme is developed and elaborated.
5. Decision making and selecting a new programme.
6. Research into what is necessary to introduce a new programme.
7. Deciding on how to implement the new programme (Jovanovic, 1999).

The analysis and evaluation of the existing programmes includes a detailed analysis of the existing products and production programmes from every business aspects present and an estimate of the validity and efficiency of the existing products and production programmes. On the basis of these a decision is made whether the company will retain the existing programme, which means it is not necessary to make any programme changes, or retain part of the existing programme and at the same time introduce a new one, or it should abandon the existing programme and introduce a new programme from the same or similar business area.

The research into new programmes is a large and a very complex task by which we identify the possible sources and executors of these programmes and the ways to acquire them. The following may be quoted as sources of new programmes:

- institutes, faculties, consultant organisations and the like,
- foreign companies and their agencies,
- foreign fairs, presentations and manifestations,
- foreign trade company's agencies abroad,
- commercial chambers agencies abroad,
- specialised foreign consultant organisations,
- specialised developmental institutions and funds from abroad,
- inventors, innovators, customers etc.

The ways to contact and negotiate with these sources may vary, but they are generally directed towards finding a greater number of potential programmes from the same or a similar business field in order to select the best one by rational selection.

Depending on whether it is a production and business detailed programme, ready to use, or only a more or less developed idea, further analyses are conducted. This is so that the selection and choosing of the appropriate programme may be effected. If we have an elaborated programme, an evaluation and selection are made on the basis of previous commercial, production-technical and financial analyses. If it is an idea, then the idea is further de-

veloped and this leads to creating a programme ready to be used.

When the appropriate programme has been selected, it is necessary to analyse whether and to which extent the programme corresponds to the company's potentials and what is required for the programme to be implemented. This analysis and evaluation includes in the first place the question whether the programme can be realised in the existing site, with the existing machinery and equipment and with the personnel at disposal. These also form the basis upon which we determine the requirements for the new programme implementation.

The final phase refers to the implementation of the new programme, via investing into the necessary space, machinery, equipment, tools, personnel etc. In this phase all the necessary studies and surveys are made: prefeasibility study, feasibility study, technical documentation etc. and the final realisation of the investments takes place. The implementation of the new programme is concluded by running the production with the product successfully entering the market.

The overall process of programme restructuring of the company accomplished, there appears a need for further organisational changes and organisational transformation of the company.

### 3 Organisational Restructuring of the Company

When numerous internal and external changes result in significant problems in the functioning of the company, it is obvious that the time has come to carry out a transformation aiming at improvement in the company's organisation (Williams et al., 2002).

It is evident that the existing organisational structure and the connection between human and material resources no longer corresponds to the company's goals and that something must be done to create a new connection and accord (Hastings, 1993). Therefore it is necessary to change and redefine the organisational structure of the company in terms of ensuring that it adapts to the changes that occurred or are currently occurring in the company or in the environment (Hurst, 1995).

When it is perfectly clear that some improvements in the organisation must be made, the question arises as to how to do the job, that is, how to improve the existing or design a new organisational structure of the company (Hammer & Champy, 1993; Argyris, 1990; Mintzberg, 1983; Mintzberg, 1990). Given the significance and complexity of this problem both in theory and in practice various methodological approaches and procedures for improving organisational structure are developed and used. This text offers one approach, widely used in the Serbian practice. The procedure consists of eight basic phases:

1. Identifying the need for organisational restructuring.
2. Defining the goals of organisational restructuring.
3. Making a survey and analysing the existing situation.
4. Diagnosing and evaluating the existing situation.

5. Researching into the existing knowledge and experience.
6. Suggesting new organisational solutions.
7. Choosing new organisation.
8. Implementing new organisation (Jovanovic, 1999).

As regards the ever present and fast changes in the environment, as well as frequent, or undergoing, needs to change and improve the company's organisation, this approach may be understood as a continuous process where, as soon as the final phase of one procedure has been finished, the initial one of the following is started, so we have a continual, or ever-repeating process.

### 3.1 Identifying the Need for Organisational Restructuring

The initial phase in the process of organisational transformation is identifying the need for organisational improvement. When numerous internal and external changes are identified and when they result in discord in the functioning of the company, it becomes obvious that some improvements in the organisation should be made. Poorer results in some areas of business, decline in sales, increase in production costs, decline in the quality of the products, problems in supply and with cooperators, difficulties in developing and introducing a new product, problems in capturing new markets, appearance of powerful competition etc. are the obvious signs that there has come to significant changes in the company and in its environment and that it is necessary to undertake transformation and improvement of the company's organisation, so that it should answer the changed conditions and operate successfully in the new, changed conditions.

### 3.2 Defining the Goals of Organisational Restructuring

The next phase in the process of improving the company's organisation is analysing and defining the goals to be achieved by organisational improvement.

It is clear that different situations and different needs mean different goals in organisational improvement. These goals cannot be the same for a company starting a new production line, a company trying to capture a new distant market, a company abolishing some production or a company acquiring another, similar company. The general goal is, of course, to design an organisation that will provide for efficient business in new, changed conditions, and this is valid for any situations (Ansoff, 1987).

However, each of the quoted situations has its own, specific goals, significant only for respective situations and problems.

Winning a new market requires that a new department in marketing and sales be opened, whereas abolishing a production means changes in the organisation in the section of preparation, ensuring and conducting production. These are smaller-scale changes in the company's

organisational structure, requiring a small-scale reduction or increase in the number of employees. On the other hand, mastering an entirely new production, spreading into new business fields, or acquisition of a new company are big business transactions calling for larger-scale organisational changes and improvements, sometimes designing an entirely new organisational structure of the company (Drucker, 1991).

Therefore it is necessary to approach the definition of the goals of organisational improvement in a very serious way and, taking into account all the possible aspects of the problem, to define the general and the specific goals of each and every problem in organisational improvement.

### 3.3 Making a Survey and Analysing the Existing Situation

On defining the goals of organisational improvement, it becomes necessary to get a detailed insight and analyse the existing situation in the company's organisation. This phase of the procedure means a large, all-including and detailed research, aimed at providing all the necessary information for reviewing the existing organisation of a company.

A survey and an analysis of the existing state of organisation in a company is generally achieved through various organisation methods and techniques. Among these there are different observation and auto-observation lists, the method of group and individual interviews, the method of analysis and comparison of the existing documentation, the method of immediate observation, the brainstorming technique, etc. (Cole, 1990; Certo, 1988).

Observing the existing situation in the company's organisation provides a great number of data to be processed and analysed in detail, in order that relevant conclusions on the existing situation in the company's organisation, on some shortcomings and necessary changes should be drawn. The first step is to give a detailed survey of the existing state through respective organisational schemes, tables and explanations, and the next is to convey a detailed analysis of all the relevant recorded materials. The analysis should show what the existing organisation of a company is like, which its main advantages and disadvantages are, what the adjustment possibilities are, if and how it can be used in changed situations etc.

### 3.4 Diagnosing and Evaluating the Existing Situation

The next phase in the company's organisational improvement procedure is a diagnosis and an estimate of the existing situation in the company's organisation. These give an opportunity to acquire a detailed view of the existing organisational structure and, on the basis of that, to diagnose its possible shortcomings and problems and estimate whether and to which extent it can be used in the changed conditions. Also, what is to be changed in the existing

organisational structure in order that the company may function efficiently further on.

The diagnosis and the evaluation of the existing situation should highlight the weaknesses in the existing organisation of the company and the shortcomings responsible for the company's inability to adapt to changes within and in its environment. The observed weaknesses and problems provide the basis for a global assessment of the company's organisation and the possibilities that it be improved and developed towards answering the needs imposed by the changes observed (Jovanovic, 2001; Hurst, 1995).

The diagnosis and the estimate of the existing situation in the company's organisation are based on the results of the survey and the analysis and, in a way, are their final act, providing the basis for defining measures and actions to improve the organisation. The conclusions stemming from the diagnosis and the evaluation of the state are at the same time the suggestions on what should be changed in the company's organisation and how it should be done, in order that the company should function efficiently in the conditions of greater changes within the company and in the environment too.

### 3.5 Researching into the Existing Knowledge and Experience

Prior to defining new organisational solutions on completing the diagnosis and the evaluation of the existing situation in the company's organisation, a detailed research into the existing knowledge and experience in this field is necessary. This process should take place simultaneously with diagnosing and estimating the situation and with previous processes of the methodological procedure in organisational transformation, rather than afterwards.

This phase contains an analysis of advantages and disadvantages of the existing models of the company's organisation described in theory, and, especially, organisational solutions suggested in respective projects or already in practice. This knowledge and experience, together with the diagnosis and the evaluation of the existing situation in the organisation of the company, serve as basis for designing new organisational solutions (Gouillart & Kelly, 1995).

### 3.6 Suggesting New Organisational Solutions

The next phase in the methodological procedure in improving the organisation of the company defines the measures and activities to be carried out in order to improve the organisational structure. On the basis of the record and analysis and the diagnosis and the evaluation of the existing situation follows a definition of what may remain in the existing organisation and what is to be changed. These were general remarks that are now to be translated into concrete organisational measures and tasks. Any measures or activities that are to be introduced in order to improve the existing organisation of the company should now be accurately and clearly defined (Hurst, 1995).

In the first place, it should be decided whether the company retains the existing model of organisation or abandons it and introduces an entirely new one. If the existing model is retained, then smaller or bigger changes are made in some organisational sections. That implies a clear definition of which organisational units in the existing organisational structure should be abolished or reduced, and which ones should be increased and further developed organisationally. It will also include a definition of what new organisational units should be introduced into the organisational structure of the company and what they should be like in order that it be possible to accomplish all the new work required by the changes in the company and in the changed environment (Champy, 1996; Kotter, 1996; Mintzberg, 1983).

These may be smaller organisational changes aimed at adding to the marketing and sales sector a new department that will do the market research or deal with the sales of the products in a new, so far not conquered part of market or in an entirely new market. The changes may be related to increasing and strengthening the department for research and development, if the company decides to launch a new product, or to the improvement of the department for planning, preparation and ensuring production, if the company decides to cut on expenses and improve the efficiency of production. Sometimes it is much bigger organisational changes and even a complete transformation in the organisation of the company that must be made. If the company has invested into a new production factory to produce a new product, it will inevitably be necessary that the entire organisational structure of the company be redefined. The research carried out in a large number of Serbian companies show that significant changes, abolishing some organisational units and introducing others, are necessary in all the companies analysed. This is most frequently caused by the previously conveyed privatization of the companies or by great difficulties in the production and sale of the products and services of these companies (Jovanovic, 1998).

### 3.7 Choosing New Organisation

In suggesting new organisational solutions there usually appears a number of alternative possibilities. If this is the case, it is necessary to choose the most appropriate organisational solution among the available ones.

Evaluation and choosing the most appropriate solution are usually in accordance with the previously adopted criteria for selection and choice. The criteria are adopted in accordance with the circumstances and are directed towards a more efficient functioning of the company. This phase in the procedure is very complex and deserves to be paid special attention.

### 3.8 Implementing New Organisation

The final phase of the methodological procedure in the organisational transformation includes the definition of new organisational solutions implementation. We know

well the difficulties in the implementation of changes into a company and most frequently the great resistance and resent of the majority of the employees towards the changes. The changes in the company organisation are by all means related to the employees, to their number and status, rewards and the possibilities of promotion. Therefore the organisational changes are very important for both the company and for the employees and they should be approached carefully and seriously. The preparation for implementation of the changes must be thorough since the success of this phase directly conditions the success of the overall procedure in the improvement in the company's organisation (Jovanovic, 2001).

In order to successfully implement the changes it is necessary that all the preparations for their implementation be thoroughly and carefully made. The managers, who are the agents in all the changes in the company, should first explain all the changes to be introduced to all the employees, and to especially analyse the advantages and the disadvantages of the changes for both the company in general and for the individuals (Hannagan, 1995; Bennis & Nanus, 1985). Their task is to motivate the employees to accept the changes in the organisation and to assure them that the changes will prove useful for the employees too.

## 4 Management Restructuring of the Company

On completing the organisational restructuring of the company it is necessary that management restructuring take place as well. The management restructuring of the Serbian companies means introducing professional managers capable of managing the company successfully. That means bringing in trained managers with great authority, whose position does not depend on political situation, but only on the results of their work, according to the assessment the owner makes (Jovanovic, 2003; Jovanovic, 2000).

In the long period that is behind us we had managers the state officials or managers in self-management. These managers were appointed by self-management bodies, in reality by power and government centres represented in the political party or state organisations. They did not have sufficient authority for an efficient management of the company, they were unstable and dependent on the power center that appointed them.

Today we have a rather complex, transitional situation in which, simply saying, there are two types of managers. They are the manager entrepreneur or the manager owner and the manager official.

Due to some changes in the economic system, appearance of numerous privately owned companies or privatization of the existing state ones, there is a special type of managers owners. In this case the owner of the company acts both as a manager and as the owner, since with setting up the company he undertook both functions and continues to act in this twofold position ensuring an effi-

cient business of his company. Finding that ownership secures a stable managerial function and control over the entire business of the company, numerous partial owners or managers tended to be exclusive or majority owners in order that they perform the function of the manager at the same time. In the case of the manager owner, the manager is completely free handed in performing his functions and has maximum authority. He is not dependant on other subjects since he becomes self-appointed, and cannot be dismissed by the employees or any particular power centres (Jovanovic, 2003; Jovanovic, 1998).

In addition to the manager owner there is the manager official who is somewhat similar to the manager in the self-management system. These are managers in socially and state owned companies, appointed by a party or state organs so they are completely dependant on those who appointed them. Their authority is large in the fields of managing the performance and the employees, however, they are unstable in performing their own job, since they can be easily and promptly dismissed.

Management restructuring requires professional managers, capable of performing their job professionally and correctly, and dependent only on the results of the company they manage. In order that the companies in this country should realise the changes imposed by the current economic crisis, we need competent professional managers, experts for efficient managing in the company and accomplishing positive business results.

Two preconditions are to be fulfilled to make and introduce professional managers. The first is an appropriate social and economic environment; the other is good education and training of managers (Yukl, 2002; Bennis & Nanus, 1985). It is necessary to make some changes in the domain of ownership as well as in the domain of organisation of the company. The first step should be the privatization of socially owned companies and creation of market conditions for privatised companies that should additionally be organisationally restructured. Only in such a market environment may professional managers be created, and required to achieve certain results in the company performance, rewarded adequately for achieving favourable results or punished if they fail to achieve them.

As far as education and training of managers are concerned, there is a great need for them which is not in accordance with actual possibilities. There still is a manager training institutions, as well as a small number of teachers and trainers capable of doing this job. This is the real situation in Serbian companies and it calls for larger social care and the consultant aid from abroad.

Modern business conditions require permanent implementation of changes and managers – leaders, capable of identifying the needs for changes, ensuring conditions for implementing changes and drawing all the people forward into changes and development of the company (Yukl, 2002; Senge, 1990). Whether we will succeed in getting our economy started and in ensuring a better future depends on whether we have an appropriate environment and professional managers competent to be leaders.

## 5 Conclusion

The problems the Serbian economy is faced with call for a prompt and efficient restructuring of companies. This restructuring should be complex and should include programme, organisational and management restructuring.

The most significant changes are to be effected in the field of products and production programmes. Abolishing certain programmes and introducing new products and services, with ensured market, is a priority task. Introducing new products and services should be performed following a precise procedure that ends in investing into necessary plants, technology and personnel.

Organisational transformation is most frequent in practice although it cannot contribute to the development of the company without programme restructuring and implementing new technology. This type of restructuring should also be performed using an appropriate procedure and aid of specialised consultants.

At this moment, the Serbian companies also need management transformation that means introducing professional managers trained and capable of managing the company efficiently. The situation in this field is unfavourable since it does not provide for introducing professional managers and therefore the management transformation of the company is blocked.

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