

INSTITUTE OF AGRICULTURAL ECONOMICS, BELGRADE, SERBIA

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**CHALLENGES OF MANAGEMENT
CONSULTING IN MODERN
BUSINESS OF AGRICULTURAL
ENTERPRISES**

Monograph

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Published by

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For the Publisher

Prof. Drago Cvijanovic Ph.D. IAE Director

Printed & PREPRESS

DIS PUBLIC D.O.O. Belgrade

11000 Belgrade, Brace Jerkovic 111-25 Street, Phone: +381 11 397 97 89

Number of copies printed:

ISBN 978-86-6269-032-6

The monograph publishing was in total financed by the Ministry of Education, Science and Technological Development of the Republic of Serbia

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Preface

This monograph summarizes the results of research by the authors published in scientific journals and presented at the international and national conferences, relating to management consulting and agricultural economics. Namely, the creation of business attractive enterprises initiates a need for management consulting, as well as research in this area. The consulting organizations support the companies in realization of their goals, to resolve business and managing issues, to identify and use new possibilities, to increase their knowledge and practical application of the suggested changes. There is a lack of knowledge in the field of business planning in the local economy, necessary for opening small and medium agricultural enterprises. The essence of necessary changes can be defined as a new entrepreneurial company which encourages taking over the risk and making new entrepreneurial knowledge. The consulting services represent a professional assistance while opening the enterprise, but also in identification, diagnosis and overcoming the problems regarding various fields and aspects of business and management of the enterprise. Accordingly, the subject of this monograph is management consulting in Serbia, which analysis through a prism of factors of its development and influence on enterprises' performances in agribusiness. In order to realize the analysis successfully and to get the relevant results, it is necessary to locate the observed problem into a wider context of economic events, how we could identify the basic influences on agribusiness development ways in Serbia – which is finally the basic goal of this research.

Inadequate economic development of Serbia is determined by many factors, among which the following stand out: a country's geo-politic position decline, disadvantageous economy structure, loss of traditional markets, financial indiscipline at all levels, and management capacity and skills insufficiency. Companies have performed their activities in such business environment characterized by inefficiency and employees' lack of motivation. Since 2000, the consulting became very actual in Serbia. The demand for consulting services rises together with real needs, and is dictated by: privatization, value evaluation of the enterprise, foundation of new small and medium enterprises, as a supposition of faster development of market economy, new products, seeking for new markets etc. In accordance to initiated economic reforms, the consulting services' market development is in direct dependence to transition process and domestic enterprises' restructuring. At the same time, eliminating external limitations and returning Serbia into international economic courses caused significant increase of demand for new knowledge, experiences and expertise, including those in form of the consulting services.

The monograph represents a part of the research at the project III - 46006 – *Sustainable agriculture and rural development in terms of the Republic of Serbia strategic goals' realization within the Danube region*, funded by the Ministry of Education, Science and Technological Development of the Republic of Serbia.

Authors

INTRODUCTION

Management consulting is a result of a manager's need for integrated and complex business information. To obtain the transfer of a consultant's knowledge and a manager's skills development, certain conditions must be fulfilled. First of all, business integrity and a consultant's competence are the most important. Business integrity, i.e. a consultant's ethics contributes to an image and reputation and is important competitiveness factor on the consulting services market.

The cooperation between the consultants and the managers, based on principle of ethics, contributes to development of manager skills.¹ In spite of all, that implies that consultants and managers have no hidden intentions or interests, in other words, their common aim should be overcoming of business problems. That demands business competence, which includes: competence of the consultant's company and a consultant as a person, detailed knowledge of a client's business branch, detailed knowledge of a client's country and culture, presence of creativity and innovations. Managers should have wish for acquiring new skills and motive for new accomplishments. Comparing with work results of managers in successful companies, the consultants can motivate manager-clients towards continued learning and improvement. The consultant's work is based on creating new solutions. That can be achieved in cooperation with managers, as active partners of their consultants.

The management consulting is one of the most important management techniques developed during last fifty years. Secondary effect of this invention is fast development of new scopes, tools and techniques in numerous organizations. However, despite of instant popularity and astonishing percentage of growth, the management consulting stays one of the most delicate explored and described fields in the economy. Transition process and Serbia's entering into the European Union is possible to hasten by adequate and timely consulting services, before all, during the programs and methodologies creation for conducting the enterprises' re-structuring processes. In such conditions, the consulting organizations help the enterprises in accomplishing their goals, solving problems in business and management, identifying and using new possibilities, increasing their knowledge and applying suggested changes in the practice. In its Guide to Membership, the Institute of Management Consultants in Great Britain, defines management consulting as a "service provided by independent and qualified person/persons in determination and

¹ **Mihailović, B.** (2007): „Etika konsaltinga“, *Kopanička škola prirodnog prava – Pravo i pravda*, Jubilarni XX susret: PRAVO I SLOBODA, Kopaonik, 13-17 decembar 2007, Pravni život, br. 12/2007/Godina LVI/ Knjiga 512/ Udruženje pravnika Srbije, pp. 259-274.

research of the problems concerned to politics, organization, procedures and methods, recommending appropriate activities and supporting their implementation".² Regarding actual consulting trends in countries within our region, as well as developmental level of consulting in the EU countries, the market of consulting services in Serbia has not significantly changed in previous period (as we saw, the acknowledgement of it was got also by empirical research). The owners and managers of enterprises still do not feel a need for external services, in order to solve business problems. Having in mind a level and quality of demand, neither a supply of consulting services had not reached satisfactory level. On the consulting services market in Serbia are present some foreign consulting organizations which have completely global character, according to size of market they have been present on, as well as according to a number of clients. Business experience of foreign consulting organizations, especially those active in Serbia, is necessary to use and transfer to domestic consulting sector by process of the consulting organizations' networking, mutual exchange of consulting models and techniques, primarily through experts exchange and their specialized training.

Successful solving of accumulated problems, in period of the market economy affirmation, is possible as long as it creates business ambience, which stimulates the processes of economic and social system transformation in Serbia. The market oriented business will not happen *per se*. Except factors such as the state, for example, which should be a catalyst of transformational processes, there is also necessary a support of private consulting organizations, in order to alleviate creation of the market system in Serbia. The program of consulting support to agricultural enterprises in Serbia contributes exactly to development of business based on the market economy principles. The consulting interventions lead to development of spontaneous economic processes, which mark the market economy. Those processes represent development of a new sector, entrepreneur initiative and business activities of already transformed enterprises.

Consulting interventions and coordination affect creation of the spontaneous market order, on the other hand the development of the market and market relations affects the development of consulting as a profession. The changes will become irreversible at the moment when most of the national product is created by the companies in private ownership.³

² Guide to membership, Institute of Management Consultants, London, 1974.

³ **Mihailović, B.** (2007): „Doprinos konsaltinga razvoju tržišne privrede u Srbiji”, *Zbornik Matice srpske za društvene nauke*, 2007, br. 123, pp. 191-203.

I NATURE AND CHARACTERISTICS OF MANAGEMENT CONSULTING

1.1. Concept and types of management consulting

The consulting can be defined as professional support to the managers in enterprises, during analysis and resolution of practical problems. It provides a transfer of successful management system from one enterprise into another or from one firm into the other.⁴ The changes are the main reason for the consulting existence. In our conditions it is about the radical and multi-dimensional changes which affect the enterprise's property, its business, market, organizational design and funding construction.

The consulting service represents a recommendation of adequate measure, as well as the help in implementing that recommendation, which is the result of the research, identification and analysis of problems in specific enterprise. The consultant is the expert providing the consulting services. His education and experience, in combination with real and complete acquaintance with concrete situation, provide adequate help to enterprises. Engaging the consultant has been motivated by the state in the enterprise, which can be characterized as unsatisfying, while, at the same time, there are real aspects that it could be improved.

A term consultant in our economic practice implies a wide spectrum of private and public entities, including consulting companies, firms for management, auditors, the UN agencies, International Monetary Fund and other multinational organizations, investment and commercial banks, research institutes, government organizations, non-government organizations, as well as individuals. The necessity of the consulting comes out from character of the problems our enterprises has faced with. That is to say, it is about transformational processes in which could not apply routine solutions. At the same time, a size of conflicting interests which make difficult finding the satisfying solution is large. The consultants are objective, so they identify the problem easier and then generate ideas on which the concrete actions are based. The consulting service serves to a client's interest only if the consultant does his activities professionally. Professionalism reflects in independent opinion, even if it significantly differs from the one the client wishes to hear. The consultant's objectivity requires significant self-control, especially in work with people of different

⁴ Živanović, N. (1994): „Strukturiranje poželjne konsalting pomoći preduzećima u krizi“, *Poslovna politika*, jun, br. 6, pp. 30-40.

religions, nationalities or political orientation. The consulting service should not be emotionally coloured or based upon prejudices.

The consulting is very wide field. However, we will discuss on the consulting, which is focused on enterprises' restructuring in transition. In that sense, we will observe the consulting through synchronized interventions in numerous neuralgic areas in our enterprises. In such situation, the consulting activity represents a form of transferring know-how, in order to eliminate or, at least, lessen unnecessary roaming and avoid eventual failures in enterprises transformation in the period of our economy transition.

Depending whether the consultants engage within or outside the enterprise, we can differ internal and external consultants. The internal consultants recruit from the enterprise which faces some problem in business. Unlike them, the external consultants are not hired in the enterprise they are engaged in, while providing the consulting services represents a part of their profession.

If the management carriers are not able to provide, within the enterprise, necessary management capacities, then it is necessary to engage a complete team of external professional consultants. If compares the internal and the external consultant, can be determined significant differences among them: the internal consultant often misses an ability to bring again the enterprise, which has got into trouble, to a zone of profitable business; the internal consultant, due to organizational correlation and partiality, cannot be sufficiently objective. On the contrary, the external consultant distinguishes by overall interest independence and thereby also indispensable objectivity, as a resolute assumption of achieving success.

The engagement of the external consultants here, generally, considers critically. It results from a fact they the most often do not dispose with sufficient knowledge on specific circumstances for branch and enterprise they are engaged in. Under the circumstances, the external consultants are very expensive, and their incomes far off exceed incomes of employed experts, which, naturally, provoke scepticism, suspicion, envy, which all results with certain dose of resistance. High costs of hiring the consultants cannot bear many enterprises. Due to that, there is a threat that, through negligibly engagement of the management of the enterprise in the problem resolution, cannot transfer know-how between the management and the consultant. These problems cannot be solved by integration of the management and the consultant in problem resolution (participative consulting), which leads to more likely problems resolution and greater willingness of the management to accept the consultants' advices. Practically, often form teams made of the management in the enterprise, the bank representatives and the external consultants. Previous

experience shows that the consultants are mostly concentrated on enterprises in strategic crisis and success crisis. The consultants deal with enterprises with liquidity crisis poorly and those which already succumb to insolvent regulatory rules. As a reason for these facts often states fear of losing image or remuneration.⁵

In the practice of developed market economies' consulting have developed three forms of the activity.⁶

1. *Model of purchasing expertise.* This model consists of – the client must by his own to make a diagnosis of the problem and make a decision by his own, how to solve the problem. Then the client engages the consultant which, by his opinion, can help. The role of the consultant is to do in advance defined job which, as a rule, consists of providing certain knowledge or information which are not available to the client. Practically, the client purchases just expert knowledge of the consultant.
2. *Model doctor – patient.* In this consulting model, the client is aware of the problem, but does not know the cause or the problem's resolution. The problem diagnosis and its solution leave here to the consultant. Implementation of the consultant's reference how to solve the problem is up to the client. The consultant, thus, only determines “the cause” of disease and suggests appropriate “cure”, while “the patient” decides whether will take the cure or not.
3. *Model of process consulting.* This model of consulting bases on the assumption that the client has a problem and it stays his through the whole consulting process. The consultant should not solve the problem for the client, but to help him to solve the problem by his own. In other words, the consultant's role is to improve the client's ability of the problem resolution, not to solve the concrete problem. In this case, responsibility for the consulting success is mutual. The consultant must clearly to inform the client, much before signing the contract on engagement, that he will not overtake his problem and solve it, but only help him to solve the problem. The consultant should not answer those questions on which the client does not know to answer himself, but to help the client to put other questions. The accent here is, not so on the consultant's expertise, but on his ability to

⁵ Senić, R. (1996): *Krizni Menadžment*, Biblioteka Dijalozi, Beograd, p. 455.

⁶ Jančićević, N. (1992): „Uloga konsultanata u organizacionim promenama i razvoju“, Zbornik radova *Privredni sistem i efikasnost poslovanja preduzeća u uslovima svojinske transformacije*, Univerzitet u Nišu, Niš, p. 39.

improve the process of the problem resolution and the process of teaching the client (Eastern wisdom: You will not feed a hungry man if you give him a fish, but if you teach him to fish).

In our conditions, the goal of the consulting is to increase business efficiency level, which represents one of the key factors for successful turning point to a profitable business. Dominant model of consulting which practices is a combination of expert model and the doctor – patient model. The process consulting is still unknown in domestic consulting practice. The most often, domestic managers order the studies on development strategy and organizational design, on which engage the teams of consultants. The consultant has to be expert, informed, objective, and in many cases also good psychologist, in order to see into the essence of the problem, through a dialogue with employees in the enterprise.

There is a tendency to standardize the consultant's activities, in order to make successful the recipe which has applied in every situation. It, naturally, eases the consultant's job, but the main question is: Does such approach to problems resolution give the results? One successful solution cannot generalize and apply in the next engagement. That is to say, the consultant's experience should become his flexibility ground, even his creativity in further work. Persistent application of one solution leads toward the realization of well-known phenomenon “success results failure”.

There can be concluded that in the consultant's engagement is necessary a situation approach, which, in fact, requires apply of expertness in concrete situation in the firm. Providing real consulting services is possible only if the consultant has been familiar with the condition in the firm.

1.2. Methodology of management consulting

Accessing Serbia to the EU and development of market and market relations has affected the consulting development as a professional activity, which has specific methodological, conceptual, ethical and other performances. An assumption for successful consulting is a business integrity and business expertness of a consultant.

On the other hand, a client should know the consulting market and business supply of the consulting organizations, in order to choose an adequate consultant for some business problem. Swiftness, quality, added value and reasonable solutions become key factors of the consultant's selection. The consulting services can differ from case to case, depending on goals which should attain, but a basic role is to increase

a value and a company's - client's reputation through the consulting process.⁷ In our terms, the consulting represents a necessity imposed by a new market business system, which forms in transition process.⁸

Some of concrete characteristics of management consulting must accentuate at the very beginning of the paper.

First, the consulting (advising) is an independent role. It is characterized by engaging the consultant, where his supplement characteristic is at the same time his main role. But this independence means instantaneously that the consultants enter very complex relations with their client organizations and people who work in them. The consultant has no direct authority to make decision on changes and to apply them, but this does not consider as a fault. He has to improve a skill of profound consideration of changes, without abandoning his independence. Consequentially, he must provide the highest level of involvement in the client's work, so the final success would be the mutual one.

Second, the consulting is essentially a consulting service, which means that the consultants are not hired to manage the organizations or to make delicate decisions on behalf of „terrible“managers. They are consultants (advisers) and their responsibility refers to quality and worthiness of advice they provide, while the clients bear all responsibilities which appear. Surely, in the consulting practice, there are numerous variances and many „consulting“levels. It is not only about providing a right advice, but providing advices timely and in right manner – those are basic consultant skills. In return, the client has to become skilful in acceptance and application of the consultant's advice.

Third, the consulting is a service which provides professional knowledge and skills important for practical problems of management. An individual becomes a management consultant, in the full sense of the word, by collecting the knowledge on different situations of management and organization, as well as by adopting necessary skills for solving the problems – for problems identification, finding out relevant information, analysis and synthesis (uniting and disuniting information), choosing the right solution when numerous are possible, communication with people, etc. The managers also must have specific skill types. What is special concerning consultants is that they pass through many organizations and trainings,

⁷ **Mihailović, B.** (2011): *Razvoj konsultantskih usluga u Srbiji i njihov uticaj na performanse preduzeća u agrokompleksu*, monografija, Institut za ekonomiku poljoprivrede Beograd, p. 14.

⁸ Pejanović, R., Tica, N., Delić, S., Zekić, V. (2006): „Consulting in agribusiness“, *Savremena poljoprivreda*, 2006, vol. 55, no. 1-2, pp. 69-75.

during years, how to use their collected experience from previous tasks in new conditions. Besides, the professional consultants improve constantly concerning the management methods and techniques, including those which use at universities and research institutions, then carry over the experience to the clients and help them to apply it. They work as a connection between theory and practice in management.

Fourth, the consulting is not a service which provides a magical solution of excessively tough managerial problems. It would be misinterpreted to consider a consultant as a magician who can help in every situation. The consulting is hard, systematic and disciplined work, based on analysis of solid facts and research of all possible solutions. Powerful devotion of management in solving the organization problems and cooperation between a client and a consultant is of equal significance for the final results, as well as the consulting quality.

The managers would not see the reason for hiring the concrete consultants if they do not provide something which they miss in their own organization. As a rule, the consultants hire for one or several reasons:

1. *Possess special knowledge and skills.* The consultants hire when there miss people in organization who can solve certain problem with the same chance for success. Here are often inevitable new techniques and methods which the consultant is familiar with, due to his professional expertise. In other cases, the problem which solves can be more common, if the organization wishes to achieve its main goals and to overcome a chasm in knowledge about the management general policy, planning, cooperation or leadership.
2. *Provide an intensive professional support on temporary basis.* Deep interest for big business problems, like firms organization or market policies, requires full attention and devotion of top managers in long-term. But daily job leaves little time and, what is worse, it is hard to concentrate simultaneously on operational and conceptual problems. The consultants are not just devoted to one problem type full time, but they will leave the organization once the job is done.
3. *Give independent opinion and judgement on problems.* Even the best people in the organization can be under great influence of their own prejudices and existing tradition and customs present in the firm, so they can be incapable to envisage a problem as it is, and therefore cannot suggest a real solution. As the consultant is independent from the client's organization, he can be neutral and right in all situations.

4. *Give the management arguments which justify predestined criteria.* From time to time, the firms hire the consultants requesting that they take some actions and submit reports, so the manager can justify his decision which basis on the consultant's recommendations. In other words, the manager can know exactly what he wishes and what his decision is going to be, but he wishes to get from the consultant also a report on facts which justify such decision. This is not a logical course of activities but, as a matter of principle and own interests, the professional consultants must be careful not to accept assignments in which their services will be possibly abused.

The mentioned reasons can exist to varying degrees and can be mutually connected, so the consultant faces very complex situations. Regardless to it, he has to have a clear insight in reasons due to which his service were requested, even if the initial reasons change or uncover some completely new. The consultant must dispose with numerous facts, in order to have as clearer picture as possible on a situation or a problem which considers in the firm.

Necessary facts for realizing a working task, the consultant identifies in cooperation with an ordering party or an ordering party's members, which are familiar with the enterprise's documents and other sources with necessary data. With recognition of the current state in the enterprise can get useful information, as well as through informing about experience, impressions, opinion and convictions of employees in the enterprise. The collected facts must analyze further on.⁹

The consulting methodology is based on working tasks forming, which represents the consultant's activity plan. Working tasks methodology in the consulting considers step by step. Defined working task is going through the next four phases: 1. Determination of facts; 2. Analysis of facts; 3. Recommendation of solutions; 4. Application of selected solutions.¹⁰

The consultant must dispose with numerous facts in order to have more clear idea on the situation and the problem which considers in the enterprise. The inevitable facts for realizing the working task, the consultant determines in cooperation with ordering party or the ordering party's members, which are familiar with the documents in the enterprise and other sources which contain necessary data. Useful

⁹ Mihailović, B., Subić, J., Cvijanović, D. (2007): „Metode și tehnici consultanță ca sprijin pentru managementul modern”, Conferința tiințific Internațională *Modalități de eficientizare a managementului în condițiile economiei concurențiale*, Chișinău, 5-6 octombrie 2007. Universitatea de stat din Moldova, Facultate de tiințe economice, Institutul muncii al sindicatelor din Republica Moldova, pp. 7-13.

¹⁰ Živanović, N. (1994): „Strukturiranje poželjne konsalting pomoći preduzećima u krizi“, *Poslovna politika*, jun, br. 6, p. 38.

information can also find by envisaging the current state in the enterprise, as well as through becoming acquainted with experience, impressions, opinion and belief of employees in the enterprise. Collected facts then must be analyzed. The facts analysis provides to the consultant to realize which changes are necessary, which are possible to carry out, as well as which alternative is the most effective in the practice.

For the analysis and evaluation of business state, the consultants mostly count on a technique of comparison with: former results of the enterprise, plans and norms of the client, other similar enterprises in branch, as well as with the standards which consulting house uses in that purpose. This phase is, at the same time, the most important, regarding that of its outcome depends correctness, quality of the concrete solution which the consultant suggests. The consultant must not give overhasty solutions based on cursorily analyzed facts. Only after overall and detailed analysis can suggest the solution of the problem, and that is when the working task enters its final phase. The consultant makes the evaluation, and then the selection of one of the possible solutions.

The goal of each consultant is to propose the most prepared solutions, realistic and persuasive ones, as well as to give positive results in the practice. Especially are important quick short-term successes which are going to encourage the management and employees in further execution of proposed solution. The consultant must engage also during the phase of selected solution application, primarily through education and direction of ordering party's experts how to apply the solutions. It happens that the ordering party wants to reduce presence of the consultant in application of the project.

However, the consultant should keep and monitor the new way of work. He has an obligation to point out to certain aberrations from the anticipated one, and at the same time to determine also a term when should be done the control. The consulting activity implies also work with people, so special attention should give the problem of the *consulting ethics*.

There are instructions for critical fields in which should be cautious during the consulting, like, for example:¹¹

¹¹ Janićijević, N. (1992): „Uloga konsultanata u organizacionim promenama i razvoju“, Zbornik radova *Privredni sistem i efikasnost poslovanja preduzeća u uslovima svojinske transformacije*, Univerzitet u Nišu, Niš, p. 42.

1. Selection of intervention. Critical for the consulting success is selection of the solution. Many consultants have their “popular” solution which constantly suggests, undependably from the real client's need, which can be considered for ethical behaviour.
2. Using information. The consultant during the consulting gets abundance of information which, deliberately or unintentionally, presented out of the firm can lead to the client's great injuries.
3. The client's dependence. During the consulting can come to excessively dependence of the client from the consulting.
4. Free will of participants. The consulting principle should be that all participants in organizational changes are aware of that. The consultant has to provide, that no one in the client's firm is not mistaken regarding the goals and the consulting field of interest. Otherwise the consulting starts to be a bare manipulation.

The consultant's ethics can be understood also as a factor of his competitiveness on the consulting services market. The relation between the consultant and the client, based on the ethics principle, contributes to an image and a reputation of the consultant.

In that way gain the assumptions for long-term cooperation with the client, if there is a need, and at the same time create other possibilities for contact with the new clients in accordance with the former client's credentials. Aiming to improve the consulting as a profession, in many countries establish professional consultants associations and consulting houses. They represent interests and arrange their members' business.

These associations help the consulting as a young profession to enlist a trust of managerial circles, as well as to earn a reputation in the society. The associations contribute to the consulting development through defining the professional behaviour, and in accordance with the consulting ethical principle, development and modernization of common theoretical knowledge, defining qualifying criterion for acceptance of new members in the profession, organizing the exchange of experience and recommendations on the consulting improvement.

The consulting ethics is one of the important components of consulting service quality and instantaneously reliable criterion for the consultant's selection (criterion for the selection of the consultant are shown in the *table 1*).

Table 1. Criterion for selection of consultant – check list

1. Professional integrity – necessary condition for selection (ethical norms and behaviour)
2. Professional competence - competence of firm or consultant as an individual, - in detailed expertness in branch in which the client does business, - in detailed expertness of country and culture of the client, - “hard” and “soft” skills, - creativity and innovations.
3. Cooperation and relation with consultant (experience from previous cooperation, new contacts, social contacts)
4. Project task draft (quality, imaginativeness, engaging the clients into the project, efficiency)
5. Ability for the job (resources disposal, holding onto terms)
6. Ability of additional resources mobilization (contacts within and out of speciality, credibility, negotiating skills)
7. Price of the consulting services (amount of award and formula for its calculation)
8. Reputation or image of the consultant (along with the quality certificate - mandatory review)

Source: Kubr, M. (1994): *How to select and use consultants*. Economics Institute, Belgrade.

In domestic business practice are numerous different clients and projects, so it is difficult to make a simple scheme for application of this criterion. However, the factors of utmost importance are, first of all, availability of information, ability of the client to make conclusions, as well as his relation toward different criterion. The consulting brings good results if the consultants are competent to provide services to the client, and the clients are, at the same time, competent to use the consultants. Expertness and professionalism of the consultant comes with practical experience, which help only those who make the evaluation of his own previous engagement, and thereby search for additional and various experiences, which enrich their knowledge.

Accordingly, the consulting is one of the more important factors of enterprise resources' efficient allocation in Serbian agribusiness and improvement of business practice. As a model of teaching and development of managerial abilities and skills, it provides solving the business problems and improvement of enterprise's business performances in agro complex. The new methods of investment - decision making, require setting up the connection between economic, social and ecological criteria of resources' allocation. Through the consulting which takes into consideration a situational approach in work, can achieve a balance between: economic efficiency, socially-responsible business and standards of agricultural production.

The consulting service represents the recommendation of adequate measure, as well as the help in realization of the recommendation, as a result of the research, identifying and analyzing the problem in specific enterprise. The consultant is professional person who provides the consulting services. His education and

experience, in combination with the real and complete acquaintance of the concrete situation, ensure him to provide the adequate help to the enterprise. Engagement of the consultant is motivated by the state in the enterprise, which can be characterized as unfavourable, but with real expectation to be improved.

The necessity of the consulting comes out from the problem's nature, the enterprises in agro-complex have been faced with. It is about business problems where cannot apply routine solutions. Also, a great size of conflicting interests hinders finding the satisfying solution. The consultants are objective, so they easier identify the problem, then generate ideas, according to which they suggest the concrete actions. The consulting service is of use to the client's interest only if the consultant professionally does his activities. The professionalism of the consultant reflects in independent opinion, even if it differs from the one the client wants to hear. The objectivity of the consultant requires significant self control, especially when working with people of different religions, nationalities or political orientation. The consulting service must not be emotionally coloured or based upon prejudices.

In past period, in Serbian agro-complex has dominated the production orientation, which has not respected the market requirements. Enterprises have lost a brand and traditional markets. Improvement of their business performances requires a constitution of market oriented enterprises, which can be achieved by structural changes, directed toward business efficiency improvement and adjustment to the market requirements. Development of agro-complex enterprises in terms of intensive transformation changes requires more expert knowledge, abilities and skills in regard to the developed market economies, in which exist great accumulated knowledge and experience. At the same time, modern agricultural production implies modern technologies. In accordance to it, aimed at the EU standards fulfilment, it is necessary for the consultants to have new specialized skills, and to build their relations with the clients based on trust, credibility, understanding and creativity. The consultants actually become a part of the client's firm, for some specific time.

The consulting activity represents a form of know-how transfer, in order to eliminate or at least lessen unnecessary roaming or eventual failures in business of enterprise in period of economy transition. The EU requirements must translate to understandable language for the enterprises in agro-complex, which are actually needed advice regarding the acceptance of new business rules. Consequentially, there is increasing demand for assistance in the standards implementation in

agricultural production¹². At the same time is present trend of strengthening the consultant's role during the implementation of suggested measures. Their significance reflects in support to the project implementation, control and eventual corrective measures which improve carrying out the consulting interventions. However, besides strengthening the role of the consultant during the implementation, the research has shown that this support to enterprises in Serbian agro-complex is not at satisfying level.

1.3. Management consulting as a way of learning and a model of manager skills development

Management consulting is the learning and development model of manager's abilities and skills which enables solving business problems and improving business performances of company. In West Europe countries, the consulting services had developed for decades backwards, so today are active numerous consulting organizations which differ one from another by organization, financing model and process of consulting. However, the consulting services market in Serbia is very atypical, with massive number of small consulting organizations and extremely small number of big companies. Taking into consideration other well defined markets, the consulting market is susceptible to continuous changes, which is normal regarding specificity of businesses they do, and emergency to research permanently new forms of organization and to be ahead of a practice. Namely, the conditions of managing affairs at the market require establishing relation between economic, social and ecological criteria for resource allocation. Consultancy that respects situational approach in practice enables achieving balance of economic efficiency and social responsible work.

Consulting may be defined as a kind of professional support to managers analyzing and solving practical problems. It enables transfer of successful management system from one firm to another or from one organization to another.¹³ The main reason consulting exists are changes. Consulting service presents recommendation of adequate measures, and support implementing the recommendation which is a result of research, identification and analysis of problems in certain organization. A consultant is an expert who provides consulting services. His education and

¹² **Mihailović, B.** (2011): *Razvoj konsultantskih usluga u Srbiji i njihov uticaj na performanse preduzeća u agrokompleksu*. monografija, Institut za ekonomiku poljoprivrede Beograd, p. 147.

¹³ Živanovic, N. (1994): „Strukturiranje poželjne konsalting pomoći preduzećima u krizi”, *Poslovna politika*, June, pp. 30-40.

experience, in combination with realistic and complete informing of concrete situation, make it possible for him to offer support to enterprises in a proper way.¹⁴

Participation of manager in consultant work is basic principle of modern consulting. Manager and consultant integration leads towards higher probability of problem solution and better knowledge transfer. So consultants should stimulate managers to creative thinking which is basis of manager skills development. Creative thinking is based on creating ideas and their evaluation. All the ideas are important, particularly the "crazy" ones are supported, since we're dealing with quantity not the quality in this first phase of thinking. In this way we get large number of ideas, because old ideas stimulate the new ones. There are following techniques of creative thinking:

- *Brainstorming*. Brainstorming method enables researcher to hear large number of ideas for a short time. In BS session 6-12 peoples from leading circles take part. Every idea is written down, stimulated and valued for easier solution making for particular problem. Up to 200 ideas can be heard, period of BS is between 1 to 2 hours.
- *Sinectics*. This technique is similar to brainstorming. We have 9 members in session. The procedure is next: the orderer brings up for discussion problems in company, and the members are expected to help him solve them, by bringing out their opinions and suggestions. After that, the orderer considers suggestions and presents what he likes and what he doesn't likes. The members are resolving a problem then and the process continues until good solutions are found.

No matter which technique is used, according to the same source, consultant must observe the following rules:

- To delay a judgement - do not criticize any idea too early;
- Give imagination complete freedom - by free expressing of imaginative ideas better results will be obtained;
- Quantity - more "crazy" ideas, more better results;
- Cross-ideas - a rule that enables consultant to combine and improve ideas with participants in resolving problems.

The consultant and manager cooperation is useful to both sides. In other words, consultants collect information about organization and its business, enriching their

¹⁴ **Mihailović, B.** (2007): *Uloga konsaltinga u restrukturiranju preduzeća u tranziciji*, monografija, Institut za ekonomiku poljoprivrede, Beograd, p. 14.

own business experience and strengthening their own business competence this way. On the other side, the manager skills and capabilities are being developed, what, all together, leads to resolving business problems. It is necessary to practice control right after innovations. After controls have less intensity and less effect since the process is settling in new conditions and in new level. Consultant has obligation to point out the characteristic spots where big deviations can be found. The basic assumption is that client has constructive attitude to solve a problem and has no hidden interests or intentions. The subject of consulting has evolved from problem itself to problem resolving process and cooperation with client.

After mutual problem diagnosis, a meeting, where a consultant would give client a return information about client's problem, is necessary. Adequate solutions are reached through consultant and manager discussion. Usually, that solutions are not final, but they are beginning of a new diagnosis stage and new meeting. Consultant should bring manager new perspective of problem analyzing, which manager couldn't see and understand objectively, because of his wholly engagement in it. On the other side, consultant should observe a problem from distance, what leads to diagnosis objectivity.

In process consulting, consultant objectivity overcomes manager subjectivity, who will, after several cycles of diagnosis and meetings, become objective himself. Consulting is a result of manager need for integrated and complex business information. To obtain the transfer of consultant knowledge and manager skills development, a certain conditions must be fulfilled. First of all, business integrity and consultant competence are the most important. Business integrity, i.e. consultant ethics contributes image and reputation and is important competitiveness factor on consultant services market.

The cooperation between consultants and managers, based on principle of ethics, contributes to development of manager skills. In spite of all, that implies that consultants and managers have no hidden intentions or interests, in other words, their common aim should be overcoming of business problems. Managers should have wish for acquiring new skills and motive for new accomplishments. Comparing with work results of managers in successful companies, consultants can motivate manager-clients towards continued learning and improvement. Consultant's work is based on creating new solutions. That can be achieved in cooperation with managers, as active partners of their consultants.

1.4. Supply of the management consulting

In competitive environment, in order to survive, enterprises must ceaselessly change and develop. The survival and development imply doing the utmost effort in re-evaluation and re-affirmation of competitive advantages of enterprises and their positions on the market. In order to achieve it, bigger and more famous world-class firms on developed European market hire the well-known consulting houses to help, setting aside significant assets. This way also Serbian economy had to go, while it was the only way which had led to accession to the European community's economy, i.e. to survival, stabilization and development.

However, changes introduction requires from employees in the firm to adopt knowledge, collect as more as possible information, to cope with the new tasks, to improve their skills, to often change their working habits, values and attitudes. This includes changes in humans – management and employees, their abilities, motivation, behaviour and efficiency at work. At the same time includes also the changes in organizational culture – values changes, settled habits, information relations, influences and management style. As it is a whole process of radical changes – it does not develop by its self: there is inevitable to learn, time, effort, persistence, ability and loyalty to the work. Although, it all cannot be accomplished, at least for some time, without support of those who have already collected great knowledge, gained experience, and could pass it successfully to the others.

In west Europe countries, the consulting services have developed for decades behind, and nowadays have been active numerous consulting firms which mutually differ by funding model, organization and the process of consulting. Although, the market of consulting services has been very atypical, with many small consulting firms and extremely small number of big companies. Taking into consideration the other markets substantially defined, the consulting market is susceptible to continuous changes, which is natural due to businesses peculiarities it does and a need to constantly research for new forms of organization and to be ahead of practice.

Exposing the consulting firms to various combinations of business circumstances and experiences of different companies has provided an accumulation of precious knowledge and business experience. Their goal is to be continuously informed and to keep pace with innovations in the field of theory, concepts, methods and management system. Entire consulting „know-how“ and business ideas, which are the result of business experience and research, are available to entrepreneurs and managers, aiming to carry out different initiatives, innovations and improvements in many fields and business functions. The consulting has had very accelerated

developed in past two decades. According to the utmost number of evaluations anticipates that, in every following year, the growth rate of the consulting sector will amount 15-20% on the global level. Whether it is about restructuring, implementation systems, development of employees, business procedures changes, other companies purchase, or launching new products and services – the consulting support will be inevitable in different forms.

East Europe countries have different maturity of the consulting market, which intensive development has started just after 1990. The first branch offices of the international consulting companies were established in the countries which had common frontiers with developed consulting markets of west Europe. During last years has started the second surge of market penetration, by which remote markets of south-east Europe has become more attractive.

According to the FEACO evaluations (European Federation of Management Consultancies Associations), the most significant starters of the consulting market development in central and south-east Europe are privatization and re-organization of public (government) enterprises, enlargement of the EU to the east region and liberalization of national markets. The most of these starters are present in Serbia, too, but they do not act so efficiently as in other countries: Serbia is not a member of this association, economic system has numerous peculiarities in regard to the other countries in surrounding, while the transition lasts too long. Preliminary research shows that the consulting firms are mostly concentrated in university centres: Belgrade, Novi Sad, Kragujevac and Nis.

Present state in the sector of the consulting services points out to a necessity of decentralization and consulting work networking. Important support to the process should be decentralization of some ministries and Serbian Chamber of Commerce's extension services, in order to make conditions for more adequate answers to the enterprises needs, i.e. the opportunity for partner approach in solving business problems. Aimed at efficient resources allocation, here will determine the opportunity of experts' regional exchange, which implies networking of small consulting firms in Serbia. At the same time will analyze the consulting services as the integral part of cluster and business incubator in Serbia.

The companies in Serbian agrarian sector often engage the consultants due to their external or objective perspective and expert opinion, hoping that the consulting intervention will improve the business performances. Beside the need for the consulting activities in those fields where managers are not sufficiently professional, the consultants can be engaged for single and additional, but very delicate business activities like introduction of new product, entering foreign market or struggle with

aggressive competition. At the same time, help of the consulting firms can be useful in situations when the company's manager is burdened by numerous activities, as regarding diversified enterprises, when existing management capacities do not provide simultaneous optimization of business activities. Regarding that partnership is a basic principle of the modern consulting, it will indicate that the consulting firms with active participation of clients, give the best results in practice.

The business activities of the consulting firms, which speed up the market economy development in Serbia, realize on various levels of their organizational structure, i.e. on top management, mid-management and executor levels. The following activities fit them: managing the relations with clients, managing the consulting projects and application of professional knowledge in resolution of concrete business problems. Improvement of the consulting as a profession in many countries achieves by establishment of professional associations which are accredit for consulting interests and arrange the business of some consultants and consulting houses.

These associations help the consulting, as a young profession, to obtain a trust of managerial circles, as well as a reputation in the society. The associations contribute to the consulting development through a defining of professional behaviour in accordance to the principle of the consulting ethics, development and modernization of general theoretical eruditions, definition of qualifying criterion for admission of new members into the profession, organization of experiences exchange and credentials on the consulting improvements.

Unfortunately, Serbia is not a member of international consulting associations, so there should be pointed out that it could affect infavourable on further development of the consulting, as well as on lack of information of companies on positive effects of the consulting. Significant support to development of the consulting sector would realize through the national consultants association forming, regarding that the international associations are focused on coordination of the consulting activities on the national and regional level.

The consulting task often defines as professional assistance in identification, diagnosis and resolution of the problems which refer to various fields and aspects of business and management in enterprises. The assumption of the successful consulting is business integrity and business expertness of the consultant. On the other hand, the client should know the consulting market and business offer of the consulting firms, in order to choose the adequate consultant for specific business problem. Speed, quality, added value and clear solutions are becoming the key factors in the consultant's selection. The consulting services can differ from case to

case, depending on goals that should accomplish, but the basic role is to increase value and reputation of the company – client through the consulting process.

The essence of enterprises' restructuring in Serbia is in increase of external and internal competitiveness through the opening toward the international market and hastening in making number of new small and medium enterprises. Development of the new sector should be simultaneous with privatization process realization. The privatization of enterprises in Serbia aims at increasing the total business efficiency. However, transformation processes of enterprise in the transition period have delicate outcomes, which reflect in termination of jobs and dismissals. Besides the privatization, „transitional shock” is following the transition and it is manifested by business activity decline and price pressure. According to the World Bank's experts' assessments, it is necessary to create 40% of domestic product in the new sector, in order to annul the negative effects of the transitional shock.

Establishment of business attractive enterprises initiates the need for the consulting. The consulting firms help companies to realize their goals, solve their problems regarding business and management, to identify and use new possibilities, to increase their knowledge and to apply practically suggested changes. In domestic economy lacks the knowledge in the field of business planning, necessary for opening small and medium enterprises. The essence of the necessary changes can be defined as a new entrepreneurial society which encourages overtaking the risk and creates new entrepreneurial erudition.

Research shows that the biggest supply of the consulting services in Serbia is in the field of corporative strategy (50%) and operational management (28%) and can interpret by mutual desire of the consultants and the clients to get, as faster as possible, to desirable results, which, in certain way, looks natural and logical.¹⁵ However, if the process has not been followed by information technology and education – there achieves only temporary effect, and therefore, also false success. Exactly the supply of consulting houses in the field of information technology and education (although, according to answers to a matching question, this field affect the most at the consulting services development) is very poor (5%), only outsourcing is slightly poorer (4%), so there can conclude that there should work for the consulting organizations to increase and improve the supply in this field. The data which could be got in this way unambiguously show that the supply of the consulting services in Serbia is not quite suitable to enterprises' needs. A fact that information technology and education have the greatest influence to the consulting services

¹⁵ **Mihailović, B.** (2011): *Razvoj konsultantskih usluga u Srbiji i njihov uticaj na performanse preduzeća u agrokompleksu*, monografija, Institut za ekonomiku poljoprivrede, Beograd, p. 69.

development, and they have been lacking in the supply – is a unique absurdity and it leads to a conclusion that the consulting organizations do not care for development of the consulting services in Serbia, so they do not undertake basic measures for own development.

As such conclusion cannot be normal, we could rather say that the data show an immaturity of the consulting market in Serbia, even that the consulting organizations use a relative confusion of Serbian enterprises during an invasion of need for changes, need for the consulting services, so they offer those most profitable services. Of course, as a reason for such condition, cannot be neglected neither mutual desire for fast shift toward radical changes, i.e. success, although it is all of short-term and short-range.

Such condition partly allays the data, which were got by the empirical research. To a question *In what extent was present, so called, a process consulting in your paper, which implies improvement of the clients' ability to solve business problems independently*, we got fairly calming answers:

- Significant – 48,57%
- Occasionally – 37,14%
- Never – 14,29%.¹⁶

This form of education will surely not significantly increase demand for the consulting services, but will surely bring a significant interest from investments in the consulting.

1.5. Structure of the consulting organization

In developed market economies, the consulting organizations have based their services' specialization on their clients' specialization. The oldest form of specialization was after the functional principle. It means that the consultants were specialized for some of management functions (managing production, finances, marketing...). In time, its significance got the specialization by sectors (banking, small enterprises, transportation, construction industry, etc.).¹⁷ The consulting organizations in Serbia are mainly organized by the functional principle, i.e.

¹⁶ **Mihailović, B.** (2011): *Razvoj konsultantskih usluga u Srbiji i njihov uticaj na performanse preduzeća u agrokompleksu*. monografija, Institut za ekonomiku poljoprivrede, Beograd, p. 70.

¹⁷ Blečić, S. (2005): *Međunarodna trgovina konsalting uslugama*, magistarski rad, Ekonomski fakultet, Beograd, p. 33.

insufficient was the specialization by specific sectors. It is noticeable if perceives the supply of the consulting organizations, which has been directed to business problems of some functions enterprises- clients.

Accordingly, development of the consulting services in Serbia is in initial phase, which is similar to the consulting beginnings in developed economies. During the consulting organization structuring must take into consideration a great number of dependent variables, including also a character of people in managerial positions. Therefore, there is no strict structure of the consulting organization. Only can be noticed specific examples and common principles.

1.6. Models of payment for the management consulting

Between the consultants and the clients should not exist a misunderstanding when it is a question of the consultant's fee, as well as the model of the consulting services paying. If an enterprise has a limited experience in using the consulting services, it is necessary that management asks from the consultant detailed explanation of suggested consulting fee.

The clients should be sure that the consulting fee is proper and that they will get an adequate equivalent value for their money. If the enterprise has limited experience in using the consulting services, it is necessary that the management asks of the consultant the detailed explanation of the suggested consulting fee.

Generally, there is a growing trend of demand for the consulting projects, which ensure the results in short-term. The consultants use more methods for determination of fee and payment of services, where a spectrum of methods continuously increases. The selected method should suit both the consulting and the client organization, as well as to be appropriate for the concrete consulting project which performs. Accordingly, in practice appear several models of the consulting services payment.¹⁸

Phased payment. This model of payment actually follows overall implementation of consulting task, but through finalization payments of some project phases. In this way achieves a significant control of the consultant's work and his stimulation for work in accordance with the contract on providing the consulting services.

¹⁸ Kubr, M. (1976): *Management consulting – A guide to the profession*, International Labour Office, Geneva.

Payment in full. This kind of agreement uses when are precisely determined both duration and expected results of the consulting work: a client pays a fixed amount for the results with the above mentioned characteristics. When entering these kinds of contracts, the clients are guaranteed a price (unchangeable), but, at the same time, increases a risk concerning the consulting service quality.

Payment by a number of days. It is about a reimbursement for the services which base on 1) contracted daily allowances for business consultants – a real number of hours which the business consultants have spent working at the consulting task, and 2) reimbursement of costs based on real costs. This type of contract is very useful with more complex consulting tasks, as: managing restructuring processes, creation of enterprise's new strategy, study, or new approaches. The consultants preferably use the payments based on time commitment. Charging from the client the real spent time on the project is for many consultants the best and the only professionally accepting method of payment.

Payment by effect – fee by percentage. This type of contract is appropriate for mediation during strategically important transactions or sequence of events, when success depends exclusively from size of efforts which the business consultant makes. Examples of these contracts include the business consulting in sale of assets, strategic partnership, etc. The payment by effect is just for those services which can have a significant influence on value. The consultants have expanded their activities in all fields, continuing the practice of reimbursements introduced by investment bankers and other agents, which show as mediators in serious business transactions.

The fee determined by the results will be paid only in case that realized results, defined by the consulting contract, have been achieved. Consequentially, concerning this payment model, an amount of the consulting fee depends directly from the results (profit, costs reduction, etc.). The basic advantage reflects in complete orientation to the results. Since the consultant is aware that he will not get his fee, if the project does not provide the results, there will be avoided many problems, which occur when it is about time commitment of fixed fees.

Basic fee. This type of fee is applicable, when the consultant uses the basic arrangement with the client. Usually this base determines for fixed number of days of the consultant's time of engagement in specific period. In that situation, the consultant will use his usual daily allowance, slightly reduced, while the base provides to the consultant a permanent income. An imperfection of such arrangement is that the client will have to pay even if there is no enough work for the consultant.

1.7. Terms and effects of small consulting organizations' networking

The consulting services market in Serbia is very atypical, with great number of small consulting organizations and extremely small number of big companies. Taking into consideration the other markets, which have been substantially defined, the consulting market has been susceptible to continuous changes, which is natural regarding peculiarity of jobs it does and beyond need that constantly research new organization forms and to be ahead of practice.¹⁹ In such conditions, network business connection has become a modern strategic need, new model of entrepreneurial behaviour and global mega trend, which bases exactly on searching the enterprise's key competence and efficiency of organizational-process network, and consists of making adaptable, synergistic and competitive organizational structure.²⁰

The key goal of business networking consists of their useful economic and organizational effects (direct and indirect). It explains in literature through its fundamental principle of forming and functional specific features of existence, which reflects in dynamic tendency of organizational development, permanent expansion and modernization aiming to realize as better positioning as possible and greater success on the market. In that sense, the business networking essentially represents a self-organized polycentric structure, target-oriented to the concrete tasks, and base on the following principles:

- elitist connection of competent business partners,
- business and partner anti-bureaucratise and informality,
- decentralization of warrant and responsibility ("democratic hierarchy"),
- communication-information integration and synergism through highly sophisticated technologies,
- subsidiary and free connection based on equality and independence, part time and on the basis of consensus,
- coordination of mutual cooperation, based on clear rules, ambitious goals and developed controlling system,
- horizontal communication,
- Dynamic changeability, depending on newly arisen problematic situation,
- Dynamisation of business and organizational strategy, by introduction of "internal market" institutes (compensatory), expert skills, innovation

¹⁹ Mihailović, B., Cvijanović D. (2011): "Organizations for providing the consulting services in Serbia", *Economics of Agriculture* 2011 (58) 4, Balkan Scientific Associations of Agricultural Economists, pp. 711-721

²⁰ Drašković, V. (2004): "Mrežno poslovno povezivanje kao megatrend i nova menadžment strategija", *Ekonomika preduzetništva*, br. 2., pp. 126-129.

combinations of managing models, motivation of entrepreneurial initiatives, etc.

- Hybrid and untraditional organizational structures, and
- “boundlessly” expansion and growth, along with erasing the organizational and business boundaries and differences between the enterprises which associate in any way.²¹

Network economy is a new entrepreneurial organizational-process model, which develops thanks to basic mass elements (information, innovation, communication, new technologies and similar). It essentially changes the international trade performances and competition generally. The networking does not appear as a substitute of traditional hierarchically-bureaucratic organizational-managing structures, but as a new management strategy, even a paradigm, used by many world (especially global) enterprises, which base their success and development on modern structuring of business processes. The networking improves abilities of adjustment to changes, innovativeness, modernization and training in regard to hierarchically-bureaucratic organizational structure.

Besides, the strategic management of network organizations provides costs reduction, profit increase and better reacting at market conjuncture change. The practice has shown that, by networking of organizational structure, business processes, scientific-research work comes to key knowledge, skills and other advantages, which valorise on the market as competitive. Networked partners in business processes more and more mutually use their key competences aimed to achieve faster, cheaper, more flexible, quality and better result, by which makes a competitive advantage on the global market.²² Accordingly, the analysis is directed to small consulting organizations networking in Serbia, as well as on their role and place in clusterization and business incubation processes of the local enterprises.

The consulting organizations in Serbia are mostly concentrated in university centres, like Belgrade, Novi Sad, Kragujevac and Nis. Current state in the consulting services sector shows that it is inevitable to do decentralization of some ministries' consulting bodies and the Serbian Chamber of Commerce, by which would be made conditions for more adequate responses to enterprises needs, i.e. an opportunity for partnership approach in solving the business problems. Also, aiming to allocate resources efficiently, there is needed a regional experts exchange, which implies the

²¹ Drašković, M. (2006): “Klasterizacija kao komponenta globalne konkurencije”, *Montenegrin Journal of Economics No 4*, p. 168.

²² Drašković, M. (2006): “Klasterizacija kao komponenta globalne konkurencije”, *Montenegrin Journal of Economics No 4*, p. 169.

consulting organizations networking in Serbia. According to the results of the conducted survey, 54.29% of the consulting organizations are networked.²³ However, on the other hand, *business incubators and clusters* are still in „embryonic stage“ of development and sporadic character, so it is logical that their influence to the enterprise's performances in Serbia is negligible, for now.

1.8. Used consulting techniques and basic difficulties in work with the clients

Increased competition and tend for business success have motivated the enterprises in Serbia to apply the market business principles. In the market economies, especially in those which tend for market mechanisms development, is noticeable a need for well-timed and integrated business information. Exactly that need has caused emergence and development of consulting, as a specific activity of support to managers to solve newly arisen problems in business, for which they have not sufficient expertness, knowledge and managerial skills. The necessity of consulting also originates from problems nature, our enterprises had faced with. In other words, it is about transformation processes, with inapplicable previously known routine solutions. Therefore, only the external consultants can efficiently act, because they are objective, so they identify problems easier, generate ideas, according to which they suggest the concrete actions. In order to achieve it, there are inevitable concrete consulting tools and techniques. According to the research results, the most often used consulting tools and techniques are:²⁴

- Methodology of enterprise's value evaluation in accordance with the International Accountancy Standards,
- The World Bank methodology for evaluation of enterprise value and business plans,
- Concept of the Boston Consulting Group,
- Internal methods (programs and projects), according to the clients' needs,
- Own consulting techniques, BSC (Balance Score Card) technique.
- Situational (contingent) approach,
- Consulting tools based on scientific analysis,
- Diagnosis of situation, 2. training, 3. Implementation and standardization of processes, 4. Internal control, 5. Corrective measures, 6. certification;
- Methodology for Resolving the Technical Problems,
- Quality system standards, creative workshops,

²³ **Mihailović, B.** (2011): *Razvoj konsultantskih usluga u Srbiji i njihov uticaj na performanse preduzeća u agrokompleksu*. monografija, Institut za ekonomiku poljoprivrede, Beograd, p. 112.

²⁴ **Mihailović, B.** (2011): *Razvoj konsultantskih usluga u Srbiji i njihov uticaj na performanse preduzeća u agrokompleksu*. monografija, Institut za ekonomiku poljoprivrede, Beograd, pp. 259-260.

- Techniques and tools completely adjusted to client's needs,
- TQM, re-engineering, CPM and PERT techniques.

Thereby, difficulties, which the consultants have during the mentioned techniques application, can group in several categories.

1. Insufficient acquaintance with the role and scope of the consulting:

- misunderstanding of purpose, place and significance of the consulting services,
- insufficient information of the clients on the consulting services and the consulting effects,
- unregulated business processes, misunderstanding of certain elements in business,
- consulting services are not took as a way for business development, but only as a support in crisis situation,
- insufficient understanding of need for the consulting services,
- clients are not familiar with specific consulting methods.

2. Bad communication and submitting internal documentation:

- inadequate up-to-date data,
- bad information circulation and documentation of data,
- slow collection of the client's documentation, already in inadequate shape,
- incomplete documentation.

3. Clients' lack of training and education:

- enterprises have no sufficient high grade personnel to follow the consulting process, no enough educated people,
- underdevelopment of human resources function in enterprises, and humans are the most important in the consulting,
- lack of education and lack of understanding for the consulting.

4. Other difficulties in consulting work:

- Underdeveloped consulting market,
- Getting job,
- uncoordinated law,
- Poor chargeability of the consulting projects,
- Financing the consulting projects,
- Mentality and destructive transition,
- Unfavourable business climate.

Since 2000, the consulting has become very present in Serbia. Demand for the consulting services grows with objective needs, and is dictated by: privatization, evaluation of an enterprise's value, foundation of new small and medium enterprises as an assumption of faster development of market economy, new products, search for new markets, etc. Serbia, due to objective, but also subjective reasons, is late with transition, so with a view to keep pace with other countries, privatizes accelerative public property, often very clumsy, sometimes insufficiently controlled and under unclear circumstances. A side effect of those processes has been unavoidably a hasty development of the consulting services. It is natural that the consulting will be similar to what is happening in economy: intensive, aggressive, almost uncontrolled, and many times vulgar. The consulting until today, after so many years, has not been defined in statistical activities classification of Serbia, so its development analysis is made difficult.

In accordance with started economic reforms, the consulting services market development is directly dependant on the transition process and the local enterprises restructuring. At the same time, removal of external limitations and returning Serbia into international economic courses has caused a significant demand growth for new knowledge, experiences and expertises, including also those in form of the consulting services. Special interest refers to rehabilitation programs and enterprises restructuring, but also to formulating and implementing development strategies and networking with economic actors on the international market, introduction of information technology, improvement of management performances with basic functions in enterprise, joint ventures, technological cooperation and similar. The enterprises privatization requires knowledge and creativity, which represent a significant area of the consulting organizations activity. Introduction of market business in enterprises in Serbia represents a stimulus for the consultants to enlarge the consulting services assortment, especially as the clients must prepare to use rationally internal and external professional and creative potentials.

The research has shown that the biggest supply of the consulting services in Serbia is in the field of corporative strategy (50%) and operational management (28%), which can be interpreted as mutual desire of the consultants and the clients, to get desirable results as faster as possible, which, in certain way, looks natural and logical. However, if the process has not been followed by information technology and education – there achieves just a provisional effect, and therefore, a provisional success. Exactly the supply of consulting houses in the field of information technology and education (although, according to answers to a matching question, this field affects the most at the consulting services development) is very poor (5%), only outsourcing is slightly poorer (4%), so there can conclude that there should

work for the consulting organizations to increase and improve the supply in this field.²⁵

Resting upon the conducted research results, it would be suitable to determine basic messages for our enterprises management concerning managing and using the consulting services. The following are the most important:²⁶

- First, to contact the Serbian Chamber of Commerce and to lean on those consultants who are registered in the Serbian Business Registers Agency. That is to say, there are agencies which are called the consulting houses, but they do not have necessary reputation and professional experience. Also, to lean on business contacts aiming to choose an adequate consultant.
- Second, to make a comparison with enterprises which had similar business problems, and had used the consulting services, in order to select the adequate consulting service.
- Third, not to allow that the consultant's engagement ends with the specific project creation. In many cases is needed a maximal engagement of the consultant who should have control and corrective role during the project implementation. It is also necessary to track prices on the consulting services market, so the enterprise would not pay a price higher than a real market price.
- Fourth, to ensure the consultant free access to information on assets and business of the enterprise, in order to acquire real bases for the adequate consulting service.
- Fifth, the managers have to support to the utmost the consultants during determination and conduction of consulting interventions which concern the enterprise's business. The practice has determined that the consulting service success depends significantly on managerial support.

²⁵ **Mihailović, B.** (2011): *Razvoj konsultantskih usluga u Srbiji i njihov uticaj na performanse preduzeća u agrokompleksu*, monografija, Institut za ekonomiku poljoprivrede Beograd, p. 70.

²⁶ **Mihailović, B.** (2007): *Uloga konsaltinga u restrukturiranju preduzeća u tranziciji*, monografija, Institut za ekonomiku poljoprivrede, Beograd, p. 186.

II ANALYSIS OF THE BUSINESS ENVIRONMENT AS A SUCCESS FACTOR OF MANAGEMENT CONSULTING

In concrete surroundings, in order to survive, enterprises must ceaselessly change and develop. Survival and development implies sparing no effort in re-evaluation and re-affirmation of competitive advantages of enterprises and their positions on the market. In order to successes, of enterprises are expected to know well, among other things, also political environment, in order to really evaluate the total risk of business internationalization.

The political environment of international marketing encircles all national and international political factors, which can affect the organization's business or decision-making. The policy must observe as a main factor regarding numerous business decisions. It is unbreakably linked to the governmental attitude toward a private sector and freedom which is allowed to the firms in their business. Unstable political regimes expose foreign firms to many risks, which they would never face on domestic market. Tendency of states to change their regulations can seriously affect the applicable international strategy, making business possibilities and challenges.

2.1. Analysis of the global political and economic trends in modern age

The globalization of enterprises' business and appearance on the world market represent a phenomenon, which is more and more becoming a necessary condition for successful business and development of enterprises at the end of XX and in the beginning of XXI Century. Modern organizations are forced to base their growth and development on expanding the business beyond one country's boundaries. In regard to it appears a problem of formulating the strategy of the international, i.e. international business. The occurrence of more open world economy, the globalization of users' taste and undiminished construction of the global electronically traffic arteries increase the correlation and interconnectedness between the national economies.

It is noticeable that the global market instantaneously becomes more dependent, as in economic sense, as well as in cultural and technical sense, by persistent trust in technological innovations. Information transmit by „speed of light“ and what is becoming known as the global civilization is supported by fusion of telecommunication firms which provide their services over long distances, decreased costs of electronic processing and by development of the internet approach. The political environment relates on government type and relation between the government and business, as well as on the political risks which govern

a country. The international business therefore imposes occupying oneself with different types of states, relations and risk levels. There are many types of political systems, for example, a multi-parties democracy, a one-party states, a constitutional monarchy, a dictatorship (military or civil).

The governments dismiss in different ways, for example, through regular elections, snap elections, in case of leader's death, putsches, wars, etc. The relation between the government and business community also differs from country to country. The business can observe positively as an engine for development. Then can be observed negatively as exploiter of workers or somewhere between, as a sector which provides benefits for the society, but also carries certain faults.

The concrete relation between the government and firms also varies from positive to negative, depending on type of business activities and the relation between domestic country and those in which business is done. In order to be efficient on the international market, the firm must rely on good mood of foreign government and must understand well all aspects of the political environment.

A special thing which international firms must consider is a level of political risk which exists in foreign country. The political risk refers to a possibility that the government activities will have negative consequences on the firm's work. These consequences can be dramatic like forcible confiscation of property, where the government requires from the firm to hand over its means (assets), through medium, in form of negative regulations or interference in work, to mild ones, like various taxes and charges.

In any case, the risk exists because no government is completely stabile. Generally, the risk is connected to instability in specific country. That is to say, a country considers risky for business if in it often comes to sudden changes of government, social disturbances, revolutions, rebellions, wars, terrorisms etc. The firms are normally inclined to stabile countries and deal with less political risks, but profits must compare with the risks, and the firms often do business in the countries with relatively high risk, but with high profit.

In these situations, the firms like to control the risks through insurance, property and managerial decisions, supply and market control, financial arrangements etc. Besides, a level of the political risk is not dependable only of a country, but also of the firm or its activities – risky country for some firm can be perfectly safe for some another.

2.1.1. Global political trends

In current world economy, the international political events substantially affect to the market activities. An important trend is a *change from an economy under the government and socialistic political system control type toward free trade economy and in many countries toward democratic governments*. Ex-communist countries in East Europe, like Hungary, Romania and Poland, are moving in this direction by various speeds. China undertakes a tough task: it tries to promote the free trade economy within the socialistic political system. This goal can hardly realize, while fast economic development makes a pressure toward making democratic political systems. Making efficient economies, based on free trade will probably require much time and effort. Many countries continue to fight with new political and economic difficulties but, to put it mildly, in a very clumsy way.

The other important event is *moving toward free trade and far away from protectionism*. One of the possibilities is development of economic unions (blocks) all over the world. Today's biggest economic union is the European Union, which consists of 27 European countries from Arctic to Mediterranean, representing the market of almost 500 million inhabitants. Next in line is the North American Agreement on Free Trade (NAFTA). It consists of USA, Mexico and Canada. The goal is to eliminate barriers in trade and to promote easier approach to the market of every participating country. Continuing this development, the trade blocks have a potential to provide numerous businesses. Free trade trend surpasses trade blocks boundaries and is present on world scale. The best example of this development perspective is the General Agreement on Tariffs and Trade – GATT. This agreement was signed by 124 countries in 1994, in order to remove the trade barriers. The World Trade Organization (WTO) was established as the agreement protector, and also was established the International Court of Justice, which should arbitrate in eventual trade disputes. Although the results are partial, the WTO slowly, but steadily progresses toward the free trade all over the world.

Political activities in form of regulatory rules and less formal directives can have a significant impact to a business method. The state laws, which regulate advertising field all over Europe, lead to a fact that what is acceptable in one country can be forbidden in some other.²⁷ For example, advertising toys is forbidden in Greece, advertising tobacco is illegal in Scandinavia and Italy, advertising alcohol on TV and

²⁷ This labyrinth of state regulations for advertising means that the companies which try to make and image of brand all over Europe must often make right great changes in their advertising strategies from state to state.

sports fields is not allowed in France, and in Germany can be forbidden every advertisement which considers as lacking of style.²⁸

2.1.2. Political environment

The political risk defines as the one which appear due to sudden or gradual change of the local political environment, and which has no interest or is completely opposed to foreign firms' business. The activities which governments can undertake, and which represent the potential political risks fall into three main fields:

- *Business restrictions* – it can be exchange control, employment policy, insisting on local products and introduction of special conditions for some products or products' categories.
- *Discriminatory restrictions* – these restrictions impose only for foreign firms, and sometimes only to firms from specific country, for some reason. USA had introduced import quotas for commodity from Japan, as a form of protest against non-tariff barriers which have been, allegedly without good reason, introduced to the American exporters. USA has embargo on import from Libya and Iran, too. There are also instruments like special taxes and taxes on luxury goods, required sub-contractor, taking away financial freedom, etc.
- *Physical activities* – those activities are direct government interventions like confiscation without compensation payment, violent takeover by the government, expropriation, nationalization or property damage or injuring workers in mutinies and wars. For example, the government of Nigeria was publicly proclaimed the ownership over equipment and machines of the firm *Shell's*, without previous warning.

Events on September 11th 2001 have motioned many firms, which do business on international markets, to think over influence of political events on the global markets. Even now, the global industry of airliner-ship is still recovering from shake on September 11th. Since then, the invasions over Afghanistan and Iraq have opened a possibility of market development for some firms, while had come to destruction of other markets and appearance of higher political risk. Instability on Middle East and constant threat of the global terrorism have served to strengthen an awareness of firms on tracking the political risks factors on the international markets on which they business. Joining ten new members of the European Union from South, Central and East Europe has also significant consequences for the firms which do business on European markets. Certain number of candidates for joining

²⁸ Jobber, D., Fahy, J. (2006): *Osnovi marketinga*, Redaktor srpskog izdanja: Prof. dr Hasan Hanić, Beogradska bankarska akademija, Data status, Beograd, p. 44.

observes as the fields of relatively high political risks, but with potentially great market opportunities. Unstable political climate can expose firms to numerous commercial, economic and legal risks with which they would never face on their domestic markets.²⁹

The investments restrictions represent a frequent model which governments use to interfere politically on the international markets, in a way they limit the investments level, locations of factories, selection of the local partners and a percentage in ownership. However, recent trends of trade agreements, privatization and market reforms function towards removing the trade restrictions. Globally, by the global agreements realizes a persistent progress in past forty years. The *World Trade Organization* (WTO) has realized certain number of the world contracts by which have been increased quotas, decreased taxes and introduced certain number of innovative measures for stimulating trade among countries. Together with education of the regional trade agreements in the European Union, North and South America and Asia, these reforms make a deviation toward politically more stable international trade environment.

Understanding these questions is of essential significance for managers' work, which deal with international marketing, owing to must research, in detailed, models of world trade, regional trade agreements and development of world institutions for trade, aiming to make easier economic relations with abroad.

2.1.3. Expectations of actors in the international environment

As a complexity of the international marketing environment make one more big distinction for the firms which compete on the international markets, which is for the firm to have much bigger number of organizations and people who take part in how to do business, and, in that way, much more actors, whose different expectations can harmonize.³⁰ A capability of the firm to realize its selected marketing strategy has been determined mostly by the goals and actors' expectations, which directly or indirectly, invest their assets and provide a support necessary for applying the strategies and plans. It is important to determine clearly different groups of actors, to understand their expectations and to evaluate their power, while the actors are those who provide wider directions within which the firm does business. While top management of the firm desires usually to apply the strategies which do not confront directly to these actors' expectations, they often expand or change activities of the

²⁹ El-Kahal, S. (1994): *Intoduction to International Business*, McGraw-Hill.

³⁰ **Cvijanović, D., Mihailović, B.** (2011): *Međunarodni marketing kao faktor razvoja izvozne konkurentnosti*, monografija, Institut za ekonomiku poljoprivrede, Beograd, p. 57.

firm due to changes on the market and within the competition. Furthermore, a wide range of the actors affects on the multi-national enterprises' work, in a way they pay more attention to the political, commercial and ethical activities of the organization, as well as by greater interest for real work of the firm and its efficiency and the products' safety. As the consequence of that, the firm must explain their strategies and plans to the actors in detailed annual reports, to workers - through numerous *briefing* methods, and to lobby interest groups and to the community in which it does business – through various activities of public relations, especially when their activities affect to the local environment or economy. In the international marketing, is especially important for the firm to take care of the actors' fear in the host-country, where people can have different attitudes from those in the management. At the same time, one of the most important strategic issues is surely “timing”, i.e. a speed by which will the firm invest on foreign markets. Dilemma, similar to those in phases and focuses of internationalization, brings down to a question whether to hurry in order to prevent competition or to move gradually and with caution, and also whether to move step by step (by concentrating first on one key market and then to move to others) or simultaneously (in diversified way) to invest right away on more foreign markets. For making a decision is predominantly important to have an insight in development intensity and market durability, as well as to anticipate competitive opportunities and intentions.³¹

Special attention must pay to different expectations of „stakeholders“ and their influence to the strategic tendency of the enterprise. In regard to different expectations of the firm's actors, it is inevitable to come to the conflict. For example, the actors often want high return of their investments and can expect of the firm to search for countries with low production costs, while workers in those countries demand satisfying salaries of which they can live. Often exactly this capability of the firm to manage with these potential conflicts leads to success or failure of the firm in the international marketing.

International groups for pressure are the second significant actor in the multi-national firms' work, which influence must take into consideration. The global communications and potential of the world network can connect remote people, but with mutual interests, which has led to power increase of the global groups for making certain pressures. Their often repeated success has led to a fact that these lobby groups have become one of the key factors which must take into consideration during business policy conduction. The role of the pressure groups on the global

³¹ **Mihailović, B., Simonović, Z., Hamović, V.** (2008): “Formulisanje i realizacija strategije internacionalizacije poslovanja”, *Ekonomika poljoprivrede*, no. 3 (237-338) 2008, pp. 289-305.

market is to raise awareness on specific issues and problems. Among those groups which have drawn attention of the world public and which can influence on the international marketing strategies are:

- „Greenpeace“, which tries to raise the awareness regarding ecological issues,
- Anti-globalization lobby which demonstrates against allegedly „dark forces of the globalization“, as they see the World Trade Organization,
- Movement which fights against children exploitation for work.

Gap, the firm which deals with production and sale of cloths, has reacted to uncovering that the firm which had a license for their products' sale used children's work, in a way it had changed regulations on employment and removed children from work. *Levis*, the second target of this movement against children's exploitation, was exposed to bad publicity, so it had removed children from work, but had accepted to finance children's education until they become qualified to search for employment, of course with fulfillment of age condition.

One of the key roles of international public relations is to control the expectations and desires of the pressure groups, as well as of all the actors who affect the firm's work. Regarding the international marketing, one of the key responsibilities is making good practice in public relations, about the subjects where come to the conflicts of interest between the actors.

Regarding that the international business environment is becoming more and more competitive, more dynamic and more complex, appears increasing need among some managers to be aware, not only of current circumstances in which they work, but also of possible influences of changes in neighboring fields of work and life. Individual national markets can be astonishingly different by their character, so it is important to understand these bounds and consequences of changes which happen. In countries with problems in the field of economic relations with abroad, the most often misses the use of basic postulates and international marketing concepts, as a modern conception for realizing competitive advantage on international scale. Regarding that business internationalization has set in motion and has affirmed a need of operating with international business horizon long time ago, it is relevant for our enterprises, among other things, to recognize critical factors of success with less roaming, and therefore create a propulsive developmental strategy, of course, including also a provision of active support to macro-economic policy and other „soft“ infrastructure. In such striving should know that the political and economic environment have been mutually correlated, and sometimes is even hard to differ them. It is important for the firm which does business on the international markets to evaluate conditions in the country in which it wants to realize some business

activities, in order to take into consideration particularities and characteristics of markets.

2.2. Analysis of the global business environment

The enterprises do business in changeable and unpredictable global business environment. There is inevitable a strategic approach to formulation of goals, strategies, policies, plans, programs and projects. It is necessary to evaluate strong and weak characteristics of an enterprise and its strategic position in the global marketing environment.

While defining the strategic situation, we must analyze the environment and resources. The environment can be: common and target, favourable and unfavourable, good or bad, urgent, postponed and permanent. An influence can also be negative, positive and stabile. In regard to the resources should investigate a state, utilization level and balance.

The analysis and a polarization of the marketing environment and strategic capabilities of the enterprise should provide that a general direction of enterprises' operation commit its self. Based on understanding of common and competitive environment relation can assess alternative and basic directions of operations towards the general and target environment.

The goal of the marketing is to make contacts with outer actors, primarily a competition and clients, which have undependable existence. A survival of the enterprise by its self depends on how well management adjusts to the market conditions, which have been under the influence of numerous market actors' activities.

A significance of knowing the global marketing environment especially multiplies in conditions of networked economic actors at the global scale.³² A key goal of the networked business connection consists of their useful economic and organizational effects (direct and indirect) realization. It explains in a literature through its fundamental principles of forming and a functional existence specification, which reflects in a dynamic tendency of organizational development, permanent

³² **Cvijanović, D., Mihailović, B.** (2011): *Međunarodni marketing kao faktor razvoja izvozne konkurentnosti*, monografija, Institut za ekonomiku poljoprivrede, Beograd.

enlargement and education aiming to realize better positioning and greater success on the market.³³

2.2.1. Social environment

Social environment encircles all factors and trends, connected with the groups of people, including a number, characteristics, behaviour and development projections. As markets have concrete needs and problems, changes in social environment can affect them in a different way. The trends in the social environment can enlarge some markets, diminish the others, or help in creation of the new ones. There are four social forces which especially affect the marketing: changes in demographic contents of population, cultural distinctions within one and among different nations, social responsibility and marketing ethics, influence of consumers' movement.³⁴

Demographic environment. It refers to a size, allocation and development of certain groups of people with different characteristics. Demographic characteristics, of interest for marketing experts, are linked, in a way, to decisions on a purchase, while people from different countries, cultures, age groups or households often show different behaviour models. The global perception of demography requires from employees in marketing to get known with demographic trends worldwide, as well as at the national level. Statistical data on countries are very important, but most of marketing divisions aim at the concrete sub-groups of the total population. Therefore the trends in specific sub-groups are of utmost importance to employees in marketing. A significant trend in many countries is an *increase of population number*. Generally, the biggest towns and the highest population increase rate appear in developing countries, like Mexico, Brazil, and India. However, the increase of urban population is obvious in many developed countries.³⁵

The second interesting trend is a *population growing old in many countries*. The population growing old is especially expressed in Italy, Japan, Britain, USA and Serbia. At the same time, relatively young population is in developing countries, like Nigeria, Mexico, Brazil and China. In the EU will come to significant increase of

³³ Drašković, V. (2004): "Mrežno poslovno povezivanje kao megatrend i nova menadžment strategija", *Ekonomika preduzetništva*, br. 2., pp. 126-129.

³⁴ Cvijanović, D., Mihailović, B. (2010): *Menadžment i marketing uslužnog sektora*, monografija, Institut za ekonomiku poljoprivrede, Beograd.

³⁵ For example, in 1900, a number of citizens was 39,6%, rural population 60,4% and in 1990, however, 72,5% was living in America's cities, and 24,8% in the village. It means that the biggest and the fastest developing markets of many products are in urban areas of major countries.

people over 45 years of age in the total population and decrease of younger age group share, which will significantly affect a demand for products and services.³⁶

Cultural environment. A cultural environment refers to factors and trends which have been connected to a way of life and human behaviour. The cultural factors, including values, ideas, attitudes, beliefs and activities of concrete population sub-groups, substantially affect on people's behaviour patterns during purchase. Owing to that, the marketing experts must know well the cultural characteristics and trends on different markets. The cultural distinctions are important both on domestic and international markets.

The characteristics of various cultural origin groups have influence on type of products, which are saleable and in a way how to buy and use them. Different cultural groups often search for especially thought-out strategies of market targeting. Namely, the different cultures keep most of their habits, attitudes, interests and behaviour.

The successful marketing experts have noticed that there must be a sensitive balance between important cultural distinctions and similarities, which unite different cultures. After the culture elements, differ societies, nations and the whole civilizations. Analogously to a society, organizations also have their culture, they have been recognizable by, and after which they differ one from another.³⁷

Socially responsible business and marketing ethics. A significant development factor of new sector and sustainable development in Serbia is an affirmation of socially responsible business. It is about a relatively new concept, very efficient in terms of the global competition. The concept of socially responsible business contributes to realization of economic success, along with interests' respect of an individual, a society and environment.

The allocation of resources provides esteeming the *triple bottom line* criteria (economic development, social development, responsible relation towards the environment). Keeping up a delicate balance between industrial development and

³⁶ Jobber, D., Fahy, J. (2006): *Osnovi marketinga*, Redaktor srpskog izdanja: Prof. dr Hasan Hanić, Beogradska bankarska akademija, Data status, Beograd, p. 36.

³⁷ Janićijević, N. (1997): *Organizaciona kultura: kolektivni um preduzeća*, ULIXES, Novi Sad, Ekomomski fakultet, Beograd.

the environment preservation leads to redefining of existing resource combinations due to new costs of a transition to the environment-friendly-technologies.³⁸

An assumption of socially responsible business concept is freely adoption of measures which contribute to the social and ecological problems resolution.³⁹ We talk about a strategic approach to a society and partner relation toward other companies in the environment.⁴⁰

Another question regarding this is a question of marketing ethics. Ethics is a set of moral values and principles, which manage by procedures and decisions of individuals or a group.⁴¹ It points out to the principles of regular and bad behaviour. The ethics, therefore, deals with personal moral principles and values, while the law keeps social principles and standards which can be applied in courts. Thence can come to important distinctions between legitimacy and ethics of marketing decisions. Numerous ethical dilemmas are exactly a result of a conflict between a profit and business shares.

Consumers' movement. The consumers' movement is the association – a set of individuals, groups and organizations, aiming to ensure the consumers' rights. For example, „Movement for consumers' protection – Belgrade“⁴² was formed in 1991 as an independent, non-profit, non-government, non-party social organization for accomplishing and protection of rights, consumers' interests and users of services, according to the Law on Inhabitants Joining into Associations, Social Organizations and Political Organizations (Official Gazette SFRY 42/90), the Law on Social Organizations and Associations (Official Gazette RS 24/82) and the Resolution of UN GA No. 39/248. The program goals realize by pleading for: optimal social-economic development, social justice, democracy, peace, solidarity, poverty eradication, humanity, free activity of market-economic regularities, equal partner relations, cooperation with organizations of consumers worldwide, etc.⁴³

³⁸ Djuričin, D. (2006): „Tranzicija, stabilizacija i održivi razvoj: Perspektiva Srbije“, Uvodni referat, Miločerski ekonomski forum 2006: *Evropski prioriteti i regionalna saradnja*, Savez ekonomista Srbije, Miločer.

³⁹ **Cvijanović, D.**, Cvijanović Gorica, Puškarić, A. (2011): *Marketing i ekološka poljoprivreda*, monografija, Institut za ekonomiku poljoprivrede, Beograd.

⁴⁰ **Mihailović, B.**, Paraušić, V., Hamović, V. (2007): „Ekološki menadžment konsalting i zaštita sredine“, *Ekonomika poljoprivrede*, broj 1/2007, Institut za ekonomiku poljoprivrede, Beograd, pp. 91-99.

⁴¹ Berkowitz, E. N., Kerin, R.A., Hartley, S.W., Rudelius, W. (2000): *Marketing*, Boston, MA: McGraw-Hill.

⁴² <http://www.pokretpotrosaca.org.rs/o%20nama.html>

⁴³ A movement was registered on 21st 10.2003 for operating on the territory of ex-SFRY.

Fields of activities of the „Movement of consumers – Belgrade“ are:

- Development of „Consumers' movement“,
- Making terms and accomplishing legal protection of consumers,
- Monitoring and improvement of consumers economic position,
- Parallel research and evaluation of groceries quality, services,
- Consumers' education,
- Consumers' informing,
- Establishment and development of institutional cooperation and taking part in decision-making, of significance for accomplishment and protection of consumers' rights and interests,
- Development of consumers information system,
- Development of specialized and specific consumers' organizations.

Such organizations of consumers can have a significant influence to production processes. For example, a pressure of ecological movements from Finland and Germany to the company „UPMKymmene“, the biggest Finnish company and the biggest firm for paper production in Europe, had provided that a number of planted trees always be equal to a number of fell trees. German buyers (who represent the biggest market of the firm), like publishing house „Springer“, now includes, in its contracts with the companies for paper production, clauses on forests sustainability and forest biodiversity.⁴⁴ Enterprises should not consider the consumers' movements as a danger for business, but marketing managers should see that attitudes as an opportunity for creating new products and services, which will satisfy the market requirements.

2.2.2. Economic environment

Economic environment includes factors and trends connected to income amount and production of goods and services. While demographic and cultural trends generally affect to a size and a need of different markets, the economic trends affect to a purchasing power of these markets. Therefore is not enough for the population to be numerous and to develop fast, as it is in many developing countries, in order to appear good market possibilities. The economy must provide enough great and stabile purchasing power of users, aiming to satisfy their needs and desires.

The economic trends in different parts of the world may affect to the market activities in some other part of the planet. For example, a change of an interest rate in Germany has an influence on USD value on the world financial markets, which affect to a price and sale, American import and export, etc. The market opportunities

⁴⁴ Business Portrait (1997): „Early Riser Reaches the Top“, *European*, April, pp. 17-23.

depend on an economic size and power of one country's economy. Gross domestic product (GDP) represents the total size of one country economy, measured in size of produced goods and services. The changes in the GDP point out to trends in economic activities.

USA has the biggest economy in the world, and then comes Japan, Germany, France, Italy and Britain. Although, USA ranks relatively low on the economic development scale, while it lags behind, in past years, Hong Kong, China and some countries in West Europe. The other important factor is a level of economic activities per capita. These data ensure an evaluation of users' purchasing power in a country. USA is the first regarding the GDP per capita, then follows Switzerland, Canada, Luxembourg, Germany and Japan.

Some smaller countries, like *United Arab Emirates and Kuwait*, have high GDP in regard to inhabitants' number, although their level of economic activity is poor in regard to bigger countries. The users in those countries can have high purchasing power, but there are not much of such countries. These countries usually represent interesting markets for luxury products. And reversely, many developing countries have many inhabitants in regard to their economic power, i.e. individual users do not have great purchasing power. However, subgroups in those countries can have greater purchasing power, so there can exist significant business opportunities.

India, for example, has numerous populations, but small incomes per capita. In this relatively poor country, however, are 250 million users from medium, richer class. It is bigger than entire USA market. Multinational companies have started recently to invest in India, in order to use these business possibilities. „Motorola“assesses that 40-50 million middle class families has sufficiently great purchasing power to buy a telephone or a pager. It classifies India in one of the biggest unutilized markets in the world.

China is an example of a country which economic development has increasing rapidly in past several years. Analogously, the incomes per capita increase, so demand for cheap products, agricultural and medical equipment, power plants and communication gear, necessary for economic and state organizations, is hastily increasing.

Serbia has started a transition in 2000, when have acquired basic preconditions for its conduction.⁴⁵ A liberalization of trade relations and capital balance has provided

⁴⁵ **Mihailović, B.**, Paraušić, V., Simonović, Z. (2007): *Analiza faktora poslovnog ambijenta Srbije u završnoj fazi ekonomske tranzicije*, monografija, Institut za ekonomiku poljoprivrede, Beograd.

Serbian economic system integration into international financial and goods courses. The started changes in the field of economy, although under the influence of numerous factors having amortization effect on them, have acquired a character of irreversible processes. According to the source, a reform of economic system can hardly turn back to the starting position, but prior to it, can be spoken on its vacillating tempo and instruments of macroeconomic policy, which often should make a balance between diametrically opposite economic goals. Although, Serbia has been characterized by economic paradoxes, inconsistency and illogical laws, which in no case, could lead a country toward long-term sustainable development and European integrations. Serbian economy today suffers from high inflation, high public consumption, high current account deficit, high proportions among export and public debt payment. However, barriers of competitiveness are primarily in the field of institutions and infrastructure.

2.2.3. Technological environment

Technological environment contains factors and trends connected to innovations which affect to new products and marketing process development. Faster technological development requires perceiving things from technological point of view. Those technological trends have made business opportunities for new products development and affect the way in which do marketing activities. Using those technological products can help the marketing experts to be more productive (e.g. fax machines and mobile phones).

New technologies can bring to an occurrence of new economic branches, or new product lines in existing branches. Firms on leading positions in technological development are in more favourable position in regard to the others. Therefore, the marketing experts must follow technological environment in order to see potential opportunities which will improve their market position. Generally, a level of costs for research and development of patents can serve as an indicator of technological development. Although the firms from USA rank highly after numerous indicators, the firms from some other countries increase their costs for research and development and faster discover the patents from the USA firms. This situation left many American firms in serious technological remnant in their attempts to compete, globally observed. In order to compete successfully, the firms must follow events development in concrete technological fields.

Important technological events during 90's probably have encircled those from computer sciences, robotics and automatic devices; those events potentially affect to a way people live and work; then in the field of artificial intelligence and expert systems and a way of how the systems solve problems; at superconductors and

their potential applications for new products; in transport technologies, like magnetic trains, supersonic planes and „smart“ automobiles; and in communication technology, where appears impact on individuals and organizations.

The new technologies provide numerous possibilities in products and services improvement. That is to say, constantly appear new potential applications in technology. For example, „Piggy Wiggy“ supermarket chain, in South Carolina, is the first American retailer, which has introduced biometrical payment system in its 120 shops. In order to pay the goods, a buyer puts his forefinger on small screen, types a number on next device, and selects a bill from electronic wallet and leaves. Cash, cheques and credit cards are not necessary.⁴⁶ Nevertheless, a key for successful investments in technology is market potential, and not technological sophistication by its self.

2.2.4. *Competitive environment*

Competitive environment consists of all organizations which try to serve related users. Two competition types are of significance: brand competitors and production competitors. The brand competition refers on the most direct possible competition for users, regarding that the competitors offer the same products types to the same groups of people.⁴⁷ On the other hand, the production competition offers various types of products in order to satisfy one common need.

Business success is caused by an ability of an enterprise to: 1) recognize promising and enough great market segments, 2) identify critical success factors, and 3) develop business processes by which will achieve distinctive competences.⁴⁸ Although it directly relates on consumers, due to a complexity and a delicacy of satisfying their needs and competition dynamism, which (as „an enemy that never sleeps“) constantly threatens with attractive supply, the marketing has been, as some authors point out, too serious activity to be ceded only to the people from marketing. According to the same source, in order to satisfy consumers needs better, cheaper and faster, there is necessary to determine a real structure of business portfolio, but also to synchronize activities, economy of scale and economy of width capitalization, and to offer more benefits for the same price, by benchmarking with competition, i.e. in eyes of consumers, an attractive product/service.

⁴⁶ Birchall, J. (2005): „US Supermarket Encourages Shoppers to Keep in Touch“, *Financial Times*, 13. July, p. 22.

⁴⁷ For example, Nike is a brand competitor to Reebok and other firms which have their brands of sports footwear same types. These firms are aiming at the same markets and usually try to take away users from the competitor.

⁴⁸ Todorović, J. (2003): *Strategijski i operativni menadžment*, Konzit, Beograd.

Competitive environment of most of firms is global. Experts for marketing must determine their relevant brands and production competitors in order to find business possibilities and organize the market strategies. A trend which affects numerous economic branches is a changeable competitive ambience. Some production competitors are becoming brand competitors, enlarging their production supplies. If we take for example a financial services sector – banks have previously competed with other banks, and insurance companies against other insurance companies, brokerage houses against brokerage houses. Nowadays, new competitors appear on the market scene, especially via internet, so today is possible to do banking job electronically, to buy and sell bonds, to come to many other financial services.

Tracking a number, type and activities of competition is becoming more and more important, but also increasingly harder and more complex. However, recent proves show that it can be worth it. With a research was made public that the firms which deal with uncovering information on competition develop definitely faster than the others. Three the most significant kinds of information on competition are changes regarding prices, new products development and the changes in business strategy.

2.2.5. Institutional environment

Institutional environment consists of all organizations involved in marketing of products and services. Here belong firms for marketing research, advertising agencies, wholesalers, retail sector and users. Most of organizations change the way they are organized in. Those trends in institutional environment contain: restructuring, reorganization, making virtual environment, network organization, etc. Adopting some of these concepts means that the firm changes some elements of its structure and its processes.

Potential market consequences of organizational changes were shown by total quality management (TQM) and firms' size decrease trends. Many firms apply TQM programs. Those programs usually accentuate long-term relations with selected suppliers instead of short-term transaction with many producers. This trend means that target market of many firms is starting to be limited. A success in this type of environment requires that the marketing experts focus on doing business with fewer users. At the same time, decreasing firms' size is a frequent manifestation. Sometimes cancel whole sections, and in other cases decrease a number of employees per sectors. A main goal of size decrease is a reduction of labour costs and getting more efficient firm. It can be competitive advantage in accountancy, among advertising agencies and in other economy branches.

2.3. Challenges of service marketing in modern business environment

The service sector has become a dominant power of many national economies. It seems that there is a close connection between a level of economic development and power of service sector, although has not been determined whether powerful service sector leads to economic development or is just its consequence. It is obvious that a contribution of services to development of any national economy is increasing, where the services are becoming a main factor of increasing GDP of most countries. On one hand, users are becoming more and more demanding and more powerful in their relation with the service companies. They demand more relations and new kinds of relations. Adequate new marketing, known as the marketing of relations, is trying to engage a user interactively in more steps, in order to create a value, later shared between the service company and the user. Attracting and keeping the users are the main goals in profession of relation management and marketing. Keeping current users is a first goal of the relations marketing. In order to achieve it, the service companies must be ready to notice, in time, the users who decide not to use their services anymore, and then to analyze their act and to plan the future activities according to the available information and achieved knowledge. In other words, the management of relations with services users has to pay attention to concrete causes, due to some users „leave” the company.

Aiming to form and maintain long-term relation, the marketing of relations has to understand the users' expectations, to get familiar with the user, to evaluate service processes, to get a real assessment of service quality and to manage adequately with relations. In order to attain the goal of current users keeping, the service companies must be ready to notice those users who abandon them, and than to analyze, in accordance to get information, why that happened. From managers are expected to ensure that the entire organization see a significance of keeping the user. With introduction of incentive, by planning and regular funding of business activities, it is necessary to motivate employees to minimize their mistakes. More important, the managers must use the mistakes as a mean for constant service quality improvement, which they provide to users. Previously, the companies were tended to find and provide the value that was considered as a „product”. In the marketing of relations, the user supports the service company to provide a set of specific values which the users desire, so it is expected from the company to make plans and to adjust its business processes, communication, technology and employees to value realization, which user wants. The marketing of relations recognizes the real value for the user during longer time, where it tends, in the process of the value recognition, to come closer and relate closely with users. It is visible that in the past decades, service sector has got more and more on its

significance. In developed world, its growth is fast, and in some countries 60% - 70% of gross domestic product (GDP) falls under the service sector, therefore it significantly exceeds a percentage of industrial or agricultural production. Also, its share in GDP is increasing in less developed countries, so, for example, it is in Mexico 69%, in Argentina and South Africa 66% and around 50% in Thailand. Even in underdeveloped countries, the services often make at least 45% of GDP. Instantaneously, users are more and more demanding, expecting higher value and benefit from services they buy. In their relations with service companies they intend to make more significant influence on decision making. It is very strong signal, which sends to the management of service companies to perceive their weaknesses in time and to overtake certain measures, primarily regarding the relations innovation, accepting a fact that previous relations have been overcome, obsolete – identifying, before all, that their relations will take a leading role in the future. The users require new relations, based on the new marketing, known as the marketing of relations. Its clear and characteristic distinctive feature is creating and preserving long-term, in mutual way useful, relations with defined group of users.

Such process has accelerated changes in awareness and has brought to a new logic, sometimes called a „service revolution“. It starts from a fact that the essential element in exchange between companies and users are exactly a provided service. Boundaries among goods and services become increasingly blurred, and conventional characteristics between goods and services become artificial and inefficient. Paying the attention to services is noticeable worldwide in many economic branches. For example, software firms, producers of computers and electronics, passes through a great changes in their business, from production of goods toward services provision for users. The companies more and more lean on services, having in mind that they are inevitably becoming the most significant source of profit. Product and service are becoming equal by their significance for the company, with tendency to push the product in the background. Significance hierarchy trend from material to non-material products seems not to be limited on economic branches of high technology, but it refer both to the conventional channels.

2.3.1. Development of service economies

There is no doubt that the service sector has become a dominant power of many national economies.⁴⁹ It seems that there is a close connection between the level of economic development (which expresses as GDP per an inhabitant) and power of

⁴⁹ For example, from 1980 to 1992, number of businesses in service sector of Great Britain was increased for 1.1 million, or almost double than growth of entire economy.

the service sector, although was not determined if powerful service sector led to economic development or was only its consequence. The International Labour Organization⁵⁰ points out to a correlation between workers number in service sector of the country and its economic development.

High developed economies have been connected with high percentage of workers employed in the service sector, i.e. U.S.A. (75%), Canada (75%), Australia (74%) and Great Britain (73%). West countries, which are considered as less developed, have proportionally less number of employees in the service sector, like Spain (59%), Portugal (53%), Ireland (53%) and Greece (49%). The lowest level of service employment is in the least developed countries, such as Mexico (30%), Bangladesh (28%) and Ethiopia (9%). Although has been traditionally considered that the service sector has substantially strengthened just in past years, this must limit with several additional information:

- Accuracy level, by which the statistics on the service sector were recorded, was generally poorer than for the production and the primary sectors. System of economic branches segmentation (SIC - Standard Industrial Classification) for a long time had not separated the service sector in detail as industry or agriculture. Many service sectors had not been classified precisely in some of groups, which had hindered getting a complete insight on the sector.
- Non-material characteristic of services hinders their measurement, especially in case of international trade. While the courses of material goods through ports can be easily measured, trade courses connected to services measure much harder. Furthermore, faults in method the governments collect statistical data increase an imprecision of many branches.
- Development of service sector can reflect a direct influence of the method the statistical data collect by, and not the increase of real level of service activities. In many production organizations, employees in service branches, like catering, transport and distribution count as the employed in production. Where a cook is employed in production, the results and employment are credited to production sector. However, often phenomenon during 90's was that the production companies hire many of these service activities from the external contractors. Where such contracts sign with the external party, the employment is credited to the service sector, which makes this sector bigger than it is, although do not produce additional services – they are only surpassed from the production to the service sector.

⁵⁰ <http://www.ilo.org/global/lang-en/index.htm>

Regardless to that, services had great influence to national economies, and numerous service activities had increased productivity in production and in agriculture. As an example we state: transportation and traffic services often have stimulating effect on economic development at the local and national level (i.e. when the economy has been followed by railway expansion). The services can have multiplicative influence at the local and national economies, while the initial costs of the company which produces services lead to additional investments. The services with such influence function in a way that the first producer spends money buying external instruments (including labour), and the external supplier buy more and more instruments they need. Multiplicative effects of these initial costs can bring to a total income increase of households, which are much higher than the initial costs. Accordingly, there often supports the organization of sports events, like the Olympic Games, in order to realize this multiplicative effect. Although these events in the beginning require high expenses, demand also flows over to the other service sectors, as hotels and traffic, so there is often the total effect – far off higher profit. It can create additional demand for the local production industry in case when, for example, visitors demand the food which produces locally, so called „local specialties”, which has an effect on producers, because they need in this case larger volume of supply from supplier, and so on. One approach that can be used for understanding the contribution of services to the other aspects of economic activity is the analysis of input – output tables of production and data on input volume for labour and capital. These methods often use for productivity improvement effects evaluation of some sectors to other sectors' productivity levels. Some sectors with obvious high productivity suffer negative influence of other sectors low productivity, including also services. On the other hand, efficiency improvement of some services, like transportation and distribution, has totally positive influence on other sectors' productivity.

2.3.2. Defining marketing in service sector

Marketing, as a business philosophy of intensive production, in centre of its interest puts the analysis and introspection of all problems which refer to turnover and sale of goods, from a producer to a consumer.⁵¹ Traditional definition of marketing was given by the Chartered Institute of Marketing: *A process of management by which efficiently and profitably determine, anticipate and fulfil the needs of consumers*⁵² The marketing concept has occurred for the first time in countries with relatively better sources, in which existed a tough competition among the suppliers. Generally,

⁵¹ **Cvijanović, D.**, Popović, V., Katić, B. (2005): "Marketing i multifunkcionalna poljoprivreda", *Traktori i pogonske mašine*, vol. 10, No. 2, pp. 295-301.

⁵² <http://www.cim.co.uk/>

adopting marketing in the service sector has occurred later, mostly due to the effects of significant public monopolies and existence of professional associations and agreements, which have, until recently, limited marketing activities of numerous service organizations. Accordingly, it is significant to understand the marketing orientation. That is to say, it should contain three important components:

- Orientation toward users – means that the organization has enough awareness on its target buyers, which provides a creation of added value. Here are advantages for buyer, meaning that prices should fall or quality should improve. Orientation toward users requires that the organization realizes a value which user requests, not only for today, but also in the future.
- Orientation toward competition – defined as an idea of the organization on short-term advantages and deficiencies, but also on long-term business opportunities and strategies of present and potential competitors.
- Cooperation between sections in enterprise – refers to a way the organization uses its assets in creating higher value for its target users. Many individuals in the organization have responsibility to create value, not only staff employed in marketing, and marketing orientation requires that the organization uses and efficiently gathers its human and material resources and to adjust it in a way to fulfil the needs of users. This aspect of marketing is essential for the services sector, where are production and consumption two inseparable processes. Accordingly, the accent should be put on significance of users' needs satisfaction through connection of marketing, human resources management and working operations management.

The marketing orientation implies that the enterprise in economy exists with its basic purpose to satisfy certain needs. With development, the enterprise changes its production program, anticipating the changes in market segments needs, which it settles.⁵³ It uses for description of basic business philosophy of organization, as well as techniques it uses. As the business philosophy, marketing puts users in the centre of every business consideration.

At the same time, this area keeps developing and expanding together with market development and has, for its goal, to set up a theoretical base for business strategies on the market.⁵⁴ Basic values, like request for determination of changeable needs of current users and necessity of constant search for new market

⁵³ Milisavljević, M. (1999): *Marketing*, Faculty of Economics, Belgrade, p. 35.

⁵⁴ **Cvijanović, D., Mihailović, B., Simonović, Z.** (2009): *Uloga i značaj marketinga u razvoju agrarnog sektora Srbije*, monografija, Institut za ekonomiku poljoprivrede, Beograd, p. 8.

possibilities, have been built-in all marketing-oriented organizations and cover all aspects of organization activities. In fast food retail trade, a training of service staff must emphasize those items – like clothing standards and speed in service providing – which was founded as something what users appreciate the most. The staff manager, by his policy in staff selection, must hire those who satisfy the users' needs, not those who work for the least assets. One of the basic roles of the staff management is to adjust number and structure of human resources with planned size and structure of business.⁵⁵

Thereby, it is not enough that the organization only sets up the marketing manager or to found the marketing section in the firm. Observed as a philosophy, the marketing represents the employees' state of mind, which permeates the entire organization. At the same time, it is necessary to create a business ambience, stabile and simultaneously stimulating for all economic participants, who cling to the market rules.⁵⁶

The marketing orientation is connected with wide set of techniques. For example, the market research is a technique for revealing the users needs, while advertising is a technique for transmitting the message on service supply to potential users. However, these techniques lost most of their values if they are conducted by the organization which has not completely adopted the marketing philosophy. The marketing techniques contain also price determination, design, communication and distribution channels, as well as new products development. Service companies can represent themselves as the marketing-oriented, pointing out that their users come first, but there can often be noticed that the marketing is frivolous, on which call attention the following signs:

- Opening time, projected in a way to suit to the interest of employees, not the users (often in public services);
- Administrative procedures which alleviate the firm's activities, but not for their users;
- Parking spaces – the best for employees, not for the users;
- Advertising which aims at satisfying the firm's manager, not at recognizing the needs and aspirations of potential users.

⁵⁵ **Mihailović, B.**, Paraušić, V., Hamović, V. (2008): *Vodič za evaluaciju konsultantskog učinka*, monografija, Institut za ekonomiku poljoprivrede, Beograd.

⁵⁶ **Cvijanović, D.**, **Mihailović, B.**, Simonović, Z. (2009): "Tranzicija u Srbiji: efekti i ograničenja", „Tranzicija“ Ekonomski institut Tuzla, JCEA Zagreb, DAEB, Institut za ekonomiku poljoprivrede Beograd, feam Bukurest; br. 21-22/2008, pp. 87-100.

2.3.3. Marketing mix of services

The marketing mix is a set of techniques which the organization uses for shaping its supply for users. Experts for marketing are familiar with the “4P” concept (product, price, place and promotion). First analyses, published by *Borden*⁵⁷ on marketing mix elements were based on production industry research in the moment when the significance of services for the economy has been considered relatively poor. Nevertheless, recently, the “4P” of the marketing mix performs too much limited in its application to services. Concrete problems which limit their usability are:

- Non-material character of services anticipates in most of marketing mix analyses. For example, the production mix often analyzes in sense of physical design characteristics, which is not relevant regarding the services,
- Price element anticipates a fact that many services produce by the public sector without any price for users;
- Mix promotions with the traditional „4P” principle do not succeed to comprehend that services promotion happens in consumption places and is performed by staff which produce the services, as distinguished from the situation with goods which mostly produce far away from users, where the producer has no contact with users and is not engaged in promotion of goods it produces. In bank sector, a method of creating the service is an essential element of total service promotion.

As appear ambiguities in meaning of some of these four marketing mix elements, this list does not manage to comprise certain number of key factors, which the marketing managers in service sector use for projecting the services. Concrete problems appear when:

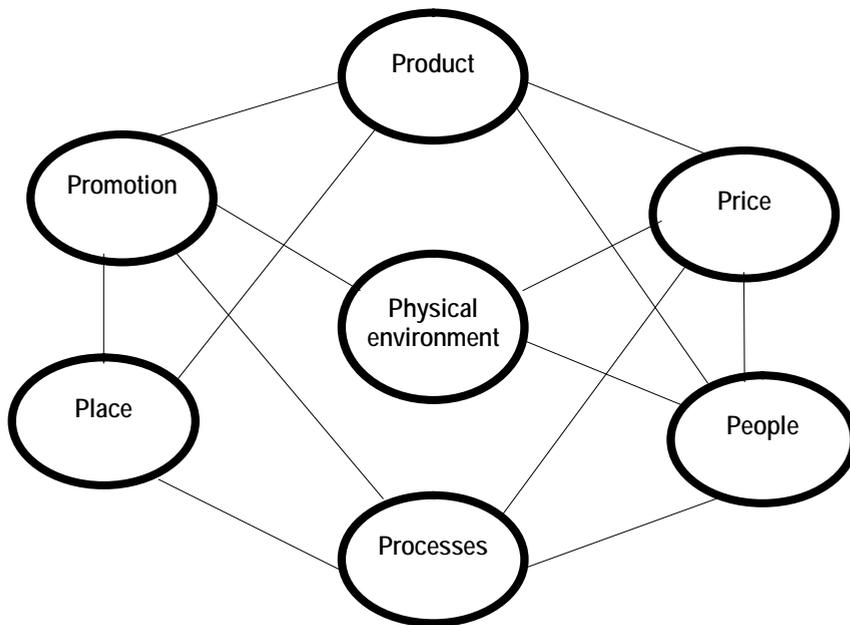
- Defining the quality concept in non-material services and determining/measuring the elements of the marketing mix, which can be controlled for making high-quality service,
- Significance of people, as an element of service product, as producers and users,
- Distribution elements of significance with non-material services, defined simplistic.

These deficiencies have brought to occurrence of adequate adjustment of the marketing mix in a way more applicable in the service sector. Besides four traditional elements of marketing mix, this frame includes also additional elements: humans, physical environment and process. Thereby was created the marketing mix frame

⁵⁷ Borden, N.H. (1964): “The Concept of the Marketing Mix”, *Science in Marketing*, George Schwartz (Ed.), New York: JohnWiley.

for services, well-known in literature as the “7P” (*Picture 1*).⁵⁸ A need for this continuation is a consequence of high level of direct contact between firm and buyer, as well as a fact that a process of providing service is mainly visible, owing to simultaneous production and use. The principle of expanded marketing mix (along with the traditional marketing mix) refers to division of service supply to a certain number of integral parts and their arrangement in the field that cannot be controlled during the strategic decisions making. The decisions connected to one element of the mix can be made only by taking into consideration all other elements of the mix, in order to get sustainable positioning of the products. The significance which credits to every element of the extended marketing mix will depend from each service individually. Regarding highly automated services, a human element will not have such significance in the marketing mix, as distinguished from the business in which is expected an intensive human engagement (like restaurant). In addition is given brief review of these integral parts of the marketing mix services.

Picture 1. Elements of marketing mix for services – “7P”



⁵⁸ Boom, B.H., Bitner, M.J. (1981): “Marketing Strategies and Organisation Structures For Service Firms”, in Donnelly, J.H., Gorge, W.R. (eds.), *Marketing of Services*, Chicago: American Marketing Association, pp. 47-51.

Product. The physical products are instruments by which the organizations satisfy the users' needs. The product in this sense can be anything which the organization offers to the potential users, whether they are of material or non-material character. After the initial hesitation, the most of marketing managers today speaks gladly about non-material services as the product. Therefore the bank account, insurance policy and tourist arrangements are often called the products.

The decisions on the services marketing mix the marketing expert is facing with, can be very different from those regarding products. Pure services can be defined only with application of depicted factors of the process, and not by material description of the results, whereat the quality is becoming a key element in defining the product. Second elements of the production mix, as design, reliability, image, brand and range of products, can sound familiar to those which deal with goods, but regarding services also have different roles. There are important differences among products and services, because the development of new service cannot be protected by a patent.

Price. It is one of the marketing mix instruments, which, used individually or in combination with other elements, should provide implementation of business goals.⁵⁹ The prices mix contains the strategic and tactical decision on average prices which charge, by giving discounts, payment terms and price adjustment to various groups of users. These are similar things to those the expert for products marketing faces with. Differences, however, occur when non-material character of service can mean that the price its self becomes very important indicator of quality.

Promotion. The traditional promotion mix contains various methods of transferring the message to the potential users on service's usefulness. The mix traditionally divides on four main elements: advertising, sale promotion, public relations and personal sale. The services promotion must often put a special accent to increase of obvious material character of services. Also, in case of the service marketing, employees in production often become the essential element of the promotion mix.

Place. Decisions on location refer to alleviation of the potential users approach to the place in which the service provides. The decisions on location can therefore contain the decisions on physical location (as in case of the hotel location), the decisions on which mediators to use in providing the service (whether the shippers use tourist agents or sell their arrangements directly to travellers) and non-location

⁵⁹ **Cvijanović, D.**, Simonović, Z., **Mihailović, B.** (2010): „Uloga menadžmenta i marketinga u afirmaciji golijskog sira“, u Monografiji prof. dr Mihailo S. Ostojić, „GOLIJSKI SIR“, Institut za ekonomiku poljoprivrede Beograd, Glavni i odgovorni urednik: prof. dr Drago Cvijanović, pp. 179-195.

decisions which use in order to make the service more available (for example, using a telephone delivery). Regarding pure services (where is not present a material product), the decisions on physical transfer method do not have any strategic meaning. Nevertheless, most of services relate on transfer of certain goods in some form. Those can be materials necessary for making the service (i.e. travelling brochures or fast food packaging) or the service can have its purpose in goods transportation (all kinds of traffic and shipping services).

People. People are the essential element of the marketing mix in most of services. In the service sector, however, everybody is partially a “seller”, while their actions have enough direct influence on impression that makes among the users. Although the significance credited to human resources management in quality improvement regarding production companies' work increasingly raises (for example, by development of quality circles), planning of people prefers much bigger importance in the service sector. It is especially of importance with those services where employees have high interaction level with users. For this reason, of essential importance is for service companies to clearly determine what expects from their employees in work with the users. In order to achieve a specific standard, methods of employment, training, motivation and rewarding of staff cannot be considered only as the decisions connected to labour – those are significant decisions of the marketing mix. Planning of people within the marketing mix also refers to development of cooperation pattern among the users, what can be very important where service consumption performs publicly. As regarding the people planning in production, the marketing management must design the strategies for realization of favourable relations between its users – excluding, for example, specific groups and creating the physical environment which has an effect on users' behaviour.

Physical environment. Non-material character of service means that the potential users cannot evaluate the service before they buy it, which increases the risk connected to a decision to buy it. The important element of marketing planning is to decrease this risk level, thereby will offer a material proof on service character.

This proof can have more different aspects. In its most simple form, the brochure can describe important elements of service products (brochure on travelling provides hotel pictures). The look of employees can point out to a service characteristic – neatly dressed employee points out that the company in whole does business with attention and to take care on their users. The buildings also use to provide a proof on service characteristic.

Processes. Production processes are most often of small significance to users of produced goods, but often of great importance to services users with many contacts,

where the users observe as participants in the service production. Performances of service vary from one firm to another. In the service sector, it can be described the best as total service quality, which reflects in user's satisfaction. In that way, responsibility for the total quality cannot be separated to closely defined services section, but becomes a concern of all employees, as those directly employed in the organization, as well as those in suppliers rank.

Literature on the service marketing has developed after the literature on product's marketing. During the development was used many, already existing manufactured metaphors for services description, as well as terms as inputs, analysis, outputs and productivity. The initial phases in services research have deliberately drawn a parallel between material goods production and non-material services delivery. However, the manufactured metaphors are not of any use when the marketing managers have to recognize the unique human aspects in comparison with non-living inputs, which can be stored for months (while the first can become dissatisfied after few minutes of waiting in line).

2.3.4. Services' characteristics

The services have certain number of different characteristics which separate them from the goods and have influence on the way they introduce to the market. Those characteristics are often described as intangibility, indivisibility (production place from the consumption place), changeability, ephemerality and ownership absence (*Picture 2*).

Intangibility. The service is an action, performance or effort, not an object, device or a thing.⁶⁰ The pure service cannot be evaluated by physical senses, that is an abstraction which cannot be directly researched before purchase. A potential buyer of most of goods can research the good and to see its physical appearance, aesthetic occurrence, taste, aroma, etc.

Many advertising assertions connected with these material characteristics can be checked before the purchase. On the other hand, the pure services have no material characteristics which can use for checking the advertising assertion before their purchase. Characteristics of material process defined by the services, like reliability, personal concerns, staff attention, friendly attitude – can be checked only when the service purchase and consume. Accordingly, it is necessary to provide data on the service quality. For example, the company McDonald does it in a way it controls its restaurants' physical environment and uses golden curves as its brand. Thanks to a

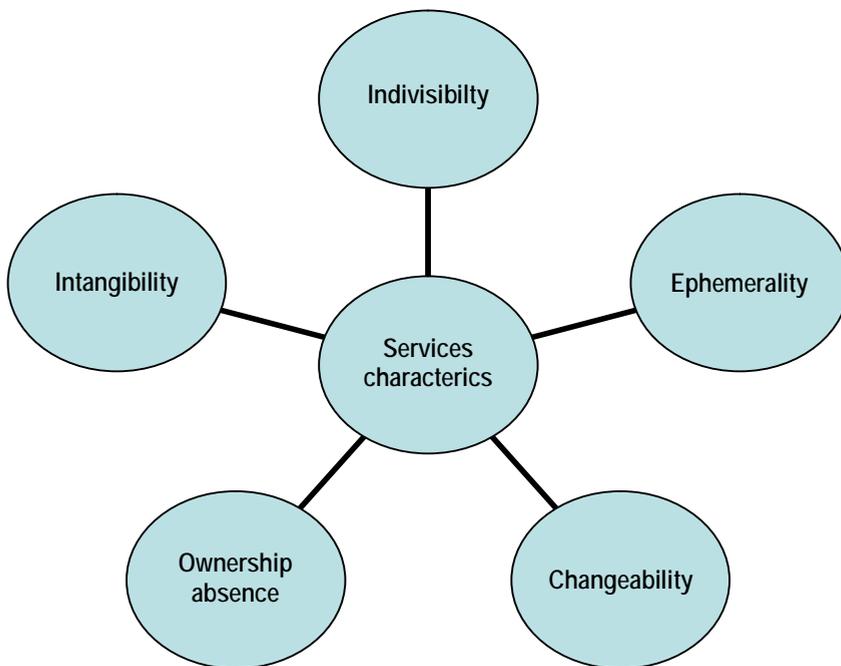
⁶⁰ Berry, L.L. (1980): "Services Marketing is Different", *Business Horizons*, May-June, pp. 24-29.

consistent quality of services, this company has successfully removed difficulties which consumers have when they evaluate the quality of services. Standard menus and ordering procedures have also provided to the buyers easy and unique approach, and thereat provide the quality control.⁶¹

A level of materiality (tangibility) which exists in service supply origins from three main sources:

- Material product which is involved in service supply and which the users consume,
- Physical environment in which realizes the process of production/consumption,
- Physical proof on done service.

Picture 2. Unique characteristics of services



Where the goods make an important component of service supply, many activities connected to classic marketing of products can be applied at this part of service

⁶¹ Edgett, S., Parkinson, S., (1993): "Marketing for Services Industries: A review", *Service Industries Journal*, 13 (3), pp. 19-39.

supply. The restaurants represent a combination of tangible and intangible characteristics. Therefore, food production can separate from its consumption. Furthermore, the existence of tangible component provides to users a visual component according to which can evaluate the quality. Material elements of service supply make not only the products which exchange, but also the physical environment in which it purchases. In that environment, design of buildings, their cleanliness and staff image represent an important physical proof, which can be the only base, on which buyer can differ one service provider from the other.

While some services are full with these material signs (restaurants, shops), the other services provide relatively poor material evidences (life insurance). Materiality provides additionally by methods which support the production of service. Some of services provide numerous opportunities to users to see the production process, while sometimes are a purpose of service to ensure a user to see a process of production (for example, in case of pop concert). Often this material proof can be seen before the decision to buy, whether by direct observing of service which provides to some other user (observing house construction) or indirectly, through a process description of service production (all kinds of brochures). On the other hand, some services provide very little material signs on process character of service production. The services of portfolio management not only produce mostly out of user's sight, but are hardly to describe in advance in a brochure the outcome of a service. Non-materiality has certain number of significant marketing consequences. Lack of physical evidences implicated by non-materiality, increases the uncertainty level by which the user faces when he chooses between several competitive services. Accordingly, an essential part of the service marketing program will be to decrease the uncertainty among the users, through providing the physical evidences and designing powerful brands.

Indivisibility. Production and consumption of material good are two separated activities. Firms mainly produce the goods in one location and then transport them to the other, where most of users want to buy. In this way, production companies can realize higher production by centralized organization and quality check. Producer can also produce the goods in time appropriate for him, and then to present it to a user in some moment, appropriate for the user. Therefore says that production and consumption are separated processes. On the other hand, consumption of service is inseparable from production. Consumer must come to a service facility or a service provider must come to a consumer.⁶² Usually must meet in some place in specific time, appropriate for both sides, in order to move service profit directly from a producer to a user. This is called a service co-production. In case of personal care

⁶² Ljubojević, Č. (2001): *Menadžment i marketing usluga*, Želnid, Belgrade, p. 37.

services, a user must be present during the whole process of production – doctor cannot make a contact with a patient without a patient. Regarding services, the marketing is becoming a mean for alleviation of complex relations between producers and consumers.

Inseparability has certain consequences regarding the marketing of services. Firstly, while goods generally first produce, then offer for sale and, at the end, sell and consume for real, the inseparability changes this process in case of services. The services generally sell first, then produce and consume instantaneously. Secondly, a method of goods production substantially has no great meaning for a user, while the production processes are of great significance for services use. In case of goods, a user is not a part of production process and, in general, as long as the product fulfils his expectations, he is satisfied. Regarding services, the active share of users in production processes make this equally important as defining target benefits. In some cases, apparently small change in method of servicing can completely destroy a value of service, which provides.

Changeability. Regarding the services, the changeability has an effect on users, not only in sense of a result, but also in sense of the production process. In this second point, the changeable character of the services can be much bigger problem, in comparison to the goods. As the user is mainly involved in the service production process in the moment he consumes it, it will be hard to make tracking and control of quality, in order to provide persistent standards. Checking possibility before delivery, which is present in the goods production, mainly does not exist regarding the services – they must produce in the presence of user, without any intervention possibility, which would have an effect to the quality. Concrete problems can appear when staff is engaged in services provision on one time basis, where there is no efficient method of tracking and control. There are two sizes of changeability (variability) important for the services: 1) a level on which the production standards vary from norm, as regarding the outcome, as well as regarding the production processes, 2) a level on which the service can deliberately change, in order to fulfil concrete needs of special users.

Changeable character in production standards is of the greatest interest in the service companies, where users are closely involved in the production process, especially where is impractical to track and control the production methods. It applies on many physical personal services which provide in one time situations, like personal health care. Some services provide more possibilities for quality control during the production processes, which provides the company to ensure high quality level. It especially applies on the mechanical services. Many service companies tend to decrease the changeability and to create powerful brands – by adopting

automated methods of production. Replacement of human telephone operators with computerized voice systems and automated banking services, are usually a part of this trend. Sometimes human changeability decrease realizes by transfer of part of production process to the users. The second changeability level is a level on which services can be target adjusted in order to fulfil concrete needs of special users. How services create and instantaneously consume, and how the users are often a part of the production process, a potential for service adjustment has been generally bigger than in goods production. The level on which the services can be adjusted depends on used production methods. The services which produce for numerous users at the same time can offer a small scale of personal customization. The level, on which the services can adjust, partly depends on decisions of management on authority level which transfer to direct service providers. While some service companies give more freedom to their employees in their work, the others have a tendency to industrialize procedures anyhow. Although the industrialization often decreases producers' flexibility in fulfilling the special needs of users, it has also influence to decrease of process and outcome variability. The changeability of service output can be a problem in creating a brand regarding services, in comparison with material goods. In regard to the goods, it is usually relatively easy to engage tracking and control of production process quality in order to ensure a persistent way out to the brand. Attempts of the service sector to decrease the changeability concentrate to the methods which use in selection, training, motivation and control of employees. In some cases, service supply is deliberately simplified – employees have been replaced by automatic devices in order to decrease the changeability, which occurs due to a human factor.

Ephemerality. The services differ from the goods, among others, by that they cannot be stored. A car producer, who cannot sell all he had produced in previous period, can keep stocks, which he will sell in the future period. The only significant expenses are storage expenses, financial costs and possibility of loss due to obsolescence. As distinguished from it, the producer of service who cannot sell all that he had produced in previous period, has no way at disposal to realize the sale in the coming period.⁶³ Small number of services faces constant demand. Many services show significant variances, which can be of daily character (fast food in centre of town), weekly (increased demand in Friday evening for bus transportation), season (shops during March 8th, New Year, etc.), cyclically (mortgages and credits) or unpredictable demand (urgent reparations, for example). Instability of services leads to a fact that more attention must be paid to managing demand and production

⁶³ Shipper who put up for a sale places on the flight in 9:00 h from Belgrade to Paris, cannot sell all empty seats once the airplane take off. Service offer disappears, and the empty seats cannot be saved and used for higher demand that can be present yet in 10, 00 h.

planning, as more as possible, to track the demand trends. Chances for realization of competitive advantage often lie in components of services. For example, cinemas are again in hard position owing to decrease of visitors number, because films issue also on DVDs and people watch them in their homes.⁶⁴ Consequentially, improvement of service components is one of few ways that cinemas again “fight” for their audience.

Absence of ownership. This characteristic of service is connected to non-materiality and instability characteristics. Regarding goods purchase, buyers often become the owners of product and after that can do with it what ever they want (even are not obliged to use it in expected purposes). On the other hand, when service provides, there is no transfer of ownership from a seller to a buyer. The buyer pays only a right on service process, like using parking or solicitor's time. There must make a difference between impossibility to own the act of serving and rights of buyer to provide the service in some moment in the future (gift ticket for a concert, for example). Impossibility of owning the service has its consequences in projecting distribution channels, so wholesalers cannot keep their name as regarding the goods. Instead of that, the methods of direct distribution are more often used, and where mediators are used, they generally work as a support to the service providers.

2.3.5. Services marketing as an element of new marketing of relations

The service sector is becoming more and more significant. In major part of developed world, its growth develops quickly, and in some countries 60-70% of GDP belongs to the service sector, thereat it far off exceeds factory production and agriculture.⁶⁵ Also, their share increases in other countries, so, for example, their share in Mexico is 69%, in Argentina and South Africa is 66% and around 50% in Thailand. Even in underdeveloped countries, services usually make at least 45% of GDP. *Table 2* shows the importance of the service sector worldwide. At the same time, users are more and more demanding, expecting more and more value and benefit of service they buy. They are becoming more influential in their relations with the service companies. It is very strong signal which sends to the service companies to recognize a leading role of relations they have with users. That is to say, the users seek for new relations based on the new marketing, known as the marketing of relations. Its clear and distinctive characteristic is cherishing long-term mutually useful relations with defined group of users. As distinguished from that, in

⁶⁴ Parkes, C. (2005): “Cinemas Feel the Pinch as Viewers Stay on the Sofa”, *Financial Times*, June 26, p. 25.

⁶⁵ Jobber, D., Fahy, J. (2006): *Osnovi marketinga*, Redaktor srpskog izdanja: Prof. dr Hasan Hanić, Beogradska bankarska akademija, Data status, Beograd, p. 179.

transaction marketing, the relations base on keeping the current users, and just then, on attracting new ones, taking into consideration understanding, foreseeing and satisfaction of the users.

Table 2. Services worldwide in 2002

Country	Percentage of services in GDP	Percentage of employees in service sector
U.S.A.	80	83
Belgium	75	73
Denmark	75	79
Great Britain	73	74
Australia	72	73
France	71	71
Germany	71	63
Netherlands	70	73
Canada	69	74
Austria	69	67
Finland	69	76
Luxembourg	69	90
Sweden	69	63
Italy	67	67
Spain	68	64
Portugal	65	60
Greece	64	63
Kenya	63	/
Japan	62	65
Brasil	59	53

Source: Czinkota, M., Ronkainen, I. (2004): *International Marketing*, Thomson Southwestern, p. 472.

The marketing of relations tries to engage users in many ways, in creating added value, looking for new ways in realizing new benefit for a user, and then, such obtained value shares between a producer and a user. It recognizes a key role which users have, not only as buyers, but in defining the value they want. Formerly, the companies had tended to find and provide the value which had been observed as a "product". In the marketing of relations, a user helps service company to provide a set of certain values which user desires, so there is expected from the company to plan and adjust its business processes, communication, technology and employees to realize a value the user wants. The marketing of relations recognizes the value for the user during longer time period. In recognizing the value, it tends to connect closely with the users. Purpose of the relations marketing is to create relations chain within the organization, aiming to get the value the users desire and, naturally, between the organization and its users. Stated characteristics of the relations marketing suggest that it is defined by relations, interactivity and long-lasting period. This kind of marketing activity can be considered by relation management which creates, develops and maintain a network whose part is a

service company. The service company and the users realize bilateral and multilateral activities in order to get a value, especially through a personal communication. Aimed to create and maintain the relations, time is necessary. Short-term relations, in whom the users come and go, are generally more expensive than long-term relations in the service sector. The marketing budget for attracting the user and stimulation of potential users to accept the company's promises are often very generous, so it is more important to focus at education and up keeping of long-term relations with the users. The marketing of relations must find and solve the concrete problems, which mean to understand the user's expectations, to meet the users, to evaluate service processes, to determine a real quality of service and to manage adequately by relations with its users.

2.3.6. Understanding the users' expectations

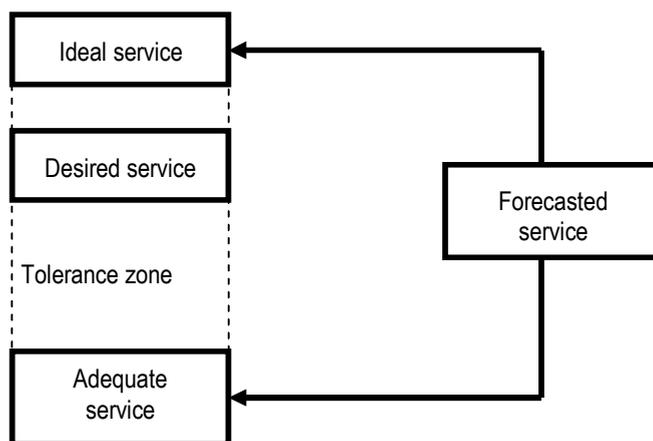
Understanding the expectations of users is a precondition of providing high-quality service. A scope of their expectation can be shown in five dimensions of service, of which is everyone equally important:⁶⁶

- Reliability. The users expect of the service company to provide desired service precisely and persistently, which refers on promises up keeping in providing services and keeping up the reputation,
- Appearance. Physical appearance, like equipment or employees' appearance is one of the factors by which the users evaluate the service company. Material stuffs have an effect on perception on service quality, giving a direct signal on nature and quality of the service, and indirectly, offering its physical aspects in service provision. The users expect of all these aspects to be in accordance to a promised, and to have certain quality level.
- Readiness. The users appreciate the company's readiness to provide service fast and efficiently, as well as the responsibility, which means that it will inform the users on service characteristics before, during and after the service purchase.
- Confidence. This dimension of service is a consequence of knowledge, kindness, expertness of employees and their abilities to make a trust between the users.
- Sensibility. The users want to be understood by the company. Therefore, they expect attention and communication at the level they can understand and a person who will listen to them.

⁶⁶ Danciu, V. (2007): "Performance in Service Marketing from Philosophy to Customer Relationship Management", *Theoretical and Applied Economics*, 01/02/2007; pp. 7-14.

Owing to that the services characterize by heterogeneity, the consumers learn to expect a variance in service delivery from one to the other location, even from the same provider within the same time period.⁶⁷ The consumers, which accept this variance, develop a tolerance zone, which refer to a difference between desired and adequate provided service. Accordingly, the expectations of user, linked to services, have two levels: desired and adequate.⁶⁸ *The desired level of services* is a service for which the user hopes to get it, while the *adequate level of services* is the one that the user considers acceptable. It is partly based on evaluation of the user what kind of service is going to be, i.e. of „anticipated service”. Separating the desired and adequate service we get the tolerance zone, as shown in the *picture 3*. The tolerance zone is expanding and contracting, like an accordion, following these two service levels. As the users consider the reliability the essence of service and have bigger expectations for this aspect, it seems that they are at least ready to low the expectations threshold of this aspect. Therefore will the tolerance zone of service reliability will decrease in time, and desired and adequate levels of the service will probably increase. The users’ expectations on desired service are under the influence of concrete conditions and circumstances, so they are more changeable than the expectations on desired service.

Picture 3. Model of consumers' expectations



Source: Zethaml,A.V., Berru, L.L. and A. Parasumaran (1993): “The nature and determinants of customer expectations of services”, *Journal of Academy of Marketing Science*, Vol. 21 (Winter), pp. 1-12.

⁶⁷ Ljubojević, Č. (2001): *Menadžment i marketing usluga*, Želnid, Belgrade, p. 75.

⁶⁸ Danciu, V. (2007): “Performance in Service Marketing from Philosophy to Customer Relationship Management”, *Theoretical and Applied Economics*, 01/02/2007; pp. 7-14.

The most important factors, which have been susceptible to the users' expectations on acceptable service, are a number of possible alternatives and urgency of service. If the users consider they have other opportunities of getting the desired service, then their tolerance zone will be lower than if they have no other opportunities. The urgency of service raises temporarily a level of adequate service, and thereby limits the tolerance zone. In order to find good solutions, the company managers must take into consideration the influence of the expectations of users on their services.

Firstly, the service company has to show that it does business fairly. In that case, it can increase the tolerance zone of its users. That will require full attention for clarifying the services business policy, so the company must substantially to listen and pay attention to the users' attitudes and desires.

Secondly, providing the service correctly first time, the company earns the users' trust at start, in their eyes it is serious and reliable, it can be lean on with confidence and certainty. The companies which do not succeed, at first, to sell the essence of service they offer, disappoint the users in the most direct way. The managers must introduce the value system "do it properly the first time", setting up the reliability standards, training the employees on reliable way of business, setting up the "reliability conditions" during the evaluation of concrete services, in order to decrease a failure possibility.

Thirdly, the companies must keep up their promises. The service companies will have a bigger chance to fulfil the expectations of users, when their promises reflect a service which really provides, and not idealized version of service. The look of a hotel room, quality of water, for example, contribute to positive and negative impression on the hotel's service quality.

Fourthly, there is expected from the service company's manager to motivate and to train the employees to become efficient service providers. It implies: recruitment of perspective employees, their training in skills and communication techniques; providing employees to make decisions and to be creative in their reactions to users' needs; measuring the employees' potential to provide excellent service, for example, with help of test how well we know the product and quality of service they provide; financial rewarding of best provider; career progress.

Fifthly, the managers must understand that the real relation development with the users is primarily a mean by which the service companies increase their users' tolerance zone. It is, maybe, the most important consequence for the management from the users' expectations. The relation with the users gives the companies a credibility factor, which stimulates the tolerance among the users. Each service

system has been based on relation must project in accordance with determined requirements, in the following way:

- The users must have an approach to the service when there is a need for it. They have to know when they can make a contact, in what way, and then to be in possibility to do it for real,
- Communication between the company and the user must be flexible and quick,
- Besides the flexibility of service to users, service companies have, also, to be willing to some something like that. They must have all possible instruments at disposal: information, communications, approach to services, delivery.

III DEVELOPMENT OF MANAGEMENT CONSULTING IN SERBIA

Inadequate economic development of Serbia is determined by many factors, among which the following stand out: a country geopolitics position decline, disadvantageous economy structure, loss of traditional markets, financial indiscipline at all levels, and management capacity and skills insufficiency. Companies have performed their activities in such business environment characterized by inefficiency and employees' lack of motivation. Since 2000, the consulting became very actual in Serbia. The demand for consulting services rises together with real needs, and is dictated by: privatization, value evaluation of the enterprise, foundation of new small and medium enterprises, as a supposition of faster development of market economy, new products, seeking for new markets etc.

3.1. Some indicators of management consulting development in Serbia

For its objective and subjective reasons, Serbia is being late with transition, so it acceleratively privatizes public (social) property, very often in an awkward way, sometimes insufficiently controlled and under indistinct circumstances, everything in order to keep pace with other countries. Follow-up effect of those processes is inevitably hasty development of consulting services. It is naturally that the consulting will be similar to everything what happens in the economy: intensive, aggressive, almost uncontrolled, and therefore often even vulgar. The consulting has not been, down to the present day, defined in statistical activities classification in Serbia, so analyzing its development has been very difficult.

In accordance to initiated economic reforms, the consulting services market development is in direct dependence to transition process and domestic enterprises restructuring. At the same time, eliminating external limitations and returning Serbia into international economic courses caused significant increase of demand for new knowledge, experiences and expertise, including those in form of consulting services. Special interest has been related to programs of enterprises' rehabilitation and restructuring, but also to conceptualization and implementation of development strategy and networking with economic active participants on international market, introduction of information technology, performance improvement for managing main functions of the enterprise, joint ventures, technological cooperation and similar.

The enterprise's privatization requires knowledge and creativity, which represents important consulting organizations' field of activity. Introduction of market oriented business in Serbia represents stimulus for consultants, in order to enlarge the assortment of consulting services, all the better that clients have to prepare to use rationally internal and external professional and creative potentials.

3.1.1. Reference to previous development of management consulting in Serbia

Certain forms of consulting services had shown in ex Yugoslavia earlier than in other countries in development and countries of, so called, real-socialism. Only market business gives an opportunity for development of consulting services market, or occurrence of need for intellectual services in solving operative and strategic problems of the enterprises. However, economic system of ex Yugoslavia, at the end of '50s, had started to transform in direction of specific management system of economic courses. In a word, it is about defining plan indicators and appropriate regulatory rules on the level of social-political communities. Together with these changes, new market possibilities had shown to the enterprises, which had been a consequence of increased economic independence in business. As the private sector and entrepreneurship were furthermore negligible, for self-managing society as an economic ambience started to bind the beginnings of consulting services development in our country. There was specific business climate for development of consulting services in management, technology and other fields, certainly significantly less favourable than the one in developed market economies. Nevertheless, the conditions for consulting development were more qualitative than in numerous countries of the same economic development and the same socio-economic organization.

In first beginning of '50s had started organized construction of infrastructure for providing consulting services in the field of organizational sciences. With help of International Labour Organization (ILO) had been formed Yugoslav Institution for Productivity, whose main activity had been focused to productivity growth, through improvement of work and production organization. Afterwards had followed a foundation of some other organizations, with similar program orientation (for example ORGANOMATIC), as well as some professional organizations in the field of market research (the Institution for Market Research and the Institute for Foreign Trade). In this initial phase of consulting services development, significant contribution was given by architect (construction) organizations, such as ENERGOPROJECT, MAŠINOPROJEKT and others. Besides projection and work construction in the field of construction business, they had more and more introduced, so called, System Engineering approach and methods in projecting industrial, energetic and agro-industrial objects, including market and financial studies and analyses. Series of technological institutes had developed gradually out of classical scientific-research institutes in professional organizations for projecting and providing technological services in the field of industry, infrastructural branches

and agriculture.⁶⁹ So the Institute for Industrial Economics, since its foundation in 1961, in its profile, program and working methods has combined economic research with consulting services to different clients in the economy, governmental administration and social activities.

The important step in creating the concept and practice of management consulting in our country was made by forming and work of Yugoslav Centre for Organization and Development (JUCOR), in period since 1969 to 1979. The United Nations had supported this integration by the project „Yugoslav Center for Organization and Development“, financed by the United Nations Development Program (UNDP), and as executive agencies had been engaged the United Nations for Industrial Development Organization (UNIDO) and International Labour Organization (ILO). Previous action meant real breaking point and key international input in spreading philosophy, concept and methods of management consulting, as well as in implementation of modern methods and techniques in our country. Introduction of modern management consulting has been realized through two basic forms.⁷⁰ First, over 100 national experts had training abroad, in the field of consulting work methodology (preparation and tracking the projects realization, making and presenting reports, etc.) at eminent organizations *PA International* from Great Britain and *Arthur Andersen* from USA. Second, with support of consulting teams, made from domestic and foreign experts, the enterprises from all ex-Yu republics had realized massive complex projects, which had provided special possibilities to our experts for training and affirmation in the field of consulting services providing to the management. This project was evaluated by the United Nations in 1979 and was characterized as pilot and unique project, directed to construction of national consulting infrastructure in the countries in development. The outline of the project was the Institute for Industrial Economics, first of all, concerning trained personnel, who participated in projects with foreign experts. Appropriately, UNIDO had entrusted to this organization the conduction of important international project concerning construction of national consulting centre, called „Industrial Consultancy Unit“ in Somalia, in period since 1987 to 1990, which results had also been positively evaluated.

Good results which were realized on this project had created pre-conditions for widening activities also on maintaining in industry area, as it was done through the project „Industrial Maintenance Management“, which should had been completed by

⁶⁹ Institute „Mihailo Pupin“, Institute „Nikola Tesla“, Institute for Chemistry, Technology and Metallurgy, Maize Institute, Institute „Jaroslav Černi“

⁷⁰ Kubr, M. (1995): *Kako odabrati i koristiti konsultante: Vodič za klijente, (Prevod)*, Ekonomski institut, Beograd, p. 3.

foundation of the National Centre for Maintenance in Somalia.⁷¹ After forming the infrastructure for providing intellectual services (through growth and affirmation of engineering organizations, introduction of consulting in research organizations' activities and contribution of the Yugoslav Centre for Organization and Development – JUCOR), there has not continued with construction and affirmation of consulting activity. Namely, none of the initiatives for forming the consulting organizations' association had not been completely realized, although national associations had significant role in improving the consulting as a profession and an activity.

Since second half of '80s to 2000, in Serbia were founded many smaller, private consulting organizations, which were provided services in the field of management, marketing, finances, technology, etc. However, at most of domestic consulting organizations, there was not accepted a standpoint that the consulting is a creative and professionally – based activity, that there was ethical, methodological and other performances of consulting services providing – which had, in a way, degraded consulting profession in Serbia.

After the year 2000, the consulting in Serbia became very intensive, aggressive, poorly controlled and therefore very vulgar. In accordance to initiated economic reforms, the development of consulting services market is in direct dependence from the course of transition process and domestic enterprises restructuring. At the same time, elimination of external limits and returning Serbia into international economic courses had caused significant increase of demand for new knowledge, experiences and expertise, including those in the form of consulting services. Special interest has been related to programs of enterprises' rehabilitation and restructuring, but also to conceptualization and implementation of development strategy and networking with economic active participants on international market, introduction of information technology, performance improvement for managing main functions of the enterprise, joint ventures, technological cooperation and similar. The enterprise's privatization requires knowledge and creativity, which represents important consulting organizations' field of activity. Introduction of market oriented business in Serbia represents stimulus for consultants, in order to enlarge the assortment of consulting services, all the better that clients have to prepare to use rationally internal and external professional and creative potentials. However, Serbia is not a member of international consulting associations, which can unfavourably effect further consulting development, as well as on lack of information in companies on consulting positive effects. Significant support to consulting sector development would realize through forming national association of consultants, considering that

⁷¹ Unfortunately, none of these two projects had been realized completely, due to well-known tragic events caused by civil war in this country.

the international associations are focused on coordination of consulting work on national and regional level.⁷² On advancement of consulting services quality and consulting market development surely effects international competitiveness. Multinational and national organizations are private, almost without exception, while the partners, i.e. the most prominent and the most qualified consultants, are carriers of major shares.⁷³

It is normal, considering that professional and personal interest of the consultant necessary leads to the following – on the consulting market are offered the services of high quality, according to internationally recognized standards. Simultaneously encourages the fact that, in Serbia, certain number of important consulting and engineering organizations have privatized, i.e. have transformed in holding companies, as well as there had been formed certain number of smaller qualitative organizations in private property for providing consulting, engineering and software services.

3.1.2. Analysis of consulting services sector development in Serbia

The main reason consulting exists are changes. Consulting service presents recommendation of adequate measures, and support implementing the recommendation which is a result of research, identification and analysis of problems in certain organization. A consultant is an expert who provides consulting services. His education and experience, in combination with realistic and complete informing of concrete situation, make it possible for him to offer support to enterprises in a proper way.

Companies in Serbia are in stage of adopting the conception of market economy, except some parts of economy where government property will further exist. The development of market and market relations influenced the development of consultancy as a professional service with its specific methodological, conceptual, ethical and other performances.

According to information provided by Serbian Chamber of Commerce, 973 consulting companies are operating at domestic market of consulting services. The data prove that most consulting companies are organized as companies with limited

⁷² Mihailović, B., Subić, J., Cvijanović, D. (2007): „Metode și tehnici consultanță ca sprijin pentru managementul modern”, Conferința tiințific Internațională *Modalități de eficientizare a managementului în condițiile economiei concurențiale*, Chișinău, 5-6 octombrie 2007. Universitatea de stat din Moldova, Facultate de tiințe economice, Institutul muncii al sindicatelor din Republica Moldova, pp. 7-13.

⁷³ Kubr, M. (1995): *Kako odabrati i koristiti konsultante: Vodič za klijente*, (Prevod), Ekonomski institut, Beograd, p. 6.

liability or one member stock companies. About 6 % of total amount of consulting companies in Serbia are consulting companies registered as partnership companies, while 1.9% are stock companies. The other forms of organization take relatively small part.⁷⁴ In the same time, a great number of consulting companies are located in Belgrade (79.5%), while the others are located in different regions of Serbia.

There is a significant number of companies belonging to the category of small enterprises - 27.3%. These companies respond to clients' needs that big consulting companies either are not specialized in, or don't have economic interest in providing smaller consulting services. This points out that consulting companies in Serbia apply situational approach defining their business offer. Their business activity is adapted to clients' needs.

Competition is a significant factor with influence over consulting companies offer and actions. Companies struggle over clients and markets with other firms of the same or different specialty. No doubt that consultancy is trying to adapt to clients' needs and concrete situation in an organization till maximum. Since it is hard to define problems solely as financial, it is very important for clients being able to ask and obtain financial and other consulting services, coordinated and supplemented with advices connected to different approaches to the problem being solved. Most of clients prefer buying services selected, coordinated and formed into a complete package by only one consulting company. This is so called 'one shop or one window service'.

Consulting companies in Serbia are mostly in private property. There is a minor percentage of those organized as public property (0.5%). Considering this, we may say that profitability of projects is one of the most important goals of consultants' business activity. In the same time, many firms in Serbia require previous reorganization as a condition for successful privatization.

The way out of the company crisis requires consulting services which are very expensive, while the main cause of company reorganization is financial crisis, which means that companies have no means of their own to buy a consulting service. A problem of this kind is solved by loaning from development banks, then from donations and subventions. Foreign consultants who work on reorganization of companies in Serbia are being paid from donations or loans of The European Agency for Reconstruction, The Department for International Development (DFID), United States Agency for International Development (USAID) and World Bank. The

⁷⁴ **Mihailović, B.** (2007): *Uloga konsaltinga u restrukturiranju preduzeća u tranziciji*, monografija, Institut za ekonomiku poljoprivrede, Beograd, p. 31.

condition in the field of consulting services points that it is necessary to perform the decentralization of consulting. As a support to this process, the decentralization of the advisory bodies of some ministries and Economic Council of Serbia is also required. This would found the environment for more adequate responses to needs of enterprises, and the possibility of a partnership approach to solving business problems, as the partnership is among the basic principles of modern consulting.

Various consulting organizations and consultants are quite different regarding education, experience, competency, work style, conditions of intervention, service quality and professional standards. Education through consulting is not automatic. Consulting with clients' active participation gives the best results. Consultants should be more active when marketing of their services is considered; they should invest more effort and means in marketing. Marketing brings the knowledge of the leaders in consulting market. One of the indicators of the consulting market development in the previous period are investments realized in this field. World consulting organizations had their share in the consulting services development in Serbia. Through the mechanism of competition in their field, they led to improvement of some consulting dimensions. Back in nineties, renowned and world famous consulting house, Deloitte & Touche⁷⁵, specialized in revision, company's value estimate and different forms of financial consulting, made its break-through to still undeveloped consulting services market in Serbia. Consultancy began to develop slowly as a separate profession in Serbia.

3.1.3. Methodological approach for evaluation of management consulting development in Serbia

The demand for consulting services rises together with real needs, and is dictated by: privatization, value evaluation of the enterprise, foundation of new small and medium enterprises, as a supposition of faster development of market economy, new products, seeking for new markets etc. For its objective and subjective reasons, Serbia is being late with transition, so it acceleratively privatizes public (social) property, very often in an awkward way, sometimes insufficiently controlled and under indistinct circumstances, everything in order to keep pace with other countries. Follow-up effect of those processes is inevitably hasty development of consulting services. It is naturally that the consulting will be similar to everything what happens in the economy: intensive, aggressive, almost uncontrolled, and therefore often even vulgar. The consulting has not been, down to the present day,

⁷⁵ www.deloitte.com

defined in statistical activities classification in Serbia, so analyzing its development has been very difficult.

In accordance to initiated economic reforms, the consulting services market development is in direct dependence to transition process and domestic enterprises restructuring. At the same time, eliminating external limitations and returning Serbia into international economic courses caused significant increase of demand for new knowledge, experiences and expertise, including those in form of consulting services. Special interest has been related to programs of enterprises' rehabilitation and restructuring, but also to conceptualization and implementation of development strategy and networking with economic active participants on international market, introduction of information technology, performance improvement for managing main functions of the enterprise, joint ventures, technological cooperation and similar. The enterprise's privatization requires knowledge and creativity, which represents important consulting organizations' field of activity. Introduction of market oriented business in Serbia represents stimulus for consultants, in order to enlarge the assortment of consulting services, all the better that clients have to prepare to use rationally internal and external professional and creative potentials.

Transition process and Serbia's entering into the European Union is possible to hasten by adequate and timely consulting services, before all during the programs and methodologies creation for conducting the enterprises' restructuring processes. In such conditions, the consulting organizations help the enterprises in accomplishing their goals, solving problems in business and management, identifying and using new possibilities, increasing their knowledge and applying suggested changes in the practice. The consulting was not defined in statistical activities classification in Serbia, so there has been heavy analyzing its development. Therefore the evaluation will be done: 1. *indirectly, with the help of substitutes, i.e. financial services* (financial mediation since 2002, while was changed the methodology of activities tracking in Serbia) and through technical and business services, which had been registered up to 2001; 2. *projection of consulting incomes* and putting the obtained value in relation to GDP, in order to get data comparable to reports of international consulting associations; 3. *comparison of consulting organizations number with total number of organizations in the country*. Landmark would be the countries in the region, as well as some West Europe countries; 4. *qualitative analyses of business supply of consulting services* in Serbia, where will be used FEACO ⁷⁶ classification of consulting services, and make got results comparable to results of some European countries. Research has shown that the development of consulting services is insufficient compared with the analyzed

⁷⁶ European Federation of Management Consulting Associations.

countries and that it should rush through a further affirmation of the knowledge economy.

The evaluation of substitutes. During the observed period (1999-2004), in Belgrade were dominated financial and other services in realized investments, in comparison with other areas in Serbia.⁷⁷ However, the participation of realized investments in sector of financial and other services (Belgrade area) span a range between 38.30% and 64.95% of totally realized investments in this sector in the Republic of Serbia.⁷⁸ Such data on realized investments match with the concentration of consulting organizations, which are mostly located in Belgrade. The condition in sector of consulting services points out that it is necessary to do decentralization of consulting work. As support to this process should be decentralization of some ministries and Serbian Chamber of Commerce's consulting body, in order to create conditions for more adequate responses to enterprises needs, i.e. possibility for partner approach in solving business problems, considering that the partnership is a basic principle of modern consulting. Generally, during period 1995-2001, was dominated the participation of realized investments in reconstruction, modernization and enlargement of existing facilities. The exception was year 2000, when were registered realized investments in new facilities with participation of 75.67% in total investments of technical and business services' sector.⁷⁹ According to statistical data, the participation of realized investments in sector of business, technical, financial and other services in total realized investments in Serbia is around 0.0468%, which represents relatively poor participation in comparison to other realized investments.

The evaluation of consulting services in Serbia by projection of consulting incomes. The participation of consulting incomes in gross domestic product (GDP) of certain country can be of use as index of consulting sector development. According to that criteria, on the top is United Kingdom with participation of 0.84%, than Germany 0.60% and Czech with 0.47%.⁸⁰ Those three countries are above European average with 0.44%. The average participation of consulting incomes in GDP of Serbia amounts 0,25%, which is double less participation than the average one in EU.⁸¹

⁷⁷ **Mihailović, B.** (2011): *Razvoj konsultantskih usluga u Srbiji i njihov uticaj na performanse preduzeća u agrokompleksu*, monografija, Institut za ekonomiku poljoprivrede Beograd, p. 50.

⁷⁸ Investicije Republike Srbije, 1998-2004, RZS, Beograd, 1999-2005.

⁷⁹ Investicije Republike Srbije, 1995-2001, RZS, Beograd, 1996-2002.

⁸⁰ International Monetary Fund, World Economic Outlook Database, September 2006, www.imf.org;

⁸¹ Consulting incomes on the market of South-East Europe amounted 580 million euros in 2005. The participation of Serbian consulting incomes was 9%, which amounted 52,200,000,00 euros, or 61,799,619,00\$ (1\$ - 72.2189 RSD in 2005), FEACO study 2005, www.feaco.org

Relation of consulting organizations number and enterprises in the country total number. The data points out that in EU countries⁸², there are 10 consulting organizations, in average, to 1.000 enterprises, along with mild oscillations in some countries (Table 3). The exception is Greece, where the relation of consulting organizations number and total number of enterprises in the country, is relatively unfavourable (0.0002).⁸³ Serbia lags behind to European average, because here are, in average, 3-4 consulting organizations on 1,000 enterprises. Although the consulting development in Serbia, in last decade, has been aggressive, to some extent – intensive, there is significant market space for development of domestic consulting sector.

Table 3. Relation of consulting organizations number and total number of enterprises in the country

Country	Number of MC organizations (1)*	Total number of enterprises ** (2)	(1/2)
Serbia ⁸⁴	973	275,944	0.0035
Austria	9,300	273,659	0.034
Czech ***	1,363	897,649	0.015
Denmark	7,550	202,248	0.0373
France	10,258	2,279,307	0.0045
Germany	15,250	1,665,326	0.0092
Greece	170	820,723	0.0002
Hungary	1,300	557,219	0.002
Italy	9,000	3,821,688	0.0024
Portugal	4,442	850,295	0.0052
Romania	640	412,304	0.0016
Slovenia	954	88,618	0.011
Spain	10,250	2,545,049	0.004
Great Britain	15,250	1,588,804	0.0096

*According to FEACO. 2006/2007.

**http://epp.eurostat.ec.europa.eu/portal/page?_pageid=1996,45323734&_dad=portal&_schema=PORTAL&screen=welcomeref&open=/&product=Yearlies_new_industry&depth=3

*** Data on total number of enterprises relates to 2004.

The structure of consulting services supply. The research of consulting services market in Serbia has shown following structure of consulting service lines: operative

⁸² Mihailović, B. (2012): „Analiza trendova razvoja menadžment konsaltinga u Evropi“, *Teme*, TM. G.XXXVI, Br. 1., Niš, Univerzitet u Nišu, januar – mart 2012., pp. 137-151.

⁸³ Mihailović, B. (2011). *Razvoj konsultantskih usluga u Srbiji i njihov uticaj na performanse preduzeća u agrokompleksu*, monografija, Institut za ekonomiku poljoprivrede Beograd, p. 53.

⁸⁴ Total number of enterprises has been got as a sum of all registered enterprises in Serbia – 76.234 (according to Statistical Institution of Serbia) and 199.710 of registered entrepreneurs. Number of consulting organizations was given according to data of the Serbian Chamber of Commerce.

management (OM): 28%, information technology (IT): 5%, corporate strategy (CS): 50%, human resources (HR): 13%, out-sourcing services (web – designing and programming): 4%. The results of consulting empirical research in Serbia significantly match this sector development in the countries which had also been in transition. Group of countries analysis (Czech, Hungary, Romania, Slovenia, Bulgaria) shows that the most important consulting service lines is in domain of strategic management, or corporate strategy, than follows services of operative management and human resources managing (which is characteristic for Serbia, too). Considering first rule – the exception is Romania, which has the most significant participation of operative management services. The consulting in the field of information technologies and out-sourcing services have minor market participation.⁸⁵ Demand structure of consulting services in Serbia coincides with consulting services structure in Slovenia. That is to say, participations of some consulting service lines in Slovenia are: operative management (OM): 30%, information technology (IT): 8%, corporate strategy (CS): 45%, human resources (HR): 14%, out-sourcing services: 3%.⁸⁶

3.2. Organizations which provide consulting services

In West Europe countries, the consulting services had developed for decades backwards, so today are active numerous consulting organizations which differ one from another by organization, financing model and process of consulting. However, the consulting services market in Serbia is very atypical, with massive number of small consulting organizations and extremely small number of big companies. Taking into consideration other well defined markets, the consulting market is susceptible to continuous changes, which is normal regarding specificity of businesses they do, and emergency to research permanently new forms of organization and to be ahead of a practice.

At this moment, the laws of market business do not exert their effect in many sectors of the domestic economy. Big enterprises are in the phase of transformational changes expectations, medium enterprises were mostly finished the privatization, while the small enterprises, without sufficient financial assets and business experience, seek for market corbels with weaker competitiveness. In such conditions, the consulting organizations help enterprises to achieve their goals, solve problems linked to business and management, identify and use new possibilities, increase their knowledge and apply suggested changes in practice.

⁸⁵ www.feaco.org

⁸⁶ **Mihailović, B.** (2011): *Razvoj konsultantskih usluga u Srbiji i njihov uticaj na performanse preduzeća u agrokompleksu*, monografija, Institut za ekonomiku poljoprivrede Beograd, p. 54.

The consulting services may differ from case to case, in dependence of the goals that should be achieved, but their basic role is to increase value and reputation of the enterprise – client. Since the consulting services are not provided just by the consulting organizations, the supply structure analysis of consulting services in Serbia is based on wider approach, which includes:

- Private consulting organizations,
- Scientific-research organizations,
- International financial institutions,
- Agencies for development of small and medium enterprises,
- Chambers of Commerce.

3.2.1. Private consulting organizations

Exposure of the consulting organizations to various combinations of business circumstances and experiences of different companies had provided the accumulation of precious knowledge and business experience. Their goal is to be continuously informed and to keep pace with innovations in domain of theory, concepts, methods and management system. Overall consulting “know-how” and business ideas, which are the result of business experiences and research, are available to entrepreneurs and managers, aiming to conduct various initiatives, innovations and improvements in number of areas and business functions. In regard to started economic reforms, the development of consulting services market is in direct dependence from transition course and restructuring of domestic enterprises. At the same time, elimination of external limits and turning back Serbia in international economic courses had effected significant increase of demand for new knowledge, experiences and expertise, including those in the form of consulting services.

As already pointed out, on domestic market of consulting services, according to data of Serbian Chamber of Commerce, are active 973 consulting organizations. The data point out that major consulting organizations are organized as Limited Liability Companies – 56.8%, or 58.3% in Belgrade, i.e. single - member LLC – 33.5%, or 35.4% in Belgrade.⁸⁷ The participation of consulting organizations which belong to category of small enterprises is significant – 27.3%. They satisfy the needs of clients for which big consulting organizations are not specialized or do not have any economic interest for providing small-scale consulting services. On the market of consulting services in Serbia are present also some foreign consulting organizations, which are global, concerning width of the market they are present in,

⁸⁷ **Mihailović, B.** (2007): *Uloga konsaltinga u restrukturiranju preduzeća u tranziciji*, monografija, Institut za ekonomiku poljoprivrede, Beograd, p. 31.

as well as number of clients. Business experience of foreign consulting companies, especially those operating in Serbia, is necessary to use and transfer to domestic consulting sector through consulting organizations networking, by mutual exchange of consulting models and techniques, primarily through the exchange of experts and their professional specialization. Successfully overcoming of accumulated problems in period of market economy affirmation is possible if creates the business ambience, which impels the processes of economic and social system metamorphosis in Serbia. Market – oriented business will not happen by itself. Nevertheless, except the factors like state is, which should be a catalyst of transformational processes, there is also inevitable a support of private consulting organizations, in order to alleviate market system in Serbia. The programs of consulting support for enterprises in Serbia contribute exactly to business development on market economy principles. The consulting interventions bring to development of spontaneous economic processes, which by the market economy is characteristic. Those processes are development of the new sector, entrepreneurial initiatives and business activities of already transformed enterprises.

3.2.2. Scientific-research organizations

In economic theory, but in modern practice, too, is well-known that: if total capital, as productive potential, divide conditionally on *natural* (C_n) and *human* – physical and intellectual (C_h), it is inevitable that total reserves of the capital ($C_n + C_h$) do not decrease during the observed period.⁸⁸ The obvious condition for it is to provide certain level of substitution between various forms of capital, i.e. to replace the inevitable decrease of natural capital with increase of disposable human, and primarily intellectual capital. That can be achieved only by application of already acquired and new knowledge and the best modern productive practice, or using resources of total scientific-research and cultural potential. However, the transition of economy implies more significant application of knowledge, innovations and new technologies – which includes numerous reforms in the field of education, science, scientific-research institutions and consulting.⁸⁹ The essential contribution and the main role in fulfillment of this important condition belong exactly to science,

⁸⁸ Milanovic, M., Stevanovic, S., Djorovic, M. (2008): „Developmental advantages and elements of Belgrade agrarian-rural multifunctionality“, International Scientific Meeting: *Multifunctional Agriculture and Rural Development III – rural development and (un)limited resources*, 4-5th December 2008, Faculty of Agriculture in Zemun – Belgrade, book 2, pp. 83-89.

⁸⁹ Cvijanovic, D. (2009): „System of Education, Scientific-Research and Consulting Work in Agriculture of Serbia“, 113th Seminar of the European Association of Agricultural Economists (EAAE) – *The role of knowledge, innovation and human capital in multifunctional agriculture and territorial rural development*. Editors: Danilo Tomić, Zorica Vasiljević, Drago Cvijanović. Publisher: Institute of Agricultural Economics, Belgrade. December, 9th-11th 2009. Belgrade, Serbia, pp. 61-72.

profession, i.e. appropriate institutes' network, which would provide necessary support to enterprises in managing transformational processes. In time, the institutes in Serbia had adjusted their activity and went to meet the economy needs. Many technological institutes⁹⁰ had transformed gradually from classic scientific-research institutes to professional organizations for projecting and providing technological services in the field of industry, infrastructure and agriculture. Therefore the Institute for Industrial Economics, since its foundation in 1961, in its profile, program and methods of work has combined economic research with consulting services of various clients in economy, state administration and social activities. However, although there had been explicit favorable trends in adjusting activities of some institutes to the economy needs, total number of scientific-research organizations in Serbia has unexpectedly decreased, during analyzed period (1990-2006). The number of institutes was reduced for 57%, i.e. their total number were decreased from 134 (1990) to 57 institutes (2006). At the same time, number of faculties was decreased for 37%, or in 2006 were 44 faculties less than in the beginning of observed period (1990).

Number of research units was also decreased for around 30%. Similar tendencies were concerning full-time employees, whose number was decreased from 30,267 (1990) to 22,707 (2006). On the other hand, concerning employees' structure, there are observed positive changes. Nevertheless, there was increased the participation of scientists/researchers in regard to total employed in scientific-research organizations from 39% (1990) to 53% (2006). The number of scientific-research papers was increased in period 1990-2006 from 3,206 (1990) to 3,747 (2006). However, the analysis of the research structure points out that contribution to this growth were given by applied and developmental research, because the number of fundamental researches, during that period, was decreased for 9.7%. Total incomes of scientific-research organizations were almost ten times higher. In this was decreased participation of income from research, from 77% to 29%, of totally realized incomes.

3.2.3. International institutions

The consulting services of international institutions mostly realize through consulting program, which are coordinated by regional agencies for small and medium enterprises, chambers of commerce and other institutions which provide consulting support to enterprises in Serbia. Here will be mentioned just some more significant

⁹⁰ Institute "Mihailo Pupin", Institute "Nikola Tesla", Institute for Chemistry, Technology and Metallurgy, Institute "Jaroslav Cerni".

macro-projects, in which participate the consulting services under the authority of international institutions.

The project and an idea of regional cooperation – RECCO. Business concept of Centre for Business Services in South-east Europe network – SEE Network has provided establishment of the centers for business services for cross-border cooperation and foreign trade in each of country – partner in the project. The business consulting and creation of terms for successful business cooperation contributes to business improvement of small and medium enterprises sector. There is also developed web platform for providing and promoting the business services.⁹¹

The program of supporting the development of small and medium enterprises – BAS (Business Advisory Services). This is the program of European bank for renewal and development, assigned for the enterprises which fulfill certain terms, in order to qualify for getting this support. The terms are: that the enterprise must be registered according to valid regulations, that majority of shares are in private and domestic ownership and that it exists not less than two years. Basic goal of BAS program is to provide support to development and competitiveness of small and medium enterprises by financial support, which will be used for getting business advices and consulting services from the best domestic consulting organizations. At the same time, the cooperation and support in solving specific business problems and concrete consulting tasks will be offered to small entrepreneurs during the selection of appropriate domestic consultants. In case there are no appropriate experts among domestic consultants, there will be enabled arrival of the consultants from abroad.

The project of the enterprise's and entrepreneurship's development - Ekoris. This project, managed by EAR (European Agency for Reconstruction), and financed by the EU, has been started in December 2004. The goal of the project is to create favourable terms for development of small and medium enterprises sector, in order to improve their competitiveness on foreign market and additionally stimulate the competitiveness of Serbian economy. The program consists of the following components:

- policy development of small and medium enterprises sector through the support of state institution,
- direct support to business within which were established seven regional agencies for development of small and medium enterprises and entrepreneurship,

⁹¹ www.see-network.com

- Creation of national innovation strategy and fund assigned to direct investment in innovation projects, which stimulate the entrepreneurship development.

The significant components of the project are innovations, so, in regard to that was initialized, so called, Grant scheme for development of enterprises and innovations of 2.25 million EUR, which provides financial support for such projects. The *Ekoris* project represents the supplement of state's strategic measures to science, innovations, research and technology, which should significantly contribute to development of knowledge – based economy.

Turning point in managing the enterprises – TAM program (Turn Around Management). This program was started in 2001 in Serbia and was provided to enterprises to develop new business skills on key managers' level. The most experienced world leaders in business provide consulting support, aiming to help our enterprises to improve management and efficiency of business. The primary goal of the project is to help the enterprise's management, which fulfills necessary criteria in successful business in terms of more tough competitiveness on the market, as well as to help in identifying and locating of needed resources. Serbian enterprises included in TAM program (most of them) had significantly increased export potentials, because the project helped them to improve production and business and increase productivity. Successful enterprises, which entered the project, have quite increased their possibilities for more significant opening of the market in the future, entering Serbia in EU, but also better orientation on European and world market. There is expected TAM's continuity in future period.

UNIDO program of small and medium enterprises business improvement. The United Nations Industrial Development Organization (UNIDO) for over 10 years successfully helps the improvement of business in countries in development and transition. The program bases on principle of continual improvements along with appliance of business key indicators. It is compatible to ISO standards and represents one of the steps toward requirements, which have set up the World Trade Organization (WTO). Previous application of the program has brought to average efficiency increase of the enterprise's business (8-25%). Except the improvement of management skills and abilities, the program also comprises expert tools and monitoring practice. However, UNIDO techniques and tools represent business guideline for the enterprises which want to improve their business performances in terms of tough competitiveness and stricter business terms. This program leads the manager through business, providing it, in every moment, the insight in actual business condition.

3.2.4. Agencies for development of small and medium enterprises

The experiences of EU point out that basic mission of developmental agencies is to provide sustainable increase of standards for all its citizens, to act actively on attracting foreign investments and to create fruitful entrepreneurial climate, by mutual cooperation with other subjects in the region. This approach should be used through recognition of local pre-conditions for economic development, employment and competitiveness of business sector in regions.⁹² Building the institutions system for non-financial support to SME development has started in February 2001, when was officially established the Republic agency for development of SME and Entrepreneurship, conceived as carrier of activities for SME development on national level and main reliance of agencies network for support to this sector in Serbia. Afterwards, along with more significant support of foreign donors, have been founded 10 regional agencies and centers for development of SME – RA/C (with over 10 sub-centers) in following cities: Beograd, Novi Sad, Subotica, Kruševac, Kragujevac, Zaječar, Zrenjanin, Niš, Užice, Novi Pazar. The modern concept of providing non-financial services, which the donors have decided for during establishment, implies the existence of developmental programs financed by the states or the European Union (for EU countries), in whose realization could be included RA/C and realize income, because minor costs only can be covered by remuneration to clients. The incomes for financing the work of RA/C can be identified from:

- the budget of the Republic of Serbia for certain standard services and for realization of developmental projects,
- realized incomes according to transferred public authorizations,
- budget of local authorities for certain standard services and for realization of local developmental projects,
- realized incomes on realization of donors projects,
- Realized incomes on the market by services provision.

In accordance with significance of equable regional development was formed also Association of Regional Developmental Agencies of Serbia (ARDAS). Regional development, as continual and managed process, requires well organized institutional framework. The association of regional and SME agencies has been founded out of a need that on the territory of whole Serbia creates institutional pre-

⁹² Vemić, M. (2006): "Regionalne MSP/Razvojne agencije kao determinante regionalizacije Srbije i unapređenja performansi u globalnoj ekonomiji", *Časopis Ekonomske teme*, Godina izlazenja XLIV, br. 1-2, 2006., pp. 511-519.

conditions for sustainable regional development. Through partnership with public and private sector, the members of the association have been previously key holders of developmental processes on the territories, which they have covered with their work. Introducing and distributing the consulting services, meant for SME sector, they have created pre-conditions for entrepreneurship development. They had included their territories in international donor initiatives and national programs for development of entrepreneurship and steady regional development by the management of developmental projects. The power of association lies in a fact that it gathers in network, through its members, dozens of key *stake-holders* on local, regional and national level, that the member are capable to deliver through employees network maximum services which are in function of economic development, taking over the responsibility for planning and managing the developmental processes on their territories.

3.2.5. Chambers of Commerce

Creating the recognition of Serbia as a country of market economy, open borders, ready to be engaged in competition on EU market, represents national interest and crucial determination of Serbian Chamber of Commerce, leading association of more than 100,000 Serbian businessmen. Serbian chamber of Commerce, as a representative of Serbian economy interests, is organized on regional level.⁹³ Its strategic goals are: increase of Serbian economy competitiveness, improvement of economic development, export, foreign direct investments, suppression of “black market”, unfair competition and monopoly limitation. It also intensively acts on increase of national enterprises competitiveness level and adjustment to European standards, in order to face readily with big business challenges in international market. Basically, one significant part of the chamber's activities consists of providing comprehensive support to the economy, burdened by numerous inherited problems, to overcome easily transitional process. The activities of Serbian Chamber of Commerce have been directed to providing support and protection of domestic economy interest, first of all, by informing, promotional and consulting services.⁹⁴ Serbian Chamber of Commerce equally represents and protects the interests of all its members and tries to provide them support, at any time, especially by its consulting services and human potential education.

⁹³ Serbian Chamber of Commerce, Chamber of Commerce of Vojvodina, Regional Chamber of Commerce of Subotica, Regional Chamber of Commerce of Sombor, Regional Chamber of Commerce of Kikinda, Regional Chamber of Commerce of Zrenjanin, Regional Chamber of Commerce of Pancevo, Regional Chamber of Commerce of Srem, Regional Chamber of Commerce of Pozarevac, Regional Chamber of Commerce of Valjevo, Regional Chamber of Commerce of Kragujevac, Regional Chamber of Commerce of Uzice, Regional Chamber of Commerce of Nis.

⁹⁴ www.pks.co.rs

Working methods of Service for Education:

- Seminars can be informative, instructive, specialized and exclusive, one-day- and several-days-lasting seminars,
- Themes are actual, modern conceptualized and applicable in practice,
- Method of program realization is adjusted to interests of businessmen,
- Lecturers are respected experts with longtime practical experience.

The programs are meant for all target groups, from business secretary to top managers. Students (starters) on seminars systemize and supplement existing knowledge and skills and expand the circle of their business partners.

3.3. Factor analysis of the management consulting development in Serbia

In regard to actual consulting trends in the countries of our region, as well as a level of consulting development in the EU countries, the market of consulting services in Serbia has not developed significantly in last period. The owners and managers of enterprises still do not feel a need for external services, by which they would resolve business problems. The development of the consulting services' market is neither simple, nor easy task that could be realized in a short term, abreast with modest financial contribution of the state. The local private consulting service is often lack, not only the interest for this filed, but also real capacities, while the entrepreneurs are ready to spend their time and money only on services they see direct interest from, in a very short time period. In such circumstances, the private market of these services can hardly generate by itself.

The creation of business attractive enterprises initiates a need for consulting. The consulting organizations support the companies in realization of their goals, to resolve business and managing issues, to identify and use new possibilities, to increase their knowledge and practical application of suggested changes. There is lack of knowledge in the field of business planning in the local economy, necessary for opening small and medium enterprises. The essence of necessary changes can be defined as a new entrepreneurial company which encourages taking over the risk and making new entrepreneurial knowledge. The consulting services represent professional assistance while opening the enterprise, but also in identification, diagnosis and overcoming the problems regarding various fields and aspects of business and management of the enterprise. Basically, it is a support to the enterprises to realize their goals, to solve the problems regarding business and management, to identify and use new possibilities and practical application of suggested changes, and through them, to increase their knowledge, so a training and education of managers and employees is one of the implicit services. However, the circumstances which the transition in Serbia has been pursued under, and a way

for realizing the privatisation and other accompanying activities, awake a suspicion in developing consulting services in a logical sense, i.e. that it would be the same or similar to the one in the economies of surrounding countries. Anyway, in Serbia, at least occasionally, something did not go over the usual. In some its historical periods, Serbia has, evidently, followed some of its own logic, sometimes in favour, sometimes at its own expense. Something similar had happened also in recent history – regarding the transition, privatization, development of consulting market, too.

3.3.1. Empirical research of the consulting supply

The verification was done by a procedure, by which have been achieved relevant scientific conclusions – by data research in the field, more concrete, by collecting adequate data, where had been respected factor analysis criteria, according to which had been possible adequate conclusions and generalization.⁹⁵ The market survey was done by three techniques: 1) telephone survey, 2) direct interview and 3) electronically. One of the questions meant for the sampled consulting organizations was: “Specify the types of consulting services you offer”.⁹⁶ Such question, asked directly, could provide full image of represented consulting services in Serbia, the supply which would be available to the enterprises. The replies of the surveyed consulting organizations could be sublimately illustrated in the following table:

Table 4. Represented supply of consulting services in Serbia

Categories of consulting service line	%
Operative management	28.00
Information technology	5.00
Corporate strategy	50.00
Human resources	13.00
Outsourcing	4.00
TOTAL	100.00

Source: Mihailović, B. (2011): *Razvoj konsultantskih usluga u Srbiji i njihov uticaj na performanse preduzeća u agrokompleksu*, monografija, Institut za ekonomiku poljoprivrede Beograd, pp. 68-69.

As we can see, the highest supply of consulting services in Serbia is in the field of corporate strategy (50%) and operative management (28%) and can be interpreted by mutual will of consultants and clients to get the eligible results, as soon as possible, which seems, in a certain way, natural and logical. However, if this process has not have been followed by informatics and education – only temporary effect

⁹⁵ Mihailović, B. (2011): *Razvoj konsultantskih usluga u Srbiji i njihov uticaj na performanse preduzeća u agrokompleksu*, monografija, Institut za ekonomiku poljoprivrede Beograd, pp. 20-21.

⁹⁶ Mihailović, B. (2011): *Razvoj konsultantskih usluga u Srbiji i njihov uticaj na performanse preduzeća u agrokompleksu*, monografija, Institut za ekonomiku poljoprivrede Beograd, p. 68.

could be achieved, and therefore, spurious success. The data got in this way undoubtedly have showed that the supply of consulting services in Serbia is not quite compatible with the needs of enterprise.

There is an absurd that the most significant influence on development of consulting services has informatics and education category, so follows the conclusion that the consulting organizations do not care about the development of consulting services in Serbia and they do not undertake basic measures which could lead to development. Owing to this abnormal conclusion, we can conclude that these data show immaturity of consulting market in Serbia, even that the consulting organizations use relative embarrassment of Serbian enterprises in view of invasion of needs for changes, needs for consulting services, so they offer those the most profitable services. Naturally, as a reason for this condition, could not be neglected neither mutual desire for quick displacement toward fundamental changes, or success, although it is all short-ranged.

3.3.2. Regulatory and institutional factors of consulting development in Serbia

The owners and managers of enterprise still do not feel a need for consulting services, in order to solve business problems. Taking into consideration a level and quality of demand, the supply of consulting services did not achieve necessary level. In such conditions, donor support in previous period was significantly meant for assumptions affirmation for development of this market. Within the EU project "Non-financial support to SME sector development in Serbia", in period 2002-2004, was taken important actions on making and strengthening the training and consulting services in the Republic of Serbia.

This project has realized 820 training programs for future entrepreneurs and owners of SME, through the republic/regional agencies network for SME development (small and medium enterprises and entrepreneurs), in regard to the references and suggestions of training needs analysis. In the last phase of this project was done identification of available local resources, capable to provide adequate training and consulting services in various fields (basic training for trainers was held and the process of accreditation of service provider was done).⁹⁷ Taking into consideration underdevelopment of consulting and training services' market in the Republic of Serbia, especially out of Belgrade territory, within the project was realized a Service

⁹⁷ In this way was identified and suggested to the regional agencies around 150 individuals and institutions in Serbia. According to many realized trainings (totally 1189 participants took part) was made a Guidebook of training materials in CD format, which was encircled in whole 22 training programs with complete training material (totally 131), prepared and presented by foreign and local experts. The Guidebook will be used for training realization in the future.

Support Scheme – SSS. The basic goals of the SSS, in which realization had participated 7 regional agencies/centres for SME support with service providers as producers, were: to provide approach to quality consulting services (the most often support in making business plan) and trainings according to popular (subsidized) prices to existing and potential entrepreneurs, as well as the realization of smaller regional projects important for SME development. The realization of the SSS has aimed also strengthening the role of regional SME agencies as catalyst of entrepreneurial development, as well as the development of consulting services market for SME in Serbia during the accession to the European Union.⁹⁸

In the countries which have already accessed the EU, has been noticed three main trends: (1) convergence of economic and social system to the EU standards, (2) economic development and (3) development of consulting services sector. The comparative analysis of consulting market in the countries of Central and East Europe refers to a conclusion that there is important level of correlation between a growth rate of consulting market and growth rate of gross domestic product (GDP). In all countries with positive growth rate of GDP (from 3.7% to 8.1%) have been registered also positive growth rate of consulting market from 4% to 35%.⁹⁹

The average growth rate of consulting market in analyzed countries in 2004 was amounted 15.17%, while the average growth rate of GDP was 5.08%. Consequently, in these countries the consulting sector, according to the growth rate, leads in relation to a common economic development and, at the same time, it has a feedback reaction. None of progressive market economy can be imagined today without a top-level consulting. However, the institutional and infrastructural factors in Serbia are still »a bottleneck« of consulting services' market development.

3.3.3. Establishment of institutions for non-financial support to enterprises and entrepreneurs and development of consulting services

In local public, the consulting services the most often imply help in making business plans, which use in applications for getting a credit, or orientation trainings for potential entrepreneurs. In initiating and developing their own business, the entrepreneurs need support, first of all, in form of non-financial support, in order their

⁹⁸ Within the SSS were set aside special assets in order to provide the potential and existing entrepreneurs and owners of small enterprises to use these services at prices lower than the market ones. The percentage of subsidies was little higher than regarding the potential entrepreneurs, who should just start a business. In this period was realized totally 346 programs, with total value of 110,000 EUR, out of which 217 programs was referred to training, 113 programs to consulting and 16 to the special projects.

⁹⁹ Management Consulting International, February 2006.

enterprises to mature and survive at the market. It reflects through the consulting services – providing information, consultations, mentoring, and training in various fields important for successful business. The entrepreneurs who start individual business mostly do not have experience in managing the enterprise and do not have any formal education in this field. In such conditions, the support in initial period can significantly increase their chances to succeed. In next period it is necessary to proceed with different forms of support to development of consulting services for sector of SME by public, private and NGO (non-government organizations) sector, in cooperation with donors.

According to the traditional approach, the conduction of governmental support program in the field of non-financial support to SME sector development realizes through tied established regional and local agency. There was used direct government intervention, under subsidized prices or free for users, which, unfortunately, was not shown as long-term cost-effective solution. Practically, the services of non-financial support, organized in this way, are the most often extremely generalized, unadjusted to real needs and, generally, of poor quality, and restrain the possibility of local private supply development and the prices of services keep rising.

The modern approach to non-financial support to small and medium enterprises bases on the principle of a private local services' market establishment for business development, which comply with needs and solvent possibilities of small enterprises, in order to make long-term sustainable, market solution. The state interventions, in the form of subsidies on demand side, in *interim* period, use for implementation/privatization of tested programs, previously realized by the local agencies in public sector, by the private consultants and for increasing capacity of services' suppliers. On supply side are used grants and vouchers, which are shared to entrepreneurs to use them, according to their own needs, for covering some costs of the private consultants' services. The role of the local development agencies moves gradually from providing concrete services to support in connecting entrepreneurs with the private suppliers of the services, improvement of supply, assortment and quality of services for development of business on specific territory and strengthening the consciousness of entrepreneurs on own needs and significance of these services. At the same time, it is unrealistic to expect that the whole spectrum of services for business development would be realized on the market principle, without the state intervention, while a part of services, primarily those assigned for beginners in business, are not enough profitable.

In regard to the factors condition, which effect to development of consulting services in Serbia, as well as experiences of countries which had gone through transition and

surrounding countries, there had imposed an assumption on the most important factors: *Three the most significant factors of consulting services development in Serbia are: privatization, enlargement of capital and foreign investments.*¹⁰⁰

Surveyed consulting organizations which act in Serbia explicitly emphasize that the biggest influence (31.14%) on development of consulting services in Serbia have those variables which make Factor 1, and which we could name Education and awareness.¹⁰¹ It points out that Serbian enterprises are insufficiently informed about the role and importance which the consulting services have, and personnel education is insufficient in that sense.

This observation clearly points out what should consulting organizations and agro complex, but also the government primarily focus on, because in this field everybody will have an interest from education and awareness improvement: the consulting organizations would be more engaged (more money, and therefore intensified development); agro complex would, using the consulting organizations' services, significantly accelerate its development and improve the performances; the government would get extra sources for funding the budget. More detailed insight of consulting services' development variables in Serbia requires an application of the factor analysis, which is given hereafter.

3.3.4. Statistic analysis of consulting services' development factors in Serbia

The research has encircled as many as possible characteristics, which reflect a successful work of one consulting organization or consulting team. Those characteristics were used in the questionnaire, in a way the subjects were asked to evaluate the value of each characteristic. The next step was a selection of a sample.¹⁰² The size and structure of the sample was good, in regard to total number of enterprises (population). Accordingly, there was ensured a statistical analysis, because the criteria for application of the factor analysis were within allowed limits.¹⁰³ The variables are questions in the questionnaire. Each variable has the value from 1 (minimal value) to 5 (maximal value).

¹⁰⁰ **Mihailović, B.** (2011): *Razvoj konsultantskih usluga u Srbiji i njihov uticaj na performanse preduzeća u agrokompleksu*, monografija, Institut za ekonomiku poljoprivrede Beograd, p. 82.

¹⁰¹ **Mihailović, B.** (2011): *Razvoj konsultantskih usluga u Srbiji i njihov uticaj na performanse preduzeća u agrokompleksu*, monografija, Institut za ekonomiku poljoprivrede Beograd, p. 82.

¹⁰² **Mihailović, B.** (2011): *Razvoj konsultantskih usluga u Srbiji i njihov uticaj na performanse preduzeća u agrokompleksu*, monografija, Institut za ekonomiku poljoprivrede Beograd, p. 83.

¹⁰³ Tošić, V. (2007): *Primena metoda multivarijacione analize u istraživanju pozicioniranja turističkog proizvoda*, doktorska disertacija, Univerzitet Braća Karić.

Table 5. Factors of consulting services development in Serbia

Privatisation of enterprise	EU projects
Restructuring of enterprise	Managerial abilities
Market liberalization	Education of managers
Capital enlargement	Research-developmental activity of enterprise
Foreign investments	Structure of enterprise's ownership
Information technology	Activity of enterprise
Network of research centers and universities	Number of employees in enterprise
Agency for Development of Small and Medium Enterprises	Market participation of enterprise
Serbian Chamber of Commerce	Funding consulting services
Competition on consulting market	

Source: Mihailović, B. (2011). *Razvoj konsultantskih usluga u Srbiji i njihov uticaj na performanse preduzeća u agrokompleksu*, monografija, Institut za ekonomiku poljoprivrede Beograd, p. 83.

The following was determined: factor 1 illustrates 31.14%, factor 2 illustrates 13.67%, factor 3: 11.83%, factor 4: 7.8%, factor 5: 6.45% and factor 6 illustrates 6.02% of phenomenon we study (see the table on factors extracting).¹⁰⁴ Totally, those six factors explain 75.9% of studied phenomenon. In table 30 we can see the variables which make those six factors. The assumption is that the variables which make the factor to be in correlation with it, which coefficient is higher than 0.6 (there can be used also 0.5).

- Factor 1 does: managerial abilities, network of research centres and universities, education of managers, ownership structure of enterprise, information technologies, research-developmental activity.
- Factor 2 does: Agency for development of small and medium enterprises, EU projects.
- Factor 3 does: Restructuring of enterprises, privatization of enterprises, market liberalization.
- Factor 4 does: Activity of enterprise, financing the consulting services.
- Factor 5 does: Number of employees in enterprise.
- Factor 6 does: Competitiveness at consulting market, market participation of enterprise.

The variables have been grouped in specific factors according to their nature, and that is something the factor analysis was used for. The first factor could be named Education and awareness. The second factor would be named Developmental projects. The third factor would be Affirmation of market business. The fourth factor is Business-financial sector. The fifth factor is Number of employees in enterprise. The sixth factor is Competitiveness at the market. The variables which make some

¹⁰⁴ **Mihailović, B.** (2011): *Razvoj konsultantskih usluga u Srbiji i njihov uticaj na performanse preduzeća u agrokompleksu*, monografija, Institut za ekonomiku poljoprivrede Beograd, p. 89.

factors can be added by bringing down criteria on 0.5 and then the review of each criteria would be more detailed.

Taking into consideration the results of empirical research, it can be concluded the following: *Three the most important factors of consulting services development are: education and awareness, developmental projects and affirmation of market business.* Accordingly, this analysis denies the assertion presented by the hypothesis, highlighting also different factors by relevance for development of consulting services in Serbia.

The surveyed consulting organizations which work in Serbia, undoubtedly point out that the most important influence on development of consulting services in Serbia, have those variables which make Factor 1, and those we could call Education and awareness. It shows that Serbian enterprises are insufficiently informed on role and significance which consulting services have and, in that sense, the education of personnel is insufficient.

This observation clearly indicates what should be focused on both consulting organizations and enterprises which use consulting, but also the state, because everybody will have interests from improving education and information in this field: the consulting organizations would get more jobs (and thereby more money, they would intensify their development); the enterprises will, by using consulting services, significantly accelerate their development and improve performances; the state will get more sources for financing the budget.

3.3. Key factors for the selection of consultants in Serbian agro-sector

The selection of consultants should be paid special attention, because in Serbia, or its agro-sector, the awareness of the criteria for the selection of consultancy services is not sufficiently raised. The research itself is based on the assumption of meager experience and knowledge gained by reading expert books, greeted with skepticism.

Thus, the relevance of certain criteria for the consultant selection is in the form of a hypothesis, with the aim to determine the real situation in this field. Determination of consultant selection basic factors in Serbia is imposed by the law of nature. The process of selecting a consultant starts with defining the requirement of the consultancy task and criteria for the degree of performance of the task. This process usually leads to the reference list that a consultant is supposed to have.

The managers in companies spend most of time and expend considerable energy in identifying and analyzing business problems, tending to find efficient solutions.

Internal management teams solve the most of problems in the field of management within daily routine activities. Once a problem is solved, there appears the other on which should focus and this is the way business perform. However, there appear also non-structural problems on which cannot be applied routine solutions. They become a subject of serious consideration. Often happens that managers avoid them, or talk about them, but no decision has been made.

Causes for such business problems are numerous and often mutually interweaved. It is usually about innovations, ambiguities, complexity, fast changes of problem essence and size, conflict of interest, long-term impacts to future business, etc. In some situations is more purposeful to engage a consultant to solve such problem, but to spend time and assets while searching the solutions which exceed the company's capacity. Some managers do not identify the business problems and arguments „pro“ and „con“ use of consulting services, but are guided by a feeling that a consultant can do a job.

On the other hand, a decision on using the consulting services can be emotionally coloured, if a manager is impressed by broad knowledge and professional approach of a consultant. Nevertheless, the managers have to be pragmatic. Accordingly, the managers must have characteristics like: creativity, innovativeness, imagination, high motivity, leadership, as well as a practice to communicate verbally and in written form. In order to manage the company successfully, the manager must have self-confidence, ability of quick troubleshooting, planning, business skills, skills in relationships and awareness on personal virtues and deficiencies.¹⁰⁵ If the manager is serious in attention to use the consulting organization, he primarily wants to be sure if his decision will be completely justified and supported within the company, that there will be selected adequate consulting organization and that the company will have clearly defined positive effects from a consulting project.

Taking into consideration the criteria of selecting the consultants, analyzed by famous researcher and consultant in this field¹⁰⁶, in this chapter has started from the following hypothesis: *Decisive criteria for selecting the consultant in Serbian agro-complex, by the hierarchy, are: professional integrity, professional qualification, capability for doing business, price of consulting service, cooperation and relation with clients, project task draft, potential for mobilizing additional resources and a reputation/image of the consultant.*

¹⁰⁵ Sajfert, Z., Lazić, J., Cvijanović, J. (2008): "Struktura životnih ciljeva menadžera i preduzetnika u Srbiji", *Industrija* broj 2/2008, Ekonomski institut, Beograd, pp. 34-54.

¹⁰⁶ Kubr, M. (1995): *Kako odabrati i koristiti konsultante: Vodič za klijente, (Prevod)*, Ekonomski institut, Beograd.

The companies in agro-complex of Serbia agree in one: the issue of consulting services prices cannot be more important than the professional integrity and the professional qualification of a consultant. On a scale from 1 to 5 (1 – the least important criterion for selecting a consultant; 5 – the most important criterion for selecting a consultant), the price of a consulting service has the lowest average grade (3.8), opposite to the professional qualification with the highest grade (4.66).¹⁰⁷ The results of empirical research coincide with recommendations of some international consultants associations. For example, the International Federation of Consulting Engineers – FIDIC, recommends to the clients to select a consultant according to capabilities, not price. Of course, the empirical research results should not be interpreted in a way that the price of the consulting service is irrelevant, but it can be taken into consideration only in the second round of a consultant's selection, and only those who fulfil the criteria of the business qualification and integrity.

3.4.1. Professional integrity

The selection of a consultant can be a simple process, if it is about high-technological problem, which is easy to determine and if it is about the field in which are one or more experts, which should be engaged. However, the consulting projects in management differ, as a rule, from this situation. It is certain that more consulting organizations of different profile, different size and with different background, will be interested for participation in selection procedure. At the same time, there apply also professional organizations from other sectors, because they had expanded their activity and had started actively to be engaged in business consulting. Although is hard to define a final product of the consulting service and it is not secure in advance, uncertainty can be diminished, and chances for getting a satisfactory product can increase in a way to select:

- Professional organization, well known by providing a first-class service,
- Individuals employed in that organization, which own acceptable technical expertise, with which can cooperate and which can be trusted that will achieve a mutual goal,
- Defined project task, which will, according to consultants and clients, will give the best results,
- Various logistic, organizational, financial and other conditions, which will facilitate these goals' achievement.¹⁰⁸

¹⁰⁷ Mihailović, B. (2011): *Razvoj konsultantskih usluga u Srbiji i njihov uticaj na performanse preduzeća u agrokomplesu*, monografija, Institut za ekonomiku poljoprivrede Beograd, p. 187.

¹⁰⁸ Kubr, M. (1995): *Kako odabrati i koristiti konsultante: Vodič za klijente*, (Prevod), Ekonomski institut, Beograd.

The standard or universal criteria for selection of a consultant do not exist. It is important to point out that a client is the one who chooses a consultant, not vice versa, even if can impact to the potential clients by very sophisticated and direct marketing. There is also necessary to harmonize a volume of time and effort spent on searching the consultant and making the selection with complexity and importance of a business problem.

If there is a characteristic which distinguishes the consulting service and points out their difference in regard to other commodities and services, it is neither providing advices nor technical expertise, but the professional integrity, which is necessary condition for selection of a consultant. Numerous issues will be solved and problems avoid, if never makes a compromise about ethical standards and integrity. Certain information on professional behaviour of consulting organizations circulates in clients' circles, and, at the same time, this question which can be put to ex-clients (references). Some situations require an open discussion, as a risk of conflict of interest, as by a consultant, as well as by a client. Other questions must not ask directly, since a consultant will reveal much while he talks about his performances, consulting profession, clients, competitiveness, etc. The consulting services play a certain role in economic and social life if ethical standards permeate all phases of the consulting process, as well as relations with clients. If this principle does not respect or sacrifice with a consultant's economic interests, the provided consulting service cannot be professional and independent. Consequentially, it is needed to know what the consulting organizations imply under professional behaviour. Necessary information can obtain from the consulting associations, because all associations have ethical codes and professional codes of conduct. Hereinafter will be considered the professional standards which use in consulting profession.

The initial condition for professional behaviour of a consultant and respect of a client organization's interest is providing true information on a consulting organization. It is necessary that the clients subject such information to a meticulous analysis and to ask for additional information, if they are not satisfied. The clients expect from a consultant a professional opinion, even if it differs from what they want to hear. Impartiality of a consultant means that he must not be engaged in internal policy of the company.

At the same time, a consulting service should not be coloured by prejudices or emotions. General principle in consulting work is that the professional consultants must not give or receive any commission fee in order to get the project or to give presents related to the consulting project. If a consultant is engaged, it is understandable to expect that he will not announce any confidential information on a

client, nor will use such information for gaining benefits. Without confidentiality, there will be neither consulting services, nor the consulting as a profession.

Generally, it is hard to make comparison of consulting services' products with other products, and it is possible that a consultant is the only person who knows how much effort and time is really needed for realization of the consulting project. Therefore, an issue of adequate compensation is, substantially, a question of professional integrity, i.e. ethics. Closely related to this professional standard has been also avoiding the conflict of interest, while the clients and their professional consultants have been complex organizations which have wide range of economic and social activities. Accordingly, there form the consulting associations, which define codes of conduct for their members.

The research of the consulting services' market in Serbia was determined that there is a significant demand for the consulting services regarding production standardization, in agro-complex.¹⁰⁹ In accordance with the company's needs in the Serbian agro-complex, it seems suitable to formulate certain directives for selecting a consultant in this field, and especially for realization of quality management system. In implementation of the quality management system, some companies in the agro-complex of Serbia decide to lean upon their own personnel, but some use services of external consultants. Selecting a consultant is important for the organization, because it should provide that the resulted quality management system to be able to fulfil all aims, which the organization had planned in the best and effective way.

Even when use a consultant's services for the quality management system, inclusion and devotion of top-management of the organization are key factors for realization of the quality management system. This international standard is meant for providing guidelines regarding the factors, which should consider when a consultant selects for the quality management system. It can be used by the organizations for the quality management system when selecting a consultant capable to fulfil their special needs, expectations and goals in realization of the quality management system. It also can be used by: a) consultants for the quality management system, as the guidelines for consulting on the quality management system, and b) consulting organizations, for selection of a consultant for the quality management system.¹¹⁰ In accordance with the requirements of the professional integrity criteria,

¹⁰⁹ Mihailović, B. (2011): *Razvoj konsultantskih usluga u Srbiji i njihov uticaj na performanse preduzeća u agrokomplesu*, monografija, Institut za ekonomiku poljoprivrede, Beograd.

¹¹⁰ *Smernice za izbor konsultanata za sistem menadžmenta kvalitetom i korišćenje njihovih usluga*, JUS ISO 10019, Standard Srbije i Crne Gore, 2005.

the companies in agro-complex should consider the following moral rules when select a consultant for the quality management system. A consultant should:

- Avoid or report any conflict of interest regarding a business which should be done,
- To save information confidentiality, got or taken from the company,
- To protect his independence from certification bodies/registration of the quality management system or the accreditation bodies,
- To protect impartiality when selecting the certification/registration body by the organization,
- To provide a real costs evaluation for consigned consulting services,
- Not to make unnecessary dependence from his services,
- Not to offer his services if he has no necessary qualification.

3.4.2. Professional qualification

Competitiveness sustainability on fast-changing market of the consulting services requires adequate education and continuous training of the consultants. Education for changes is an imperative for harmonization between society development and modern trends. Globalization and fast development of new technologies have caused new approach to education. Besides series of factors, of which depend development and economic progress of the society, three factors can mark as extremely important: permanent education; efficient introduction of new technologies; preservation of natural resources.¹¹¹

The qualification criterion is, in most of the cases, a necessary condition for a consultant's selection. Only the consulting organizations, which show necessary qualification can be included in a shortlist and assessed according to other selection criteria. These criteria have the highest average grade in accordance to the surveyed companies' replies in the agro-complex of Serbia.

In order to be sure that the problem of a consultant's qualification has been adequately considered, the companies in agro-complex have to answer to some questions, which relate to specific qualification aspects.¹¹² Firstly, there must evaluate the consulting organization's and an individual consultant's qualification. During the consulting organization selection purchases just its qualification, where

¹¹¹ Arsić, J., Savić, M. (2005): „Edukacija – put u multifunkcionalnu poljoprivredu“, Međunarodni naučni skup: Multifunkcionalna poljoprivreda i ruralni razvoj, 08-09. decembar, 2005, Institut za ekonomiku poljoprivrede, Ekonomika poljoprivrede, Beograd, pp. 332-336.

¹¹² Kubr, M. (1995): *Kako odabrati i koristiti konsultante: Vodič za klijente*, (Prevod), Ekonomski institut, Beograd.

personal qualification of a consultant cannot be equal to the consulting organization's qualification. In regard to it, it is logical to ask a question: "How the consulting organization manages, supports and controls its consultants in the field and how it ensures quality?"

In situation when it is about the consulting project of system development or methodology, which the consulting organization had previously implemented in other companies and for which it can offer some standardized model or its draft, a junior consultant is usually sufficiently qualified for doing business, of course, with support and supervision of more experienced consultant. On the other hand, if it is about the consulting project which implies evaluations and selection of alternatives in unprecedented situations, the consulting organization will have to determine a consultant with more professional experience, who will be relatively independent of the consulting organization management, but to whom will be available the organization's resources, when needed.

The companies in agro-complex of Serbia have to consider if there is necessary for the concrete consulting project that a consultant knows in detail a branch in which a client is, i.e. in which the company does business. Some consulting organizations have sectorized specialized for: industry, agriculture, construction, insurance etc. At some, there is present, so called, functional specialization for marketing, organization, finances, personnel, etc. A consultant, skilled for some branch, can have an advantage when it is about a wide range of the consulting projects, which refer to a business strategy, restructuring, business and marketing. This specific knowledge is less important for managing personnel and finances, if a consultant is willing to learn fast on sector's characteristics and its differences in regard to other sectors in which he was engaged.

Of crucial importance is to examine knowing country and culture of a client, if a consulting project requires engagement of a consultant from abroad. The consultants are aware of a role and significance of environment for professional business performs and they are very sensitive to economic, political, social, cultural and other factors. In situation when a consultant starts a project in a country new for him, it is unrealistic to expect that he knows local conditions.

Often happens that the consulting organizations follow the companies and the banks in business internationalization. It is understandable, since the partners, i.e. the foremost and the most competent consultants, are carriers of the most actions in multi-national and national organizations. Coming to new countries requires additional research, analyses and the consultants' preparations. However, if there is needed an advice from a highly-competent consultant for exceptionally specialized

field, it is counterproductive to require in depth acquaintance with a client's country and culture.

The most of the consulting projects today have impact to, so called, „hard“ and „soft“ skills of a consultant. Hard skills imply a consultant's capability to understand and use in his work procedures, systems and methods which can be formally structured, described and quantified and which can be easily carried over to men of adequate knowledge, acquired by education. These skills are necessary in every field of consulting, but the most needed in management and financial analysis, managing processes in production and services sectors, information systems and logistics. Soft skills refer to values, attitudes, emotions, relations and forms of human behaviour.

These skills are necessary for understanding and influence to interpersonal relationships in the company, motivating the employees and managing the changes which have an impact to interests and emotions of employees. Accordingly, when selecting the consulting organization, it is important to focus to a relative value of hard and soft skills for realization of a specific consulting project. That is to say, a consultant can be expert in his field, but at the same time non-empathic and incapable to cooperate with people. Even so, a modern consulting, as a profession, has significantly developed in terms of balancing hard and soft skills, all in order to adjust business offer to the specific needs of the companies.

Societies with developed agriculture and efficient institutions have timely noticed the importance of knowledge, as a significance factor of agricultural production modernization and until now have relatively successfully enabled their transfer to the final users.¹¹³ Of course, the transfer of knowledge depends on a type of a consulting project. Some projects require high level of creativity and innovation, while some of them represent rather routine activity. Also, the important question is whether a consultant did earlier a similar project for some other company, although this fact should not be a reason for a consultant's selection. If there is needed an innovative solution, there becomes prominent a consultant's ability to judge creatively, not conventionally, to apply the research methods and models of IT and, accordingly, to generate new business ideas. Taking into consideration that, in the Serbian agro-complex, there is a great demand for the consulting services in the field of introduction and implementation of standards in production and quality

¹¹³ Petrović, Ž., Čikić, J. (2005): „Savetodavstvo kao činilac ruralnog razvoja Srbije“, Međunarodni naučni skup: *Multifunkcionalna poljoprivreda i ruralni razvoj*, 08-09. decembar, 2005, Institut za ekonomiku poljoprivrede, Ekonomika poljoprivrede, Beograd, pp. 354-362.

management, there will consider needed professional qualification of the consulting organization for this type of the consulting project.

Factors of its professional qualification represent more developed and partly modified form of previously mentioned determinants of a consultant's qualification. When a consultant selects for the quality management system, the organization should value if a consultant has the qualification, suitable for size and content of consulting services he ought to provide. The qualification has been defined in ISO 9000 as the shown ability for applying knowledge and skills. As such it encircles: personal characteristics; education, knowledge and skills; knowledge and skills specific for the organization; working experience; improvement of qualification.¹¹⁴

3.4.3. Price of a consulting service

The companies in the agro-complex of Serbia agree in one: the issue of consulting services' prices cannot be more important than the professional integrity and the professional qualification of a consultant.

A consultant, as a rule, forms a price and collects a service in accordance with the usual practice in profession, where a method of collection of the consulting services negotiates before the business starts. If the price deviates (lower or higher) from the usual market price, then it is necessary to inform a client with the reasons of deviation. The analysis of the required prices often opens a question of the project task type and personnel needed for its realization, so it should also be considered and specified at the very beginning. In that way, at the beginning will eliminate undesirable occurrences, which can seriously disturb the established good relations between a consultant and a client, and the smallest misunderstandings can disturb realization of the agreed job.

During the analysis of a consultant's offer, before it accepts it, management of a company-client pays special attention to if it is correct, testing primarily if it contains some unnecessary, and therefore, unfavourable items:

- Consultant suggested an expensive approach (e.g. too broad data collection, used more samples than necessary, elaboration of too many alternatives, purchase of expensive patent systems or equipment – *hardware*, etc.),

¹¹⁴ *Smernice za izbor konsultanata za sistem menadžmenta kvalitetom i korišćenje njihovih usluga*, JUS ISO 10019, Standard Srbije i Crne Gore, 2005.

- project proposal anticipates the engagement of highly-educated and high-priced experts (a larger number of senior consultants) than necessary in that case,
- Consultants suggest their people for activities a client can do by himself or with little training and directions.¹¹⁵

Of course, if the offer contains such elements, it refuses smoothly, or, by negotiations, comes to optimal solutions, which will make mutual satisfaction, because only in such an atmosphere, the cooperation can be successful. For successful realization of a consulting task is very important to make an optimal team selection.

The consulting task complexity level dictates a number and a structure of a team. As a rule, simpler jobs, concerning one or two functional fields, assign to one or several executive (field) consultants-experts for the specific fields.¹¹⁶ To a leading consultant assigns the supervision of the executive consultants and he can be responsible for several consulting projects simultaneously. That is to say, a leading consultant must not be permanently present in a company-client, but from time to time he visits the executive consultants, monitors the consulting task's progress and helps them with suggestions. In situations when it is about a complex consulting project, there makes a different selection of a consulting team.

A role of a project manager has a consultant-analyst, who had done a report on company business analysis and he was the most deserving for a project negotiation. Since he has spent the most of time in a company-client, he is the best familiar with the situation, management of a client trust him the most. On the final price of the consulting service significantly affect a planned profit level of the consulting organization and to this purpose use several important parameters.¹¹⁷

When planning a profit, the consulting organizations use a *profit-income* ratio. The ratio between 0.1 and 0.2 considers normal, but it depends on great number of factors. Real size of a profit which the consulting organization can realize, before tax, depends on taxation level and need to allocate funds for investments. If the consulting organization is in development process, which it has to finance with own funds, there can be needed a higher profit due to re-investing in business. On the

¹¹⁵ Kubr, M. (1995): *Kako odabrati i koristiti konsultante: Vodič za klijente, (Prevod)*, Ekonomski institut, Beograd.

¹¹⁶ Blečić, S. (2005): *Međunarodna trgovina konsalting uslugu*, magistarski rad, Univerzitet u Beogradu, Ekonomski fakultet.

¹¹⁷ Kubr, M. (1976): *Management consulting – A guide to the profession*, International Labour Office, Geneva.

occasion of budgeting and planning the consulting organization work, there are more ways to realize higher profits. The management has to consider which method will adopt, depending on the market, possibilities for recruiting new consultants and abilities to improve an internal organization and activities planning.

Thereby should have in mind that all services that provide do not make profit. For example, certain number of working consultants and one senior consultant (consultant for special researches) can do the consulting project completely, while the rest of the senior consultants engage in preliminary researches and supervision functions.

3.4.4. Other criteria for a consultant's selection

Due to more complex image, selection of the consulting organization can observe in context of alternative actions for the changes project initiation (*Table 6*). Theoretical model, which explains this phenomenon, is, so called, Lundberg model, which represents a process of sequential selections series. The model has a form of series of questions for a manager – actor of organizational changes.

The answers to the questions (by adequate order) lead to a decision on a method of initiating the organizational changes.¹¹⁸ The answers are, in fact, the rules which determine particular behaviours (selections) which lead to a next selection and so on, until defines the total path, i.e. a mode of initiating the organizational changes. The Lundberg model contains:

- Set of alternative actions selection for the organizational changes initiation (Y_s in table 6) where $Y_s = Y_1, Y_2, Y_3, \dots, Y_7$;
- Set of contingent questions or rules (X_i in table 7), where $X_i = X_1, X_2, X_3, \dots, X_{10}$;
- Function of branching which converts conditions vectors in questions choice, i.e. $Y = F(X)$.

The model has seven different selections of action on its way out (Y_s in table 6), sort independently from their phenomenon frequency on model way out and which, according to Lundberg, cover the most of possible actions on initiating the organizational changes. The model contains ten contingent conditions (see X_i in table 7). Every X_i is, in fact, a question on which should answer with „yes“ or „no“, which means that X_i takes a value „0“ and „1“. The function of branching $Y = F(X)$ is derived induction from experiences of successful managers – actors of changes.

¹¹⁸ Cvijanović, J. (2004): *Organizazione promene*, Ekonomski institut, Beograd.

Table 6. Alternative actions of the project changes initiation

Y1	Noting to undertake
Y2	To solve (manager directly applies his solution to the appeared problem)
Y3	Problem passes to a higher level, due consideration that it could be solved only at the higher level, while it exceeds his authorities scope
Y4	Forming ad hoc committee (the committee is defined as a set of the manager's colleagues or subordinates, whose task is to suggest a solution to the manager, i.e. they are not authorized for implementation)
Y5	To obligate the Standing Committee to suggest possible solution to the manager (the Standing Committee exists from earlier and deals with problems and activities regarding the concrete problem, which solve the manager)
Y6	To form a working group – team (<i>task force</i> is defined as a group colleagues responsible, by the manager, for the solution suggestion, but also their implementation)
Y7	To make a contact with consultants (a consultant is a man outside the organization who is agreed to „supply“ the manager with recommendations)

Source: Lundberg, G., C. (1990): *Towards a Manager's Model for Initiating Change Projects*, JOCM, 1/1990.

The Lundberg model is interesting for conditions and opportunities in Serbian agro-complex. The total role of a manager in our companies gets its significance, even the part of his role oriented toward the organizational changes, as a response to the problems occurred in the company and its business environment. The Lundberg model has been extremely focused on selection conducted by a manager and to a practice in which the incurred business problem has immersed.

Table 7. Xi: Contingent conditions in form of questions

X1	Is it necessary to initiate the project changes (X1 represents a manager's opinion whether a discrepancy will disappear if it is ignored)
X2	Does a manager know technically feasible solution or a project (design), X2 does not include managerial evaluation of the project/solution acceptability by his subordinates.
X3	Does a manager have time to solve or project the discrepancy solutions?
X4	Is a manager authorized to solve or to project the discrepancy solution? (X4 refers to a manager capable to determine, and not refers to a manager's ability to choose technically possible solution – project)
X5	Is the discrepancy repeats (X5 asks a manager is it possible the discrepancy occurs again or was noticed earlier)
X6	Will a manager's solution/project be accepted or there should negotiate on acceptance? (Manager's negotiation ability depends on his capability to identify men who will be affected by the project changes, as well as of his relative power among them)
X7	Can a manager carry out the discrepancy to his superior? (X7 depends on manager's assessment of his will and attention to carry out the problem to his superior one and the superior's will to accept it)
X8	Is there appropriate Standing Committee and is there enough time to respond? (X8 depends on a manager's confidence in the Standing Committee's competence)
X9	Is it possible to contract a consultant? (The possibility depends on a consultant's availability, as well as of the resources for compensation of a consultant's effort)
X10	Is there a serious time limit or a dead end? (X10 requires a dictate of the solution/project solution, if a manager believes that there is no use of further discussion!)

Source: Lundberg, G., C. (1990): *Towards a Manager's Model for Initiating Change Projects*, JOCM, 1/1990.

Our managers haven't got used to think individually on the changes projects. For example, the organizational changes projects were common and mutual problem or a higher instance problem. It would be useful that the managers in companies in agro-complex study the Lundberg model, to use it to test their thought process of selection and to use it simulative, taking care on necessary time and needed financial resources. The Lundberg model had found a quite acceptable balance between standardization of selection procedure, on one hand, and a specific practical situation, on the other hand.¹¹⁹ Completely situational specific models, which base on local theories, were not accepted by the organizational changes managers-actors. The Lundberg model is usable on every hierarchical level and is opened for personal improving and extensions, which a manager-successful practitioner finds necessary. Consequentially, size of a company is not an obstacle to this model implementation; although in big companies have more possibilities for their successful application. If previous selection model shows that there is necessary to use the consulting services, than can move to in depth analysis of criteria of professional integrity, professional qualification and the consulting services' prices. Except them, in a phase of valuation and consultant selection should involve few more criteria. According to advices of the consultant and research *Kubr Milan*, there is necessary to perceive also: previous experience with a consultant, forming the project task, capability for execution of a task, potential for mobilizing additional resources and a consultant's image.¹²⁰ The conducted research has led to redefining of a starting hypothesis, first of all, to order correction of some criteria for consultants' selection by relevance.¹²¹ In accordance to it, there could conclude the following:

Decisive criteria for selection of a consultant in agro-complex of Serbia, by hierarchical order, are: professional qualification, capability to do business, professional integrity, image of a consultant, cooperation and relation with a consultant, potential for mobilizing additional resources, draft of a project task and a price of consulting services.

If starts from a theoretical abstraction that a company should select a consultant only according to one criterion, then, probably, previous experience with a consultant would be the safest. The relationship with a consultant is interpersonal relationship, not between organizations. However, there is no warranty that the same productive relation will develop between other people who will work at the

¹¹⁹ Cvijanović, J. (2004): *Organizacije promene*, Ekonomski institut, Beograd.

¹²⁰ Kubr, M. (1995): *Kako odabrati i koristiti konsultante: Vodič za klijente*, (Prevod), Ekonomski institut, Beograd.

¹²¹ **Mihailović, B.** (2011): *Razvoj konsultantskih usluga u Srbiji i njihov uticaj na performanse preduzeća u agrokompleksu*, monografija, Institut za ekonomiku poljoprivrede, Beograd.

project from the consulting organization and the client's organization. A key element of this relationship is trust. That is to say, a client expects that he will not be cheated by a consultant and that will not abuse his ignorance, absence, difficulties and lack of time for control. The consulting researchers mostly agree that it is not enough to select a consultant who is generally qualified.¹²²

Expertise of the consulting organization and an individual consultant must reflect in their approach to a project task. Analysis of a consultant's approach to a project task will reveal if a consultant makes efforts to understand completely a client's specific problem or to suggest application of one of the standard packages of his consulting organization. Evaluation of a project task can be done according to discussion with a consultant regarding a business problem and methods of their resolution, as well as by a formal proposal of a project task, submitted by a consultant. The consulting organization has to be capable to fulfil the promises. The capability to do business implies that professional staff be available at the right time, where logistics, support and supervision are also important. There happens that some consulting organizations compete for businesses they are not able to do independently.

In such conditions, the companies can easily detect it by consideration of a project task proposal, by putting direct questions and informing on a consulting organization. The potential of mobilizing the additional resources is important criterion, too. Complex consulting projects require that, sometimes during their realization, goes beyond the project. The companies-clients have interest to know whether they will have to search for the additional resources for specialist advices in the field of market, engineering, law, etc. Finally, the easiest way in selecting a consultant is that a company addresses to a consulting organization with a good reputation, i.e. an image. It is a logical move for many inexperienced users of consulting services, which try to avoid risky situations.

The companies in agro-complex of Serbia agree in one: the issue of consulting services' prices cannot be more important than the professional integrity and the professional qualification of a consultant. The empirical research results coincide with recommendations of some international consultants associations, which recommend to the clients to make a selection of a consultant according to his capabilities, not according to price. Consequentially, the research results should not be interpreted as the consulting service price is an irrelevant criterion for selection, but it can be considered just in the second round of the consultant's selection and exactly of those which satisfy the professional integrity and professional qualification

¹²² Kubr, M. (1995): *Kako odabrati i koristiti konsultante*: Vodič za klijente, (Prevod), Ekonomski institut, Beograd.

criteria. Some projects require a great creativity level and innovations, while some of them represent rather routine activity.

Also, the important question is if the consultant has been involved earlier in a similar project for some other company, although this fact must not be a reason for choosing the consultant. If there is necessary an innovative solution, there becomes prominent an ability of a consultant to judge creatively, not conventionally, to apply research methods and models of IT and, consequently, generates new business ideas.

It is important to emphasize that a client selects a consultant, not reversely; although on potential clients can be affected by very sophisticated and direct marketing. If a manager is serious in attention to engage the consulting organization, he primarily wants to be sure that his decision will be completely justified and supported within the company, that there will be selected the adequate consulting organization and that the company will have clearly defined positive effects from the consulting project.

IV NETWORK ECONOMY AND INNOVATIONS AS FACTORS OF AGRARIAN COMPETITIVENESS

In Serbia has to be established the market mechanisms, which by technological and productive-economic bond of all participants in production process to final consumption markets, is provided. However, mostly the turnover has a monopoly, more conceived if the agricultural producers are un-organized and if not exist productive organizations – cooperative movements. Thereby, in global strategy of market mechanisms development should provide the unity of production/processing/turnover and final consumption markets. This should create bigger economic interest, though agricultural producers and all participants in the production would work and produce more quantitative and more qualitative.

It is necessary to support the association and cooperation among agricultural producers, especially horizontal cooperation (for example, public grants which provide support to make the new cooperatives or productive associations, or training and seminars aiming to improve the culture of cooperation). Horizontal cooperation in agricultural production represents a vital need, though individual producers have no strenght neighter to negotiate efficently about prices and other conditions with big distributive companies, nor to invest in innovations and product quality, in order to increase personal competitiveness. Getting the agricultural producers into associations, the synergy in business and critical mass attaining in improving the negotiation aspect would be attained, influencing on improvement of agrarian competitiveness.

4.1. Network economy in function of agrarian sector development in Serbia

Network economy is a new enterprise organizational-process model, which is developed owing to new constituent elements such as: information, innovations, communications, new technologies and the such. Merging, or in contemporary vocabular – networking is a wide spreaded trend in world. Goal of this alliance is sinergy that contributes to network members more then individual output in the market.

Improvement of performance in agricultural complex in Serbia requires establishment of trade oriented companies, that involves a sequence of structural changes directed towards business efficiency improvement and market demand adaptation. Changes in structure inside companies are internally or externally orientated, both to increase effectiveness. Successful positioning on farming product market in Serbia requires adequate information on changes in the region and it's

market to decrease risk and uncertainty. Market risk cannot be eliminated, but it can be reduced and comprehended by market research.¹²³ Based on domestic market characteristics and adjoining countries reference to Serbian farming products, it is required to work on product's quality and image improvement. Consequentially, the country should stimulate promotion of domestic farming products abroad, as well as rationalize appropriate marketing emersion on the market. Adjustment to market requirements should involve changes in production process structure and production modulation in quantity, quality and competitiveness. Based on our production capacities and comparative conveniences it is needed to project a strategy of technological progress and development of agriculture, village area, food industry and offensive export orientation. Competitiveness on a well-organized market of goods and services has the irreplaceable role of filter in efficiency of technological development, whereas the country should direct and encourage technological development intensity in global interest.¹²⁴

Some smaller companies within large business systems in agricultural industry are frequently mutually connected in production and technology.¹²⁵ If such connection exists, it is usually organized within frames of complex business systems, in strategic business units, or centers of profit. In that case, priority aim is not individual company profit, but maximum total profit of the whole complex system, and it is never represented by simple summary of maximized profits of individual companies, for all the synergetic relations among them. Affirmation of knowledge economy and innovation impulses can be acquired by economy actors networking in agricultural sector in Serbia and by obtaining stimulating business environment, first of all, trough farming and macro-economical politics. Namely, with adequate agricultural politics, that can effect production increase, farming in Serbia can develop competitiveness and contribute significantly to economy progress of the country.

4.1.1. Enterprises of agrarian sector in Serbia

Few, highly developed agricultural giants in Serbian economy (PKB Corporation, Delta Agrar etc.) make only small islands in the vast sea of mainly traditional, rural agriculture. The necessity of their existence shouldn't be seriously reasoned, considering that it is more than clear that only these systems can supply with larger production (naturally and quantitatively) and application of scientific solutions,

¹²³ Kuzman, B., Subić J., **Cvijanović**, D. (2007): "Analiza isplativosti proizvodnje testenina novog pogona i upravljanje rizicima", *Ekonomika*, br. 3-4/2007 god., pp. 44-57.

¹²⁴ Mandal, S. (2004): *Technological development and politics*, Faculty of Economy, Belgrade, p. 110.

¹²⁵ Milanović R., Kuzman, B. (2007): "Mali biznis preduzetništvo Amerike, s posebnim osvrtom na poljoprivredu", *Ekonomika*, br. 1-2/2007 god., pp. 122-132.

especially, technical-technological inventions. Complex business systems include large number of organizational units, that are characterized by relatively big scope of individual business decision making. In most cases complex business system includes numerous individual economy operating companies, that have their own legal and economical status (trading account). Ownership is what coheres these companies into complex business system, namely interests of majority shareholders. Some companies characteristics from agro-complex of Serbia follow in further text.

*PKB Corporation.*⁷ Present PKB Corporation is “the primary company” in PKB system and participates in capital of 5 secondary companies in primary production and food industry area. Practically, in the system of PKB based on shared capital there are:

- “PKB Corporation”, primary company, dominant, and still on primary production and others, dependent companies:
- PKB “Avijajcija”, a small company, in function of primary production of PKB Corporation,
- “PKB Agroekonomik”, Science Research Institute, in function of primary production and development of PKB Corporation,
- “EKO-LAB”, quality research center that mostly leans on markets formed by present and former companies of PKB system.
- “PKB Fruit Farms”, Bolech, has minimum of business activity and is awaiting for auction privatization. In it’s possession there’s a cold storage of 10,000 tons capacity which has been out of function for two years. It was used for juice production and possessed 1,200 hectares which were actively used. It also includes PKB Grocka , processing factory which is out of function, that used to process fruit and vegetables (marmalade, jam, compote, canned vegetables).
- “PKB Inshra”, livestock concentrated food industry, equipped with significant storage and processing capacities, solid and complete technological body, that was targeted for the market to enable up growth of live stock farming in PKB Corporation and in other companies in live stock production of former PKB system.

*Delta Agrar*¹²⁷ is engaged in: primary farming production, agro-trade and distribution. In primary production sector Delta Agrar is engaged in crop husbandry, livestock farming, fishery, as well as, fruit and vegetables production. In the trade of farming products, this company is engaged in crop and oilseed exchange, meat and live

¹²⁶ www.pkb.co.yu

¹²⁷ www.deltayu.com

stock, organizes cooperation and work of redemption centers. In the area of distribution Delta Agrar in cooperation with leading world producers distributes: pesticides, seeds, livestock food, farming machinery, mineral fertilizers. The company organized its own retail network of farming pharmacies. Delta Agrar partners are leading world companies in all areas of agri-business: Sungenta, BASF, Pioneer, Bauer CropScience, Nufarm, DanBred, Deutz-Fahr, Amazone, Kverneland Group, Summit Agro International and others.

Primary farming production: Inside of Delta Agrar boundaries complete farming, vegetable, fruit and a part of livestock production is done on 5 farming estates that occupy land of 18.000 hectares: Podunavlje a.d.-Celarevo; Napredak a.d.-Stara Pazova; Kozara a.d.-Banatsko Veliko Selo; Jedinstvo a.d.-Apatin; Topola a.d.-Kikinda.

Farming trade and distribution: Crop and Oilseed Program, Meat and Livestock Program, Cooperation and Redemption Centers, Farming Products Exchange Program, Seeds Program, Farming Mechanization Program, Mineral Fertilizer Program, Pesticides Program, Retail Program.

Supplementary program includes wide assortment of different products for the producers like fertilizers, biological substrates, seeds, livestock food including folia and binders, garden programs, tools and equipment, small farming machinery and termination machines. Delta M Group is strategically orientated towards newest technology application in farming production process.

*BD Agro, a.d., Dobanovci.*¹²⁸ Private company with Canadian majority ownership. Production program is raw milk production. This company has closed milk production cycle from cow food production to controlled quality milk. Momentarily they own about 250 cows, with annual milk production per cow of 10,000 liters. All production processes on this farm (calf and heifer husbandry, milk and food production and nutrition) are in accordance with ISO 9001:2000 procedures, and NASSR standards system implementation is in plan. In progress is realization of high-productivity milk farm project, based on total reconstruction of barn capacities and importation of completely new primary livestock unit that includes 2,400 highly in-calf holstein heifers from Canada.

This heifers produce 11.000 liters of milk per year per cow, which means that this company by the year of 2010. will deliver 25 millions of liters of exceptional quality

¹²⁸ www.bdagro.com

milk per year. In that way, BD Agro will solemnly become the biggest, controlled quality milk farm in Serbia (only farm that gathers 2,400 cows in one place).

Agricultural company "Dragan Markovic", Obrenovac. In this company most of the improvements are made on pig farm plan (farm "The Farmer"); cow farm is reorganized to function (cow farm "Mladost" and heifer farm "Orasac"). Benefit of the company is that there's no redundant employees, and downsides are: (1) high investments are needed for replacement of worn down machinery, (2) for equipping the cow farm and also (3) a problem of poor soil quality (soil tillage and water-tightness) connected with crop production; with it's crop production this company cannot supply with enough quantity of stock food; it's debt to PK Beograd is 120,000,000 dinars (for business consolidation and production revitalization); the country invested 53,000,000 dinars from social help programs, and the subsidies are 150,000,000 dinars. The company is awaiting auction privatization.

By consolidation plan constructed by The Republic of Serbia Government and The PKB Corporation, significant results are accomplished in company's revitalization. Repair of the mill and the bakery put them back into function again. Livestock food factory is in order and settles company's needs, and part of the nutrition is for sale. On the pig farm "The Farmer" complete reconstruction and equipment repair were done. Milking factories "Mladost" and "Stubline" are as well under reconstruction and fulfilled with quality brood material from PKB. In farming production, first time after four years all the parcels are seeded. Total company debt is considerably lowered in reference to the state of the firm before temporary steps had been introduced. After completion of social program 315 workers stayed in the factory. Final works on pig and milking farm are in plan and calf fattening farm activation. It is essential to obtain farming machinery for crop production, boiler repairs, incubator purchase and similar, to completely capacitate the factory for individual functioning. In fruit farming, new seeding of cherries, apples and peaches are planned with final goal of total recovery of the company.

4.1.2. Network economy

Business networking has become an actual strategic need, new role-model of entrepreneurial behaviour and global mega-trend, that is based specially on pursuit for key competence of companies and efficiency of organizational-processing network, and includes acquiring of adjustable, synergistic and competitive organizational structure.¹²⁹ Key goal of business networking is based on realization

¹²⁹ Drašković, V. (2004): "Mrežno poslovno povezivanje kao megatrend i nova menadžment strategija", *Ekonomika preduzetništva*, br. 2., p.126.

of its useful economical and organizational effect (direct and indirect ones). In literature it is explained through its fundamental principles of forming and functional specifics of its existence, which reflects in dynamic tendency to position oneself as good as possible and achieve larger success on the market. In that sense, business networking essentially represents self-organized poliocentric structure orientated to particular tasks and reposes on following principles:

- connecting compatible elitistic business partners,
- anti-bureaucracy and informality in business and partnership relations,
- decentralization of proxy and responsibility (“democratic hierarchy”),
- communicational-informative integration and synergism via highly sophisticated technologies,
- branched out and free character of networking, based on equality and independence,
- recognized time, based on consensus ,
- coordination of unified cooperation, based on formulated rules, ambitious goals and developed control system,
- horizontal communication,
- dynamic adaptation ability, according to newly occurred problem situation,
- dynamic of business and organizational strategy, implementing institutes of “internal market” (of compensational character), knowledge expertness, innovative combining of control models, motivating entrepreneurs initiative...
- hybrid and non-traditional organizational structures,
- increase and growth “without borders”, overcoming organizational and business limits and differences among joining companies.¹³⁰

The practice has shown that networking of organizational structures, business processes, scientific-research work and the such leads to key knowledge, skills and other advantages that are on the market valued as competitive. Networked partners in business processes use together their key competences more and more so as to achieve faster, cheaper, more flexible, bigger result and result of higher quality by means of which competitive advantage on the global market is created.¹³¹ According to that, there are some models of networking in further text. These models contribute to widening of innovations and improvement of competitiveness of agro sector of Serbia.

¹³⁰ Drašković, M. (2006): “Klasterizacija kao komponenta globalne konkurencije”, *Montenegrin Journal of Economics No 4.*, p. 168.

¹³¹ Drašković, M. (2006): “Klasterizacija kao komponenta globalne konkurencije”, *Montenegrin Journal of Economics No 4.*, p. 169.

4.1.3. *Business incubators*

The most important services that capacities for incubation supply include an organized approach to expertise, experiences, consultancy services, advising in tuition and key business nets and groups is also a significant element of these capacities. The offer of rooms and these services to undertakers increases the probability of the success of the enterprise in relation to an enterprises that works independently: researches within EU show that, death rate (during the first year of business) of the enterprises which started their work in business incubator is less than 15%, unlike the rest of the enterprises, where death rate is known to be even 50%. The incubator functions as a capacity into which enterprises go or go out of it, in other words, the stay of an enterprise in the incubator is limited (most often up to three years).

Consultancy services of business incubators to members, but also to a wider local community are created in relation to shown needs, world practice of the functioning of business incubators, but also in relation to local specific quality. They are significantly determined by available personnel, finances and technical equipment. Consultancy services supplied by business incubator are vital for the development of the member enterprises, but also for the business incubator itself. Also, they can be a source of supplying additional funds so as to diminish business incubator dependency on subsidizing and donations and they can be of key importance for self-preservation.¹³² All consultancy services supplied by business incubator can be changed, hence some new ones can be added or some can be abolished, depending on the needs of the local community and the members of the incubator. At the same time, the price of consultancy services can be changed depending on inflation rate, offer/demand expenses, but it should always be lower for the members in comparison to the market conditions and at the same time it should be structured in such way that they can provide enough income for the preservation of the incubator. Adequate relation between the offered consultancy services and their price turns the business incubator into a very efficient means of local economic development.

The majority of consultancy services should be included in the price of the membership fee for the enterprises members. According to the report of European Commission "The Estimation of the Business Incubator" (2002), "the basic value of the functioning of the business incubator lies in the type and quality of the services

¹³² Support to the establishment of business incubators on the south of Serbia, The study of possibility of carrying out the project „Business incubator in Vranje“, January 2006, The analysis was done by the team of experts of Timocki club, the leader of the team: Dragan Milutinovic

of business support to clients. There are four key areas in that sense: education of undertakers, business consulting, financial support and technological support”.

The aim of business incubator has to be establishment of the structure and form that suits best to specific needs of the local and regional economy. Still, they can not achieve economic development themselves. Business incubators, be they within scientific-technological parks or out of them, have to be a part of wider strategy or economic development programme which has to do with all dimensions of economic changes. Namely, this particularly has to do with the economies in transition where incubators have proved to be most efficient within wider programmes for the development of sectors of small enterprises.

4.1.4. Co-operatives

From the aspect of available resources, organization, technique, technology and governing, it is assumed that the co-operative is more functional than family economies. From the above mentioned reasons, viewing co-operatives of agricultural producers from such aspect would be significant, both in theory and in practice for the needs of planning and organization under different circumstances of decision-making. For example, organizational model of the co-operative of agricultural producers should be organized in such a way that producers do not transport fruits from redemption station, but they should be able to surrender it directly from the yard. Such concept imposes finding optimal fruits transport programme, with clearly defined quantities, from greater number of starting points to destinations. The ultimate destinations can be refrigeration plants, some processing capacities or sales centers. The number of starting points will depend on the number of fruit producers that are members of the co-operative, as well as on the number of locations and their planted fruits. The optimal transport programme, which will enable efficient transport and distribution of products with rational use of the means of transport and lowest transport expenses, can be reached by applying methods of linear programming.¹³³

Judging from the mentioned reasons one of the tasks of co-operatives would also be defining models for planning transport organization on the scale of a part of business system that deals with the transport of products from producers to stock and processing capacities or sales centers. The mentioned goals require defining

¹³³ Dimitrijević B., Ceranić, S., Rajić, Z., Đurić Dragana (2006): “Organizacioni model udruživanja proizvođača voća”, Zbornik radova, Tematski broj časopisa *Ekonomika poljoprivrede*, br. TB/2006, Međunarodni naučni skup «Multifunkcionalna poljoprivreda i ruralni razvoj I – razvoj lokalnih zajednica, Institut za ekonomiku poljoprivrede, Beograd, p. 489.

information needs and basis for making a mathematical model for planning transport organization. This, among other things, includes determining of maximum possible volume of production of each member of co-operative, determining number and capacity of means of transport that co-operative has or possesses, or can use, determining stock, processing and sales capacities, determining mutual distance of all transport points and calculation of the expenses of transport per capacity unit.

On the basis of the above mentioned parameters the following should be done: making a mathematical model for planning transport organization, setting logical model for planning transport organization, testing mathematical model on a sample of fictitious business system. So as to reach the goal, it is necessary to realize several secondary goals and these are:

- Carrying out system analysis of the existing state of affairs in co-operatives of agricultural producers, with special emphasis on their production, organizational and ruling structure;
- Defining information need and basis for constructing model for needs of the organization and governing co-operatives of agricultural producers;
- Determining goals, criteria and parameters needed for defining models of co-operative of agricultural producers;
- Defining models of co-operative of agricultural producers on the basis of particular possible relations of production, organizational and governing structure;
- Carrying out comparative analysis of the defined model with the existing models of the functioning of co-operatives of agricultural producers;
- Examining possibilities and obstacles of implementation of the defined model under real circumstances;
- Testing of the model.

4.1.5. Clusters

Cluster uniting means co-operation and being connected (by commonality and complementarity) of members, their geographic or local boundaries, active canals for business transactions and communications, creating a mutual product and/or services or mutual solving of some need or a goal.¹³⁴

There are several mutual elements in the way of functioning of the cluster:

¹³⁴ Paraušić, V., Cvijanović, J., **Mihailović, B.** (2013): "Market analysis of clusters in Serbian agribusiness", *Economics of Agriculture*, No. 4, Publisher: Balkan Scientific Association of Agrarian Economists, Co-publishers: Institute of Agricultural Economics, Belgrade, pp. 713-728.

- Basic business doings – business doings that are leading participants of the cluster, and they most often bring the biggest incomes from the users that are out of the cluster.
- Support business doings– business doings that directly and indirectly help basic business doings of clusters. In this category are suppliers of specialised machines, components, raw materials, as well as all other service companies including financial/broker companies and their capital, lawyers, designers, marketing and public relations. These companies are mainly highly specialised and are placed near the companies that form basic business doings.
- Intellectual support infrastructure – in clusters that function supremely well, basic and support business doings do not work separately. In successful clusters many members of the local community take part. Local schools, universities, polytechnical institutes, local trade and professional associations, centres for economic development and many others that support the activities of the cluster. Actually, they are key factors in clusters. The quality of intellectual support infrastructure, as well as the degree of team work within it, form a very important factor in the development of any cluster.
- Physical support infrastructure – is made of physical infrastructure: roads, ports, managed landfills for classic or specific waste, communicational connections and the such. The quality of such infrastructure has to be at least on the same level as competitor's one, even much better.

4.2. Knowledge economy and innovations of agrarian sector

Affirmation of knowledge economy and innovation impulses can be acquired by economy actors networking in agricultural sector in Serbia and by obtaining stimulating business environment, first of all, through farming and macro-economical politics. Namely, with adequate agricultural politics, that can effect production increase, farming in Serbia can develop competitiveness and contribute significantly to economy progress of the country. Though a lot is done on the field of economy reforms, in up-coming period the country has the key role in favorable and stimulating macro-economical and business ambient creation, as the only basis for inducement of farming politics, directed towards restructuring, market development and agro-sector investment enhancement. Regulated country, well developed market, financial, institutional and infrastructural base, clear and edited law system and its efficient conduct – are the first and elementary presumption to enable competition of entrepreneurs on the market. To maintain competitiveness of agriculture, macro-economical management has to change basic elements of farming development strategies, above all, for creation of sustainable farming

systems, whose development is directed by knowledge and innovations, towards market development and agricultural product chain.¹³⁵

Today, more than ever, development of agriculture leans on science research results and their practical application. Research in the field of agriculture are conducted by large network of public institutions, institutes and universities are mostly directed toward improvement of production. Economical research, at the level of husbandry, market analysis, or analysis and estimations of economic policy is poorly developed. Profitability of agriculture and food industry should be improved and supported by adequate research and application of gained results. Experience acquired in research and education systems of post-communist countries can help these countries change their economy towards knowledge, innovations and new technologies. But, in spite of great number of research workers and successful education system inherited from the communist period, it would be difficult for countries that were part of East Block to turn these potential advantages into commercially successful innovations unless universities and research institutions cooperate closely with private sector, what implies restructuring research system towards adjustment to agro-economy needs.

4.2.1. The indicators of knowledge economy

The knowledge economy forum, organized by World Bank, which had a theme concerning the best practices for innovations and competitiveness improvement in postcommunist countries, was held in Prague, on March 2006. In the World Bank report, named "Public Financial Support for Commercial Innovation" (January 2006), various financial instruments, that could stimulate business innovations, are being analysed, and series of references for reforms that should precede, are being given, in order that these instruments could be well used. The aim of the report was to offer possibilities for production and economy growth to the countries of Europe and Middle Asia, especially to the postcommunist countries in transition, and to those that are not members of EU, by creating suitable surrounding for application of economy knowledge through innovations and learning.¹³⁶ Robert Solow (1956) started the researches many years ago, which helped economists in knowledge that constant growth economy owes to technological changes, rather than to factor of

¹³⁵ Mihailović, B., Hamović, V., Parausić, V. (2009): „Knowledge Economy and Innovations as Factors of Agrarian Competitiveness“, 113th Seminar of the European Association of Agricultural Economists (EAAE) – *The role of knowledge, innovation and human capital in multifunctional agriculture and territorial rural development*. Editors: Danilo Tomić, Zorica Valjiljević, Drago Cvijanović. Publisher: Institute of Agricultural Economics, Belgrade. December, 9th-11th 2009. Belgrade, Serbia, pp. 413-421.

¹³⁶ Public Financial Support for Commercial Innovation (Europe and Central Asia Knowledge Economy Study Part I); Januar 2006, World Bank, <http://www.worldbank.org/eca/kestudy>

accumulation, meaning traditional factors.¹³⁷ Subsequently, the mainstays for running economy by knowledge are next:

1. Economic stimulation and institutional regime (economic surrounding that provides free circulation of knowledge, investment support in information and communication technology (ICT), surrounding that encourages entrepreneurship, policy of customs and non-customs barriers, the rule of law, application of rules that protect intellectual property, fight against corruption);
2. Education and training;
3. Information infrastructure (dynamic structure starting from radio to internet is necessary to facilitate and improve the communication and exchange of information);
4. Innovation systems (network of research centers, universities, private companies).

Therefore, if the countries invest extra funds in research and progress, without providing, at the same time, economic facilities and stimulations, without improving information infrastructure and educational system, without including private sector and without developing innovation system - the money would be spent for nothing. Also, the national innovation system is made of following necessary conditions, but not sufficient ones: human capital; science and ICT; protection of intellectual property; adequate business surrounding. These conditions are basic infrastructure or "pipeline" of innovative entrepreneurial projects, which, in synergy with the access to the money funds, can create innovations.

By warning the countries from Middle Europe to Middle Asia that they are falling behind developed world in field of investment in progress and researches, World Bank, at the same time, invites them to make steps in improvement of conditions for increased investments in commercial innovations, as an instrument for economy growth and poverty decrease. Turning the researches and development into market success is key factor for achieving viable and long-term economy growth. This will happen only if there's motivation provided for research workers and companies to work together, as well as wide-spread access to computers and Internet, all in order to raise the total level of economy competitiveness and to open the quality workplaces. When talking about the range of computer and the Internet use in R. of Serbia, the research that was took under the Republic office for statistics in December 2006 (the report named "The use of ICT in Republic of Serbia, 2006), has

¹³⁷ Solow, R.M. (1956): "A Contribution to the Theory of Economic Growth", *The Quarterly Journal of Economics*, Vol. 70, No. 1. (Feb., 1956), pp. 65-94.

showed next: 26,5% households owns a computer, 18,5% companies owns internet connection, 97,3% companies uses computer in its business, 90,2% companies has internet connection, 52,9% companies owns Web Site, and 48,6% companies uses electronic services of public office (the research was took under methodology of EUROSTAT, on territory of Serbia, the refferent period for questions was the year 2005th, the size of sample was 1.200 households, 600 companies, phone poll).

Otherwise, the average participation of research and progress expenses in GDP in analysed countries ECA (among 30 countries only 4 of them belong to developed EU countries) is only 0,9% , that is far below the EU target level of 3%, which these countries should realize by 2010. Besides, two thirds of research and progress expenses in these, mostly postcommunist, countries is covered by public resources. Quite opposite, in countries with large participation of research and progress expenses in GDP, such as Japan, USA, Sweeden, Finland, Ireland, Germany - the participation of private (industrial) researches is from 65% to 70%, while government sets aside only 20-30% funds for these researches.

Previous experience in researches and education systems of postcommunist countries can help these countries to change their economy towards knowledge, innovations and new technologies. But, in spite of great number of research workers and successful education inherited from communist period, it would be difficult for countries that were part of East block to turn these potential advantages into commercially successful innovations unless universities and research institutions cooperate closely with private sector, what implies restructuring research system towards adjustment to economy needs. By using package "Knowledge Economy Indicators-KEI" - economy facilities, education, innovation system and information infrastructure, the Report of World Bank is ranking the countries of Europe and Central Asia by their abilities to efficiently invest in innovations.¹³⁸ Every country got mark on a scale between one to ten for each indicator and total KEI mark , which determines country's placing.

Knowledge Economy Indicators of World Bank Institute are designed to help countries to decide which reforms to take before they invest more financial resources in order to stimulate innovations. Generally speaking, despite significant differencies all over region, most countries should change their education system, improve their information and infrastructure basis and increase motivation for economy, before they assign further means from public budget. Among 25 countries

¹³⁸ Public Financial Support for Commercial Innovation (Europe and Central Asia Knowledge Economy Study Part I); Januar 2006, World Bank, <http://www.worldbank.org/eca/kestudy>; p. 49 and p. 57.

of ECA categorized as postcommunist countries, when talking about KEI, the highest rated three are Estonia with 8.26 points, Slovenia with 7.88 points and Lithuania with 7.17 points. Serbia takes seventeenth place with 4.55 points, and last three places take Bosnia and Herzegovina, Albania and Tajikistan. In comparison with Finland, for e.g., we can see that Finland - one of the most innovative economies in the world, has 9.02 points as general KEI mark, 9.73 points for innovations and 9.21 points for education. At the same time, the postcommunist countries got "mixed" marks for separate indicators. Serbia's worst mark – 2.15 was for indicator of economy stimulations and facilities (rank - 25.) with Gruzija, Tajikistan, Kazakhstan, Belorussia and Uzbekistan following after. The highest mark (5.93) Serbia got for education, but even with that mark, Serbia still takes 23. position among 30 analyzed countries and comparing with countries in region (*Table 8*) more disadvantageous education system have only Romania, Bosnia and Herzegovina and Albania. For instance, Croatia has the highest score for innovations (7.12), and that country takes fourth place among 25 countries of ECA, followed by 6 countries-members of EU. However, Croatians got only 4.34 point for their economy facilities and stimulations regime, which indicates that that domain demands progress and applies to Serbia as well.

Table 8. Comparison between countries of ECA in accordance with KEI and four pillars of National innovation system

Countries of region	KEI	Rang KEI	EIR	Rang EIR	I	Rang I	E	Rang O	II	Rang II
Slovenia EU	7.88	3	7.01	5	7.91	3	8.58	2	8.00	4
Hungary EU	7.01	8	6.42	10	7.00	9	7.65	10	6.98	11
Čech republic EU	7.00	9	6.01	13	6.92	10	7.10	15	7.96	5
Polland EU	6.86	12	6.36	11	6.15	14	8.32	4	6.60	14
Slovachia EU	6.70	13	5.96	14	6.70	12	6.65	18	7.47	7
Croatia	6.22	14	4.31	18	7.12	7	6.55	19	6.91	12
Bulgaria EU	6.19	15	6.05	12	5.94	17	6.73	17	6.03	15
Romania EU	5.27	17	4.37	17	5.20	21	5.60	25	5.93	16
Serbia	4.55	22	2.15	25	5.17	22	5.93	23	4.94	20
B and H	3.02	28	2.62	24	1.02	30	4.00	30	4.45	21
Albania	2.99	29	2.66	23	1.65	28	4.81	28	2.82	27

Legend: Kathegory ECA (Evropa i Centralna Azija) includes next 30 countries: Albania, Jermenia, Belorussia, B&H, Bulgaria, Croatia, Chech Republic, Estonia, Finland, Gruzija, Greece, Hungary, Israel, Kazakhstan, Kirgistan, Letonia, Lithuania, Moldavia, Polland, Portugal, Romania, Russia, Serbia, Slovachia, Slovenia, Spain, Kajikistan, Turkey, Ukraine, Uzbekistan;

KEI – Indicators of knowledge economy; EIR - Economic stimulation and institutional regime; I – Innovations; E – Education; II – Information Infrastructure;

Source: Public Financial Support for Commercial Innovation (Europe and Central Asia Knowledge Economy Study Part I); <http://www.worldbank.org/eca/kestudy>, Januar 2006, World Bank.

General conclusion of this World Bank report is that countries of East Europe and Middle Asia should stop expend their, already limited, resources on archaic innovation systems and start stimulate private companies to engage in the process, just like countries in West do. That doesn't mean that the countris should stop financing researches completely, but when they set aside funds for such activities, the accent should be on private companies researches. More important fact for the countries is that they should take necessary structural reforms so that investments in innovations could bring profit. In other words, the public funds are poor anyway, so they should be used in projects which can refund them in the most efficient way. If the country has lack of institutional context and information and innovation infrastructure, or lack of proper economy policy and stimulus set, or insatisfying coordination of research institutions with private sector, or inadequate education system and the like, funds used for research, progress and innovation support could be misspent.

4.2.2. Current situation in farming sector in Serbia

Serbia has great potential in farming sector, that is not entirely exploited. With appropriate farming politics, agriculture can contribute significantly to economical progress of the country. For it's coherence and effect on other sectors, agriculture is of great significance for development in Serbia, as it employs directly or indirectly a large number of people, partakes significantly in foreign trade, supplies with alimental security of population, and contributes to rural development and ecological balance.

Agriculture in Serbia is facing many problems that are among others, results of restrictions occurred during economical climate and farming politics that was led after The Second World War until disintegration of Social Federative Republic of Yugoslavia and just as much, results of difficulties that arose during the last fifteen years and difficulties in market economy adaptation.⁶ Agriculture in Serbia is concerned with consequences of centrally planned economy in partial ownership rights and land usage. For development, politics that stimulates productivity by restructuring and investing is needed, which implies clarification of ownership rights and obligations and establishment of efficient land market, crediting and inputs necessary for farming companies.

Up to present time, role of farming companies reflected in:

- Size economy of farming companies enabled appliance of contemporary techniques and realization and development of seed production;

⁶ Strategija poljoprivrede Srbije, Ministarstvo poljoprivrede, šumarstva i vodoprivrede, Beograd, 2004., p. 8.

- Concentration of expert staff enabled science and agriculture development and its transfer to agricultural holdings;
- Farming companies were trigger buttons for establishment and development of food industry in same organizational frames of agro-industrial conglomerate;
- National and later on, social ownership, as a base for establishing state influence on farming companies, has granted them role of cheap goods manufacturers in function of self-sufficiency of elemental food products preservation, strategic stability of the country and social security of citizens;
- The concept of agricultural development, that enabled direct administrative control of farming flows gave those companies mediatory role between agricultural holdings on one side and input manufacturers of food industry on the other.

As all other companies, they have legal obligation of accounting book keeping, VAT (Value Added Tax), property and income taxation, so from the formally-legal aspect they are in far worse position than the agricultural holdings. The stress falls on production structure that is less laboring intense and with relatively high degree of specialization in particular manufacturing units. Farming companies have relatively high presence of agricultural regulations application (compared to agricultural holdings), where the size of the holding is not one of the restrictive factors. Their organizational structure is very complicated and often overly outspread and conditioned by business function development level and its numerousness, by its formally-legal position, production specialization and similar. Agricultural companies still dispose of certain storage space and farming product processing capacities, considering that their expansion thrived towards large business systems of conglomerate type, that implied food industry development within company framework. Most of the food industry had separated itself organizationally from agricultural companies into individual business systems, though some storage and product processing capacities stayed within companies. At large and complex agricultural systems apart from lack of investments, most important problem is inability to survive, as a result of pressure to break large systems into smaller ones.¹³⁹ Reproduction chains are separated, as well as primary farming production from processing industry, and the market is dominated by dealers and importer's lobby. All the healthy functions of the previously existing, solid system are lost,

¹³⁹ Fokus grupa: Mesto i uloga velikih poljoprivrednih sistema u strategiji razvoja poljoprivrede, prehrambene industrije i ruralnog razvoja na području grada Beograda, Privredna komora Beograda, 23. maj 2008.

which was based on big agricultural systems in farming industry, that gathered agricultural cooperatives and small owners.

4.2.3. Methods of knowledge economy affirmation and realization of long-term competitiveness of Serbian agricultural sector

Significant factors regarding agricultural competitiveness improvement are entrepreneurship, science and innovations. Scientific explosion is essential characteristic of time we live in. Until today it remains unlisted, among other things, a new scientific paradigm. The new scientific paradigm was established at the end of 60-ies, simultaneously in several branches of science. Namely, in many sciences, conventional Decartes-Newton mechanistic presentation of the world was replaced by conception of self-organizing systems in period of transition. By studying thermodynamic processes, barrier of Nobel prize, Prigogine discovered corresponding "phases of transition" and "self-organization". In it's transfer from chaos to order, matter necessarily goes through transition phases, especially decision making phases, choosing from different alternatives. Thus, the new scientific paradigm was established, "the synergism-theory of interaction".¹⁴⁰

Possibilities for new scientific paradigm implementation in economy are obvious. In contemporary business ambient, only the changes are constant. In unpredictable business surrounding only firms and economy systems that manage changes successfully subsist. Transition phases reflect in economy systems. Transitions in Serbia begun in 2000., when all the capital preconditions were met for it's conduction. Liberalization of market relations and capital balance made possible for Serbian economy system to integrate into international finance and merchandise trends. Changes that had begun in economy domain, though under effect of numerous factors that amortized them, have gained characteristics of irreversibility. Namely, reform in economy system can hardly return back to it's starting point, and crucial is to discuss it's fluctuating tempo and instruments of macro-economical politics, which are often expected to establish balance between adversely situated economical goals.

Serbia improved it's ratings progressing for 24 positions to 68th place of 175 countries estimated by business requirements, showed research conducted by World Bank and The International Finance Corporation in "Doing Business 2007" report. Serbia got ahead of all former countries of Yugoslavia, barring Slovenia.

¹⁴⁰ Djuričin, D. (1996): "Tranzicija privrede", *Svojina i slobode*, Institut društvenih nauka, Beograd, p.141.

Although conducting numbered changes, Serbia lost leading position in reforms, that it occupied in last year's report.

Long-term export strategy aims at optimal utilization of disposable productive capacities, increase the size of agricultural production, change productive structure according to demand in favour of more intensive productions, final and high-quality products. There has to adjust to international market when it is about productive structure modifications and production adjustment concerned with quantity, quality and competitiveness. According to our productive capacities and comparative advantages, it is necessary to project the strategy of technological progress, agriculture and rural development, food industry and offensive export orientation. The competitiveness on well organized goods and services market has non-replaceable role of efficient technological development filter, and it is up to a state to direct and support an intensity of technological development in general interest.¹⁴¹ The methods for realization of long-term development strategy can be separated in four groups:¹⁴²

- long macro-programs – developmental politics,
- agrarian politics measurements,
- institutional solutions or coordination and development direction,
- science and staff education, as well as organization of professionally-consulting department.

In *permanent macro-programs* pertain all programs on which should permanently and systematically worked on according to established plans and which are necessary for agricultural production development and providing the industries with raw material etc. Necessity for defining the permanent macro-programs became as a result of very clear defining of all necessary goals. It is important for changes to extend in 3 ways:

- structure change (producers, property and institutions) which encircles land reform, institutions in agriculture, privatization in agriculture and management of forest and water resources,
- development of market and its mechanisms which encircle: suitable measurements of economic politics in market economy, agricultural markets, price politics and other measurements of agrarian politics for market support, as well as credit market,
- rural development and environment preservation encircles: rural development and questions of agricultural environment.

¹⁴¹ Mandal, Š. (2004): Tehnološki razvoj i politika, Ekonomski fakultet, Beograd, p. 110.

¹⁴² Strategija dugoročnog razvoja poljoprivrede, sela i prehrambene industrije, Ministratsvo poljoprivrede, šumarstva i vodoprivrede, Beograd, april, 1997, p. 98.

The measurements of agrarian politics are the most significant for realization of long-term development strategy. Because of its natural characteristics of land, climate and water resources, Serbia has great potential in agricultural sector, which has not been totally used. Along with adequate agrarian politics, the agriculture can give significant contribution to economic development of the country. For its connectivity and influence on other sectors it is extremely important for development of Serbia, considering that employs, directly or indirectly, numerous people, participates significantly in foreign trade, provides food safety for the inhabitants and contributes to rural development and ecological balance. Agriculture in Serbia faces many problems, which are, among other factors, the result of limits ensued in conditions of economic environment and agrarian politics led in period after the World War II till SFRY collapsed, difficulties in adjusting to market economy.¹⁴³

Institutional solutions of agrarian subsystem in market economy have main role in achievement of developmental goals. Their large role is determined by specificities of agricultural production. Large number of institutions in which jobs are being doubled does not contribute to long-term development. The main thing is that Ministry deals with all jobs related to agriculture as specific and the most important field of Serbian economy, including all that is underlined in developmental policy, than agrarian policy: prices, export, import, stockpiles, and to have full insight in work of financial institutions evolved in agriculture.¹⁴⁴

For development of science, *staff education and organization of professional-advising department*, it is necessary to provide suitable legal basis, especially Law on professional-advising department, quality control and etc. Today, more than ever, development of agriculture leans on science research results and their practice application. Research is under authority of Ministry of Science and Environmental Protection. Researches in the field of agriculture are conducted by large network of public institutions, institutes and universities and are mostly directed toward improvement of production.

4.2.4. Networking scientific - research and consulting activities

Many institutes have gradually transformed themselves from classical scientific-research institutes to professional organizations for offering consulting services in the area of industry, infrastructural branches and agriculture. However, according to

¹⁴³ Strategija poljoprivrede Srbije, Ministarstvo poljoprivrede, šumarstva i vodoprivrede, Beograd, 2004, p. 8.

¹⁴⁴ Strategija dugoročnog razvoja poljoprivrede, sela i prehrambene industrije, Ministratsvo poljoprivrede, šumarstva i vodoprivrede, Beograd, april, 1997, p. 128.

the results of empirical research, 54.29% of the consulting organizations in Serbia are engaged in some form of networking.¹⁴⁵ On the other hand, business incubators and clusters are still in an “embryo phase” of development and sporadic in character, so it is understandable that their influence on company performance has so far been negligible. In such conditions, it is necessary to stimulate a more significant partnership of the public and private sectors, before all in the form of:

- intrasectoral mobility of researchers and consultants;
- intersectoral mobility of researchers and consultants.

Namely, an interdisciplinary approach is necessary in the resolution of business problems, since non-structural business problems to which routine solutions cannot be applied often appear. At the same time, since consulting organizations in Serbia are mostly concentrated around university centers (mostly in Belgrade), in order to move this sector nearer to the model of total competition it is necessary to decentralize and network consulting work. Significant support in this process should be provided in the form of decentralizing the advisory bodies of certain ministries and the Chamber of Commerce of Serbia, which would create conditions for more adequate responses to company needs, i.e., the possibility of a partnership approach to the solution of business problems. Also, towards the goal of a more efficient allocation of resources, a regional exchange of experts is necessary, which means the networking of consulting organizations in Serbia. Support for this process should come in the form of consultant certification, due to the appearance of unfair competition. Namely, several firms have created an environment favorable only to themselves, and surveyed companies are pointing to the existence of an oligopolistic consulting market.

It is, therefore, necessary to institutionally support the development of a consultants association in Serbia that would minimize unfair competition by setting down a code of professional behavior, i.e., defining ethical, professional and other performances of consulting work, and requiring consultant certification as well as the control and evaluation of consulting services. This would clarify the boundaries of consulting and reduce the possibility of abuse and manipulation.

The processes of business incubation and clusterization in Serbia are in their “embryonic” phase of development, and represent an initial step in the affirmation and stimulation of networking between economic actors. The goal of business incubators has to be the establishment of the most suitable structure

¹⁴⁵ **Mihailović, B.** (2011): *Razvoj konsultantskih usluga u Srbiji i njihov uticaj na performanse preduzeća u agrokompleksu*, monografija, Institut za ekonomiku poljoprivrede Beograd, p. 112.

and forms for the specific needs of the local and regional economy. Still, they cannot achieve economic development by themselves. Whether they are located within scientific-technical parks or outside them, business incubators must form a part of a broader strategy or economic development program that covers all the dimensions of economic changes, especially transition economies, in which incubators have shown themselves to be the most efficient within the scope of broader programs for the development of the small business sector. The clusterization of Serbia's economy is in its earliest stages. Clusters can make their contribution in the development of competitiveness, through productivity growth and the creation of innovative strategies, which should not be lost from sight in the coming period, when more intense processes of cluster creation and functioning should be expected. This way of strategic linking of companies for the sake of further growth should gain momentum, so that it can play a key role in strengthening competitiveness and ensuring a more effective performance of Serbian companies on the international market.

4.3. The role of management consulting in development of organic production in Serbia

Management consulting is the learning and development model of manager's abilities and skills which enables solving business problems and improving business performances of company. The conditions of managing affairs at the market require establishing relation between economic, social and ecological criteria for resource allocation. Consultancy that respects situational approach in practice enables achieving balance of economic efficiency, social responsible work and organic production standards. Contemporary conditions of business competition require knowledge and implementation of regulations in fields of environmental protection, public health, safety, manufacturer protection and product adequacy. Managers in Serbia lack business experience in market conditions; therefore they need support in knowledge, skills and introduction to organic production standards.

Consulting proved to be a good form of this support. In our business practice consulting includes a variety of private and public entities consisting of consultancy organizations, management companies, auditors, United Nations agencies, International Monetary Fund (IMF) and other multinational organizations, investment and commercial banks, research institutes, government and non-government agencies, as well as individuals. The condition of our enterprises and insufficient manager's abilities and skills contribute to actualization of the role of consulting in understanding and acceptance of standards referring to organic production. This study aims to point out the significance of consulting services in affirmation of organic production in Serbia and identification of its development limitations.

4.3.1. Organic production in Serbia

There are natural conditions in Serbia for development of organic production, which reflect mostly in unpolluted agricultural areas, as well as in existence of households in mountain areas with the entire cycle of vegetable and livestock production. The production, processing and market placement of the organic food have to be harmonized with the international standards and with the law on organic food production in Serbia. The organic agriculture is based on application of specific methods of the organic production. It gets its more significance by bringing a man closer to nature, from which he had become renegade; it makes almost complete harmony with the environment preservation requirements and finally, it provides to population to feed with the products made by natural processes, using organic and mineral matters.¹⁴⁶ Accordingly, the organic production goals are the following: production of sufficient amounts of high-quality food; up keeping and increasing long-term fertility and biological activity of land by using biological, mechanical and methods adjusted to local conditions; protection and up keeping of biodiversity in nature and agriculture, on a farm and its vicinity, by using sustainable production systems; maintaining and preserving the genetic biodiversity by paying attention to genetic resources management on the farm, recognizing domestic knowledge and traditional producing system significance, their protection and apply in education.¹⁴⁷

Numerous goals stated in Codex Alimentarius can be added to those goals, such as: promotion of renewable resources in locally organized agricultural systems, managing agricultural products in a way by which will keep the organic integrity and a vital quality of products in all processing stages, etc. As these goals cannot be measured easily, the best way is to insure their realization in practice and to make a difference between the organic and conventional production and to adopt procedures, official rules, as on the national, as well as on the international level. Development of the organic production implies introduction with the IFAOM standards, by which suggest and determine a minimum of requirements for the organic production.¹⁴⁸

The Republic of Serbia has very favourable conditions for setting up this type of production. The environment is preserved, especially in mountain regions, which occupy 71.5% of central part of the Republic of Serbia, or 51.7% of the entire

¹⁴⁶ Katić, B., Cvijanović, D., Cicea, C. (2008): "Organska proizvodnja u funkciji zaštite životne sredine u Srbiji - stanje i regulativa", *Ekonomika poljoprivrede*, vol. 55, br. 3, pp. 267-276.

¹⁴⁷ Mihailović, B., Savić, M., Katić, B. (2007): „Konsalting, održivi razvoj i organska proizvodnja: perspektiva Srbije“, *Industrija*, broj 4, pp. 81-94.

¹⁴⁸ Mihailović, B., Savić, M., Katić, B. (2007): „Konsalting, održivi razvoj i organska proizvodnja: perspektiva Srbije“, *Industrija*, broj 4, pp. 81-94.

republic territory.¹⁴⁹ Most of these areas have high-quality water, clean air and are remote from highways and other sources of the environment pollution. Accordingly, the organic production realizes by very high criteria and it is regulated by special decisions. These regulatory rules exist in Serbia, too, and are well coordinated with the EU legislation. The area in which collect wild plant species from natural habitats, by the organic production method, in 2009 was amounted around 1,000.000 hectares, while arable land on which applies the organic production methods was amounted around 1,200 hectares. The organic production is based on an essential connection between agriculture and nature, with a focus on respecting the natural balance. By the organic production and supply of health-safety food creates pre-conditions for motivating export and improvement of socially-economic position of rural environment and the national economy.

4.3.2. Objectives and standards for organic food production

Organic food is produced, processed and/or brought into the market in accordance with international standards and the Organic Foods Production Act in Serbia. According to Codex Alimentarius the organic agriculture includes holistic production-managing system for plant and livestock production. For organic agriculture exist strict rules, whose objective is to ensure quaranteed quality of picked forest fruits, agricultural plant and animal products and their products. Organic agriculture is based on essential bond between agriculture and nature with stress on respect of natural balance.¹⁵⁰ Numerous objectives of organic production are: production of sufficient quantities of high quality food; maintaining and increasing long-term fertility and biological activity of the soil by using biological, mechanical and methods of adjusting to local conditions; protection and conservation of biodiversity in nature and agriculture, on farm and in its surrounding, by using sustainable production systems; sustaining and conservation of genetic diversity by paying attention to managing of genetic resources on the farm, recognizing the importance of domestic knowledge and traditional production systems, their protection and application in education. To these objectives numerous objectives stated in Codex Alimentarius can be added such as: promotion of restorable resources in locally organized agricultural systems, handling with agricultural products in the way by which the organic integrity and vital quality of the products would be sustained in every sequence of processing, etc. In order to measure these objectives easily, the best way would be to ensure their implementation in practice and to make a difference

¹⁴⁹ Katić, B., Cvijanović, D., Cicea, C. (2008): "Organska proizvodnja u funkciji zaštite životne sredine u Srbiji - stanje i regulativa", *Ekonomika poljoprivrede*, vol. 55, br. 3, pp. 267-276.

¹⁵⁰ Mihailović, B., Savić, M., Katić, B. (2007): „Konsalting, održivi razvoj i organska proizvodnja: perspektiva Srbije“, *Industrija*, broj 4, pp. 81-94.

between organic and conventional production and to impose procedures, official rules, both in national and international level. Organic production must be managed according to the rules, given in IFAOM standards in which minimum of requirements for organic production is proposed and defined. The standards include the following indicators.

1. Production:

- Organic ecosystems must be of such quality so that by farm maintenance it is possible to sustain biodiversity and conserve nature. This, among other things, means soil conservation, quality sustaining and effective use of water, protection of endangered wild species, careful selection of plants for growing.) Genetic engineering is excluded, and products must not include ingredients, additives or supplements made by genetic engineering;
- Soil and soil managing, fertility, sustainability based on using these measures and substances that are compatible with basic soil;
- Plant production based on the selection of plants and varieties in accordance with their adjustment to the existing soil, climate and tolerance on diseases and pests (organic seeds and plants). Special attention is paid to the selection of ways of plant protection.
- Organic livestock production based on harmonic relationship between soil, plants and animals, organic food nutrition, life without stress and exertion for animals, good selection. The farm must be private ownership. Animal breeding is carried out by natural techniques of reproduction and veterinarian insemination. Food for the animals must be from the same farm-at least 50%. Sick animals are adequately treated with possible isolation, and the organic production controller must be informed about used chemical medications and antibiotics. During the transport and slaughter, the animals must be exposed only to minimal stress.

2. Processing and manipulation:

- processing must be carried out in separate premises for conventional (functional) food;
- processing is carried out by biological, mechanical and physical methods so that the sustainable vital quality in the final product is ensured;
- only organic ingredients are used for production;
- storage is carried out in controlled conditions;
- packing should be with least unfavorable effects on the product and it should be either returnable package or the one which can be recycled or biologically dissolved;

3. Labeling:

- it must be clear and correct label that it is organic product as for example «product from organic agriculture», etc.

- label should contain the name of the person / company responsible for the production;
- label of a person/ certification body tela which certified the product.

Standards give the production common language. Thus the communication is more simplified, and the marketing more successful. Standardization helps the producers to secure the product which is wanted and which they can sell, and the buyers to receive the quality of product which they want. Big associations of supermarkets impose quality standards which the production must fulfill. These standards refer to biochemical characteristics, external outlook (weight, color, diameter of fruit) and the presence of harmful materials (nitrates and heavy metals, residual pesticides, phytohormones). The most important standards are EUREGAP 13 for agricultural production and HACCP in processing industry.¹⁵¹ These standards were formed as a reaction of consumers on the site of unsafe food during epidemic of livestock diseases (mad cow disease, foot and mouth disease), as well as from fear of imposing genetically modified food. EUREGAP is the standard which covers all the main aspects of production, such as soli managing, crop growing and harvesting. It also deals with issues of pollution, labour treatment and environmental protection.

The standard follows the production from sowing (seed origin and soli history are analysed), through growing (using of herbicides, pesticides and fertilizers-quantity, type, quality, place and way of applying is tracked), irrigation and harvesting (level of hygiene and manner of storage) to packaging, transport and placing the product on shelf in a shop. HACCP Standard represents the system that identifies, analyses and controls the risks, that are significant for food safety. The risk includes biological, chemical or physical agents in food, with a potential to cause unfavorable effect on human health. The needs for HACCP are influenced by the following factors: growing number of pollutioners, increasing concern for health because of food hygiene cross contamination, higher risk from diseases caused by chemical problems in food production, new technologies and life conditions and even less resistance of people to diseases, also the world market which demands international harmonization. HACCP provides numerous advantages. The most important are the following: provides preventive system for food production, effective and efficient surveillance from the government with less inspections, responsibility for food safety is transferred to industry, helps food producers be more competitive in the world market.

¹⁵¹ Presna, M., B., Branković, A., Savčić, R. (2006): *Fresh fruit and vegetable 2006: Competition of Serbian agriculture*, Jefferson Institute, Belgrade, p. 27.

4.3.3. European regulation for organic food production and turnover

In the last decade of the 20th century the organic food production rate rapidly increases. Organic food turnover has growth rate high above than the one in conventional agriculture. Consumption of organic food constantly grows in Europe and beyond (the USA, Japan etc.). Higher demand of organic products is obvious. Having in mind the significance of organic food the European Union Commission has formed the strategy of its production and turnover within the Common Agricultural Policy. Legal framework for production development and turnover of organic food is regulated by Regulation no. 2092/91 and Regulation no. 1804/1999 and European action plan for organic food and farming.¹⁵² In European action plan legal basis for comprehensive analysis of organic food production development in Europe has been given. The action plan contains five chapters which are:

- Introduction
- Organic food production development
- Organic product market
- Organic food policy and production
- Standards and inspection.

Within the Programme annexes and 21 actions are also contained. The actions are the following:¹⁵³

- Organizing the campaign for organic production promoting and informing
- Creation and maintaining internet data base about national standards in relation to standards in EU
- Maintaining and improving of statistic data base about organic production and market
- Assistance for Member states as organic food producers
- Development of EU measures data base for the organic food field (information, production, marketing)

¹⁵² **Cvijanović, D.**, Simonović, Z., **Mihailović, B.** (2011): "The Common Agricultural Policy in the function of organic production development in EU", *European Union Food Sector after the last enlargements – conclusion for the future CAP*, Multi-annual programme: Competitiveness of the Polish food economy under the conditions of globalization and European intergration, no 6.1. Warsaw, pp. 62-79.

¹⁵³ **Cvijanović, D.**, Simonović, Z., **Mihailović, B.** (2011): "The Common Agricultural Policy in the function of organic production development in EU", *European Union Food Sector after the last enlargements – conclusion for the future CAP*, Multi-annual programme: Competitiveness of the Polish food economy under the conditions of globalization and European intergration, no 6.1. Warsaw, pp. 62-79.

- Recommendation to Member States to include in their rural development programmes instruments for support of the organic food production
- Researches in organic food production and ways of modification
- Transparency of standards and inspection monitoring
- Demands to complete, establish and improve the standards for organic food
- Forming the independent group of experts for technical advices
- Explaining Decree no. 2092/91 by regulations related to GM
- Improving the work of inspection services by imposing special measures and cross control according to Decree no. 2092/91
- Developing of analytical methods in Common researching centre, which can be applied in organic food production
- Studying the possibilities to use identified zemljišnjih parcela defined for CAP management needs
- Providing adequate mutual cooperation of inspection bodies and authorized inspection bodies according 2092/91
- Developing appropriate system of inspection body accreditation
- Publishing annual reports of Member States about inspection service monitoring
- Strengthening the effort to include third countries into common list
- Contrasting standards about EU organic food production, Codex Alimentarius and IFOAM standard
- Informing about the organic food production standard in EU and inspection systems in third countries.

Since the organic food market depends on the consumer trust that is built and permanently taken care of, it is very important to establish defined system of control and certification. Beside this, it is also important that the consumers are well informed about the principles and benefits of organic food production and consumption. It must be emphasized that the significant element of strategy for environment protection and sustainable development is organic food production. Organic food production is entirely incorporated in rural development policy. Important positive effects of the organic food production are:¹⁵⁴ reduced and controlled use of pesticides and artificial fertilizers; soil protection; biodiversity conservation and environment protection; animal welfare. The EU Commission

¹⁵⁴ **Cvijanović, D., Simonović, Z., Mihailović, B.** (2011): "The Common Agricultural Policy in the function of organic production development in EU", *European Union Food Sector after the last enlargements – conclusion for the future CAP*, Multi-annual programme: Competitiveness of the Polish food economy under the conditions of globalization and European intergration, no 6.1. Warsaw, pp. 62-79.

estimates rural development programmes especially from the point of organic food production. Cognition and experience based on these programmes represent building material of a new legal document for rural development from 2006. EU Member States should incorporate in their rural development programmes support to organic food production, which includes, among other things, education as well as training of all participants in organic food production and turnover.

Adequate labeling of organic food is also important as extremely recommendable in areas, which are proclaimed as ecological oases. It should be noted that organic products are traditionally placed on the market as unprocessed and minimally processed. Recently the consumers show more interest for supply and consumption of processed organic food, which causes problems for processors because of drastic limitations in number of additives that can be used. Organic food import on EU market constantly grows. Significant participation in this have developing countries. Export rules protect the concept of organic food production, interest of producers and consumers in EU. Regime is unique for organic products imported from third countries (article 11. Regulation no. 2092/91). EU regulation foresees:

- Organic product import is allowed from the country, which has agreed to and accepted all requirements from the Commission delivered to exporter according to valid procedure
- Authorized service/body of the third country can issue a certificate on organic production if it is entirely in accordance with EU requirements and if the inspection system is identical as control in EU
- Organic products must have the origin from registered regions or processing organizations, which are constantly under the regime of inspection control.

EU Commission before organic food import estimates guarantees of third countries about fulfilling the export procedures. Beside this, the inspection results from the point of sameness with inspection measures in EU are separately estimated. It is important that the Commission has the right and obligation, if necessary, to request from the third country more detailed information about all aspects of production, processing and inspection. In order to estimate correctness of inspection body results the Commission can hire *ad hoc* experts.¹⁵⁵ Within the Union organic food movement is free. It should be emphasized, that none of the Member States has the right to forbid the placement of organic products, that legally, in accordance with EU requirements, have entered the Union market. Third countries, which are on the

¹⁵⁵ **Cvijanović, D., Simonović, Z., Mihailović, B.** (2011): "The Common Agricultural Policy in the function of organic production development in EU", *European Union Food Sector after the last enlargements – conclusion for the future CAP*, Multi-annual programme: Competitiveness of the Polish food economy under the conditions of globalization and European intergration, no 6.1. Warsaw, pp. 62-79.

list of organic food exporters, must inform the Commission about any correction in measures and their application.

4.3.4. *Ecological management consulting*

Consulting services in the field of environmental protection are provided by some scientific research organizations (institutes), Economic Council of Serbia, advisory bodies of some ministries, as well as private consulting organizations whose business offer includes services of ecological management. Ecological management consulting and environmental protection include: corporative and marketing strategy, production, operational and project management, organizational and management studies and projects – human resources and financial management systems. Consulting organizations offer depends on the demand at consulting services market. In the same time, the offer is conditioned by personnel potentials of the consulting organization. The most important things are consultants' experience and expertness, which make it possible to respond to demands of clients concerning ecological management. Ecological factor gain on its importance, which produces demand for special consulting services connected to projecting and installation of equipment for decreasing/ prevention from pollution. The value of investments on world ecological market rose from 379 billion dollars in 1995 to 518 billion dollars in 2000.¹⁵⁶ In developed countries of West Europe and America, consulting has been developing through decades.

In these countries, there are consulting organizations which are quite different from each others concerning the form of financing, organization and consulting process. Different models of advising are always, directly or indirectly, determined by social context in which the advisory institutions are supposed to act.¹⁵⁷ In the same time it is important to emphasize increasing specialization of consultants for specific fields. Contemporary agriculture includes contemporary technologies. Therefore, in order to fulfill the standards for organic production, it is necessary that consultants possess new specialized knowledge. The specialization of the consultants (so called SMS – Subject Matter Specialist) includes education in specific fields as socio – economic and ecological consulting, as well as being informed on new regulations and standards in EU. Accordingly, the precondition of successful consulting is continuous education of consultants and exchange of business experience and innovations through consulting associations. Related to this is the existence of

¹⁵⁶ Strategies and Policies for the Development of Consulting Engineering Services in Developing Countries, UNDO, 1995., p. 4.

¹⁵⁷ Jankovic, D. (2006): „Organizacioni modeli poljoprivrednog savetodavstva u Nemackoj“, *Ekonomika poljoprivrede*, No. TB (13-667), p. 581.

strategic development planning, and connection between AKIS (Agriculture Knowledge and Information System) and different consultants' education centers. There may be separate centers for this purpose though often these are faculties, research institutes, schools and different institutions which, depending on consultants' needs, offer additional education.¹⁵⁸ This way, consultants improve their knowledge and expand their business experience. Acquired knowledge is transmitted further which enables solving clients' business problems. Consultants' engagement by companies in Serbia may be understood as investment in know – how, that is immaterial resources of own company. Economic efficacy of an investment understood in that way will be greater if during the process of consulting there is transfer of knowledge from a consultant to a client, who will be further able to solve or avoid similar business problems. This doesn't eliminate the need for consulting, since there are other business problems which require additional expert's help and knowledge transfer.

In the field of agro business consulting presents one of the most important factors of business modernization. In favor of this statement, we must cite the fact that consulting investments (and agricultural researches) bring around 40% of average profit rate, which is "far more then other investments in agriculture development"¹⁵⁹ In *table 9* are shown the advantages of the eco-management effective system. The advancement in management capabilities and skills could be achieved through high-quality training and education.

Steeve Goss, the consultant from The European Agency for Reconstruction and The Ministry of Agriculture, Forestry and Water Management of the Republic of Serbia, emphasizes that good education and advise – giving to agricultural producers are the most important and the most useful way of governmental support. The consulting services development in the field of environmental protection is influenced by the approach of Serbia to the European Union. The market of European Union consists of 500 million customers. The approach to this market imposes stricter business conditions, which is reflected in stronger competition and numerous regulations in fields of environmental protection, producers' and consumers' protection etc.

Previous experiences show that certain sectors present potential champions after accession of Serbia to the European Union. Potential champions are: tourism, transport, civil engineering, financial services and consulting services in the field of

¹⁵⁸ Jankovic, D. (2006): „Organizacioni modeli poljoprivrednog savetodavstva u Nemackoj“, *Ekonomika poljoprivrede*, No. TB (13-667), p. 584.

¹⁵⁹ Van den Ban, A.W., Hawkins, H.S. (1996): *Agricultural Extension*, Blackwell Science, UK, p. 13.

environmental protection. Traditional light industry needs modernization and informing about the marketing logic.

Table 9. The advantages of the eco-management effective system

Expenses decrease:
- Applying the eco-management system effectively we may estimate different ways to decrease expenses.
- The most important advantage of eco-management system (resources saved) comes out of analysis of resources / energy that were used, and their efficacy.
- The stimulus for thorough consideration of alternative energy sources and efficiency of their expenses, in order to decrease total expenses further.
- As a result of minimization of waste materials and their storage expenses.
Client's demands:
- A lot of companies adapt eco-management system to clients' demands according to the quality system and series of standards ISO 9000.
- The quantity and diversity of client's needs and expectations are on the constant increase.
- No client wants to deal with suppliers who do not act according to laws and ecological behaviour codices.
Corporation image:
- The capability to demonstrate a responsible ecological attitude may dramatically promote the image of corporation.
- On the other hand, negative publicity about organizational ecological characteristics is always very harmful.
Legislation:
- The completeness, accuracy and persistence applying ecological legislation is of particular importance.
- Management system which recognizes requirements and coordinates them avoids paying fines or even a prison penalty.
Investment:
- Investors must follow ecological standards and regulations.
- Search for a way to additional investment in organization requires providing access to all necessary information, including ecological condition.
- Insurance companies are quite aware of risks for their strategy relating to bad ecological characteristics of the insured.
- Companies with distinguished and effective eco-management system may prove that there needn't exist any risk for insurance company.
- Some insurance companies require the estimate of ecological suitability.
Marketing possibilities:
- Each company inclining to progress wants her products and services to attract as larger market as possible.
- Bad ecological characteristics will prevent clients from buying from such a company, while good ones promise the continuity of the market as largest as possible.

Source: www.pks.co.yu

Consulting services connected to ecology and environmental requirements are relatively new, but it is believed that in future this segment of the consulting services market will gain on its importance. In favour of this statement is the fact that this sector is strengthening in countries that joined EU. The sure thing is that these services are interdisciplinary.¹⁶⁰ Consulting organizations whose main activity is accountancy, management and engineering consulting are present in this market segment. *Table 10* shows the inclination of services connected with ecology and environmental postulates to trade. Those are following consulting services: waste materials and pollution control, problems of regulation, working environment and safety.

Table 10. Inclination of services connected with ecology and environmental postulates to trade

Services	Description	Local presence	Informational technology	Local knowledge	Inclination to trade
Waste materials and pollution control	Advices about cleaner production technologies and waste materials removal	It is necessary to be informed about the route of material in client's production system		In some cases it is useful to be informed about climatic conditions and environment	Good
Problems of regulation	Advices about regulations connected to environment and regulation	Not necessary		It is necessary to be thoroughly informed about local rules and regulation	Week
Working environment and safety	Advices about workers' safety improvement. Suggestions of measures for increasing satisfaction at work	It is necessary to be informed about organization of client's production system	Databases of previous accidents, toxic materials etc.	It is necessary to be informed about local working culture and working safety regulation	Week

Source: The Tradability of Consulting Services and Its Implications for Developing Countries, UNCTAD, New York and Geneva, 2002, p. 157.

¹⁶⁰ Blečić, S. (2005): *Međunarodna trgovina konsalting uslugama*, magistarski rad, Ekonomski fakultet, Beograd.

The manager's mission is to change production, marketing, as well as usage of products and services, that is carrying out activities, according to scientific and technical knowledge, in order to prevent serious or irretrievable environmental degradation. In the same time, it is necessary to measure efficiency in the field of environmental protection, perform regular check out of environmental protection and estimate of concordance with internal postulates of company, legislation and other regulations.

Consulting is one of important factors for the development of spontaneous order of the market economy, which is based on private property, entrepreneurs' initiative and social responsible work. Consulting interventions and coordination affect creation of the spontaneous market order, on the other hand the development of the market and market relations affects the development of consultancy as a profession. The changes will become irreversible at the moment when most of national product is created by companies in private property. Then there will be conditions for establishing relation between economic, social and ecological criteria for resource allocation. Consultancy that respects situational approach in practice can help achieving balance of economic efficiency, social responsible work and organic production standards.

4.3.5. Sustainable development and the environment protection problems

The environment has been considered as a free good in previous development, so it has been mercilessly exploited which had left and keep leaving multiple negative consequences. Economic development, based on irresponsible use of natural wealth cannot last forever, and not to jeopardize a capacity of our planet's perseverance. Old development models must quickly change, if we want to provide a long-term integrity of natural systems, which keep life on Earth. In order economic development to move into the future according to the ecological requirements, more and more talks about the necessity of, so called, sustainable development, raising awareness on importance of healthy environment, which enriches its content with ecological, social and other dimensions. This developmental concept is opposite to the previous/existing philosophy and strategy of a fast growth, based on a „wasteful“ and „dirty“ technology with brutal environment exploitation. The sustainable economic growth has to and must be an engine of the ecological progress. In order to achieve the sustainable economic growth, i.e. the growth adjusted to the nature needs and limitations, we have to provide the connection between the ecological and economic policy on all social levels and in all economy sectors.

In 1987, the world conference for the environment protection and development was presented to public its report „Our Common Future“, known as “Brundtland – report”,

after the name of the president, who chaired the Commission. This report had given a great stimulus to discussion on criteria and terms of sustainable development, as a new concept of the world economic and ecological policy. The sustainable development as a possible stage toward a main goal of the global survival requires a thoroughly rearrangement of ecological performance of all economic activities. A specification and defining the concrete tasks can be found in the *Business Charter for Sustainable Development* (1991), the Second World Industry Conference on Eco-Management. The most of set requirements have already entered the existing eco-management systems (BS 7750, EVRO-EMAS, ISO 14000). Privatization and restructuring of companies make the basic terms for sustainable development. In the Report of the European Bank for Reconstruction and Development for 2005, the transition in Serbia was highly rated.¹⁶¹ However, the production of companies in Serbia insufficiently fulfils the market requirements regarding quality, prices, assortment, delivery terms and the organic production standards. Low capacity utilization and impossibility of a product placement are a consequence of business philosophy, by which the production is a goal by itself, where an ecological dimension of production is pushed into the background. Such attitude toward economy had brought to increased stocks, which had additionally increased already high production costs.

A significant factor of a new sector development and the sustainable development in Serbia is an affirmation of socially responsible business. It is about a relatively new concept, which has been very efficient in terms of the global competition. The socially responsible business concept contributes to realization of economic success, along with a respect of individuals, society and environment interests. There enables the resources allocation which appreciates the "triple bottom line" criteria (economic development, social development, responsible relation to the environment). Maintaining a delicate balance between industrial development and the environment preservation leads to redefining of the existing resources combinations, due to new costs of transition to the environment-friendly technologies.¹⁶² An assumption of the socially responsible business concept is freely adoption of measures which contribute to resolution of social and ecological problems. It is about a strategic approach to the society and a partnership with the other companies in the environment. With occurrence of new challenges of

¹⁶¹ Porter, M., E. (2004): „Building microeconomic foundation of prosperity: findings from the business competitiveness index“, in *The Global Competitiveness Report (2004-2005)*, Palgrave-MacMillan, New York.

¹⁶² Djuričin, D. (2006): „Tranzicija, stabilizacija i održivi razvoj: Perspektiva Srbije“, Uvodni referat, Miločerski ekonomski forum 2006: *Evropski prioriteti i regionalna saradnja*, Savez ekonomista Srbije, Miločer.

globalization, significant interest has been directed to development of new methods for solving diverse business influence in the society. Many of those influences are far-reaching and profound. Just to mention some, as:

- Environment pollution caused by production, transport and using products as cars, refrigerators or newspapers.
- Increasing problem of waste disposal and its management as a result of excessive packaging.
- Devastating results for individuals and local communities, due to closure of the local companies, reduction of their size and number of employees, which is an experience well known in Europe, from South Wales in Great Britain, to the countries of Central and East Europe.
- Erosion of local cultures and surroundings owing to a penetration of mass tourism in places like: Mallorca fishing villages, Swiss alpine communities, as well as ancient Roman monuments.

In accordance to such problems suggest radical changes in business goals formulation. After the *Earth Summit*, held in 1992 in Rio de Janeiro, a concept has imposed as the one which should be at full length applied (although it had not been unilaterally accepted). It is about a new conceptual frame for evaluation of not just business activity especially, but also industrial and social development generally. That concept is the *sustainability concept*. The sustainability has started to be a common expression in a rhetoric regarding a business ethics, so it uses in full length by corporations, governments, consultants, scientists, etc. Despite of the wide use, the sustainability is a concept which uses and interprets in different ways.¹⁶³ Probably the most common use of the expression is related with the sustainable development, which usually defines as: *The sustainable development is development which satisfies a present time needs, without jeopardizing the future generations abilities to satisfy their needs* (World Commission on Environment and Development, 1987).

This definition, however, represents only a basic idea of a widely deniable expression, which was also a subject of enormous series of different conceptualizations and definitions. Thus, along with all the caution against an unquestioning acceptance of any interpretation, on a basic level, it seems that the sustainability primarily refers to the system preservation, as well as to a fact that our activity does not affect the systems (for example, Earth or biosphere) in a way that their long-term sustainability is jeopardized. Focusing on the sustainable

¹⁶³ Dobson, A. (1996): "Environment Sustainabilities: An Analysis and a Typology", *Environmental Politics*, 5 (3), pp. 401-428.

development and the future generation potential to satisfy their needs, the sustainability also faces reflections on inter-generational capital, i.e. on equality between one generation and another. For a long time the sustainability concept has substantially stayed a synonym for human environment sustainability. Recently was yet enlarged not only to the environment considerations, but also to the economic and social development.¹⁶⁴ This sustainability concept enlargement has emerged not only for a reason it is impractical, sometimes even impossible, to analyze the sustainability of natural surroundings without the consideration of social and economic aspects of relevant social communities and their activities. The second argument for this consideration continuation is if the capital should enlarge to the future generations, then it is logical that it also should be enlarged to those in the existing generation. Thus, one of the primary goals set by the World Commission for Environment and Development is to uproot the world poverty and inequality. As it is noticeable, the sustainability can observe through three components: ecological, economic and social. It refers to a definition: „The sustainability refers to long-term system preservation in accordance to a man’s environment, economic and social development. “ Although the definition serves is meant for determination of a basic content of sustainability concept, it is obvious that the sustainability as a phenomenon represents a specific goal, which should be achieved. Shaping the sustainable development as a goal of business activity of the company is the most complete expressed through a „triple bottom line“ concept.

The „triple bottom line“ is a term which has formulated and strongly pleaded for, by John Elkington, director of the Consulting Agency for Sustainability Strategies and the author of many esteemed books on corporative environment. His opinion on this concept was based on a fact that it represents an idea that business is not related only to one goal which reflects in maximizing economic value, but he was added the enlarged set of goals, which implies including the environment and a wider social community. From this point of view should be clear why the sustainability is a new goal, potentially important for business ethics. However, in order to develop clearer picture on what these three sustainability components represent for the business ethics, there must analyze each of them.

Perspectives related to the environment protection. For the sustainability concept is generally considered that it has emerged from the environment protection perspective, especially in forestry, and later also in other areas of resources management. Indeed, in this moment is still quite widespread perception in business (although we believe it is wrong) that the sustainability is often a concept of man’s

¹⁶⁴ Elkington, J. (1998): *Cannibals with forks: The triple bottom line of 21st century business*, Gabriola Island, BC Canada: New Society Publishers.

environment protection. Thoroughly sustainability principle in the perspective of the man's environment protection comprises an effective management of physical resources, in a way to be preserved for the future. All bio-systems observe as the ones with limited resources and final capacity, and thereby also the sustainable human activity must work at the level which does not jeopardize endangered species health. Even at the most basic level, these problems point out to a need to eliminate a certain number of critical business problems, like influences of industrialization on biological diversity, further use of non-renewable resources as oil, steel and coal, as well as the production of harmful environment polluters. Although those relations also increase the economic growth issue, as a vexed question remains if the future generations could really realize the same life standard as us, without cancellation of increasing production and consumption trend. Consequentially, ecological factor gets its significance, which makes a demand for special consulting services related to projection and installation of equipment for reduction/prevention of pollution.¹⁶⁵

Economic perspective. The economic perspective of sustainability has emerged from the economic growth model, which assess capacity limits of the planet Earth. Understanding that a continuous growth of population number, industrial activity, resources utilization and the environment pollution can lead to the life standard reduction, have initiated the sustainability occurrence as a way of thinking which would insure that the future generations will not be in unfavourable position due to activities and choices of the existing generation. In time has expanded the opinion on improvement of sustainability macroeconomic comprehension. Such opinion implication on the business ethics have appeared at different levels. Narrow concept of economic sustainability focuses only on economic performances of the corporation. The management is responsible only for development, production and market of those products which insure long-term economic performances of the corporation, without respect for the environment and society requirements. Paying bribes or forming cartels, for example, can consider economically unsustainable, while these activities jeopardize long-term functioning of market. The corporations, which try to avoid paying taxes via subtle accounting tricks, can say that they behave unsustainable: if they are not ready for financing the institutions which preserve the social surrounding and a man's environment (as schools, hospitals, police and justice system), then they jeopardize one of the key institutional grounds of their corporative success. Accordingly, there form associations of researchers and activists of mutual interest (for example „International Pressure Group“, „Tax Justice

¹⁶⁵ **Cvijanović, D., Mihailović, B.** (2010): "Značaj konsultanata u proizvodnji organske hrane u Srbiji", International Conference „*Healthy life*“ April 10th 2010, Trebinje, within the V international fair of tourism, hospitality and trage „Mediterranean days- Trebinje 2010“, pp. 99-106

Network“, etc.) on issues which serve for raising the awareness and stimulating actions against harmful influences of tax payment avoidance, tax competition and, so called, tax havens.

Social perspectives. Development of the social perspective related to the sustainability usually comes after the ecological and economic perspectives and stays relatively new, as a phenomenon. Explicit integration of social problems into the business discourse about the sustainability could be seen as a phenomenon during the '90s, and, first of all, seems as answer to a worry regarding the business activities influence on autochthonous communities in less developed countries and regions. Introduction of social reflection within the sustainability area has characterized a significant shift in this concept's interpretation. A key question in the social perspective is the one concerning the social justice. Regardless to an impressive progress of life standard, the UN, during 2005, had issued the *Report on Social Situation in the World*, which had identified a constant deepening of inequality on the planet. With 80% of the world gross domestic product, which belongs to one milliard people living in developed countries, and the rest 20% shares 5 milliard people who live in developing countries, as it is stated in the Report, was suggested that „solving the inequality must secure a social justice and better life conditions for all the people, which is unachievable in this moment, so the communities, countries and regions are still vulnerable to social, political and economic subversion“.¹⁶⁶

More concrete, in the Report is stated that there is „an increasing chasm among qualified and unqualified workers, the chasm among formal and informal economy, as well as significant differences in health care, education and opportunities for social and political participation“.¹⁶⁷ Business, as one of the main starters of economic development, has been more and more present in such discussions. That is to say, fairer world, whether among rich urban consumers in the West and poor workers in developing countries, among the rich urban and rural poor, or among women and men, remains the essential issue of the sustainability social perspective. There remains an open question in which way should business respond to such challenge, but at least the goals got some explanations in last several years with declaration „The United Nations Millennium Development Goals“.

These items, which will quote, represent the main social and developmental challenge which upsets the world at the moment and articulate the specific goals

¹⁶⁶ The Report of the World Social Situation 2005: The Inequality Predicament, United Nations Publications, New York, p. 12.

¹⁶⁷ The Report of the World Social Situation 2005: The Inequality Predicament, United Nations Publications, New York, p. 3.

and indicators of what should achieve until 2015. Eight „Millennium Development Goals“ are: to exterminate extreme poverty and hunger, to implement primary education, to promote equality of sexes, to reduce children death rate, to improve mothers' health, struggle against HIV/AIDS, malaria and other diseases, to insure the environment sustainability, to develop the global partnership for development.

Although the UN had determined the goals, they, in effect, represent a government responsibility which should achieve them. Some of them have very direct implications for business, while the others refer to wider environment in which companies have to do business. In regard to this enlarged set of expectations, which put in front of business in accordance with the concept of „Triple Bottom Line“, there are many significant implications regarding a way in which should observe the business ethics. Aiming to achieve the sustainability in previously defined areas, maybe expects too much nowadays. There are negligible products, firms or industries for which could reliably claim that they are sustainable in the full sense of the word. Nevertheless, with the concept of sustainable development widely promote governments, companies, non-governmental organizations and academic communities, which is obviously important in order to understand full implications and evaluate the business ethics application, at least according to potential contribution to sustainability.

The programs of support to the sustainable development (primarily rural development) can have more significant effects if they are directed to competitiveness, innovations and employment in rural areas. By introduction of the rural development local strategies (LEADER approach), through stimulating interest of the local population by their active participation and creating the local action groups (LAG), the social capital in these areas can significantly increase. The EU Agrarian Council was adopted in 2005 a fundamental reform of rural development policy for the period 2007-2013.¹⁶⁸

The new rural development policy has set exactly the LEADER initiative as a leading approach in distributing support and has notably simplified the procedures, and those are the following „axis“ in the period until 2013: improvement measures, i.e. increase of the agrarian sector competitiveness; improvement of the environment and rural environment through the support to land management; economic diversification and improvement of life quality in rural areas; so called, „horizontal“ component or fourth axis of financing and conducting the rural development policy –

¹⁶⁸ Regulative EC broj 1698/2005 o podršci ruralnom razvoju od strane Evropskog fonda za poljoprivredu i ruralni razvoj (EARDF), Regulative EC i Strateške smernice Zajednice za ruralni razvoj (Programski period 2007-2013).

the LEADER approach. Integrative approaches in the local development have been useful in the previous period, especially in sense of the local capacities construction and assistance to the government agencies and to the Ministry of Agriculture, Forestry and Water Management of the Republic of Serbia.¹⁶⁹ Positive influence reflects, first of all, in creating the adequate support measures and more qualitative assessment of the specific measures' effects of the local development.

Economic growth creates a capital for financing better ecological effect. The experiences of developed countries provide convincing evidence that the modern industrial world prosperity is important for ecological progress. Accordingly, the sustainable economic growth can and must be an engine of ecological progress. In other words, it can and must finance the technologies necessary for protection and purification of the environment. Today creates new, ecologically useful technologies, which changes a man and his environment interaction. Factories and equipment obsolete and replace with more productive, which simultaneously pollute the environment less.

¹⁶⁹ Kuzman B., Subić J., **Cvijanović**, D. (2007): "Strateški pravci razvoja ruralnih turističkih potencijala opštine Beočin", *Međunarodni naučni skup: Multifunkcionalna poljoprivreda i ruralni razvoj I*, Beočin, IEP - Opština Beočin, Tematski zbornik, pp. 431-442.

V AGRICULTURAL SECTOR IN SERBIA AND ITS POSITION IN THE INTERNATIONAL INTEGRATION

5.1. Trends' analysis in primary agricultural production of Serbia

Primary agricultural production is a significant factor of the total national economy, primarily due to its share in GDP and total employment. Together with food industry, this sector has over 15% of Serbian GDP. Although the share of the primary agricultural production in realized GDP has constantly decreasing since the beginning of 2000 (owing to bigger growth of GDP in other sectors of Serbian economy), the primary agriculture significantly contribute to other industrial sectors, which directly depend on raw materials from agriculture, then inputs industry for agriculture, as well as accompanying service activities. Initiated changes in the field of agriculture, although under influence of numerous factors, which have an amortization effect on them, have acquired a character of irreversible processes. A reform of agricultural sector can hardly return to a starting position, but there, first of all, can talk about its vacillating tempo and agrarian policy instruments, which often should set up a balance between diametrically opposite goals. The Republic of Serbia has favourable natural conditions for development of heterogeneous agricultural production, regarding that it is located on the most favourable area of north latitude. Together with the climate, the land represents the most important natural condition for development and dispersion of agriculture. According to the SORS data, Serbia disposes with around 5,097,000 ha of agricultural land (0.69 ha per capita), and arable land occupies around 3,301,000 ha. Thereat, 65% of the total Serbian territory does agricultural land, which is 82% in family husbandries' ownership. Most of arable land is acidificated, which is a result of uncontrolled use of chemical means, and in Vojvodina is salted.¹⁷⁰ In accordance, there are necessary agro-technical measures aiming to improve land structure – calcification, increasing use of organic fertilizers etc. As for *water resources*, the Republic of Serbia disposes with sufficient quantities for satisfying own needs, but only if uses rationally and protects from accidental or intentional pollution. The significant wealth represent mineral and thermo-mineral waters, which diversification of physical and chemical characteristics classifies our country into the richest areas on European continent.

Forest resources in the Republic of Serbia amount 2,349,720 ha. State forests cover 50.2%, and private 49.8%. The high origin forests cover the area of 44.1%, sprout forests 45.5%, plantations 1.6%, and bushes and shrubberies 8.8%. The least

¹⁷⁰ Kuzman, B., Cvijanović, D., Subić J. (2007): "Pšenica kao sirovinska baza u proizvodnji testenina na teritoriji APV", *Ekonomika poljoprivrede*, pp. 533-540.

afforested region in Europe is the AP Vojvodina. A state of forests as a resource is unsatisfying and is distinguished by high share of bad quality forests, in inappropriate way cultivated artificial forests – therefore would preservation and improvement of forests' state and forestry development would be the state's task of high priority.

Production of cereals. The largest area of agricultural land in Serbia uses for cereals production and this production occupies around 60% of total plough-lands and gardens. A maize is the most represented culture with over 1,2 million sowed hectares, while a wheat is right behind, with around half million hectares. Due to large sowed areas under cereals, they are among sectors with the highest value of the primary production, which additionally increases by further processing. Serbia is the biggest regional producer of cereals, and according to the FAO data, it is on 19th position in the world regarding maize production and in 35th position regarding wheat production (2008).¹⁷¹ The production of cereals satisfies needs of domestic processing industry, while some quantities export. For example, in 2009, in total export value of goods from Serbia, in the first place is maize with 261 million USD of export value.¹⁷² Market chain of cereals is short and very often exist informal channels of sale. Regarding average yields of cereals, Serbia is on the European bottom, and especially are low yields of wheat. There is little innovations in production and sale, and a price has an expressed seasonal trend, depending on balance needs, price and quality competitiveness.

Industrial plants production. Around 400 thousand hectares of plough land is under industrial plants (or around 12% of total plough lands and gardens).¹⁷³ The most of areas under oleaginous plant is on the territory of Vojvodina, where also processing capacities have been placed. Besides a fact that average share of oleaginous plants in plant production value is around 5.00% (i.e. around 6.00% on family agricultural husbandries), sunflower and soy are among the most important agricultural cultures in Serbia (in last decade has been noticed also the growth in rape production). Serbia falls into a group of the biggest rape producers in Europe, and in the world, according to the FAO data, it takes 14th place in soy production and 15th in sunflower production.¹⁷⁴ Thanks to a long tradition and favourable climatic and land conditions for production, there achieve satisfying average yields of oleaginous plants. Domestic needs satisfy with oleaginous plants production, while significant export products are sunflower and soy oil. In accordance to the SORS data, in Serbian export commodity

¹⁷¹ <http://faostat.fao.org/site/339/default.aspx>.

¹⁷² <http://webrzs.stat.gov.rs/axd/spoljna/index1.php>

¹⁷³ Statistički godišnjak 2010, RZS, p. 204.

¹⁷⁴ <http://faostat.fao.org/site/339/default.aspx>.

structure for 2009, the export of refined sunflower oil was on 40th position, and the export of raw sunflower oil was on 45th place.¹⁷⁵ The territory of Vojvodina disposes with the best land and climatic conditions in this part of Europe for growing sugar beet. The areas under sugar beet, as well as yields in last period have significantly varied. Although, sugar is significant export product and, according to the realized export value, is among 10 leading products. The production results in crop production in 2011 were followed by poor financial effects, due to price decrease of some cultures (*Table 11*). According to these financial results, only regarding sunflower and sugar beet were realized the positive effects, which had influenced to the total weaker result, i.e. the production value decrease of basic crop cultures, in regard to 2010 (19%). In accordance to the first evaluations, the total value of agricultural production in 2011 was amounted around 6 milliard euros.¹⁷⁶

Table 11. Production value of basic crop cultures

NAME	2010.			2011.			Index 11./10.
	in 000 tons	din/kg	in million RSD	in 000 tons	din/kg	in million RSD	
Wheat	1,630	26	42,380	2,076	20	39,444	93.1
Maize	7,207	21	151,347	6,463	16	103,408	68.3
Sugar beet	3,325	3	9,975	2,822	4.5	12,699	127.3
Sunflower	378	20	7,560	432	35	15,120	200.0
Soy	541	35	10,470	441	36	15,876	83.8
TOTAL			230,197			186,547	81.0

Source: Agriculture in 2011 with foresseing for 2012 – evaluations, assessments and proposals, SCC, Association for Agriculture, Food and Tobacco Industry and Water Management, Belgrade, February, 2012, p.4

Vegetable growing. Vegetables in Serbia grow on around 280,000 ha (9% of totally sowed areas) and in total value of agricultural production participate with 11.31%. In structure of vegetables production dominates a potato (potato mostly grows on the territory of Central Serbia – in Cacak, Ivanjica and Guca surroundings). The significant vegetable cultures are cabbage and pepper. The most famous place in Serbia after the cabbage production is Futog, while sauerkraut from Futog represents very important export product. Except on this location, big cabbage producers are located also in Central Serbia. The domestic market's needs for the cabbage is increasing from season to season, which classifies it among one of the most wanted vegetable products in Serbia. Two recognizable production and commercial centres for the pepper production in Serbia are Leskovac surroundings

¹⁷⁵ <http://webrzs.stat.gov.rs/axd/spoljna/index1.php>.

¹⁷⁶ Agrar u 2011. sa predviđanjima za 2012. godinu - procene, ocene i predlozi, PKS, Udruženje za poljoprivredu, prehrambenu i duvansku industriju i vodoprivredu, Beograd, februar, 2012, p.4

and north part of Vojvodina. Outermost north of Banat and a part of Backa fall into the most favourable terrains for production of spice red pepper in Europe. Although the vegetable production in cloches and greenhouses is still insufficiently represented, trends of production growth at the most vegetable cultures, as well as the positive balance of foreign trade exchange, point out to a profitable production.¹⁷⁷

Fruit growing. Very favourable climatic-edaphic conditions, as well as relief and terrain configuration in Serbia, provide a successful and diversified fruit production. The areas under orchards occupy around 240 000 hectares, or 4.7% of total agricultural areas. The highest percentage takes plum plantations (around 50% of totally fruits plantations), then apples and sour cherries. Of total areas under soft fruits, the plantations of raspberry are on 64%. Over 90% of areas under orchards are on the area of Central Serbia, i.e. in Zlatibor, Macva and Kolubara region. The highest production of raspberries is in North Serbia, of sour cherry in South Serbia, while apple and plum are grown on the entire Serbian territory. The fruit production realizes mostly on small parcels in individual sector, and this production has recorded the biggest growth in last decade. In the total value of agricultural production, the fruits production participates with 15.7%. A share of fruits and manufactured fruits export in total export value of agricultural-food products is around 15%. Mostly exports in the EU states, the countries of the CEFTA agreement and Russian Federation. The raspberry is the most profitable fruit kind in Serbia – it exports the most and realizes the highest export value. According to the FAO data (2008), Serbia is in the second place in the world regarding the raspberry production (in the first place is Russian Federation, and on third Poland)¹⁷⁸.

Viticulture and wine production. Serbia distinguishes by long tradition of grape and wine production, and the most of this production is realized on private family husbandries, within nine viticultural regions, sixteen sub-regions and 65 viticultural regions. The viticultural regions are characterized by extremely favourable and mutually different climatic and land conditions. During the long period (1955-2009) has been noticed a tendency of areas under grapevine decrease in Serbia, and it also refers to the total amount of produced grape. The areas under grapevine in Serbia, in 2009, were 58,000 ha (or 1.1% of the total agricultural area in Serbia), and average grape production in the period 2007-2009 was amounted 385 thousand tons. In previous assortment were mostly represented autochthonous sorts, which had worse quality in regard to the grape sorts in Europe and other countries. Thanks

¹⁷⁷ Subić, J., Cecić, N., Kuzman, B. (2007): "Ekonomski aspekti proizvodnje povrća u zaštićenom prostoru", Beograd, *Ekonomika poljoprivrede*, pp. 231-239.

¹⁷⁸ <http://faostat.fao.org/site/339/default.aspx>.

to affirmative measures of the state increases a number of wine producers of wines with geographic origin, improves the production technology, ethno-tourism, as well as the wine quality.

Livestock production. Meat production in Serbia has a long tradition, and this production is full of structural problems and records constantly negative trends for several decades. Mainly uncompetitive, the meat production will find itself in front of additional challenges, owing to forthcoming liberalization processes within the SAA and the WTO. Although Serbia is the biggest producer, exporter and consumer of all kinds of meat within the CEFTA countries, this production is still low in regard to the one in the EU countries. That is to say, livestock breeding in Serbia has characterized, for a long time, by significant stagnation in regard to major of European countries, which has manifested by low share of livestock units per a hectare of agricultural area and by low productivity in meat production. Low percentage of livestock production shows underdevelopment in this sector of agriculture. The value of livestock production in agriculture value of some European countries amounts 50% - 60%, like Denmark and the Netherlands.¹⁷⁹ Number of livestock can be seen in *table 12*.

Table 12. Number of livestock (in 000 pcs)

	2003.	2004.	2005.	2006.	2007.	2008.	2009.	2010	2011
Cattle	1,112	1,102	1,079	1,106	1,087	1,057	1,002	938	936
Cows and pregnant heifers	741	742	720	674	648	625	586	560	542
Pigs	3,634	3,439	3,165	3,999	3,832	3,594	3,631	3,489	3,287
Sows, pregnant gilts	825	692	654	685	550	502	477	519	485
sheep	1,516	1,586	1,576	1,556	1,606	1,605	1,504	1,475	1,460
Sheep for reproduction	1,133	1,157	1,169	1,167	1,192	1,198	1,149	1,131	1,117
Horses	24	26	25	20	18	16	14	14	11.5
Poultry	17,676	16,280	16,631	16,555	16,422	17,188	22,821	20,156	19,103

Source: Agriculture in 2011 with foresseing for 2012 – evaluations, assessments and proposals, SCC, Association for Agriculture, Food and Tobacco Industry and Water Management, Belgrade, February, 2012, p.15.

A significant part of livestock production is in hands of small producers, with predominantly extensive production. The most of meat production realizes in family husbandries – goods producers with about ten bullocks, about hundred pigs and

¹⁷⁹ Agrar u 2011. sa predviđanjima za 2012. godinu - procene, ocene i predlozi, PKS, Udruženje za poljoprivredu, prehrambenu i duvansku industriju i vodoprivredu, Beograd, februar, 2012, p.15.

sheep or a thousand chickens in fattening. The market chain in meat production mostly has been unorganized and short, because most of livestock goes to the local/regional markets, often through “black” or unofficial channels of turnover.

Dairy industry. Milk production in Serbia is the one of the most important agricultural activities, which unites, as milk production, as well as the production of breeding and fattening material. This production significantly contributes to rural development (comprises more than 280 thousand of primary agricultural producers) and has very important role in the country’s food safety. Over 90% of totally produced milk is cow milk, while the rest is sheep and goat’s milk. About 50% of produced milk repurchases by the milk industry, while around 50% consumes in households or for making the traditional products, like cheese and cream (kajmak). Although in past several years, thanks to the MAFWM of RS support, directed to selection measures and new heads acquisition, has come to improvement of genetic composition of animals and increase of average milking capacity – the dairy sector has been characterized primarily by problem regarding monopolized market structure, as in repurchase of raw milk, as well as on the milk and dairy products retail market (so called, market oligopson situation). Such market structure significantly limits the primary agricultural producers regarding higher investments, more significant milk production, enlargement of livestock fund and improvement of raw milk quality. The milk exports mostly on the markets of the countries – signatories of the CEFTA agreement, and export in the EU limit numerous factors, from insufficiently high milk quality, non-introduced quality standards, to low productivity and price incompetitiveness.

Organic production. There are natural conditions in Serbia for development of organic agriculture, which reflect in, primarily, unpolluted agricultural areas, as well as in existence of husbandries in mountain areas with encircled cycle of plant and livestock production.¹⁸⁰ The organic production is becoming increasingly popular and economically more significant, while demand for certified organic products in the world constantly increases. The areas from which collect uncultivated plants and wild animal species from their natural habitats by organic production methods in the Republic of Serbia amount around 1,000,000 ha, while arable areas are significantly smaller and amount 600 hectares. The organic production is regulated by the Law on Organic Production and Organic Products, and control and certification in the organic production are entrusted to organizations for issuing certificates and re-

¹⁸⁰ Roljević, S., Sarić, R., Kuzman, B. (2009): “Significance in innovation and knowledge appliance in system of organic agriculture in Serbia” , *Economics of Agriculture*, Vol. 57, No SI-1 (1-323) 2010, Belgrade, 2010, Special issue – 1-239, 113. Seminar EAAE, 9-11. December 2009, Beograd, Serbia, pp. 247-254.

certificates, authorized by the MAFWM of the Republic of Serbia. The organic agriculture has been based on essential connection between agriculture and nature, with an accent on natural balance estimation. Preconditions for stimulating export and improvement of social-economic position of rural environment and the national economy create by the organic production and supply of health-safety food.

Carriers of the primary agricultural production: agricultural husbandries, enterprises, cooperatives. According to the census of population, households and flats in 2002, in the Republic of Serbia was registered totally 778,891 *agricultural husbandries* (17.8% of these husbandries, according to income sources fall into agricultural, and 62.3% into non-agricultural husbandries). At the same time, according to the data of the Treasury Administration, until December 31st 2009 were registered 440,139 agricultural husbandries, and according to the data of the Republic Fund for Pension and Disability Insurance¹⁸¹, in September 2010, the total number of agricultural pension users amounts 222,941 (right to use subsidies from agrarian budget since 2009 have only those agricultural producers who are insured at the republic Fund for Pension Insurance).

Extremely high percentage of all agricultural funds is in ownership of family husbandries (82% of agricultural land, 91% of livestock unit). Instantaneously, there are a small number of development-oriented multifunctional husbandries and entrepreneurs which develop intensive primary agricultural production and follow-up activities in agricultural sector, which owe own investment capital, credit bonitet for encumbrance or/and entrepreneurial spirit and initiatives. The family (agricultural) husbandries are characterized by small and fragmented property – which causes that small percentage of husbandries fall into a category of goods producers: the production is mostly directed to satisfaction of own needs, and market surpluses are small and changeable (insecure).¹⁸²

Average size of totally used land per an agricultural husbandry amounts 3.7 ha, and even 76.8% of husbandries own land up to 5 ha (the highest is share of husbandries which use land of 1-2 ha, 18.7% of them). According to the data of Life Standard Survey - LSS 2007,¹⁸³ the average size of used land per a husbandry in Serbia amounts 4.93 ha, and husbandries with property smaller than 5 ha make 73% of the total number of surveyed agricultural husbandries. In comparison with the EU-27,

¹⁸¹ <http://www.pio.rs/sr/img/Statistika/Broj%20korisnika%20penzija-cir.pdf>.

¹⁸² Census in 2002 was determined that the most of agricultural husbandries produce for own needs (75%), while only 20% was oriented to production for market.

¹⁸³ Studija o životnom standardu, Srbija 2002-2007 (2008); Republički zavod za statistiku Srbije, The World Bank, DFID (Department for International Development), pp. 141-146.

where the average size of agricultural land per a husbandry amounts 20.7 ha – shows the best a size of domestic property¹⁸⁴. Big husbandries (over 10 ha) are mostly registered in South-Banat and South-Backa district, while the most of husbandries with medium property size (5-15 ha) is in Macva and South-Banat district.

It is obvious that a number of agricultural husbandries decreases, which is parallel followed by their polarization by property size. In accordance to the LSS data in 2002 and 2007, can be registered the following changes in structural characteristics of agricultural husbandries: 1) number of agricultural husbandries is decreasing; 2) also is decreasing a share of husbandries with small property (smaller than 5 ha) from 80% (2002) to 73% of the total agricultural husbandries number (2007), which can point out to ownership structure's polarization. Dual structure of farms (transformation of family farms in big commercial husbandries and enterprises) exists in north part of the country (Vojvodina, Posavina (Sava region) and Podunavlje (Danube region)), where land market, and especially lease market are much more active. The results of the LSS in 2007 *bring together poverty in rural areas and size of used agricultural land*: husbandries below the poverty line have an average size property of 3.3 ha, and above the poverty line 5.06 ha. At the same time, the results of mentioned survey point out that middle size husbandries (1-5 ha) have performances of semi-natural husbandries: rent out a little of land, have obsolete mechanization, far less than others use hired labour, and the market surpluses are not significantly higher than in husbandries with small property. Educational structure of rural population is low, and innovation capacity in production is very small.

Agricultural enterprises. The agricultural enterprises have based their business, in previous period, on size economy (business in factory-farm system), which has created the conditions for applying modern techniques and technology and setting up and development of seed production. As such, they were a stimulating factor for establishment and development of food industry in the same organizational frames of factory-farm type. The important part of food industry was privatized at the beginning of transition, and was, in organizational and ownership sense, separated from agricultural enterprises' structure. In this moment, the agricultural enterprises have unfavourable business performances and unfavourable results in regard to course and results of privatization. A number of agricultural enterprises: 1) have not yet finished the privatization process or the privatization was unsuccessful (new owners have not yet had a clear vision of enterprises development/enterprises in

¹⁸⁴ Agriculture, Main statistics 2005-2006, European Commission, 2007, p. 32; FSS – Farm Structure Survey 2005.

bankruptcy or insolvent), 2) a number of enterprises have transformed to state property, 3) regarding a number of privatized enterprises, new owners have great problems to keep a production profitability level, to service capital which origin from bank encumbrances and invest in development and strengthening of capacities.

Agricultural cooperatives and other forms of agricultural producers' association. Disunity of agricultural producers, their poor negotiating power in regard to purchasers, problems of placement¹⁸⁵ are the result of undeveloped agricultural cooperatives,¹⁸⁶ as well as the agricultural producers' association (major associations is only formally registered, have small membership and small size of business activities). Reasons for such state are numerous: 1) in agriculturer's character is expressed a tendency (affinity) for individual work and placement, 2) uncertainty of sale contracts and weak protection of proprietary rights – additionally affect the greater preferences to individual work, 3) underdeveloped legal groundwork for cooperative associations development and affirmation of association processes. For example, the Law on Associations was passed in 2009, and still waits to passing the new law on cooperatives. The existing law on Cooperatives has no full practical application, especially from the aspect of cooperative revision and sanctioning the cooperative which do not business according to cooperative principles (numerous private cooperatives). There are still controversial questions about cooperative property ownership, status changes (associations, annexations), investment policy and method of cooperative management (democracy principle limits higher investment activity of cooperatives). Successful business of cooperatives significantly limits a big percentage of black economy in repurchase courses, which leads to disloyal competition, as well as insufficient institutional organization of the market. Additional problems the agricultural cooperatives are facing with are: non-existence of fiscal policy measures and other forms of support to the cooperatives; impossibility of applying for credit resources; poor management capacities, etc.

Associations of agricultural producers. Agricultural cooperatives, agricultural producers' associations, clusters and other forms of agricultural producers' correlation – represent a significant factor of productivity improvement and competitiveness of Serbian agricultural production and rural development and, at the same time, represent a precondition of small and medium husbandries survival in

¹⁸⁵ Great number of agricultural producers who have no enough own production for big buyers' and hypermarkets' needs, and at the same time have great supply and heavy placement on the local market.

¹⁸⁶ Small number of cooperatives, which do business after cooperative principles, and great number of, so called, donors and private cooperatives, then "old" cooperatives, which still do business after public capital principles, where the employees run a cooperative.

market terms of business. However, it is important to emphasize: 1) absence of the key laws practical applying in the field of agriculture, 2) substantially underdeveloped competition on repurchase market and agricultural products' retail market, 3) significant share of "black" economy in turnover courses – lead to a fact that agricultural producers still do not comprehend a real purpose and need of association. Revitalization of agricultural cooperatives is the most suitable model for surpassing developmental restrictions of small husbandries, which dominate in Serbian agriculture.¹⁸⁷ The cooperatives could contribute to the market stabilization, decrease of business risk for producers and more correct allocation of profit among all actors in the market chain of production and sale. Nevertheless, this role of the cooperatives is possible only under a condition of all previously mentioned systematic issues resolution in this field, where only partly problem resolution (through, for example, passing new law on cooperatives) will not lead to affirmation of agricultural cooperative association, i.e. it will not significantly change the current market position of the cooperatives. The agriculture represents one of the pillars of the Republic of Serbia economic development, and its significance for the national economy, besides economic, has also both social and ecological component. However, besides great potential in the sector of agricultural production, which has been a result of favourable climatic conditions, natural characteristics of land and available water resources, it has not been optimally used.¹⁸⁸ Exactly owing to such potential, the agriculture in Serbia does not represent a common economic branch, considering that in all municipal and regional strategies it has been defined as one of development strategic directions.

5.2. General trends on agricultural-food products market in Serbia

According to population income trends and supply and demand trends, on the world market of agricultural-food products in next ten-years-lasting period is expected increase of agricultural products consumption. Owing to expected income growth, the consumption of agricultural products for human nutrition will increase faster in those countries which are not members of the OECD. At the same time, in developing countries will come to changes in consumption habits, where will increase the share of animal origin products, meat and dairy products, as well as the consumption of sugar and vegetable oils. These all will cause a growth of derived

¹⁸⁷ Subić, J., **Cvijanović, D.**, Cicea, C. (2006): „The Role of Agriculture in the Serbian Economic Development“, Review of International Comparative Management. Director: Marian Nastase, Issue. 7/2006. Published by The Academy of Economic Studies of Bucharest, Romania, pp. 185-192.

¹⁸⁸ Jelić, S., Dumonjić, J., Kuzman, B. (2010): “Serbian family households in respect to rural tourism development”, *Economics of agriculture*, Multifunctional agriculture and rural development (V) 2010, No 5, pp. 275-280.

demand for fodder, like cereals, except wheat, soybean meal and sunflower meal. In such conditions, agriculture represents one of the economic development pillars of the Republic of Serbia, and its significance for the national economy, besides economic, also has both social and ecological component. However, beside great potential in the sector of agricultural production, which has been a result of favourable climatic conditions, natural land characteristics and available water resources, it has not been optimally used. Exactly due to such potential, the agriculture in Serbia does not represent a common economic branch, considering that, in all municipal or regional strategies; it has been defined as one of the strategic development directions.

5.2.1. Analysis of state in Serbian food industry

Development and a level of food industry's technical-technological equipment of RS is mostly not limiting growth factor of agricultural production and its restructuring. The development and level of technical-technological equipment of food industry is very different. In last years has been mostly invested in oil, beer, milk industry and in industry for water refining. Minor investments and technological lagging are in industry for sugar, meat, milk, fruit and vegetable processing. There is permanently relatively low level of food industry's capacities utilization, which ranges from 30% to 50%.¹⁸⁹ The least are used facilities for fodder processing and abattoirs. Low level of capacities utilization in food industry of some products results with inefficiency in business and poor competitiveness in export. Certain number of enterprises is on the top of technical-technological equipment and disposes with highly educated personnel, while the other increasingly lack with modern technological and marketing requirements. Basic limiting factors for efficient inclusion onto the international market are: insufficient assortment of food products in regard to modern supply in developed world; quality oscillations, non-existence of long-term stable contractual relations between food industry and raw material producers (husbandries, cooperatives, agricultural enterprises). Possibilities of food industry are in production of health-safety food of high quality, for which exist potentials in the country, and foreign market is very interested as well. It includes the standards introduction (ISO 9000 and ISO 14000), as well as the introduction of HACCP quality system and GLOBAL GAP.¹⁹⁰ The reform of agriculture in Serbia has started

¹⁸⁹ Nacionalni program ruralnog razvoja od 2011. do 2013. godine, Službeni glasnik broj 15/2011, p. 10

¹⁹⁰ Kuzman, B., Aleksandra, T. (2013): "Implementation of GLOBALGAP standard as the comparative advantages of the Serbia", International Scientific Conference: *Sustainable agriculture and rural development in terms of the Republic of Serbia strategic goals realization within the Danube region – achieving regional competitiveness -*, Institute of agricultural economics, Belgrade, Serbia, December, 5-7th 2013, Hotel "Oplenac", Topola, Serbia, pp. 89-104.

in 2000, when some basic preconditions for its conduction had acquired. Liberalization of trading relations and capital balance has simplified the inclusion of Serbian economy into international commodity and financial flows. Initiated changes in the field of agriculture, although under the influence of many factors having depreciation effect on them, have become irreversible processes. The reform of agricultural sector can hardly get back to a starting position, but more likely can be discussed about its fluctuating tempo and instruments of agrarian policy, which often should set up the balance between diametrically opposite goals. In general, the most important elements of the reform process in agrarian sector of Serbia, since 2000 until now, have been for sure: market liberalization, privatization of processing industry, activation of agrarian-financial market, as well as starting to form new institutional forms at all levels.¹⁹¹

Share of food industry, production of beverage and tobacco in realized GDP of the Republic of Serbia (permanent prices in 2002) had been decreased from 4.8% in 2005 to 4.2% in 2009.¹⁹² Dominant branches of food industry are: production of flour and its products, production of cooking oil and its products, production of sugar, production and processing of fruits and vegetables, production of sterilized and pasteurized milk and dairy products, production of meat and its manufactured products, production of sweets, alcoholic and non-alcoholic drinks.

The development and the level of technical-technological equipment of food industry are mostly not limiting growth factor of agricultural production, but it significantly differs by the sectors. Certain number of enterprises is on the top of technical-technological equipment and disposes with highly educated personnel, while the other enterprises lag behind regarding modern technological and marketing requirements. Since the beginning of the privatization process the most has been invested in oil, beer, milk and sweets industry and in industry for water refining, while, on the other side, minor investments and bad technological equipment have been registered in industry for sugar, meat, fruits and vegetable processing.

At the same time, there is relatively low utilization of food industry's capacities (level of the capacities utilization, projected for ex-SFRY market, ranges from 30%–50%). The highest level of utilization is in facilities for mineral water refining, oil refineries, mills, facilities for fruits and vegetables processing, for sweets production, breweries, dairies

¹⁹¹ Bogdanov, N., Volk, T., Rednak, M., Erjavec, M. (2008): *Analiza direktne budžetske podrške poljoprivredi i ruralnom razvoju Srbije*, Vlada Republike Srbije, Tim potpredsednika Vlade za implementaciju Strategije za smanjenje siromaštva, jul-septembar, p. 14.

¹⁹² Statistički godišnjak 2010, RZS, pp.122-123.

and sugar refineries. The least utilization level is in facilities for fodder processing and abattoirs, which affects inefficiency in business and poor competitiveness of this sector. Signing the CEFTA agreement gives a chance to a market multiple bigger than the domestic one, to solve the problem of small market and to increase use of capacities, along with realization of price competitiveness and increase of products' quality.

Objectively, Serbia has great chances to be a leader in this sector on the territory of south-east Europe. According to data of SORS, in 2009 in structure of commodity export, among the top 50 products with the highest export value are the following products from food and beverage industry: refined sugar, beer made of malt, sweets, non-alcoholic drinks, wheat flour, refined and raw sunflower oil, mineral and sparkling waters¹⁹³. The basic limiting factors for greater and more efficient inclusion of food industry onto the international market are the following:

- insufficient assortment of food products in relation to a need in developed world (insufficiently wide assortment of existing products, small number of completely new products introduction or improvement of existing products and processes, low level of adding values to the products through more significant role of knowledge, innovations etc.);
- oscillation of market products quality, either for lack of standards, or due to disrespect and poor control of current standards;
- absence of long-term and safe contractual relations or ownership coherence between food industry and raw material producers (primary agricultural production).

In next period, the accent must be put on development of food industry, which has been focused on satisfaction of consumers' needs and desires, putting an accent on innovations, quality, high level of food hygiene and safety food standards. There are evident huge possibilities and potentials of domestic food industry in production of health-safety food of high quality, which foreign market has been interested of, and which will imply introduction of ISO standard and HACCP quality system in all processing facilities. Developmental policy of food industry will surely follow the global world trends (concentration of capacities and capital, introduction of high-sophisticated technologies), and in these processes the role of state is significant, as from the aspect of insurance and competitiveness protection and control of monopoly position abuse, as well as from fiscal and investment support to small and medium processing capacities, especially in rural areas, point of view.

¹⁹³ <http://webrzs.stat.gov.rs/axd/spoljna/index1.php>

5.2.2. Market of agricultural-food products

Yugoslav agriculture model was based upon cooperation, as a connecting link between individual husbandries and big public/social companies. Vertical integration system was configured the most often on the local/regional level and comprised the inputs market, primary agricultural production, processing, finishing, sale and services. Big agro-industrial systems had strong influence on the local economy, monopoly position on the local market and were supported by the republic and governmental funds. Parallel with big agro-industrial systems had also existed a network of other participants in turnover (interlopers), who done business on the edge of „black economy“.

During 90's, after disintegration of big agro-industrial combines, had appeared 10-years-lasting vacuum in institutional and organizational functioning of agricultural inputs market and repurchase of agricultural products. Precondition for agricultural products market revitalization was made primarily with privatization of processing capacities (especially in the field of industrial plants and milk processing), and then also with strengthening of food trade chains. However, while the market of industrial plants and milk is characterized by strong ascendancy and bargaining skill of few purchasers in relation to primary agricultural producers,¹⁹⁴ the absence of safe contracts with purchasers and ascendancy of black economy are especially present in production of fruits, vegetables, overturn of livestock, maize and similar.

Agriculture is, together with agro-industry, an uncontested developmental chance of Serbia, and its role and significance in national economy will not decrease.¹⁹⁵ However, in order for agriculture to use its chances and enable for intensive production and higher export, two essential and structural problems on agricultural-food products market must be constructively resolved, along with coordinated role of all governmental institutions:

- (1) strengthening of competitiveness on repurchasing market and retail trade of agricultural products and sanctioning of dominant position abuse by small number of companies (at the moment the market is characterized by market

¹⁹⁴ In production of oil plants single out four factories, of which 2 are in the same business system; in production of milk, dominant market share has just one business system, which consists of 5 big dairies; eight privatized sugar refineries are in hands of three owners, etc.

¹⁹⁵ Paraušić, V., Mihailović, B., Kuzman, B. (2013): „Poljoprivreda, prehrambena industrija i razvijenost udruživanja u agroprivredi“, u Monografiji: *Stanje i mogućnosti razvoja održive poljoprivrede i ruralnog razvoja u Podunavlju*, Institut za ekonomiku poljoprivrede, Beograd, pp. 120-141.

structure of oligopolists, i.e. strong negotiating power of small number of companies in repurchase),

- (2) Transformation of repurchasing flows from „black“ economy in regular canals; black economy leads to unequal terms of competition for firms which do business legally and those which not, and the ascendancy of black economy is notable not only in sale of products, but also in business/registration of firms, employment of workers etc.¹⁹⁶.

In accordance to the data of SORS,¹⁹⁷ the costs of food, beverage and tobacco, despite of continuously decrease of share, are still highly represented in costs of family budgets in Serbia. This share in 2000 had amounted 54.0%, and in 2008 45.8%. Such condition points out to still low life standard of population and therefore insufficient life quality, considering that very little assets remain for satisfaction of other needs of non-existential nature. It is a consequence of insufficiently liberal market, monopoly position of processors and traders, as well as unpredictability of agrarian policy.

However, one of the basic characteristics of agrarian policy in past period was its unpredictability. In last eight years was able generally to single out three phases in agrarian policy. The first phase, which implies the period from 2001-2003 and is characteristic after its agrarian policy, directed to measures of price support for some cultures,¹⁹⁸ along with absence of other agrarian policy measures. In the following phase (2004-2006) were excluded the measures of price support, and were included the measures of investments support and support to rural development. In the last phase, i.e. the period 2007-2009, there set up payments per a size and per a head of cattle. Discrepancy in formulating and implementing the agrarian policy in last period had stipulated many consequences, especially: 1. decrease of investments and productivity in agriculture sector, 2. non-market overflow of profit between economic actors in market chain, 3. slow adjustment to safety food standards. In the following period will be evident needs for passing new laws and sublegal documents and regulations in the field of agriculture, for application of current laws, as well as further development of institutional framework, primarily, through reform of the Directorate for Buffer Stocks, through establishment of appropriate laboratories and control organizations (in

¹⁹⁶ According to the research of Serbian Association of Employers, in overturn of black economy zone, is the least of tobacco, and the most seasonal fruits, vegetables and poultry. The black economy, according to the same source, has been dominant in two reasons: 1) high tax encumbrances on the one hand, and 2) extremely long payment terms, on the other hand. Source: *Conditions and encumbrances of business and collective negotiations*, Serbian Association of Employers, September, 2010.

¹⁹⁷ Republički zavod za statistiku RS, <http://webzrs.stat.gov.rs/axd/index.php>

¹⁹⁸ Soy, sunflower, sugar beet, wheat.

accordance with the EU standards), through the reform of consulting system, backup institutions (chambers, cooperative associations and professional organizations are not still yet ready to support agriculture development) etc. Institutional support of the state (simplified administration) is necessary also in domain of facilitation and acceleration of building necessary infrastructure for agriculture (e.g. overcoming the problem of abattoir waste and water waste in livestock breeding, registration and construction of fattening facilities), where the state must be a catalyst of these processes, not an aggravating factor.¹⁹⁹

5.3. Analysis of export markets and export products of agro sector of Serbia

Serbia records multi-years lasting accumulation of negative tendencies by various aspects (coverage of import by export, export-import structure, relation between local and export prices, regional direction of export, technological obsolescence of production etc.) in economic relations with foreign countries. Observing from cumulative aspect, the total trade deficit in last several years has approached to the height of our foreign debt and if some radical turning point does not make toward new sources of competitiveness, economic growth and export growth will not provide repayment of the foreign debt in the following years. In the countries which have problems in the field of economic relations with foreign countries, the most often miss application of basic postulates and concepts of international marketing, as modern concept for realization of competitive advantage in international proportions.

Considering that internationalization of business had ensued and affirmed a need of operating with international business horizon long time ago, that was relevant for our enterprises, among other, to recognize critical factors of success, and therefore to create a propulsive developmental strategy, including, of course, also a provision of active support of macro-economic policy and other "soft" infrastructure. The global marketing faces increasingly stronger and more complex challenges which require faster and more subtle strategic responses. However, there must count on accelerated changes, more complex strategic situations, stricter and hardly predictable competition, as well as the change of mental management map, especially regarding the affirmation of social awareness on significance of respecting ecological, social, political, cultural and other components of local markets. The goal is to come to the marketing strategy, by which will capitalize the advantages according to a size, synergy and external flexibility. Hence, great strategies make unique configurations of different intensified activities, which resist

¹⁹⁹ Paraušić, V., **Cvijanović, D.** (2007): „Poljoprivreda Srbije – programi kreditne podrške države i komercijalnih banaka u periodu 2004-2007. godina“, *Ekonomski anali*, br.174/175 2007, pp. 186-207.

to easy duplication.²⁰⁰ The globalization, however, relativizes the significance of external sources of competitive advantage, so a central issue of each national economy development becomes making the conditions for fast and sustainable growth of productivity – by using knowledge and other internal sources of competitive advantage, such as the strategy and the quality of business environment.²⁰¹

5.3.1. Approach and methods of market research

In contemporary business conditions almost all management decisions are based on adequate and timely market information, which market research provides. Information obtained by market research help management decision makers to adapt to the market risk and simultaneously to achieve optimal business results. In other words, in market economy the company cannot ignore the results of market research. What makes the market research necessary is the fact that the risk can never be completely eliminated from the system of market economy, however, by obtaining appropriate information the risk in business decisions becomes smaller, and in certain cases it is even eliminated. One of the most effective ways of reducing the risk is market research, since most of the risk comes from changes in market conditions. The product of market research are information necessary for making the optimal decisions about tactics and strategy of the company. Market research projects should serve as analytical-documentation and analytical-projection material for assessment of market compulsiveness of particular business venture.

Consequently, the primary objectives of market research are: analysis of supply and demand in the domestic market, determining the assortment structure of consumption, consideration of foreign trade flows, identifying the main segments of consumers, establishing distribution channels that are used, determining the possibility of placement. There are different types of market research. Primary place have personal interviews, followed by telephone interviews, consumer panels and focus groups, while online interviews have negligible contribution. A typical process of market research consists of the next phases.

Initial contact. The process usually begins when the company finds out that it needs information to solve some marketing problem. Marketing management can contact internal staff responsible for marketing research or an external agency. Let us start from the assumption that the research requires help of market research agency.

²⁰⁰ Kotler, P. (2003): *Kako kreirati, upravljati i dominirati tržištem*, Adižes, Novi Sad.

²⁰¹ Milanović, M., **Mihailović, B.**, Paraušić, V. (2009): "Elementi konkurencije i strukture agrarnog tržišta u Srbiji", *Ekonomika poljoprivrede* br.4/2009., pp. 519-534.

Meeting is arranged to consider the essence of the problem and the client's needs in relation to the research. The relationship between the manager of the client and the researcher is similar to the relationship between the lawyer and his client.²⁰²

Guidelines for research. During the meeting at which it is decided what will be the form of research, the client explains his marketing problem and presents the basic objectives of research. The client should deliver to the agency guidelines for research in written form. They can be delivered before the meeting, which may lead to their changes. However, in any case, guidelines should be communicated to the agency before it comes out with a proposal for research.

Proposal for research. Same as guidelines for research, the proposal should be in written form in order not to produce any misunderstandings. The client expects the following items to be included in the proposal: formulation of objectives, description of research project, time frame and costs. In assessing proposal, the client must be sure that the proposal is precisely presented, without obscure terms, and that it includes all the essential questions. Before the phase in which the main qualitative data are collected, exploratory research is conducted, which aims to carry out preliminary examination of research area. All or some of the activities of exploratory research can be involved in the project: secondary research, qualitative research (group discussions and in-depth interviews); observation.

Phase of data collecting. After exploratory research is conducted, the planning of procedures for major data collecting is carried out. This approach involves implementation of researches which aim is to describe beliefs, attitudes, affections and behaviour of the consumers. The research plan should be based on: the process of sampling; the method of sampling and questionnaire design. The process begins by defining the population – i.e. group which represents the subject of research in particular survey. The aim of survey is to provide results which are typical for that group. When choosing a method of survey four options are at their disposal: personal interviews, telephone interviews, mail survey and online survey. As for creating questionnaires, it is necessary to fulfill three conditions to get the right answer to the question: respondents must understand the question, they must be able to provide the requested information and must be willing to give them.

Analysis and interpretation of data. At this stage of marketing research computers are used, almost without exception, to perform quantitative analysis of data received

²⁰² Hanić, H. (2001): *Istraživanje marketinga i marketing informacijski sistem*, Ekonomski fakultet, Beograd.

by filling out questionnaires. Basic marketing analysis can be carried out by using software packages for analysis, such as SNAP and MARQUIS on PC.

Writing and presentation of report. In literature it is suggested that the main elements of the report are the following:²⁰³ cover page, contents, introduction – presentation of agreed guidelines, objectives, scope and methods of research, brief overview of conclusions and recommendations, previous similar researches; how previous researches influenced this research, method of research, results of research, appendices. The report of conducted research should be written in a language that the reader will understand, avoiding jargon.²⁰⁴

Market risk cannot be eliminated, but through market research it can be recognized and significantly reduced.²⁰⁵ Market research enables us to observe size and attractiveness of certain market segments and niches. Through these analyses it is possible to identify perspective areas and market niches, as well as to define the global trends of market restructuring of the company. In such projects the research must be planned and structured, as the analysed approach shows. Based on the know-how and information provided by market research, the market risk, which is constantly present, is reduced. Information about market trends help the companies to redefine existing markets, to recognize possibilities of their return into the lost markets, and also to estimate the attractiveness of gaining new ones. Consequently, market research enables the companies to effectively solve problems emerged from their business.

5.3.2. Foreign trade exchange of Serbian agriculture

Serbia has very favourable natural conditions for development of agricultural production. It lies on the most favourable area of north latitude, with four seasons and four climatic areas; very favourable for agricultural production. The favourable land and climatic conditions enable the development of various agricultural productions (plant and livestock): cereals, industrial plants, fruits and vegetables, seed and seedlings, medicinal herbs, neat and small cattle. In the structure of agricultural production value 59% origin from plant production, and 41% from livestock production (EU – 70% from livestock, and 30% from plant production).

²⁰³ Crouch, S. (1992): *Marketing Research for Managers*, Oxford: Buterworth Heinemann.

²⁰⁴ Cvijanović, D., Mihailović, B. (2010): *Menadžment i marketing uslužnog sektora*, monografija, Institut za ekonomiku poljoprivrede, Beograd.

²⁰⁵ Kuzman, B. (2007): *Analiza potencijala i ekonomska opravdanost proizvodnje testenine*, monografija, Institut za ekonomiku poljoprivrede, Beograd.

Serbia disposes with around 5,092,000 ha of agricultural areas (0.68 ha per capita) 4,218,000 ha of arable land (0.56 ha per capita).²⁰⁶

According to the data of the Republic Statistical Office, in 2009 in Serbia was realized total goods deficit of over seven milliard USD, where the export decrease was 23%, and the import decrease 32%.²⁰⁷ On the other hand, agriculture has realized a surplus in exchange – 636,890,208 USD. The import was for 10.8% lower in regard to previous year: 1,308,430,133 USD. The realized surplus in exchange is for 30% higher in regard to previous year. At the same time, the share of total agriculture in total export was increased from 17.8% to 23.3%, in import from 6.4% to 8.4%, while the coverage of export by import was increased from 133.5% to 148.%. It is necessary to emphasize that positive export balance was also realized toward the EU and CEFTA signatory countries, as well as on Russian market (*Table 13*).

The most important export results were realized by export of the following groups of products: grains and products; beverages; sugar and sugar products. The most significant groups of products in import are: vegetables and fruits; coffee, tea, cocoa and spices; various products for nutrition; tobacco and tobacco products. Observed by the products, the most significant export products are: maize, raspberry, sugar and sunflower oil. Consequently, it is necessary to work on export restructuring, since the most significant export products are raw materials, and in import – besides citrus fruits, coffee and spices, there is present the import of high added value grade products.²⁰⁸

Table 13. Foreign trade exchange of Serbian agriculture in 2009.

	Export in USD	Import in USD	Balance	Export (%)	Import (%)
EU	925,249,997	559,007,495	366,242,502	47.6	42.8
CEFTA	894,778,454	287,495,181	607,283,273	46.0	22.0
Others	125,290,955	460,920,213	-335,629,258	6.4	35.3
Totally	1,945,319,406	1,307,422,889	637,896,517	10.0	100.0

Source: Statement on foreign trade turnover of the Republic of Serbia in 2009, Statistical Office of the Republic of Serbia, No. 24.LX, 29.01.2010.

²⁰⁶ <http://www.pks.rs/PrivredauSrbiji/Poljoprivreda/tabid/1869/language/sr-Latn-CS/Default.aspx>

²⁰⁷ Saopštenje o spoljno trgovinskom robnom prometu Republike Srbije u 2009. godini, Republički zavod za statistiku, BR 24.LX, 29.01.2010.

²⁰⁸ Kuzman, B., Ivić, M., Dumonjić, B. (2011): "External trade agro industrial product of Serbian and Croatian", *Sustainable agriculture and rural development in terms of the Republic of Serbia strategic goals implementation within Danube region*, Book II, *Economics of agriculture*, 2011, pp. 292-304.

The agriculture in Serbia has been characterized by gradual liberalization, since, according to negotiations with the WTO and Stabilization and Association Agreement (SAA), the protection level will decrease in phases. The agriculture sector has already paved its path toward the EU market, because almost half of total export has directed to the EU market and has realized significant surplus in exchange. The agriculture in SAA comprises primary agricultural products, fishes and fish manufactured products and all food products, as well as the products contained in Annex I of the Agreement on the WTO Agriculture.²⁰⁹ Free trade zone with agricultural products forms gradually during *interim* period of six years. This is the period when agricultural producers in Serbia should improve their competitiveness, and the support to that process should be agrarian policy of the national economy. Setting up the free trade zone with the EU, as a result of SAA, will influence to raw materials cheapening, which import from the EU for the needs of agriculture. Instantaneously, the economic effects of SAA will be shown through safe and long-term determined quantities for preferential sale.

According to the data of Statistical Office of RS, the costs of food, beverages and tobacco are highly represented in the costs of family budget in Serbia. This share was amounted 41.7% in 2005, and in 2008 – 45.8%. Such state points out to still low life standard of population and therefore insufficient life quality, since very little money remains for satisfying other non-existential needs. Those are the consequences of insufficiently liberalized market and monopoly position of processors and traders.

5.3.3. EU market

The statistical data on size and structure of agricultural products' export from Serbia point out to non-competitiveness of the local agro-economy, observed from the aspect of price and non-price elements of marketing. Although official statistics points out to positive trends in foreign trade exchange of agricultural-food products from Serbia, which have started in 2002, there is necessary to emphasize that it was primarily the result of higher export of raw material (cereals and sugar).²¹⁰ In export of agricultural-food products from Serbia dominant place has the EU market (on which sell around half of total food export from Serbia), as well as the markets in Macedonia and B&H. Serbia is facing well protected agricultural EU market. The EU, besides classical customs, applies also other numerous qualitative and quantitative

²⁰⁹ Grupa autora (2008): *Ekonomsko-privredni vodič kroz Sporazum o stabilizaciji i pridruživanju*, ISAC Fond, Beograd.

²¹⁰ Mihailović, B., Cvijanović, D., Hamović, V. (2009): "Analiza investicione i izvozne aktivnosti poljoprivrede Srbije", *Ekonomika poljoprivrede*, br./N° 1 (1-138) 2009, Institut za ekonomiku poljoprivrede, Beograd, pp. 73-84.

limits of export (technical barriers, ISO standards), which represent new, subtle form of agrarian protectionism measures. The EU encourages its producers to export more on non-EU markets, but at the same time, the EU allows many countries (including Serbia) to enjoy the privileges of most agricultural products' export to the EU market without customs duties and without an obligation those countries to open their markets for EU-products (sugar, baby beef).

The situation for Serbian agriculture is changing together with the Union enlargement to 10 new members in 2004, where the most changes on the EU market in agriculture segment brought two big agrarian producers – Poland and Hungary. In accordance to the research of the EU and South-east Europe market, in context of overviewing potential export possibilities of Serbia, we could drought next conclusions:

Grain. The EU has self-sufficiency in production of wheat, which increases with new member's accession.

Oil plants. On the market of oil cultures (sunflower and soy) and oil can be expected that the EU will stay scarce besides the enlargement, and Serbia can expect certain export space. Hence, the production of oil cultures from Hungary will some wise increase self-sufficiency grade of the EU, but stays significant import needs for these products.

Sugar. Surpluses of sugar in the EU origin from the local production and import in accordance to negotiated international obligations. In regard to the price of sugar on the world market, much under our production prices, it is necessary a certain caution in direction and encouraging this production, and possibilities of export to the EU market are determined only by repeated getting of preferential exporter status.

Vegetable and fruits. Demand fluctuates intensively and on this market can be sold some smaller quantities of vegetables, only by supply differentiation. On the market of continental fruits occurs increased structural pressure with the EU enlargement (especially for Poland and Czech Republic). However, besides Poland accession, as significant world producer of raspberry, Serbia can count on unchanged sale of frozen raspberry (it has good chances with other kinds of berries and plum), where could be realized competitive performance by supply differentiation, through quality and by export of highly-processing phases.

Beef – baby beef meat. In the end of '90s, beef market in the EU had recovered (recorded lesser percentage of self-sufficiency), along with strict measures of MCD (mad cows disease) consequences elimination and budget support to deprived

producers. Nowadays, Serbia has been completely repressed in export of baby beef on the EU market in regard to the period before sanctions. Together with differentiation of supply, in the sense of high-quality baby beef meat sale, negligible export of meat from Serbia realizes only with Greek and Italian markets, where forms, in regard to the quality, also higher export price of this meat in regard to the average world price. However, taking into consideration the level of the local production, level of export subsidies and non-adjustment to veterinarian, phyto-sanitary and quality control standards, along with this export strategy, besides the status of preferential exporter, Serbia sales just modest amounts of baby beef.

Sheep – lamb meat. The EU has no self-sufficiency in this field, and it has not improved even after accession of 10 new members. Nevertheless, the export possibilities are not great and it cannot be talked about the export expansion (the most significant importers are: France, Belgium, Germany, Spain, Portugal). Serbia can realize even double price in export of lamb meat in regard to the world price, by the quality of supply (export of young heads, specific quality) and on that basis differentiation of supply.

Pork. This production significantly overcomes needs of the EU (the biggest exporter is Hungary).

Poultry. This is also the segment where the Union has self-sufficiency. With new members (have less deficits, Hungary has higher surplus) will increase the pressure on this market, which mean also hindered approach to the third countries. Generally, with access of 10 new members has increased the pressure on wheat, fruit, sugar, beef, pork and poultry markets. The enlargement of the Union increases export space only for oil culture and sheep meat.

The most serious consequence for Serbia will be hindered approach to the beef market and manufactured products of pork, where are insignificantly increased needs of the Union regarding sheep and lamb meat. In the sector of livestock breeding, the Union market will be additionally supplied by surpluses from Hungary and Poland, so the position of the local livestock breeding in export aggravates. Overviewing trends on the EU market, and taking into consideration achieved level of production and local producers' competitiveness can draw the conclusion that we are competitive on the world market (assuming that we fulfill the quality control standards) regarding export of agrarian products only if we differentiate the supply, in the sense of high-quality products export, with the brand or/and mark of

autochthonous origin.²¹¹ Serbia can build its export chance on the EU market only by application of modern concept of competitiveness, which implies the creation of competitive advantage in quality and innovations, i.e. by differentiation of supply.

In short, basic assumptions of such export strategy, i.e. modern concept of competitiveness are: 1) more investments in production modernization, 2) harmonization of whole legislation with WTO and EU regulations, 3) adjustment with numerous standards of sanitary-veterinarian control.

5.3.4. South-east Europe market

The most of agro-economists agree that the perspectives of our country lie in export to south-east Europe markets. There is a surplus of production regarding wheat and maize in this region, so it is necessary great caution in increasing production of cereals. South-east Europe is extremely scarce regarding sugar, however, there is a great problem in regard that the sugar has stock exchange price, significantly under our production price on the world market. The most rational is to count on sale of meat and meat manufactured products on south-east Europe market, in regard that this region has deficit in exchange of beef (the highest import has Bulgaria) and poultry (major countries have net import, the highest – Romania and BH).

The production of sheep and pork meat is on self-sufficiency level. Regarding meat and meat manufactured products from Serbia, there should emphasize primarily that our meat industry was significant exporter of meat manufactured products on USA market, the first exporter of baby beef and lamb meat in Greece and Italy and significant exporter to Germany, ex-SSSR countries etc. Out of that export, from Serbia and Montenegro had realized over 250 million USD/year (in last years, the export of meat ranges around 10-16 mil. USD).

At the moment, this kind of export on the EU market is limited by significant legal regulatory rules and standards of sanitary-veterinarian control. Hence, the export of pork in the EU countries is not allowed, there can export just the pork manufactured products. However, neither for this kind of export, no factory for production of cans and delicatessen has a license to work and export, issued by the EU authorities. At the same time, only two local abattoirs have necessary EU certificates, i.e. export licenses for sale of baby beef on the EU market. Therefore, the export of meat and meat manufactured products realizes manly in ex-Yugoslav republics (Macedonia,

²¹¹ **Cvijanović, D., Mihailović, B.,** Simonović, Z. (2009): *Uloga i značaj marketinga u razvoju agrarnog sektora Srbije*, monografija, Institut za ekonomiku poljoprivrede, Beograd.

BH), and negligible export of special quality baby beef is sold on traditional export markets (Greece, Italy).

There should point out that Greece and Italy had accepted baby beef from our country, because neither in literature has been noted mad cows phenomenon regarding heads younger than 24 months of age. However, the EU will not tolerate such export forever. The local abattoirs must adjust to the world requirements in regard to introduction of veterinarian-sanitary control HACCP system in production cycles, and also follows the introduction of complete identification system and monitoring of livestock according to EU standards. There should emphasize that the introduction of these systems is up to the state worldwide, as well as the construction and recognition of a laboratory for examination of mad cows' disease.

As basic assumptions of modern competitiveness concept assurance of the local agrarian sector can be cited next:

- Increase of investments in technology and innovations, i.e. productivity growth,
- Realization of increased production, change of its structure and assurance of stable export supply,
- Fulfillment of strict quality control standards (adjustment to EU standards in domain of veterinarian, sanitary and phyto-sanitary needs, ecological protection of environment) and harmonization of overall legislation with WTO and EU regulations,
- Development of marketing strategies, accentuation of non-price elements of competitiveness and brand of product,
- Organized performances of local producers and exporters; one of ways to increase Serbian economy competitiveness and agrarian sector is to develop business environment through clusters or „branch bunches“. The clusters are groups of connected, export-oriented enterprises, with accompanying institutions in the same location (buyers, suppliers, competitors, universities, schools, marketing agencies, financial institutions etc.).

Finally, no less significant assumption of realizing competitive export of agrarian products from Serbia is entry in the WTO, which does around 95% of total world trade. The WTO has extremely great significance for all states in the world, and the key element is an idea to decrease customs tariffs among member-countries and subsidies on the local market, as well as suspension, i.e. minimization of export subsidies.

5.3.5. Strategy elements of export improvement in agro-economy of Serbia

In forthcoming period, export organizations are going to face tougher competition, which will significantly influence on expectable export effects of these products. This factor must be counted on, and the only way to long-term neutralize the negative effects, based on insufficient competitiveness of domestic goods, is in constant efforts for competitiveness level increment of these products. That is to say, all reserves, primarily in the field of larger productivity and decreasing the production costs have to be engaged in this plan. That implies also certainly slower prices increment, as well as solutions regarding adequate export impulse and relief of export - oriented production, which would certainly help to react more efficient and faster to conditions on foreign market. Regarding comparative advantages, Serbia insufficiently uses even realistic natural possibilities for agricultural products production.

Natural conditions and productive possibilities of the region, within the production realization is planned, should at most use and develop, primarily by measurements which direct influence would be in function of production and which effects would directly influence on its size and quality. Changing the production characteristics, its applicative export – determination, there has been created necessary conditions for its more favourable social treatment and its acceptance as a significant factor of economic stabilization, also evident and potential source of significant foreign exchange inflow. Basic factor that can effect negatively on programmed export of agricultural products is domestic prices' faster growth of these products in relation to the world one and transport too, with assumption that needed production level is going to be achieved. However, if neutralize partially their negative effects by determined measurements, it will be made conditions for free growth of agricultural products' size. All other factors, occurred periodically as limits in this export (except the measurements of agrarian protectionism), primarily were subjective, therefore their removal lies in better preparation and organization of production and export.

The basic changes have to be done on plan of improved package and design, concerning some products even transport organization. More attention has to be given to esthetic presentation of these products and to create design and package, which would be specific, as well as to make cognizable association to specific region and origin of the products. Also is essential a department which would have a task to follow the market courses, do some tests and inquiries of the consumers, be abreast with modern commercial achievements concerning placement and sale improvement, so far as to be abreast with competitiveness and a priori, to drawback the positions we had in period before sanctions. It follows that, economically the most justified would be, if possible, to do the specialization of export and processing

organizations and, within this solution, form specialized department for marketing of these products. Regarding transport organization improvement, the base must be on providing the cheapest and the most qualitative possible transport. Connecting with transport organizations with an aim to provide mutual purchase of modern transport vehicles for these products, trucks and ships would be economically justified. Export and processing organizations have to work more on joint accession during transport organization, because thereby can significantly influence on these costs size, with consideration that continuously usage of capacities is provided to certain significant business activities, which is very important for transport organizations.

The competitiveness of the products made in EU-countries, especially on markets in developing countries, is primarily the result of high subventions, given by EU funds for these products export. If also take into consideration that all EU countries have developed transport, especially air and truck transport, that special attention is paid on quality, processing, packaging, there is obvious advantage which these countries have (before all, Netherlands, Germany and France). More acceptable offer from Central and East-European countries is based on low prices, which are not connected to productivity and profitability of agricultural production in those countries. These countries, especially Hungary and Bulgaria, also have developed truck-transport, which contributes to their products competitiveness.

In Serbia has to be established the market mechanisms, which by technological and productive-economic bond of all participants in production process to final consumption markets, is provided. However, mostly the turnover has a monopoly, more conceived if the agricultural producers are un-organized and if not exist productive organizations – cooperative movements. Thereby, in global strategy of market mechanisms development should provide the unity of production/processing/turnover and final consumption markets³. This should create bigger economic interest, though agricultural producers and all participants in the production would work and produce more quantitative and more qualitative.

The export of agricultural products presents very important economic activity. Its importance ensues from economic and nutritive significance of agricultural products, but also their relatively significant influence on a level and move of a total foreign trade exchange. The countries in which export dominates primary and semi-processed products have unfavourable export structure and lower level of competitiveness. In such conditions, the primary products prices are lower and unstable, while the significance and participation of these products in international goods traffic constantly decreases. Otherwise, the countries which export qualitative final-industrial products, or higher-level-processed products based on modern technology, with significantly higher added value, have convenient export structure

and higher level of competitiveness. At the same time, the countries with such goods structure, successfully place their products alongside on the markets of economic developed countries, which by additionally increase the profit and support more their competitiveness on international market.²¹²

The primary products participation in international interchange, after the World War II, was slightly over 50%, while the same participation today decreases to 20%. According to the World Bank and World Trade Organization projections, the prices of primary products on international market will be continuously low in next ten years, along with further collapse of primary and increase of the final-industrial products in the turnover. In observed period, the process of technological development has stopped and work productivity has decreased. It results unfavourable structural changes in foreign trade exchange, as in total economy, as well as in agriculture.

Current state of economic and agricultural base of Serbia is characterized, before all, by technological-economic retrogression of major installed capacities, dominant presence of traditional industrial production (so called – standardized products), pretty dispersive export assortment (without any recognizable product) which additionally up to now was oriented to convertible buyers and placed on limited destinations and moreover represents an aggravation. If we add it a fact that dominant business practice is based on traditional foreign trade concept (so called, strategy of low intensity), there is a question that has to be put about initial turning encirclement that aims at approach to current trends on world market, based on the new strategy. Likewise, additional limits represent also problems of certain stagnation in privatization process, underdevelopment of economic infrastructure adequate institutions and incompleteness of bank system.

The biggest foreign-trade deficit in trading with agricultural products was registered in 2001 and amounted to 255 million €. During 2006, Serbia had exported the agricultural products and foodstuff to the amount of 1,26 billion dollars, or 18,2 % more than in 2005. Surplus in exchange of agricultural products/foodstuff with foreign countries amounted to 355 million dollars. The export of food and agricultural products composed almost fifth part of total Serbian export. As it was added in the report, mostly maize was exported (170,7 million dollars), than followed sugar (154,3 million dollars), while fruit and vegetable were exported to the amount of 326

²¹² Djorović, M., Milanović, M., Lazić, V. (2003): „Bilansna analiza spoljnotrgovinske razmene poljoprivrednih proizvoda“, u: Poljoprivreda i ruralni razvoj u evropskim untegracijama, Poljoprivredni fakultet, Beograd, p. 6.

million dollars. As for import, the highest participation in import of agricultural products had a tobacco and tobacco products (total value was 99,5 million dollars), than raw coffee (50 million dollars) and bananas (34,8 million dollars). Favourable results of Serbian agriculture in foreign trade were a consequence of preferential status on EU market and liberalism of trade on the Balkan.

In previous period dominated a production orientation which did not respect the market requirements. Agricultural enterprises in Serbia lost the brand and traditional markets. A way out of crisis requires a constitution of market – oriented enterprises, implying a number of structural changes, directed toward improvement of business efficiency and adjustment to market requirements. Enterprises' inner structural changes base on internal orientation, further based on efficiency improvement, or external orientation focused on effectiveness improvement. Successful positioning on market of agricultural products in Serbia requires appropriate information about environment changes, a priori on the market, in order to diminish a risk and uncertainty. The market risk can not be eliminated, but can be significantly recognized and diminished by market researching. According to domestic market characteristics and relation of neighbour – countries toward agricultural products from Serbia, it is necessary to work on improvement of quality and products' image. Consequentially, the state should stimulate the promotion of domestic agricultural products abroad, like as to rationalize adequate marketing accession.

5.4. Market challenges and restrictions in enterprises business in the field of meat-processing industry of the Republic of Serbia

In food industry, development and a level of technical-technological equipment is very different. The most was invested in oil, beer, dairy industry, confectionery products and in industry for water processing, while, on the other side, less investments and poorer technological equipment register in industry for sugar, meat, fruit and vegetables processing.²¹³ At the same time, there is relatively low capacities exploitation in food industry, which ranges from 30%-50%. The higher exploitation level is with capacities for production of mineral water, oil plants, mills, facilities for fruits and vegetables processing, for production of confectionery products, breweries, dairies and sugar refineries. The least utilization level is with the facilities for fodder processing and slaughterhouses. In the Republic of Serbia, dominant food industry branches are: production of flour and its manufactured products, production of eatable oil and its manufactured products, sugar production, production and processing of vegetables

²¹³ **Cvijanović, D.**, Subić, J., Nikolic, M. (2007): „Marketing in agriculture. Its influence on farm and companies development (Article)“, JOURNAL OF ENVIRONMENTAL PROTECTION AND ECOLOGY, (2007), vol. 8 br. 3, pp. 701-709.

and fruits, milk production, production of meat and its manufactured products, production of confectionery products, production of alcoholic and non-alcoholic beverages. Successful inclusion onto the international market limits insufficient assortment of food products in regard to up-to-date supply in developed world, where has been neglected a research for bigger exploitation of existing capacities through introduction of new lines and products. Foreign market requires high quality health-safety food production, for which there are potentials in Serbia, so the food industry should direct to such production programs.²¹⁴ Basic assumptions for this production, as well as the placement on foreign market, are introduction of *ISO 9000* and *ISO 14000*, as well as HACCP quality system. In such circumstances, the country's developmental policy must pay special attention to food industry, but this policy must be compatible with the global trends which reflect in capacities concentration and developed technology.

Domestic food industry, especially meat-processing industry, has objectively great chances to be a leader in this sector on the territory of south-east Europe.²¹⁵ Still, it requires business restructuring of enterprise in this sector. Restructuring can be postponed, however, the longer postponement, the less foreign investments, and higher economic price of resisting is inevitable; developed policy of social and regional development could ease the transition.²¹⁶ In the poll, carried out by the researchers from the Institute of Agricultural Economics, Belgrade, on April – May 2010, were surveyed 16 companies which deal with meat production and processing of meat manufactured products, on the territory of the Republic of Serbia.²¹⁷ A mission of major surveyed companies is: improvement of product quality and working process, along with increase of production and export in the EU. The poll research of the market was done with support of three techniques: 1) telephone poll, 2) direct interviews and 3) electronically.

²¹⁴ **Cvijanović, D., Mihailović, B.** (2012): "Marketing as a factor of enterprises development in the sector of meat industry and development of managerial skills using consulting as a model", Monograph - Tech.food project, "Solutions and interventions for the technological transfer and the innovation of the agro-food sector in South East Regions - Tech.food project", Editors: Prof. dr Drago Cvijanović, Bojana Bekić, B.Sc., Marko Jeločnik, M.A., Institute of Agricultural Economics (IAE) Belgrade, Republic of Serbia, pp. 27-44.

²¹⁵ **Mihailović, B., Cvijanović, D., Hamović, V.** (2009): "Analiza investicione i izvozne aktivnosti poljoprivrede Srbije", *Ekonomika poljoprivrede*, br./N^o 1 (1-138) 2009, Institut za ekonomiku poljoprivrede, Beograd, pp. 73-86.

²¹⁶ Strategija poljoprivrede Srbije, Ministarstvo poljoprivrede, šumarstva i vodoprivrede, Beograd, 2004, p.20.

²¹⁷ Solutions and interventions for the technological transfer and innovation of the agrofood sector in South East regions, Study no.1, Programme co-funded by the European Union, South East Europe, Transnational Cooperation Programme, Institute of agricultural economics, Belgrade, November 2010.

Table 14. Surveyed companies and number of employees in 2009

Name of surveyed company	Business income in 000 RSD in 2008	Number of employees
„Matijević“ I.I.c. Novi Sad	8,753,432	1,350
„Agroživ“, Pančevo; Creditors are company owners, in regard that there is ongoing the bankruptcy proceeding in the company.	5,722,050	1,000
Big Bull, I.I.c., Bačinci;	1,709,632; data 2007.	750
„Topola“, s.c. Bačka Topola;	1,561,575	432
„Juhor“, s.c. Jagodina;	Company does business within the Delta Holding	400
„Banat“, s.c. Banatski Karlovci	587,455	346
„Agrimes“, I.I.c. Beograd	1,675,002	299
PKB Imes, I.I.c. Beograd	1,159,224	280
„Zlatiborac“, I.I.c. ,Beograd	966,043	208
„Nedeljković“, I.I.c. Šašinci	-	180
„Sim Impex“, I.I.c., Niš	-	160
„Koteks“, I.I.c. Surčin, Beograd;	1,319,087	150
„Famis Co.“, I.I.c. Beograd	345,155	58
Piljan komerc, I.I.c. Beograd	559,375	50
AC Mrkšičevi salaši, Srpski Itebej	903,845	30
„Winers“, I.I.c., Jagodina	365,133	16

Source: Serbian Business Registers Agency, Republic of Serbia, <http://www.apr.gov.rs>

5.4.1. Production program of companies, quality standards and investments in the research and development/quality of products

The production program of the companies bases on the following products: long-lasting and semi-lasting pork and beef sausages; fermented dried sausages; salami and bacon; canned food. Only two producers have, in their program, chicken manufactured products. Most of enterprises uses a mid-generation technology and is evident a huge space for the technology improvement. Only few enterprises distinguish their selves by high technology („Topola“, „Zlatiborac“).

Implementation of quality standard. Of 16 surveyed enterprises, 15 of them have implemented HACCP standard, as an independent standard or involved in ISO 22000 (exception is only the firm „Piljan komers“, which is in phase of the standards introduction). Protection of geographic mark, i.e. protection of product's geographic brand/origin was registered at only 2 producers: the company „Big Bull“(protection of geographic mark for three products: paprika-flavoured sausage from Srem, sausage from Srem and salami from Srem) and the company „Juhor“ (sausage from Levac). The company „Juhor“, the only one with „halal“certificate, which verifies the products were made in accordance to the Islamic laws and which provide export in Islamic

countries. In the company „Juhor“ was introduced also the standard for safety and health of employees OHSAS 1800.

Investments in quality of products. Almost every surveyed enterprises point out huge investments in quality and pays great attention to health-safety aspects of products. Extremely high investments in this aspect has the company „Topola“, which has expelled allergens from its overall production program, as well as the companies „Zlatiborac“, „Famis“, „Big Bull“ and „Juhor“.

Activities in the field of research and development. The activities in the field of research and development are insufficiently developed in all the companies, taking into consideration the number of employees in this sector or financial investments. None of the surveyed companies has a special department for research and development. The most often is this activity within technology or marketing departments, or in departments for HACCP standard implementation.

5.4.2. Participation of companies on domestic and foreign market and development of marketing activities

Participation of companies on domestic market/leading domestic competitors. The companies which cover major of domestic market are the next 5 companies: „Topola“, „Juhor“, „Matijevic“, „Carnex“, „Neoplanta“. Of 16 surveyed companies, 3 companies („Topola“, „Juhor“, „Matijevic“) have great production capacities and high market share, while the other companies are of smaller production capacities and with significantly smaller percentage of domestic market coverage²¹⁸. The basic placement canals on domestic market are: 1) hypermarkets (for the companies: „Topola“, „Juhor“, „Zlatiborac“, „Agroziv“), 2) development of own sales network („Imes“, „Matijevic“, „Banat“) or 3) sales via butcher.

Facing foreign competition. The most of surveyed enterprises point out that their market position is not jeopardized by the foreign competition. Tariff protection (in average around 30%) still provides protection to domestic producers of meat and meat manufactured products. In regard that these customs will decrease in next 6 years within the Stabilization and Association Agreement to the EU, in the following period is necessary a significant reconstruction of this sector (production enlargement, introduction of standards in production), in order to increase the competitiveness level of domestic producers (reduction of prices for products and higher quality regarding health-safety products).

²¹⁸ Annual production of smaller companies ranges from 100-500 tons of meat manufactured products.

Placement on foreign market:

- Of totally 16 surveyed enterprises only 4 enterprises have a license to export pork and beef manufactured products on the EU market („Topola“, „Kolbis“, „Big Bull“, „Juhor“). Besides license, the enterprises direct small percentage of their sale to the new market (the most often export markets are France, Sweden, Switzerland) and the highest percentage direct toward the market of the region countries (Bosnia and Herzegovina, Macedonia, Montenegro) and the Russian market.
- Even 9 enterprises or 56% of total number direct their products' placement on the market of the region countries (Bosnia and Herzegovina, Macedonia, Montenegro)
- Placement just on domestic market and lack of capacities for export is registered regarding 6 enterprises (or 37.5%).

The marketing activities in most of the firms are extremely poorly developed²¹⁹. The exception is the following companies, which have developed a brand to some of the products from their assortment: IM „Topola“, „Juhor“, „Zlatiborac“, „Agrimes“. Most of firms point out that in major investments in marketing limit high prices of advertisement (television, billboards) and lack of financial assets.

5.4.3. Membership in associations and partnership/cooperation with the companies

Membership in business associations, clusters and similar. Of 16 surveyed enterprises, only 2 enterprises belong to the cluster „Baby beef“. It is about new established cluster for improvement of beef export, but still with no concrete working results.

Partnership with other companies. Of 16 surveyed companies, only 2 companies („Juhor“ and „Koteks“) represent associative members of the big company „Delta Holding“. The associate membership with this company and its commercial chain is directed toward better placement of product on the market.

Cooperation: regional/national/EU/outside the EU for trade (distribution), production, clean technologies. The surveyed companies realize cooperation with other companies mostly in the following fields:

²¹⁹ **Cvijanović, D.** (2007): „Marketing, marka i ruralni razvoj“, *Uvodno predavanje po pozivu, na Međunarodnom naučnom skupu: «Multifunkcionalna poljoprivreda i ruralni razvoj u Republici Srpskoj»*, Tematski zbornik. Urednici: prof.dr Miroslav Bogdanović, Prof.dr Drago Cvijanović, Prof. dr F.K. Vosniakos, Izdavači: Poljoprivredni fakultet, Istočno Sarajevo, Institut za ekonomiku poljoprivrede, Beograd, Balkanska asocijacija za životnu sredinu (B.E.N.A), 2007, pp. 20-29.

- Cooperation with foreign companies/inputs suppliers. Meat processing industry is substantially dependable of import: additives, emulsifiers, spices, intestines, equipment, spare parts.
- Cooperation with domestic suppliers of raw materials (raw meat) is correct, long-term and based on trust. The basic raw material for production of meat manufactured products (raw meat) in every surveyed company provides only on domestic market.
- Cooperation in the field of export (regional cooperation with business houses in the countries they export to)
- Cooperation with domestic competitors practically does not exist (except in the field of seminars, meetings, fair cooperation).

5.4.4. Introduction of innovations and cooperation with scientific-research institutions

Introduction of innovations. All surveyed enterprises in past 3 years in their business have introduced certain innovations or improvements of product and/or working processes. Major enterprises, 14 (or 87.5%) emphasize that in past 3 years they have placed new products on the market. For example, the company Topola has introduced on the market 2 new products, Kotex 3 new products (2 types of salami and 1 sausage), Matijevic has introduced 10 new products (new sausage products and new salami), PKB lmes 5 products, and Zlatiborac 2 new products (2 types of sausages).

Table 15. Aspects of innovations introduction or companies' business improvement in the period 2007-2009

Aspect of innovation/improvements	Number and percentage of companies
Product	14 producers (87.5%)
Working process (purchasing new machines, equipment, technology innovation, facilities reconstruction)	10 producers (62.5%)
Connection with market (investments in marketing/advertising, going to the fairs, etc.)	4 producers (25%)
Logistic and distribution	2 producers (12.5%)

Source: Questionnaire of IAE, 2010. Total number of surveyed companies is 16.

All surveyed enterprises are poorly connected with scientific-research institutions. All kinds of innovations or products, working process or technology improvement – are the result of internal research and development. The exceptions are only bigger companies (Topola, Juhor) and few smaller companies (Famis, Nedeljkovic), which realize their activities in the field of innovations and business improvements, along with more significant cooperation with foreign suppliers of additives and spices or

with research centers and consultants on faculties. As the most frequent cooperation in the field of scientific-research institutions, the surveyed companies point out control houses or cooperation with the institutions in the field of quality standards implementation. The most of surveyed enterprises point out a need in the field of products and technology improvement, i.e. the working process improvement. Some less percentage of the surveyed enterprises emphasize the needs in the field of investments in marketing, logistics and distribution.

Table 16. Needs of companies according to specific business aspects

Aspect of needs	Number and percentage of companies
Improvement of products	14 companies (87.5%)
Improvement of technology and working process	12 companies (75%)
Improvement of market connections	10 companies (62.5%)
Improvement of logistic and distribution	8 companies (50%)

Source: Questionnaire of IAE, 2010. Total number of surveyed companies is 16.

5.4.5. Support of public funds

Support of public funds. The highest percentage of surveyed companies (87.5%) emphasizes a need of public funds support for needs of business internationalization. As main obstacles for using the public funds, the surveyed enterprises point out the next factors: underdevelopment of public institutions, non-transparency of government funds and agencies, distrust in state institutions.

Table 17. Segments in which are necessary the most support of public funds

Measure	Number and percentage of enterprises
Support to participation on the EU projects	1 enterprise (6.25%)
Raising awareness on knowledge and competence of clusters	-
Support to business internationalization	14 enterprises (87.5%)
Selection and training of specialized human resources	3 enterprises (18.7%)
Tracking of relevant technological opportunities	12 enterprises (75%)
Correlation between research and business (TT)	6 enterprises (37.5%)
Promotion of entrepreneurship	-

Source: Questionnaire of IAE, 2010. Total number of surveyed companies is 16.

5.4.6. Problems which dominantly restrict business of surveyed enterprises

The problems which dominantly limit improvement, modernization and innovations in the process of the surveyed enterprises' business making, are the next: 1) high price of raw meat on domestic market and insufficient supply; 2) limited domestic market and low purchasing power; 3) monopolized commercial market and high discounts of commercial chains; 4) disloyal competitiveness and great number of producers

who have no fulfilled quality standards (inadequate reaction of inspection authorities), 5) hard to reimburse (long payment terms); 6) low information level of consumers on the new products, quality and various producers' products safety; 7) short terms and unfavourable crediting terms, which reflects on insufficient investments in business development; 8) financial issues (heavy indebtedness, insolvency, lack of working capital), 9) customs and non-customs barriers and complicated procedures in export flows; 10) lack of traffic infrastructure for transport of products (roads are of the local character), 11) undeveloped business infrastructure: sewer network, unresolved issues of waste water, slaughterhouses waste, lack of system for waste water refinement etc.

The research showed that the enterprises in meat-processing industry of Serbia had unfavourable production, marketing, research-developmental and financial performances. It is obvious that is necessary a radical turning point in their business, which can be realized through overall restructuring of enterprises. At the same time, regarding that modern business implies three types of management: 1. managing relations with buyers, 2. managing infrastructure and 3. Managing innovations, it requires from these enterprises to balance between the three economy types: economy of width, economy of volume and economy of size. On the current development level of business and applied economics, the simultaneous optimization of these requirements is impracticable. Consequentially, besides the transitional requirements that enterprises and business practice must be compatible to market economies, this is an additional reason to do their restructuring in the following direction:

- *ending of ownership restructuring*, i.e. the privatization of agricultural enterprises in Serbia, which results by social and state capital's transformation into the joint-stock one;
- *market restructuring*, which represents the market redefining, on which the enterprise appears, aiming to improve sale and business of enterprises; for successful market restructuring is necessary to dispose with adequate information on changes in the environment, and, primarily, on the agro-food market, in order to minimize a risk and uncertainty;
- *organizational restructuring*, i.e. changes in organizational model of enterprise and concept of functioning; in this restructuring dimension is inevitable the analysis, or organization condition diagnosis and adequate strategy of intervention;
- *business restructuring*, which should result in significant changes in those businesses the agrarian enterprise does: shutting down some businesses and starting the others, merging the enterprises, interventions in the field of production and technology;

- *financial restructuring*, which implies a change in enterprise's capital structure, with which changes the relation between ownership and debt.

The stated restructuring directions represent the activities inevitable to enterprises in meat-processing industry of Serbia, in order to improve their performances and create a lasting turning point toward profitable business. Restructuring in our conditions, as stated previously, must comprise all fields of these enterprises functioning and a consequence of late reaction and adjustment to changes.

5.5. A position and perspectives of Serbian agrarian sector in international integrations

A national policy of the Republic of Serbia bases on a membership in the European Union (EU) and the World Trade Organization (WTO).²²⁰ In accordance with it, Serbia gives up a self-sufficiency strategy for any product, which implies market liberalization and free trade with other countries. Regarding that Serbia is aiming to become a member of the EU and the WTO, agriculture should prepare for competition on developed market, free from trade barriers. Current bilateral agreements in free trade with neighbouring countries, Serbia has replaced in 2006 with one within the CEFTA (Central European Free Trade Agreement) agreement, by which has entered the market of around 27 million inhabitants and has accepted a responsibility to realize it, aiming to promote trade in this region. The stabilization and Association Agreement (SAA) provides, in quantity sense, a new level to preferential relations between Serbian agriculture exchange and the EU agriculture, while it provides an asymmetry in Serbia's favour, after which the European Union determines and continuous its duty free import of agro-food products from Serbia, and Serbia gradually decreases its customs duties and other taxes, during the five-year-lasting transitional period, for the most of these products.

Agriculture is one of the pillars of the Republic of Serbia economic development, and its significance for the national economy, besides an economic, also has an ecological component. However, among other great potential in the sector of agricultural production, as a result of favourable climatic conditions, natural land characteristics and available water resources, it has not been optimally utilized. Exactly due to such potential, agriculture in Serbia does not represent a common

²²⁰ Kuzman, B., Tešić, A., Đelić, A.T. (2013): "Possible routes of approaching of Serbia (agro industrial complex) to the EU and the WTO", *Economics of agriculture* No 3, Vol LX Institute of Agricultural Economics, Belgrade, pp. 541-549.

economy branch, regarding that in all municipal or regional strategies was defined as one of the strategic development directions.

Serbian agriculture is characterized by a gradual liberalization, regarding that, according to negotiations with the WTO and the SAA, a protection level will decrease in phases. The agriculture sector has already beat a solid path toward the EU market, while almost a half of the total export directs to the EU market and realizes a significant surplus in exchange. The agriculture in the SAA comprises primary agricultural products, fishes and fish manufactured products and all food products, as well as the products implicit in the Annex I of the Agreement on Agriculture of the WTO.²²¹ Free trade zone with agricultural products is forming gradually during the transitional period of six years. This is a period in which Serbian agricultural producers should improve its competitiveness, and a support to this process should be the national economy's agrarian policy. Setting up the free trade zone with the EU, which has been a result of the SAA, will affect a price-reduction of raw materials and production materials in agriculture, which import from the EU. At the same time, economic effects of the SAA will manifest through safe and long-term determined quantities for preferential placement.

In such conditions is necessary to involve small producers into a modern market chain, while they are insufficiently competitive, they trade in informal channels, and their cost of standards introduction is high. It is necessary to improve competitiveness at the level of processing capacities, which would find new markets by that and increase consumption. In the field of primary production notices a great competition, while at the processing level is present a poor competition, as a result of unattractive area for investing due to non-established institutions, non-fulfilment of the EU export standards for significant group of products, as well as an ignorance of a real competitiveness due to a high customs protection. Changes in buyers requirements, their demand or habits, provoke also the changes in the market chains functioning. There is expected for these changes to be more expressed during the global crisis.²²² According to the same sources, owing to decreased demand on some markets, the producers must adapt their production to the new requirements, traders must find new markets and to adjust to new sales conditions with significant delays in payment, or to find new sales locations or new funding sources.

²²¹ Grupa autora (2008): *Ekonomsko-privredni vodič kroz Sporazum o stabilizaciji i pridruživanju*, ISAC Fond, Beograd.

²²² Grupa autora (2009): *Uticaj svetske ekonomske krize na poljoprivredu Srbije*, USAID, april-maj.

5.5.1. *Joining the EU and the Common Agricultural Policy*

Thanks to the preferential approach to the EU market, the Free Trade Agreement with 7 countries in the region (Albania, BH, Macedonia, Croatia, Romania, Bulgaria, Moldova), the Free Trade Agreement with the Russian Federation and the GSP (Generalized System of Preferences) by USA – the Republic of Serbia has made favourable conditions for foreign trade with goods in the field of agricultural-food sector.²²³ As distinguished from other transition countries, in which agricultural exchange represents from 5 to 10% of the total exchange, Serbian foreign exchange in this field represents 12.8% of the total exchange and, at the same time, is the only economy field with surplus in exchange.

A strategic goal of Serbian agriculture is adjustment with the Common Agricultural Policy of the European Union (CAP). That is to say, agricultural producers in the EU member countries has full and direct approach to measures of CAP market, which help stabilization and increase of their incomes, and there is also a specially adopted package on rural development for new EU members.²²⁴ The Common Agrarian Policy of the European Union, as one integrated policy, contributes to other elements of social policy, primarily to rural areas development. This is surely a clue, a significant point of Serbian agrarian future developmental concept. There can be spoken that the transition from agricultural policy into social, rural and ecological policy had irrefutably started, but has been far away from its end. The CAP is still considerably expensive policy, on which is spent something under 50% of the central EU budget (although much less percentage of the national budget). Directing such high percentage of the domestic product, and thereby also resources, into the agricultural sector and making businesses outside an agricultural property (farm) will be of essential significance if Serbia sets a goal to its self – increase of average agricultural property size and decrease of agricultural properties and agricultural producers' number. The current situation in agrarian policy is distinguished, basically, by adopting crucial elements of the Union adequate policy, regarding that Serbian financial potential is incomparably less that the Union's, so it significantly limits support scopes.²²⁵ In the period when Serbia prepares for joining the European Union, the common agricultural policy is causing the following changes:

²²³ Paraušić, V., **Cvijanović, D.**, Subić, J. (2007): *Afirmacija udruživanja i marketinga u funkciji kreiranja konkurentnosti agrarnog sektora Srbije*, monografija, Institut za ekonomiku poljoprivrede, Beograd.

²²⁴ **Cvijanović, D.**, Simonović, Z., Mihailović, B. (2011): „Težišta i ciljevi novijih reformi agrarne i regionalne politike Evropske unije”, *Ekonomika poljoprivrede* God. 58, br. 3, pp. 359-370.

²²⁵ Ivanović, P.,S., Bogavac, V. (2003): “Usaglašavanje agrarne politike Srbije sa zajedničkom agrarnom politikom Evropske unije i Svetske trgovinske organizacije”, *Institucionalne reforme i tranzicija agropivrede u Republici Srbiji*, Ekonomski fakultet, Beograd.

1. Reforms of food sector, like dairy products, sugar, fruits and vegetables. Some of them are ongoing, with recently announced reform of sugar sector, which has direct implications to Serbia,
2. Finalization of “Doha Round” of the World Trade Organization which puts a pressure on decreasing or completely eliminating subsidies for export. This will lead to impossibility to defend the existence of many nowadays systems “common market organization” and will require, either full transition to the world prices, or strong quantitative limitations, in order to keep production in the EU at the levels of domestic consumption.
3. Possible challenges of the WTO regarding direct payments system “blue box” will probably require that the EU weakens a connection with production from the past and to direct the payments directly to measurable social and ecological goals,
4. Further simplification of some elements of direct payments system, with implications on administrative structures type, which Serbia will have to introduce.

Signing and implementing the Stabilization and Accession Agreement with the EU will make a free trade zone between Serbia and the EU member countries. Although, partial protection of domestic market will be possible by keeping the customs protection on limiting number of extremely sensitive products for land, as well as by introduction of quantity quotes for import of products from the EU. The market has to be gradually liberalized in the period of the Agreement duration (anticipated 6 years) and exactly this period is crucial for necessary structural changes of domestic agriculture and improvement of production/processing and sale, in order to meet readily foreign competition. As side effect and additional acceleration to domestic market liberalization, will become apparent approach of the country to the CEFTA agreement (Central European Free Trade Agreements), under the auspices of the Stability Pact for South Eastern Europe. The CEFTA Agreement will create a zone of almost free trade among the countries in the region, whereby 31 bilateral free trade agreements in the region, between signatory-countries (besides Serbia – Croatia, BH, Albania, Macedonia and Montenegro) will be replaced by one multilateral trade agreement.²²⁶ The effect on agro-food sector of the country will reflect in easier approach to domestic market of producers – signatory countries of the Agreement, by which domestic production/processing will be subjected to foreign competition intensive effect. Although for the total foreign trade exchange of Serbia in 2006, a balance was highly negative (-6,744,4 million USD), and deficit of foreign trade exchange was higher than in 2005 (amounted

²²⁶ Kuzman, B., Puškarić, A., Potrebic, V. (2012): “External trade of agro-industrial product of Serbia and Republic of Macedonia within the CEFTA agreement”, Chapter in thematic proceedings - Rural areas and development – vol. 9, European Rural Development Network, Institute of Agriculture and Food Economics – National Research Institute, Warsaw, Poland, IAE, Belgrade, pp. 229-241, Editors: Prof. dr Drago Cvijanovic, Dr. ing. ZbigniewFloriańczyk.

5,979,5 million USD), for agricultural sector the relations were much different. In 2006, in foreign trade exchange of food, was amounted the deficit of 415,8 million USD, which was a growth of 24% in regard to 2005. Practically, a negative exchange balance is present only regarding scarce products: fish and fish manufactured products, coffee, tea, as well as spices, fodder. High positive exchange balance, already traditionally, realizes in exchange of cereals, vegetables, fruits and sugar. However, it is important to emphasize that the positive results in foreign trade exchange of food is owed to, primarily, higher export of raw materials – cereals, sugar, vegetables and fruits. Proportionally observed, the total export of cereals, sugar, fruits and vegetables in 2006 was participating in the total food export with around 73.8%, while the export of the group “meat and meat preparations” in the total food export with only 7.2%. At the same time, in fruits and vegetable export dominates the export of raw and frozen fruits/vegetables with over 90%. For now, Serbia has none of agricultural products with recognizable and protected mark. In such conditions are necessary producers associations, in order to improve their market position.

5.5.2. CEFTA Agreement implementation

Signing the bilateral CEFTA agreement in 2006 was planned to form the free trade zone in the region by the end of 2010 (Serbia, Montenegro, Croatia, BH, Macedonia, Albania, Moldova and UNMIK – customs territory). Creating the unique market of around 30 million inhabitants will substantially affect also the increase of foreign investments inflow.²²⁷ New „united agreement“ implies market enlargement for all products, but also trading under the same conditions for all producers. At the same time, the conditions and rules of the game will be a priori defined, so enterprises will be able to plan production and sale long-term, which will favourably reflect to foreign investments increase. The agreement will provide the region countries to trade under unique conditions, regardless what phase in the EU and the WTO accession process they are in. It is based on the WTO and the EU regulations, so it is called also the EU „lobby“.²²⁸ The agreement contributes to harmonization of relations while trading within the region, as distinguished from the bilateral agreements, which have different liberalization schemes. New CEFTA agreement has comprised also the liberalization of services trade, investments issues, public acquisition, protection

²²⁷ www.pks.rs

²²⁸ **Mihailović, B.**, Paraušić, V., Simonović, Z. (2008): “Sporazum CEFTA kao faktor unapređenja agroprivrede Srbije”, *Ekonomika poljoprivrede*, broj 1 (1-138) 2008, pp. 93-102.

of intellectual property and others.²²⁹ There was also improved a mechanism for solving misunderstandings and litigations which might occur during its application.²³⁰ A possibility for application of goods origin diagonal cumulation in trade between the countries in the region and the EU will contribute to increase of production and export capacities and will represent a cohesive factor of regional cooperation. Thereby, one of the most important advantages of the new agreement is to make the region much more attractive for foreign investments.

The agreement sets up a common legal framework for investing in the region that is a governing factor for foreign investors. In the current conditions of the global trade and the global world market, for foreign investors are no longer enough only reforms in trade, i.e. liberalized and good trade rules, but is also significant an integrated market.²³¹ The CEFTA 2006 will contribute that West Balkan and South-East Europe foreseeable become the integrated area which will have its own recognizable economic identity. Efficient functioning of common market, i.e. free trade zone, requires inter-regional cooperation and connectivity. There is necessary to identify and mutually recognize potential resources in the region. It is a task of Chambers of Commerce. On such connections has been already acted by constant cooperation of chambers of commerce in the region, through business advices, mixed chambers, Balkan Chambers Association and at bilateral and multilateral level, and in the future period, those activities will yet intensify and concretize. There is necessary for chambers of commerce to initiate and coordinate economy merging by making the regional sector organizations (merging the economy in all sectors and improvement of commercial relations with countries in the region; motivating a perspective of SEE region countries integration into the world economy; coordinating work between branch associations of Serbian Chamber of Commerce with regional chambers of commerce). In that way will contribute to strengthening of some economy sectors competitiveness in the region, their presentation and recognition outside the region, as well as connecting and integrating with the related organizations and associations at the EU level. Chambers of commerce must be active participants in creation of a regional product, in organizing common regional economic performance on the third markets and promotion of the regional economy. That is to say, the chambers must be active participants in making the region's brand. Informing economic entities,

²²⁹ Kuzman, B. (2014): *Spoljnotrgovinska razmena agroindustrijskih proizvoda Repulike Srbije i zemalja CEFTA regiona*, monografija, Institut za ekonomiku poljoprivrede, Beograd.

²³⁰ Joint Committee and Court of Arbitration

²³¹ Vlahović, B., Kuzman, B. (2012): "Foreing Trade of Agroindustrial Products Serbia and Montenegro in the CEFTA Agreement", International Scientific Meeting, Institute of agricultural economics, Belgrade, Serbia, Sustainable agriculture and rural development in terms of the Republic of Serbia strategic goals realization within the Danube region, Thematic Proceeding, pp. 65-82.

training and innovating their knowledge and businessmen education in accordance with the European standards from different fields of business is a field in which chambers of commerce already act significantly. However, this function of chambers of commerce should furthermore develop and improve. All economic activities related to a corridor use – transport, shippers, customs, storing, banking and others – have to improve. Obligations which come out from the CEFTA agreement point out several extremely important fields in which is necessary more dynamic role of chambers:

- Further liberalization. There was anticipated to do a gradual liberalization of services trade, according to the General Agreement on Trade Services, GATS. Also was anticipated to do gradual opening of public acquisition markets until May 1st 2010, in order to realize the same treatment of domestic and foreign suppliers.
- Intellectual property rights protection. Parties in the Agreement obliged themselves to provide adequate and efficient protection of intellectual property rights, in accordance to the international standards and international conventions. There is well known that the Joint Committee will consider the liberalization results. There was suggested that chambers of commerce regarding these issues adjust attitudes and start initiatives according to their governments.
- Non-customs obstacles at the region level. Aiming to overtake the necessary activities for making easy trade and transport among the countries in SEE region and removal of non-customs barriers (whether it is about traditional, technical or administrative), the Serbian Chamber of Commerce has made a questionnaire and software for the questionnaire processing aimed to collect, register and analyze the non-customs barriers. The attention is to determine these kinds of difficulties, Serbian enterprises are facing with, in trade in the region and, according to the got results, give suggestions and requirements for their solving and removing to authorized government bodies, as well as other institutions (national and international), which deal with trade functioning issue in the region. Having in mind negative experiences regarding non-customs obstacles during the bilateral agreements application, we point out to a real dangerous regarding the CEFTA agreement's expected effects, if continuous to apply old and introduce new non-customs barriers.

In the Serbian Chamber of Commerce was initiated an initiative for forming the Forum of CEFTA Countries Chambers. The forum will deal with the following themes: mutual recognition of certificates, regulations on goods origin – constant education, joint projects of chambers in the region aiming to improve investment climate, competitiveness and innovations/regional technological parks, sector

connections of industries in the region. In organization of the SCC is currently conducting numerous seminars on the CEFTA Agreement (Regulations on goods origin) in the regional chambers of commerce. Primary goals of Euro-chambers are: strengthening the adequate legal frame of chambers of commerce, as the most adequate for enterprises development; strengthening a capability of European chambers of commerce in providing help to economic development of Eurochambers state members; preparations of South-East Europe countries' economies for full integration into the EU. According to the presented results of the RECOO project (regional development through competitiveness and cooperation improvement) in the Serbian Chamber of Commerce, at the conference „Business cooperation in South-East Europe and competitiveness increase on the EU market“, after its two-years-lasting implementation, have been established six business centres (Serbia, Croatia, Montenegro, Bosnia and Herzegovina, Albania, Macedonia) for consulting services, aiming to make easy business in the region.

In South-East Europe conducts the consulting organization ILTS GmbH from Rotenburg, in cooperation with the local partners. Arranging these business centres at the same time represents also a motivation of trade outside South-East Europe borders, as well as improvement of small and medium enterprises competences for approach to foreign markets.

5.5.3 Free trade agreement between the Republic of Serbia and the countries in the European Free Trade Association (EFTA)

The Republic of Serbia, by this agreement²³² institutionalizes economic cooperation with the EFTA countries. In regard to a fact that the European Union, primarily by bilateral agreements with the EFTA countries, and then also by EEA negotiations (economic cooperation in European area), has widen, in a certain way, an internal market to the EFTA countries, signing the agreement on free trade with the EFTA countries has economic and political significance for the Republic of Serbia. Regarding that the EFTA countries have no joint agricultural policy, concessions for primary agricultural products were negotiated bilaterally with each member individually. Each of these agreements has a pair of lists which contain mutually granted concessions for agricultural products.

Republic of Serbia – Iceland. Iceland has obliged to eliminate customs on export of significant number of agricultural products from Serbia: honey, fresh and frozen vegetables, leguminoses, temporarily tinned onion, dried vegetables, all kinds of

²³² Signed on December 17th 2009, and will come into effect when ratified by the Republic of Serbia and at least one EFTA signatory-state.

fruits, herbs, cereals seeds, inulin, gluten, corn flour, legumes flour, all oleaginous plants and eatable oils, soy flour, animal and plant oils and fats, sugar, pickles, and other tinned vegetables, sauerkraut (sour cabbage), aivar, jam, fruit juices, soy sauce and mustard, waters, vinegar, tobacco and cigarettes.

Serbia has given Iceland the concessions for required products, except for lamb meat, at the level approved by the EU after the Temporary Agreement for: horses; mutton, horse meat, cheese and waters.

Republic of Serbia – Norway. Norway obliged its self to reduce customs for import of agricultural products from the Republic of Serbia: baby beef, pork and mutton, for smoked meat, creamy dairy products (kaymak), honey, tomato and other fresh vegetables except potato, frozen, dried and temporary tinned vegetables, fresh fruits in whole, dry and temporary tinned fruits, tinned paprika, sauerkraut and aivar, apple juice and mixes of juices.

Serbian party has approved to Norway the concessions at the EU scale, granted in the first or second year of the Temporary Agreement application: pure breeding pigs, mutton, poultry, dried and smoked meat, cheese (except Jarlsberg – zero level approved), raw soy oil, sausages, other prepared or tinned meat products, mineral waters, soft drinks and alcoholic drinks (for Aquavit – their national beverage – approved zero customs level), food for cats and dogs, as well as for other animal feed.

Republic of Serbia – Switzerland. Switzerland has obliged its self to reduce customs on import of agricultural products, which origin from the Republic of Serbia, for: beef for 15%, pork and beef smoked or dried ham for around 20%, for all kinds of cheese 100% - absolute cancellation of customs, honey for 50%, i.e. for 80% for false acacia honey, for live plants and flowers cut and others and graft – branches, grafts 100% - full customs cancellation, potato for 50%, fresh vegetables except seasonable tomato 50%-100%, temporarily tinned and for some kinds of dried vegetables full duties cancellation, for dried fruits 100% - full duties cancellation, except for apples – 50%, for frozen sugar free raspberries – zero level, and for other for 60% and for sugar added raspberries 24%, all kinds of vegetable oils and fats and oils for technical use – full duties cancellation, sausages for 12% and other tinned meat products 12-50%, sour pepper for 60%, refined tomato 73%, other vegetables prepared or tinned and aivar 25%, for conserved leguminoses and some kinds of fruits in alcohol 25-100%, for fruit juices from apiece fruits around 30%, where for sour cherry and raspberry juices for 100% (full duties cancellation). Serbia is the only state for which Switzerland has approved the concessions for wines, only

the sweet ones (Bermet included) – zero level and sparkling wines – reduction for around 30%.

Serbia has approved to Switzerland the concessions at the level EU gave for the first year of Temporary Agreement apply, for the following products: breeding cattle (customs cancellation), baby beef and pork 10%, milk, fresh and powder milk 10-20%, yoghurts 20%, whey 10%, milky creams 10%, refined tomato for 25%, other tinned vegetables 20%, vegetables, fruits, succintly fruits, fruits peels and other plant parts, tinned in sugar 20-40%; for number of tariff marks from the group: fruit, succintly and other eatable parts of the plant, prepared or tinned in different way, with or without sugar added or other means for sweetening or alcohol – for 20%, ethyl alcohol of alcoholic strength 80% vol or stronger, non-denatured – 10% for feed 20-30%. At the concessions level were approved for the second or the third year of SAA: honey 20%, frozen vegetables 40%, dried onion for 40%, of fresh fruits only for apples 33% along with withholding seasonal customs of 20%, frozen fruits for 50%, except for frozen raspberries and blackberries where has been absolutely cancelled customs, counting on a superior competitiveness in regard to the other party, sausages and other meat manufactures products 30%, for fruit juices and wines 30% and one tariff mark above the EU concessions granted – “reconstructed” tobacco – reduction for 17%.

The preferential quota in amount of 150 t, with zero customs duties for import within the quota to Switzerland was granted only for one products – cheese (otherwise, the most priority of Swiss party in negotiations). In return, on cheeses import from the Republic of Serbia, Swiss party completely eliminates the customs duties.

The concessions for processed agricultural products. The EFTA states provide the most favourable approach to these products market to the European Union. Therefore, more favourable approach than the approved, the EU does not provide to the third countries they signs the free trade contracts with. Therefore this part of concessions did not negotiate even with the Republic of Serbia. Serbia has been ensured the same approach as for the EU members. The EFTA countries do not have customs union, but a free trade zone, so each of them has their MFN duties towards the third countries. Therefore the concessions for processed agricultural products were approved to our party from each of signatory-countries individually.

A level of concessions Serbian party has provided for the EFTA states has been much alike the liberalization level, granted to the EU within the SAA for the second/third year of use, depending on products and interests level of both sides. Concession for fish and fish products. Regarding the approach to fish and fish products market, the EFTA countries have ensured almost completely free approach

(asymmetrically) to its market from a day of the agreement came into effect, and the Republic of Serbia has approved the same treatment the EU has approved for fish and fish products within the SAA.

Concessions application. The Free Trade Agreement between the Republic of Serbia and the countries of the European Free Trade Association (EFTA) has come into effect on April 1st 2010 in regard to those parties which had made deposition of their instruments of ratification, acceptance or authorization at depositors or inform on temporary application, at least two months before the date, provided that Serbia has been among these parties. If it had not come into effect on April 1st 2010, it will come into effect on the first day of the third month after Serbia and at least one of the EFTA countries make deposition of their ratification, acceptance or authorization instruments at the depositor or to inform it on temporary application.

5.5.4 The world economic crisis' impact

The world economic crisis will negatively affect the economy and agriculture of Serbia. The Republic of Serbia Government has described in six points a mechanism after which the world economic crisis unfavorably affects our economy. 1) Due to insolvency of developed markets was decreased the inflow of foreign credit assets for Serbia, and also was decreased or decelerated the inflow of foreign direct investments; 2) It opens a problem how to finance a deficit of current payments account, whereby increases a pressure on foreign currency and foreign exchange rate, and which lead to decrease of domestic production size; 3) Therefore the production must be decreased, either by the state intervention or by the market itself through a significant depreciation of RSD and internal inflation; 4) Decrease of demand size in the country, in combination with decreased size of demand in the world unfavourably affect the production, which reduces Serbian economy growth; 5) Instantaneously strengthen the pressures of foreign producers for sale of products on Serbian market, while is alleviated sale of our goods abroad, and it opens an issue of Serbian economy non-competitiveness; 6) All these together decelerate or absolutely stop the economy growth, which reflects on employment, life standard and total life in Serbia. The crisis makes the hardest shock to a metal complex and construction industry, and the shock is a bit less on food industry.

Lack of investment capital will provoke unfavourable trends in Serbian agricultural sector, which can present in the following way: reduced predictability of business due to difficulties in macroeconomic stability maintenance; increase of capital price; depreciation of RSD increases purchase price of inputs of agricultural production and make worse a credit report of agricultural producers; decreased purchasing power of

population affects demand decrease; insufficient assets at the EU and state level can lead to tax burdens increase, but also cancellation or reduction of agrarian subsidies.

Besides analyzed general trends in agriculture, notice certain tendencies which are about to be manifested at agricultural producers or rural areas inhabitants:

- Number of agricultural producers decreases because they transfer in other sectors, while young ones do not want to take over their parents job, as well as, with existing level and production method, cannot realize a competition position on the market, which leads to increase of number of old people's husbandries in rural areas. Due to technology progress is necessary less labor in agriculture and more employees in the field of tourism, handicrafts and services.
- Migration in towns is increasing, because more progressive classes of rural population leave rural areas searching for better socio-economic conditions in the city. Poorer classes find jobs outside the agriculture, while their small husbandries provide low incomes.
- Urbanization of rural areas is increasing. Therefore results a greater demand for service activities, for which is necessary specific knowledge of people who live in those areas.
- Agricultural areas are decreasing owing to construction of industry facilities and service capacities.
- Rural population's educational level is needed to increase. That is to say, there will be necessary new acknowledgements and skills to agricultural households, in the field of economy, marketing, management. Their role is not only food production, these households will increasingly orient toward service activities.
- There must be unique system of regional and rural development, which foundations are based on decentralization, increased share of civil society in decision making, as well as using the EU and other funds.

In the sector of agriculture should stimulate development of propulsive and more competitive agriculture which has been composed from commercial and family husbandries, dealing exclusively with agriculture and/or with agriculture as an extra profit activity. It should produce competitive products regarding price and non-price elements of competitiveness, by using the good agricultural practice. As such, it would provide satisfying income to family agricultural husbandries, directing its activity to satisfaction of needs and preferences of consumers and closely cooperating with food-processing industry. In order to achieve it, there must fulfil certain economic, social and ecological goals: 1. agriculture must efficiently use natural resources, 2. to be integrated in rural economy, society and international organizations, 3. to significantly contribute to the environment protection.

5.5.5. Development of Serbian food sector in terms of integration into the EU

Serbian food sector is an important area which is insisted on, in context of Serbia's inclusion into international integration processes. Gradual transformation of agrarian policy in policy of rural development has been a strategic response to imposed limitations. At the same time, systematic solutions linked to financing the activities in agro-sector have suffered significant changes in past decades. They appeared as consequence of an attempt to realize higher level of economic courses liberalization within agro-economy. Regarding this, the reform of agrarian policy implies re-allocation of existing subsidies, which have been mostly oriented to current functioning area towards developmental subsidies.

Agricultural producers of the EU-member countries have full and direct approach to CAP (Common Agricultural Policy) market measures, which help stabilization and increase of their incomes, and there is also a specially adopted package on rural development for new EU-members. The Common Agrarian Policy of the European Union must be directed as one integrated policy which contributes to other elements of social policy, primarily in direction of rural areas development. It is surely significant determinant of future developmental concept of Serbian agriculture.

Signing the bilateral CEFTA Agreement 2006 was planned to be formed free trade zone in the region till the end of 2010 (Serbia, Montenegro, Croatia, BH, Macedonia, Albania, Moldova and UNMIK – customs territory). Creating the unique market of around 30 million inhabitants will significantly affect to increase of foreign investments' inflow. That is to say, the new „unified agreement“ considers the market enlargement for all products, but also trading under the same conditions for every producer. At the same time, conditions and the game rules will be defined in advance, so enterprises could plan production and sale on long-term, which will favorably reflect on foreign investments increase.

The agreement will enable to the countries in the region to trade under the unique conditions, no matter what phase of accession to the EU and WTO they are in. It is based on the WTO decrees and the EU regulations and is also called „vestibule“ of the EU. The agreement contributes to harmonization of relations in trade within the region unlike the bilateral agreements, which have different liberalization schemes. The new CEFTA agreement has encircled also the services trade liberalization, investments issues, public procurements, intellectual property protection etc. There was improved the mechanism²³³ for solving misunderstandings and litigations during its appliance. The possibility of applying diagonal cumulation of goods origin in trade

²³³ Joint Committee and Arbitration Tribunal

between the countries in the region and between the region and the EU will contribute to increase of production and export capacities and will represent a cohesive factor of regional cooperation. Accordingly, one of the most important advantages of the new agreement is in a fact that it will make the region more attractive for foreign investments. The agreement sets up joint legal framework for investing in the region, which is going to be a decisive factor for foreign investors. In current terms of the global trade and the global world market, for foreign investors are no more sufficient just reforms in trade, i.e. liberalized and good commercial regulations, but it is very important the integrated market, too. The CEFTA 2006 will contribute that West Balkan and Southeast Europe, in due course, become the integrated area with its own cognizable economic identity.

Efficient functioning of common market, i.e. free trade zone requires internal regional cooperation and connecting. It is necessary to identify and mutually recognize potential resources in the region. Chambers of commerce are those which have it as a main goal, by constant cooperation of chambers of commerce of the countries in the region, through business consulting, mixed chambers, Association of Balkan Chambers of Commerce on bilateral and multilateral level; there already exist activities on such correlations, and in future period, those activities will be more intensified and concrete.

VI CRISIS CONSULTING IN FUNCTION OF BUSINESS STABILIZATION OF AGRICULTURAL ENTERPRISES IN TRANSITION

Socialism as economic and social model turned out to be unsustainable in a long term period, so by the end of 20th century socialism as a system was unable to remain alternative to a market oriented economic model. Many countries for those reasons entered the process of transition, which represents transformation of former socialistic economies into Market economies. In front of us is also an imperative of change of economic model and prevailing property relations. Transition represents transformation of national, economic and psychological structure of society. In the focus is private property which represents the symbol of individualism and efficiency which implies that employees in our companies would have a motivation to work more efficiently and effectively, for it is the system which motivates people who know to work and accept the risk.

6.1. The causes, features and goals of transition process in Serbia

At the end of 20th century, socialism as social structure and economic model was unable to remain an alternative to capitalism. The main cause of its fall was inefficiency of system and absence of motivation of workers. Although official statistic reports portrayed growth of economic activities which in some period of time surpassed growth rates of developed market economies, naturally did not expressed the real growth. It was not the growth of creation, but growth that destroys the value of companies. The same situation was in our country. Direct state administration, hence self-management, determined our economic history after the Second World War.

In such economic system, direct and apparent relation between the results and work valuation did not exist. Consequently, wages alienated apart from generated values and effectuated results. Such condition lead to low rate of motivation and therefore low productivity. The realistic situation has not been recognized, so process of "losses socialization" has begun. Such premise and attitude towards companies of poor financial health has domino effect on strong companies. Summary effect of previous process brought up to breakage of socialism and abandonment of so called "socialist paradigm". In initial period of the 90s of XX century, Serbia has like other socialist countries, entered the transition period. As it is, compiling of ex-socialist countries into market economies represents the transition process, which creates new business ambient and new institutional infrastructure.

6.1.1. Economic indicators in Serbia during the transition

Serbia has improved its rating, climbing up for 24 positions on position number 68 out of 175 countries rated according to business environment worldwide, discursively to World bank and IFC survey in “Doing business 2007” report. Serbia overtook all republics of ex-SFRJ, excluding Slovenia. Although Serbia implemented many changes, Serbia lost its leading position in reforms which was Serbia qualified by in last year’s report. World bank cite that regarding fundamental changes Serbia has imported electronic preservation of data in customs affairs, which provided electronic distribution of declarations and reduced the import process from 44 to 12 days and export process from 21 to 11 days. Implemented reforms reduced Serbian credit risk and enabled entrepreneurs to take loans more easier than previous period. As far as investors security is concerned Serbia is at position number 60, Bosnia and Herzegovina at 83, Croatia at 156 and Albania at 162.²³⁴

However Serbian economic system is qualified with structural flaws which could be noticed above all in significant gap between production and aggregate demand. The growth of average net income in Serbia in a period between 2004 and 2007 is 3 to 4 times bigger than the growth of GDP.²³⁵ Such trends simultaneously provoke demand-push inflation growth due to increase of financial solvency of population and growth of cost-push inflation, whereas expanded salary costs reflect on growth of prices of final products. In such conditions it is necessary to adjust the salary growth with GDP movements, which means that productivity progress in companies should be basic measure of personal income growth.

According to study of competition of Serbian economy,²³⁶ as per technology index, among transition countries Serbia rated at the last position, and current growth of its GDP is larger than supervened from the level of technical accomplishment of our economy. Consequently, former growth is not sustainable without substantial growth of investments. Insufficient investments in new production programs represents limited factor of export growth, due to absence of qualitative factors of competition (design, European labels of quality, standards, etc). Besides that, investment in modern technology is lacking, which brought to old fashioned production structure and impairment of capacities.²³⁷ In order to gain more objective perspective, model

²³⁴ www.siepa.sr.gov.yu/srp/news/region.htm

²³⁵ International Monetary Fund, World Economic Outlook Database, September 2006. www.imf.org;

²³⁶ Grupa autora (2003): *Konkurentnost privrede Srbije*, Jefferson Institute, Beograd.

²³⁷ **Cvijanović, D.**, Ivanović, L., Jeločnik, M. (2008): „Macroeconomic Trends in Beocin Municipality“ časopis Petroleum – Gas University of Ploiesti, „BULLETIN“, Economic Sciences Series Vol. LX . No.5A/2008; pp. 1-6.

of countries has been formed of transition countries of the region.²³⁸ In *table 18*, data of level activity have been presented from the period of year of 2005. compared to pre-transitional year 1989. Serbia (with Montenegro) in year 2005 reached 56% of activity from pre-transitional year of 1989, Croatia has reached nearly level of pre transition (97%), while other countries from model surpassed pre-transitional level of GDP (Slovenia 130%, Hungary 125%, Romania 120%). It is noticable that Serbia compared to countries from surrounding environment has the lowest level of economic activity and is also far from level from 1989.

Table 18. Level of activity for selected model of countries

	GDP01/ GDP89	GDP02/ GDP89	GDP03/ GDP89	GDP04/ GDP89	GDP05/ BDP89
SErbia (and Montenegro)	0.47	0.50	0.51	0.54	0.56
Hungary	1.09	1.12	1.15	1.20	1.25
Slovenia	1.14	1.19	1.20	1.25	1.30
Croatia	0.85	0.88	0.91	0.93	0.97
Romunia	0.83	0.88	0.91	1.00	1.05

Source: Djuričin, D. (2006): „Tranzicija, stabilizacija i održivi razvoj: Perspektiva Srbije”, Uvodni referat, Miločerski ekonomski forum 2006: *Evropski prioriteti i regionalna saradnja*, Savez ekonomista Srbije, Miločer, p. 6.

6.1.2. Transition: causes and goals

For succesfull transition process it is necessary to provide certain macroeconomic preconditions and processes associated with the level of companies. Privatization of companies stipulates development of financial markets, which represents the “brain” of market economies. Our country is one of a few Central and Eastern Europe where movement of basic economic indicators registered negative trends. At the beggining of the 90s we have more favourable infrastructural terms comparing to other ex-socialist countries. Meanwhile, at this moment Serbia records a lag behind similar countries. Briefly, we are situated in the state of economic chaos. The state of economic chaos is actually the condition in social and economic structure which is the result of disintegration of socialist system. Occurences in socialistic countries are one of the rare periods in history which could be served as the confirmation of Chaos theory.²³⁹ The essence of transition is transferring of economy from the zone of ineffectiveness into the zone of market business activity. Efficiency growth is occured due to the fact that proprietary management is more efficient than non-

²³⁸ Djuričin, D. (2006): „Tranzicija, stabilizacija i održivi razvoj: Perspektiva Srbije”, Uvodni referat, Miločerski ekonomski forum 2006: *Evropski prioriteti i regionalna saradnja*, Savez ekonomista Srbije, Miločer, p. 4.

²³⁹ Vukotić, V. (1993): "Ekonomija i kaos", 25. jubilaro savetovanje, SEJ, Beograd, p. 65.

proprietary. Also, private entrepreneurship is more effective than mediated entrepreneurship. Transition is necessary to reach compatibility with relevant market economies. Basic process of building integral market economy is privatization. However it is required but not enough condition. Development of financial markets as well as incremental deregulation is nevertheless essential.

Initiating of transition process is linked with variety of negative effects such as downsizing of employment and production along with price growth (transition stagflation). Experiences shows that transition stagflation has been overcome a long before come competent evaluations predicted.²⁴⁰ Furthermore post-transitional boom is expected as the consequence of the downfall of tax burden (Czech republic), influx of foreign capital (Hungary) or balance of payment (Poland). It is interesting that in leading transition countries (as Hungary and Poland) did not reached the revision of accomplished results of privatization. In our country besides the announced privatization revision, there is no general consensus about fundamental questions about regulations of economy and society, which complicates already difficult reformation road.

After ten years of reforms, countries of Central and Eastern Europe, in period from year of 2001 to 2003, reached positive growth rates of real Gross domestic product (average growth rate of BDP is 4.4%) along with price stability.²⁴¹ As for Republic of Serbia is concerned we can emphasize that transition started abreast a lot of limiting factors inflicted from the outside. First of all economic sanctions with all its negative effects and culmination in the form of bombing of Serbia during year 1999. Such circumstances effected begging of transition, so those processes has been stopped, and again initiated in several occasions.²⁴²

Researches of IMF consultants,²⁴³ drew attention to the fact that countries that combined macroeconomic stabilization with comprehensive structural reforms were more successful in prevailing of production downfall in initial phases of transition as reaching out significant production growth in following period. Also according to the same source, those two components of strategy are equally important for transition

²⁴⁰ Summers, L. (1992): „The next decade in Central and Eastern Europe“, in Ch. Clague and G. Rausser (eds.), *The Emergence of Market Economies in Eastern Europe*, Cambridge MA, Blackwell, pp. 25-35.

²⁴¹ European Central Bank; National Statistics; DIW Berlin calculations, 2004.

²⁴² Simonović, D., Simonović, Z. (2005): „Problemi tranzicije poljoprivrede i procesi integracije u Evropi“, Međunarodni naučni skup, „*Procesi integracije u Evropi*“, Ekonomski fakultet u Nišu, Niš 18. oktobar 2005, *Ekonomske teme* 1 – 2, str. 333 – 339.

²⁴³ World Economic Outlook, „Focus on Transition Economies“, International Monetary Fund, September 2000, pp. 166-167.

success. Measures of macroeconomic stabilization should be assured before reforms on microeconomic level (companies) and financial sector reforms. Macroeconomic stability in Serbian economy alongside the animation of economic growth is still impregnable goal, and development of market economy as basic transition "product" reduced itself on the narrow market of goods and services. According to statistical data, unemployment rate is about 30%, and external trade deficit is close to half of the real GDP, so it is clear that we are far behind the countries of Central and Eastern Europe.

6.1.3. Professional services as a back-up for reconstruction of transition companies

Domestic companies have to perform important changes due to emerge from economic crisis. There is a large number of individual changes and interventions which could be implemented in each company in order to upgrade its commercial results. In a situations where performances of companies could not be evaluated as satisfactory, changes are needed in the section of organization, composition of transactions, company assets and their financial structure, etc. Reconstruction could be defined as activity which is implemented in a company with downturn performances, for company to survive, and reach turning point towards profitable business activities. Reconstruction in our environments has to include all the areas of company functioning, implying that it has to be realised as proprietary, market, organizational, business and financial transformation. Each dimension of company reconstruction is specific and requires professional expertise and experience.

- *Proprietary reconstruction* represents privatization of domestic companies which results with transformation of social and public capital into capital stock. In this dimension of reconstruction, consultants has been engaged on activities before and after privatization. In activities before privatization process focus is on preparation of company for entering in a procedure of privatization in order to sell itself successfully. Activities that accompany period after privatization, are measures of protection of private companies as well as implementation of appropriate concepts for managing in a shareholders form of organization.
- *Market reconstruction* represents redefining of market where company appears with a goal to improve trade and business activity. For successful market reconstruction it is necessary to have at disposal proper information about changes in environment, first of all Market, in order to reduce the risk and uncertainty. Numerous Serbian companies market research projects treat as big and unnecessary expense, whereas they consider themselves experts of demands of their customers, i.e. their markets. Nevertheless the majority of companies perceive the importance of market research and accede to scientific methods in implementing of this activity or involve

specialized institutions (consultant firms, advertising agencies, institutes). Market research enables companies to solve problems about their business more efficiently. The role of consultants is to imply to alternative directions for exceeding existing problems, as well as the possibility for success of each suggested solutions. Although it should be pointed out that marketing managers became carriers of final marketing decisions, not consultants.

- *Organizational reconstruction* represents change of organizational company model and concept of functioning. The role of consulting is to analyse organization of clients, development of intervention strategy, then forming the reports, managing meetings, etc. Special teams of consultants are being engaged to accomplish diagnosis of company situation. Organizational reconstruction is interdisciplinary area. Consequently, agents of changes, leaders of organization and first of all consultants must have knowledge from different fields particularly from the human behavior domain. Interventions which are implemented, imply that consultants should enter into personal interactions in organization. Also it is necessary to implement control straightway after the changes. Afterwards controls are with less intensity and less effective, considering the fact that the process is stabilizing in new conditions and on the new levels.
- *Business reconstruction* results as important changes in areas in which company operates. Consultants are focused on giving advises in following domains: abolishing of certain job position and opening of others; merging and affiliation of companies; making of business plans; consulting intervention in production area and technology. The goal of all intervention is increasment of economic value of the company and improving its negotiating strength on the market. For successful business reconstruction it is necessary to analyse different ways of combining market and products as basic potentials for company growth. Along with that, market reconstruction is starting presumption for business reconstruction of company.
- *Financial reconstruction* imply changes in a capital structure, which changes the relation between ownership and liability. Domestic companies have unsettled financial balance, unsuitable structure of assets resources and high indebtedness. Non-private companies most commonly practise alignment and debt restructure. As for private-companies, financial reconstruction is referred to stock operations. In nowadays practise, main subjects in this activities are issuing candidates, The Securities Commission, guarantee (or investment bank), authorized audit and different types of consultants.

Reconstruction of our companies is the consequence of late reaction and adjustment to changes. Though in developed market economies, some companies are also facing the process of reconstruction. The difference is in fact that their experience in market terms make them capable to simultaneously adjust themselves and practise modifications in doing business, organization, methods of financing etc. It could be expected that domestic companies, after reconstruction as the result of economic crisis, will enter the period of effective trading, and at that time will be qualified for readjusting to modern trends.

6.2. Conditions analysis for business in Serbia during the global economic crisis

Insufficient competitiveness of domestic enterprises has been a result of numerous factors, of which could state the next as the most important: insufficient inflow of foreign direct investments, significant delay regarding the privatization process termination, expensive banking credits - all together creating a negative effect on productivity and investments, as necessity for keeping pace with technical-technological and marketing trends.

Conventional view to productivity and competitiveness sources puts in focus the external production factors, like work, capital and natural resources. Hence, in competition win those who have, so called, comparative advantage, i.e. the advantage in costs, based on superior combination of external effects of production.

Globalization, however, relativizes the significance of competitive advantage's external sources, so the essential issue of every national economy development becomes a creation of conditions for fast and sustainable productivity growth – by using knowledge and other internal sources of competitive advantage, as strategy and quality of business environment are.

Although the competition, based on redundant natural resources and cheap labour, is a legitimate competitive strategy, the problem lies in a fact that this resource combination can easily imitate and there is a great probability for new competitors' occurrence, who can offer the product after more competitive price. There is more than obvious that this strategy cannot compensate the advantages of knowledge, new developmental strategies of enterprise and developed business environment.

Our country is the best proof, while it is persistent to the conventional conception of competitiveness (in total export and agrarian export prevails raw materials and semi-manufactured products, i.e. working and resource-intensive products) and is not competitive on any ground, at least by prices. Thereat should emphasize that,

regarding to our export structure, the price is still of utmost importance for competitiveness (it partially loses its significance when it is about higher-processing-level-products and products with developed brand, i.e. recognizability). Serbia records several-years-lasting cumulation of negative tendencies after different aspects in economic relations with abroad (covering import by export, import-export structure, relations between domestic and export prices, regional direction of export, technological obsolescence of production and similar).

From cumulative point of view, a total trade deficit, in several past years, has come near to a height of our foreign debt and, if some radical turnover toward the new sources of competitiveness does not make, the economic growth and export increase will not be able to provide a repayment of foreign debt in years to come.

At the same time, without increase of productivity and development of adequate marketing strategies, based on knowledge and innovations in sector of enterprises, and without development of quality and adjusted business environment in macro-economy segment, the comparative advantage which Serbia have in some sectors will remain just unused export chance and developmental perspective.

6.2.1. Conditions and burdens of business

Conditions and burdens of business in Serbian economy make impossible an employment growth and strengthening of the local enterprises. Due to great burdens, and in lack of investment and working capital, firms more and more turn to a pure survival and business maintaining, instead of directing to a professional and technological development and increase of capacity and competitiveness.

To organize a business environment for enterprise actually means to organize individual institutions, their relations based on market principles; to arrange those relations in a consistent system. The condition is to organize also the roles of the state in a modern way, in sense of stimulating, development-oriented economy factor. There should notice that macroeconomic ambience is a composition which functions in harmonious interactions between individuals and institutions. In that entirety should work the individuals with new rights and obligations, with their own image.

The same applies for all institutions, which, along with the new rules, must have the individuals and groups with clearly defined roles. However, the enterprises in Serbia had worked on non-market principles for years. It led to increasing stagnation of domestic economy in relation to the market ones. It turns out that partial changes, without interference in ownership structure and prevailing ownership relation, do not

lead to increase of business efficiency. But, increasing competition and aspiration for business success have motivated the enterprises in Serbia to apply the principles of market business. Transformation of former socialist economies into the market ones represents a transition process, which creates a new business environment and new institutional infrastructure. Adjustment to a new business environment realizes through the process of restructuring, aiming to improve business performances of the enterprise. Non-market business conditions were not stimulating development of managerial abilities and skills. The necessity of overall transformation requires many specific activities and intervention skills, as a catalyst of making efficient enterprises of market economy.²⁴⁴

In such conditions, restructuring of enterprises in Serbia aims to increase total business efficiency. However, to the realization of the final goal, side effects reflect in businesses termination and dismissal of employees. Transition is followed by a “transitional shock”, which manifests through a decrease of business activity and price pressure. After the privatization, appears the effect of “neutron bomb”, which reflects in significant dismissal of workers in private firms.²⁴⁵ In those terms, according to evaluations of the World Bank, it is necessary to make 40% of domestic product in the new sector, in order to annul all negative effects of the transitional shock. Generally, significant development and further expansion of enterprises (especially small and medium enterprises) are limited by systematic problems at the national level, more accurate, insufficiently developed and stimulating business environment. Some of the limitations for further enterprise development, higher investments (in technology, new capacities) and employment growth in this sector are stated bellow (Serbian Association of Employers, 2010):²⁴⁶

- High working burdens (taxes and contributions on gross salaries), also high numerous local communal taxes, local administrative taxes, communal taxes.
- Obligation to pay for value added tax in the moment of invoicing for the product or service (on unrecovered debts) represents a great limit, having in mind great debts in economy, or great problems which businessmen have in collecting debts. Owing to the Commercial Court inefficiency, high judicial

²⁴⁴ **Mihailović, B.** (2007): *Uloga konsaltinga u restrukturiranju preduzeća u tranziciji*, monografija, Institut za ekonomiku poljoprivrede, Beograd, p. 6.

²⁴⁵ **Mihailović, B., Paraušić, V., Simonović, Z.** (2007): *Analiza faktora poslovnog ambijenta Srbije u završnoj fazi ekonomske tranzicije*, monografija, Institut za ekonomiku poljoprivrede, Beograd, p. 15.

²⁴⁶ Uslovi i opterećenja u privredi Srbije, brošura Unije poslodavaca Srbije, Austrijska agencija za razvoj (ADA), Projekat „Konsolidacija pravnih i institucionalnih osnova socijalnog dijaloga u zemljama zapadnog Balkana i Moldaviji“; Međunarodna organizacija rada, Kancelarija za Centralnu i Istočnu Evropu; septembar 2010.

taxes in litigations and insolvency of economic entities, there is extremely long term for debt collections (average collection term in May 2010 was 128 days), and some of them never collect (debtors are bankrupted, uncollectible drafts, debtors pay in goods, etc.).

- Bank interest rates on corporate loans are extremely unfavourable, while the repayment of loans through the Development Fund of the Republic of Serbia is closely linked to euro.
- Insufficiently developed policy of competitiveness on the local market and unsatisfying role of the state regarding the competition protection, represents also great problem, especially in domain of agro-food products. For example, high concentration of capital in the field of milk processing and also in the field of agro-food products retailing, puts in unfavourable position as primary agricultural producers (small, disunited and with low negotiating power in regard to big dairies), as well as smaller dairies which hardly find the market for their products' sale.
- A support from the national level (agrarian budget) is insufficient and it directs toward enterprises and family husbandries, as for investments and subsidizing the primary agricultural production, as well as for agricultural products processing.

As a consequence of numerous burdens in economy, and due to a lack of investment and working capital, firms invest less, more and more turn to business maintenance on the existing level or to reduction of production and number of employees. Additional problem is surely a transfer of business in the black economy zone, in order to avoid or reduce many burdens. All these stated problems represent, at the same time, also significant restraints for development. Current unfavourable situation in the Republic of Serbia could partly alleviate by eventual change of measures and support policy on the national level. However, without systematic and in-depth measures, directed to business environment change, it is impossible to direct the economic actors toward prosperity and improvement of competitiveness. Technological obsolescence of Serbian industry represents a serious obstacle to further development of industrial production and achievement of high production standards and final products quality, which today require on the markets of developed countries (Serbian Association of Employees, 2010, p.4). According to surveyed 154 enterprises (small, medium and big enterprises) in the whole Serbia, data show that the average age of machines and equipment, in food industry is 27.17 years (*Table 19*). There is obvious that, without modern machines, the goods produced in Serbia cannot achieve high quality standards and to be competitive on foreign markets.²⁴⁷

²⁴⁷ Uslovi i opterećenja u privredi Srbije, 2010, p. 5.

Table 19. Technological obsolescence of economy in the Republic of Serbia – data per regions

Region	Economy branch	Number of enterprises per an economy branch	Average number of machines in enterprise	Average age (years of machine production per the entire machine number)
Vojvodina	Food	6	16	1987 (22)
Vojvodina	Textile	4	43	1979 (30)
Vojvodina	Pharmaceutical	5	21	1990 (19)
Vojvodina	Mechanical	4	51	1976 (33)
Vojvodina	Chemical	5	34	1985 (24)
Vojvodina	Building materials industry	6	22	1982 (27)
Belgrade	Food	6	14	1986 (23)
Belgrade	Textile	4	58	1975 (34)
Belgrade	Pharmaceutical	5	20	1990 (19)
Belgrade	Mechanical	5	39	1975 (34)
Belgrade	Chemical	5	27	1985 (24)
Belgrade	BMI	4	26	1982 (27)
Central Serbia	Food	5	12	1982 (27)
Central Serbia	Textile	5	42	1972 (37)
Central Serbia	Pharmaceutical	3	18	1985 (24)
Central Serbia	Mechanical	4	57	1974 (35)
Central Serbia	Chemical	4	39	1981 (28)
Central Serbia	BMI	4	28	1978 (31)
East Serbia	Food	4	9	1980 (29)
East Serbia	Textile	4	50	1971 (38)
East Serbia	Pharmaceutical	3	16	1987 (22)
East Serbia	Mechanical	4	71	1974 (35)
East Serbia	Chemical	3	26	1977 (32)
East Serbia	BMI	4	29	1976 (33)
West Serbia	Food	4	20	1981 (28)
West Serbia	Textile	5	46	1974 (35)
West Serbia	Pharmaceutical	3	28	1988 (21)
West Serbia	Mechanical	4	72	1974 (35)
West Serbia	Chemical	4	19	1979 (30)
West Serbia	BMI	4	11	1978 (31)
South Serbia	Food	4	29	1975 (34)
South Serbia	Textile	6	42	1972 (37)
South Serbia	Pharmaceutical	3	25	1988 (21)
South Serbia	Mechanical	4	69	1973 (36)
South Serbia	Chemical	4	21	1975 (34)
South Serbia	BMI	4	14	1975 (34)
Total number of enterprises in the sample		154		1980 (29.5)

Source: Uslovi i opterećenja u privredi Srbije, 2010, p. 4.

Collection of debt for delivered products and done services are the biggest obstacles to normal business in Serbia, at the moment. There are no legal limitations for payment terms, while the economy is obliged to pay VAT regularly to uncollected claims, too.

Results of the survey (conducted on sample of 2.356 economic entities in 13 economic branches) show that 61,04% of economic entities in the Republic of Serbia, collect their debts in term longer than 120 days (*Table 20*). The enterprises stated in the survey that they never collect 7-10% in total debt mass, because their debtors bankrupt or provide uncollectable drafts, while some of them offer to pay in goods or services instead in money.²⁴⁸

Many countries in surrounding and the EU countries found the way to limit the payment terms and put things in order in claim system, whether by introduction of concrete legal regulations for regulation of claims, or more efficient work of the state institutions, and especially commercial courts.

The Government of the Republic of Serbia and other financial institutions, except subsidized loans in 2009 and 2010, did not take any other measures to make the biggest debtors to pay their debts and save enterprises from insolvency.

There are high court fees in litigations (if small businessmen sue big companies on the market, they must pay court fees for their claims in amount of approximately 12% of total litigation value.

Table 20. Delays in collection of debts (May 2010)

Delays in collection of debts	Small enterprises	Medium enterprises	Big enterprises	Businessmen
Up to 60 days	44	11	2	34
Up to 90 days	181	13	5	32
Up to 120 days	321	22	8	125
Up to 150 days	408	25	14	178
Up to 180 days	387	10	11	57
Over 180 days	273	13	9	53

Source: Uslovi i opterećenja u privredi Srbije, 2010, p.5.

Insolvency. It is also a dominant problem of Serbian economy, so it is not realistic that enterprises invest more in new technologies, capacities enlargement, products

²⁴⁸ Uslovi i opterećenja u privredi Srbije, 2010, p.5.

range, new employments. High insolvency is present thanks to the following limits.²⁴⁹

- High burdens for economic entities; economic entities on a monthly level (May 2010) have in average 39 burdens, or more accurate, obligations to the state according to different laws and regulations,
- Bank interests on loans to the economy have been, for years, among the highest in the region (2-3 times higher than in the EU countries),
- Numerous redundant bureaucratic procedures cause high business costs,
- Average payment terms in May 2010 were 128 days,
- Results of the survey done on the sample of 2,356 economic entities in 13 economy branches show that exactly small enterprises and businessmen are the most vulnerable categories in Serbian economy and that they dealt the most problems with insolvency in the first half of 2010 (65.7% of surveyed 499 businessmen had insolvency problem in the first five months of 2010, and 65.6% of totally 1,714 surveyed small enterprises had the insolvency problem in the first five months in 2010.

Insolvency consequences. Long insolvency periods have significantly jeopardized many economic entities, which, incapable to collect their claims, have get into difficulties to pay off salaries to employees, pay off regularly credit installments, all current obligations toward tax administrations, government funds and institutions, supply of raw materials for production and services, etc. The surveys conducted among the economic entities show that there has come to a significant delay in salaries pay off to employees in economy of Serbia, as a results of such state. In May 2010, only 17.6% of total number of economic entities was paid off the salaries regularly, on the 1. day of the month, 19.03% with approximately delay of 15 days, 25.84% with approximately delay of 30 days, 20.7% with approximately delay of 60 days, and 16.93% of economic entities was late with paying off the salaries even 90 and more days.

Black economy/disloyal competitiveness. Evaluations from various sources (World Bank, European Commission, representative unions in the Republic of Serbia, Serbian Association of Employers, more organizations of non-government sector) show that the level of black economy was achieved between 35.5 and 40.7% of GDP of the republic in the first half of 2010. The black economy in the Republic of Serbia comprises three pillars:

- Black economy (illegal economic entities),

²⁴⁹ Uslovi i opterećenja u privredi Srbije, 2010, pp.7-8.

- Illegal work (employees who work illegally),
- Financial malversations (illegal transactions, tax avoidance etc.).

Black economy is a significant limitation factor for a formal economy development in Serbia. The most expressed is in sectors of agriculture, trade, construction and textile industry, transportation branch, etc.

Burdens of economy:

- *Value added tax VAT* (common VAT of 18% and special VAT of 8%). Tax payment on VAT in advance, i.e. in time of invoicing for a product or a service, and not in time of collection, represents great burden for economic entities in situations when average term for debt collection is 128 days. Hereby are especially burdened those enterprises in construction, metal and food industry, which have significant orders from the state and the republic/local public enterprises. Additional obstacle is while 7% of annual invoiced claims in Serbian economy never collect (firms bankrupt or provide uncollectible drafts). Deliverers of goods, for orders higher than 1 million RSD often raise credits in order to pay VAT on time, although they wait for the money of sold goods to be transferred on the account for months (36.4% of credit which enterprises and businessmen raise in commercial banks in Serbia have been raised in order to pay VAT in legal terms).
- *Local communal taxes*, municipal administration taxes (e.g. a communal tax for posting up a firm); *Local administrative taxes* (burden the most those enterprises which often participate in public procurements, while they are obliged to collect the same documentation and pay taxes for these documents for every tender – as, for example, taxes for certificates from the register and data base, taxes for requests and written applications, etc.).
- *Communal taxes* (Payment for services to public communal enterprises, which are several times more expensive for legal entities than for physical persons);
- *Public procurement expenses*; high price of participating on tenders while is necessary to collect numerous documentations with high taxes. There is still not set up a unique Central Register of Public Procurements, which existence provided that each company, participant in public procurements process, submit to the institution to be publicly available 24 hours per day to every tender or bid commission in Serbia.
- *High customs expenses in raw and production materials and other goods import*, and high expenses for analysis including market, sanitary and

veterinarian control of products, then storehouse expenses with loading and unloading manipulation, etc.

- *Burden of work* (contributions and taxes on salaries represent one of the greatest burdens for employers in Serbia. Taxes and contributions on average net salary in Serbian economy burden salary payment for additional 63.97%. The contributions pay from gross salary of employee and include tax on salary (12% of gross salary), contribution for PDI (11%), contribution for health insurance (6.15%) and contribution for unemployment protection (0.75%). In those burdens belong also salaries compensation (for hot meals, regressions for vacation, etc.), as well as other compensations and increase of salaries (for business trips, night work, shift work, etc.). Burdens in range from 62 to 134% on net salary.

6.2.2. Analysis of enterprise competitiveness

According to the Global Competitiveness Index, Serbia was worsen its situation in 2009 considering that it was deteriorated competitiveness and declined from 87th to 93rd place (rank includes 133 world economies).²⁵⁰ If gets deeper into this index analysis, which consists of three sub indexes – Basic requirements (institutions, infrastructure, macro economy, health and primary education); Efficiency (high education and specialized training, market efficiency, technological permeability); Innovations and sophisticated factors (business sophistication, innovations); it is obvious that, in accordance to analyzed indexes, Serbia has worsened its rank – the only exception was in the field of health and primary education – from 97th to 46th position).

Research of enterprises competitiveness aims to diagnose the competitiveness of enterprises, as well as to point out to the main problems and limitations in competitiveness improvement. Information on competitiveness is necessary for the government and its agencies, but primarily to creators of macroeconomic policy, due to better environment provision in economic areas of poor competitiveness. Micro competitiveness or comparative advantage of enterprises bases on prices and quality of products in regard to other producers' supply. In order to have insight in enterprise's competitiveness use specific methods for collecting data. Practically the most often use interview and survey methods on representative sample of production and trade companies in Serbia. In other words, there conducts the competitiveness research, which implies complex collection of data relevant for

²⁵⁰ Schwab, K. (2009): *The Global Competitiveness Report 2009-2010*, World Economic Forum, 2009.

business and market behaviour of enterprises, and their management in a real economic situation. Thereby the researches on export competitiveness are very up-to-date, because of foreign trade deficit increase in our economy. In preliminary phase carries out the pre-research by interview method, and then organizes a field survey by a questionnaire method. Questions relates on production program and investments of enterprise, competitiveness, conditions of foreign trade business activities, some systems for support to a private entrepreneurship for more significant engagement on foreign market. It is indicative that over 10 years ago, the general conclusions of such research have been up-to-date till today:²⁵¹

- Most of enterprises expect of the government to fix conditions in foreign trade, as well as more decisive engagement in economic ambience improvement;
- Domestic economy, state infrastructure and enterprises are at low development level, and meeting with foreign competition is unequal and therefore should act with caution, not liberalistic and openly;
- Most of the requirements came down to a poor enterprising spirit in improving their competitiveness, while were neglected important business fields, as: technological innovations, better organization and marketing;
- The state did not make a selection of priority markets on which our companies can export, so there miss the measures of cooperation with those countries, actively improvement of bilateral relations with those countries.

The accessed information through research of competitiveness is of great significance for improvement of government bodies' improvement. Operational measures, suggested by the businessmen, relate to the government bodies' work on improvement of relations with important countries-markets and technical support in export activities. Especially are numerous suggestions for the local market protection from disloyal import competition. The information on competitiveness and economic trends has great significance for foreign companies, which intend to invest in domestic companies.

Privatization can be found as an investment, observed from the buyer of enterprise point of view. However, for very long time, in our country has been noticed a lack of domestic accumulation. The competitiveness research of domestic companies is precious foothold to all interested strategic partners, which are in many cases the only solution for privatization of domestic companies.

²⁵¹ Grupa autora (2003): *Konkurentnost privrede Srbije*, Institut ekonomskih nauka, Beograd, p. 7.

6.2.3. Measures for bussines terms' improvement in economy of Serbia

Taking into consideration the analyzed burdens of economy, it is necessary to do the following:

- It is necessary for the state to make a legal limitation for terms of payment to 60 or 45 days or to give up from previous practice to collect VAT before economic entities collect their own claims, but to ensure the payment of VAT in term of 3 days after invoicing.
- Arrange the field of local communal taxes, on new and realistic bases (especially increased taxes issues);
- Decrease of total burdens by taxes and contributions on net salary amount, which would make a space for employers to increase salary bases, in individual and branch collective agreements, and provide the other benefits, by stimulations for productivity and success in work and other benefits from collective agreements, which exist also in industrially developed countries of the world. Changes in the Law on Labour and Collective Arrangement are necessary, not only to guarantee disencumbrance of employers and make the possibilities for higher basic salaries, but to effect directly to development of labour market in the Republic of Serbia;
- Decrease of obligations toward the state (taxes and contributions, VAT, republic and local administrative taxes, obligations toward other regulations, etc.).

Serbian economy is not just uncompetitive, because there are no sufficient quality products for sale on foreign markets, but also because the state has no limits in their claims, and unions do not support employers sufficiently in their requirements for better economic environment. The employers must have a system which stimulates them to work and earn for their selves and others, because if they are not able to, then both the state and unions are doomed to failure. In such conditions increases a need for foreign capital, to provide, at the same time, knowledge and technology transfer. There is enough space in Serbia for foreign capital, but necessarily must be got a trust of the world companies. It is possible if there are strict rules, laws adjusted to European, as well as defined projects to invest in. For success of Serbia in further pulling up of foreign investments, especially export-oriented green field projects, there is inevitable: political stability; stable macro-economic policy; strengthening, establishment and reform of institutions (protection of ownership rights, protection of agreements and creditors rights, more efficient judiciary, decreased corruptions, decrease of administrative barriers and reform of public administration, development of non-bank financial institutions, etc.); cancellation of monopoly and restructuring of public sector and big systems; decrease of public

consumption and increase of investments in economy and infrastructure; open market and financial market development; building infrastructure (especially physical: improvement and construction of traffic, energetic, telecommunication infrastructure).²⁵²

Besides capital investments in individual projects, including privatizations must pull closer big investors, who manage with milliards of USD. They search for opportunity to invest not only in individual projects, but in complete programs through domestic financial institutions. They are interested for, so called, portfolio investments, for refunding of credits, for example, in real-estates and sale of other more complex financial derivatives. When Serbia creates and determines an image of reliable, organized and arranged country with big institutional investors, like "Morgan Stanley", "Goldman Sachs", "Lohman brothers", where the banks and other financial institutions and individual entrepreneurs can realize a profitable investment, without non-commercial risk, the money will be in Serbia in a short notice. In the beginning of 2007, Serbia established a first investment fund Delta plus. The Delta, not only the first to start with procedure of investment fund foundation, but the only one until now. Finally, what interest foreign investors especially, were stated in the newest publication of domestic Serbian Investment and Export Promotion Agency – SIEPA. In publication "Investing in Serbia" point out the most often questions of investors regarding the opportunities for investing in Serbia: basic information on land, infrastructure (traffic, transport, telecommunications, and internet), macro-economic indicators, starting a business, privatization, land, foreign trade, tax regime, labour market, educational system. At the most questions were registered in the field of tax regime and employment and salaries (collective agreements, working hours, gross and net salary, minimum salary etc.). Three basic problems for more significant pulling of foreign investments in Serbia are: bureaucratic procedures and inefficient administration, especially at the local level; unsolved ownership issues, regarding building sites at the most; judiciary inefficiency, especially commercial courts.

A brief conclusion would be that, for the success of Serbia in further pulling of foreign investments, is necessary: political and macroeconomic stability in the country, strengthening, building and reform of the institutions, cancellation of the monopoly and restructuring of the public sector and big systems, development of financial market and construction of infrastructure, especially the physical one. The development of the market economy can accelerate by the inflow of assets through

²⁵² Paraušić, V., Cvijanović, D. (2007): „Konkurentnost privrede Srbije merena indeksima konkurentnosti Svetskog ekonomskog foruma 2007-2008“, *Zbornik Matice srpske za društvene nauke*, broj 123/2007 (časopis Matice srpske, Novi Sad), pp. 155-173.

investments in new enterprises, recapitalization of the existing enterprises and consolidation of financial system.²⁵³ However, the report of the *World Economic Forum* points out to increase of macro-economic risk and financial risk of the country, while political, infrastructural and safety risks were almost unchanged in time period 2006-2010. Accordingly, in the analyzed period, Serbia has aggravated its rating from C - 52 to C-57.²⁵⁴

Those trends analysis is useful regarding domestic and foreign investors evaluates the economic effectiveness of investments through a cost of capital, i.e. a discount rate. The discount rate represents a sum of: a return rate on safe investments, premiums on risk of investments in Serbia (politics and macro stability) and premiums on investment risk in a concrete enterprise. The premium on investment risk in the concrete enterprise consists of the following sub-categories: quality of management and employees, production-sale possibilities, quality of organization, financial resources and possibility of reliable anticipation. On poor investments have effect many factors, primarily high commercial and non-commercial risks, slow economic transition and underdeveloped institutions, which guarantee, in practice, rights originating from private ownership and agreement.

Serbia has to encircle itself in territorial, status and economic sense, as well as to finish the privatization of enterprises, as a basic lever of the market economy recognition. Improvement of business terms in Serbia requires that resources of competitiveness move to the pillars 5 (high education), 6 (efficient market) and 7 (ability to profit from the current technology), i.e. the focus of economy should be moved from physical resources toward knowledge. In regard that many enterprises in Serbia have unfavourable business performances which manifest through decrease of market participation and profitability, increase of debts, inadequate investments and increased amount of new business activities at the expense of the primary business. Although was set up increasing trend of investments, macro-economic indicators of investment trends in Serbia show high investment risk in domestic enterprises, which incapacitate more dynamic investments. The lower risk – the higher attractiveness of investments, which is the stimulus for domestic and foreign investors, who values various combinations of risk and income. Consequentially, for successful formulation of growth and development strategy of

²⁵³ Mihailović, B., Cvijanović, D., Hamović, V. (2009): "Analiza investicione i izvozne aktivnosti poljoprivrede Srbije", *Ekonomika poljoprivrede*, br./N° 1 (1-138) 2009, Naučno društvo agrarnih ekonomista Balkana, Institut za ekonomiku poljoprivrede, Beograd, Akademija ekonomskih nauka Bukurešt – Rumunija, pp. 73-84.

²⁵⁴ Porter, M.E., Schwab, K. (2008): *The Global Competitiveness Report 2008-2009*, World Economic Forum; Schwab, K. (2009) *The Global Competitiveness Report 2009-2010*, World Economic Forum.

enterprises is necessary to know the current investment trends, in order to define lucrative areas of business activities, as well as the methods for achievement of business goals.

In lack of domestic accumulation, foreign direct investments represent a significant funding source. The entry of foreign companies has effects, as on the host - country economy, as well as on the economy of parent countries. With their entrance on the market, foreign companies stimulate the economy growth and export opportunities of the host-country if they involve the local firms in their production system and provide the growth of production, assigned both for domestic and foreign market. Partnerships with the foreign companies are, for the host-country, the sources of capital, technology, managerial knowledge and access to the market. Those are exactly the components which mostly miss, primarily, to transitional countries. A procedure of investing and winning the markets realizes in 4 phases.²⁵⁵ In the first phase comes to over-orientation on market economy. In fact, changes primarily can be seen in attitudes and theory on the market principles, present in the West. The countries-foreign capital importers decisively approach to the changes in legislative regulatory rules. This phase shows different duration from country to country. In regard to internal circumstances each of them, the next step relates on the initial, small projects, while, on the one hand, foreigners are interested, and on the other hand, fear from the political situation is present, e.g. tax system. The third phase begins when foreign participant decides upon the "healthy" situation in the country he wants to invest in. At the end expects the inflow of foreign capital.

Increasing the total efficiency of our enterprises' business activities is a leading task and the final goal of the transition and restructuring processes. A key question of these processes is how to carry it out, regarding that those changes have delicate outcomes, which reflect in termination of business and dismissal of employers.²⁵⁶ In such conditions, the significance of foreign direct investments is in encouragement of transformation processes, which reflect in: inflow of financial assets, technology transfer, supplying domestic enterprises with adequate knowledge, information and experiences of others. The countries in transition can, with support of foreign direct investments, accelerate the transformation process and therefore shorten the period of crisis, uncertainty and expectations, to save precious time necessary for

²⁵⁵ Radenković-Jocić, D. (1997): *Strane investicije u zemljama u tranziciji*, Zadužbina Adrejević, Beograd, p. 111.

²⁵⁶ Vojnović, B., **Cvijanović, D.**, Veselinović, V. (2011): "Istraživanje uticaja krize na poslovanje domaćih preduzeća", *Ekonomika poljoprivrede*, br./N° 4 (529-804), 2011, UDK:338.124.4; Naučno društvo agrarnih ekonomista Balkana, Institut za ekonomiku poljoprivrede, Beograd, Akademija ekonomskih nauka Bukurešt – Rumunija, pp. 749-760.

revitalization and recovery. The investments of the strategic partners would provide not only the inflow of needed capital, but also the transfer of technology, improvement of management and upgrading of business image. The final result would be the improvement of our enterprises' competitiveness. However, there should emphasize that in conducting business in Serbia, exist different gaps which can be eliminated by new approach, meaning new changes, which are directed to setting up the new relation toward business environment. On poorer investments have effect many factors, primarily high commercial and non-commercial risks, slow economic transition and underdeveloped institutions, which, in practice, guarantee the rights which issue from private property and agreement. Serbia has to encircle itself in territorial, status and economic sense, as well as to finish the privatization of enterprises, which has been a basic lever in the market economy affirmation. In those conditions, the economic system would become more attractive for domestic and foreign investors. At the same time, it is necessary to accelerate the development of Serbian financial market, which would provide to investors information on investments, as well as the information on performances of enterprises they invest in. The adequate and timely information on investment method leads to decrease of risk, which is immanent to business activity, especially the one which realizes over financial market. The risk rises in terms of uncertainty, i.e. in situations when availability of needed business information is poor.

6.3. Crisis consulting for the agricultural enterprises

Inadequate economic development of Serbia is determined by many factors, among which the following stand out: a country geopolitics position decline, disadvantageous economy structure, loss of traditional markets, financial indiscipline at all levels, and management capacity and skills insufficiency. Companies have performed their activities in such business environment characterized by inefficiency and employees' lack of motivation. In such circumstances, the economic system of Serbia is also confronted with global economic crisis unpredictable effects, what additionally aggravates domestic companies actual situation. So the measures that are worked out should stabilize business and create the opportunity to turn to profitable business. Also, the crisis situation resolution is being analyzed through participatory consulting, by merging the necessary human resources in terms of nonstructured business problems.

The Government of Serbia described in 6 items the mechanism, according to which world financial crisis influenced unfavourably to our economy.

- Due to insolvency of developed markets has been decreased the inflow of foreign credit assets for Serbia, while the inflow of direct foreign investments has been decreased or decelerated.

- It opens an issue how to finance a deficit of current account, and boosts pressure on foreign exchange reserves and exchange rate, which leads to decrease of domestic production volume.
- Therefore consumption must be decreased by state intervention or market itself, through significant devaluation of dinar and internal inflation.
- Decrease of demand volume in the country, in combination with decreased size of demand in the world, influences unfavourably on production, which furthermore decreases the growth of Serbian economy.
- At the same time intensify tensions of foreign producers for placing products on Serbian market, while the placement of domestic goods in abroad has been hindered, which had created a problem of Serbian economy non-competitiveness.
- All together slow down or completely stop the economy growth, which reflects on employment, life standard and total life in Serbia. The crisis makes the strongest impact to metal complex and construction industry; the following one is to food industry.

In such conditions, the enterprises were enforced to use resources more rational and allocate them efficiently according to deteriorated business conditions. One of the way for enterprises to confront the crisis influence is exactly efficient allocation of working resources, i.e. personnel, which imply also regional experts exchange. Considering that future managers in domestic enterprises do not have enough business experience in market conditions, where the effects of global financial crisis additionally hinder business of the enterprise, there is inevitable external support in crisis management.

Classical consulting implies that consultant executes creation of enterprise's analysis and concept how to get out of the crisis. Its participation in operational daily process of decision-making is almost imperceptible. The consultant supplies management with analysis results, which are the base for decision-making. In this type of consulting, the management keep managing the enterprise and stays at disposal to the consultant, as contact person and partner for discussion. However, engaging the consultants is generally observed very critically. External consultants in some situations do not dispose with enough information, specific for the branch and specific enterprise. There is necessary enough time for the consultant to have access to informal organization of the enterprise in crisis. On the other hand, he leans on advices and observes of employees in the enterprise, but it is limited by numerous factors of subjective nature.

Considering previously mentioned possibilities of consultants engagement, there can be said that the middle solution is the best one. It is necessary to invite the

consultant as an active member within management of enterprise in crisis. Hereby, he becomes active and equal partner in management of enterprise.

Participative consulting is offered when the potential of enterprise's management is weak, but need to be expected its upgrowth, by consultant integration, which would further lead to efficiency growth.²⁵⁷

6.3.1. Nature and causes of crisis in organization

Crisis situations are phenomena which follows functioning and development of crisis management, either as ex-ante activities to prevent crisis, or as ex-post activities to get out of already existing crisis.⁵ However, the enterprise overpasses sequential phases of development, crisis and radical organizational (and other) changes. Whether will small enterprise run down (bankrupt) or survive, functioning with approximately identical number of employees, or even keep growing, depends on successful organizational (and other) changes in relation to existing enterprise's crisis repression.²⁵⁸ Business of enterprise is unique process and its partition on growth and development phases, as well as crisis phases has been imposed in order to make easy the analysis of the enterprise in specific performances zones of its business. The concepts growth, development and crisis have the arbitrary nature and depend on adopted criteria (quality measure). Each organization is opposed to natural growth of entropy, i.e opposition to disorder and inordinateness.²⁵⁹

The crisis in past decade had resulted macro-economic instability, market loss and isolation from technological progress.²⁶⁰ Crisis condition is obvious in many organizations in Serbia, which is manifested through decrement of market participation and profitability, increased duties, inadequate investments and multiplication of new business attempts at the expense of the primary business. The crisis symptoms have characteristic to show mostly ex-post on situation in the enterprise. Chronology of appear is as following: firstly develops strategic crisis, than success crisis and at the end – solvency crisis. However, the chronology of detection is completely reversed. In the first phase, the banks stint credit approval and than dramatically decreases own capital. At the end realizes the oversight to place on market, in time, the production inheritors and therefore stops the sale decrement. Consulting company *Deloitte & Touche* has developed the methodology

²⁵⁷ Senić, R., (1996): *Crisis management*, Library Dijalozi, Belgrade, 1996, p. 45.

²⁵⁸ Cvijanović, M. J. (2004): *Organizational changes*, Institute of Economy, Belgrade, p. 230.

²⁵⁹ Cvijanović, M. J. (2004): *Organizational changes*, Economic Institute, Belgrade, p. 232.

²⁶⁰ Cvetković, N., (2003): "Restrukturiranje preduzeća u uslovima krize", *Poslovna politika*, vol. 32, br. 2., Beograd, pp. 50-53.

of turning point in enterprise's business, which had consisted of three integrated steps:²⁶¹ Condition diagnosis of financial and productive possibilities of enterprise; Crisis management and Management of turning point. The first step involves the analysis of client's enterprise financial possibilities and gives insight in current financial position and projection of earning power, if current trends continue. The diagnosis of productive possibilities comprises: the analysis of supply and sale market, the analysis of production process and productive program, prices strategy, source of competitive advantages and similar. Recommendation of strategic alternatives for client's enterprise is based on diagnosis of financial condition and productive possibilities. The second step is crisis management, which, according to *Deloitte & Touche* approach, comprises five activity groups: financial restructuring, sale of needless assets, product rationalization, regularly determination of employee number and review of market. The third step in crisis surpassing is management of turning point, which comprises financial and productive restructuring. This step goal is to enter the enterprise into profitability zone. The strategic turning point provides enterprise to make an adequate position on the market.

Often happens that enterprise's management in the crisis vacillates in overtaking the first step in interrupting the collapse of the enterprise. Fast and synchronized actions are necessary, in order to make swift, positive results in crisis repression. Initial positive effects should strengthen future measures conduction.

6.3.2. Organizational forms of crisis management

Organizational forms of crisis management depend on size of the enterprise, as well as on manager's capability. It is considered²⁶² that exist three organizational forms of crisis management: project team, "manager in shadow", "individual fighter". The project is a way for the enterprise to solve problems it faces with. The process of crisis repression could be interpreted as the project due to its time-limited effect and problems, which comprise more fields. In that situation can be applied concept of projects managing, considering that there can form one or more projective teams, specialized for the crisis repression. The consultant is invited as an active member of management of the enterprise in crisis. In such conditions, he becomes an equal partner in overcoming the business problems. Nevertheless, the team approach, which implies close cooperation of the consultant with other members of enterprise's management applies, in order to create concrete measures for crisis repression and active participation in their conduction. Here is to express the significance of

²⁶¹ Deloitte & Touche, *Corporate Recovery Services in Central Europe*, 1994, p. 2

²⁶² Luthy, M. (1988): *Unternehmenskrisen und Restrukturierungen*, Verlag Paul Haupt, Bern and Stuttgart, p. 130.

personnel issues resolution and internal structuring of crisis team. As members of crisis team can be: representative of Administrative Board and management, representatives of the most estimated banks, consulting company. The size of working team should stay tightly restricted. Experience shows that the optimal number is between three and five persons. Thereat are very important, so called, action teams (Task Force), which participate in solving the specific problems in projective activity. Model of projective team has major appliance in big enterprises.

The second organizational form, especially in our small and medium enterprises, has been presented by special crisis manager, i.e. "manager in shadow", in consideration that he was placed alongside with existing management. In this case, as it is presented in the picture, through periodical coordinative sessions maintains contact with consulting company, instead of taking over the bank representatives and consultants in formal crisis body of the enterprise. »Manager in shadow« takes over the role of crisis manager. The activities of crisis manager are primarily planning and restructuring conduction, and less – operational issues of current business. Successful appliance of this model implies ability of current management to coordinate with crisis manager, as well as capability and will to implement restructuring concept, the manager in shadow has done.

Model of "individual fighter" is applicable so far as it is shown that in small and medium enterprise existing management can not carry out necessary measures for crisis repression. Than the crisis manager takes formally position, with full line competence.

The analyzed models can combine, due to various applied concepts on various hierarchical levels. There can be established careful balance between short-term benefits and long-term losses, during formation of emergency measures and revitalization measures, in order not to jeopardize main strategy of the enterprise.²⁶³

6.3.3. Necessary measures in crisis repression

The consultant has to find well compromise, considering that even the best long-term concepts are useless, if enterprise collapses in a short term. In this situation, the consultant has not got enough time for detailed evaluation of condition. Elementary, rough evaluation is enough. The most important is that the consultant

²⁶³ **Mihailović, B.**, Subić, J., **Cvijanović, D.** (2009): „Crisis consulting in function of business environment development in Serbia“, International Scientific Meeting - *BUSINESS OPPORTUNITIES IN SERBIA: The Case of Italian Business Sector and the Role of Management Education*, 22.06.2009. Belgrade Banking Academy, pp. 133-139.

gets support by enterprise's management for undertaking emergency measures in crisis repression. In phases of prosperity, enterprises often buy property not directly related to their basic activity. Sale of such property can mobilize significant solvency reserves. Emergency measures (income increase, property decrease, decrease of costs and their combination) are mostly determined by enterprise resources and by distance degree of enterprise business from breakpoint.

If the consultant manages to motivate employees and thereby realizes short-term improvements in business, there can be expected, with high certainty, repression of crisis situation. Besides, there is a need for adequate value analysis, which represents a process of identification and elimination of unnecessary costs, especially product or service.

6.3.4. Financing the consulting services in crisis conditions

Developed market economies, as an answer to global crisis effects, use non-orthodox package of measures (combining monetary relaxation and fiscal stimulus). It is directed to crisis repression, overcoming the recession tendencies and setting up the thrust in key market institutions, financial institutions and modern financial instruments.

According to the considerations, we can learn a lesson and basic message for Serbian economy and other transitional economies, which complete, with delay, institutional frame of modern market economy.²⁶⁴ In such conditions, enterprises in Serbia are in paradox situation: a way out from crisis "looks for" consulting services, which are very expensive, and the main reason for enterprise restructuring is financial crisis. The enterprises have no assets to buy consulting services and find the way out from "vicious circle". In past practice stand out three specific variations of financing the consulting services in enterprises which do not have enough own resources.²⁶⁵

- Consulting services, financed by loaned assets from banks for development. In developing countries, many invest projects, than projects of structural adjustments and other projects, are financed by credits authorized by World Bank or other banks for development. The procedures used for identification, selection and engagement of the consultant have to be in harmony with rules, determined by the bank.

²⁶⁴ Vujović, D. (2008): „Globalna finansijska kriza – poruke i pouke za kasne tranzicione privrede, *Ekonomika preduzeća* vol. 56, No. 1-2, pp. 28-38.

²⁶⁵ Petrović, P. (2002): "Porast tražnje za uslugama finansijskog konsaltinga", *Finansije*, 2002, vol. 57, br. 9-10, pp. 556-568.

- Consulting financed by various donations and loans. Many consulting services are financed from donations and loans, got through bilateral and multilateral programs. Each agency has its procedure, described in books of regulations and books of references. In some cases, accepting support inevitably implies also engagement of the consultant from donor-country, i.e. from the group of donor-countries, if it is about support by regional economic associations (like EU).
- Consulting model for subsidizing small businesses. In some countries, small and medium enterprises can apply for grants and subsidies, which can use for engagement of consultants in specific purposes. In order to get the grant, potential client has to contact the Agency for Development of Small and Medium Enterprises and has to follow specific procedure. In major cases is given grant up to 50% of project prices, in consideration that there is a top limit.

Taking into consideration non-development of domestic enterprises' research capacities, consulting becomes necessary activity, which should accelerate transformation process and provide revitalization and permanent revival. There should discuss also on complexity and overall of business changes, in conditions of global economic crisis, considering that it is about non-structured issues which our enterprises face in business for the first time. Namely, business crisis is characterized by "chaos" and lack of adequate information.

The crisis increases the entropy, i.e. enterprise's disorganization. In consideration that the entropy is defined as indeterminacy measure, as a consequence of uninformed system, there can be consequently concluded that the entropy decreases in organization, as a system, with additional information.²⁶⁶ Therefore is necessary continual and adequate research, in order to provide always real information on problems in functioning, information on market, i.e. buyers and competitiveness. Such information provides to the enterprise that, through own action and business, decreases its own system entropy, or prevents its growth.

Consulting, as a professional discipline, represents exactly a product of enterprises' increased requirements for numerous and integrated information. The organization, by its business activities, will lead to reduction of entropy within system and produce positive effects on business ambience, as far as it has adequate and timely information. The significance of consulting is exactly in supplying the enterprise with needed business information for crisis overcoming.

²⁶⁶ **Mihailović, B.**, Simonović, Z., Paraušić, V. (2009): „Entropija kao mera organizacione neefikasnosti“, *Industrija*, vol. 37, br. 3/2009., Ekonomski institut, Beograd, pp. 109-121.

6.4. Enterprises' competitiveness advancement of Serbian agrarian sector through strategic planning and organizational changes

Serbia has a great potential in agricultural sector, which has not been completely used. Along with adequate agrarian policy, agriculture can provide a significant contribution to economic development of the country. It has been, due to its connection and influence on other sectors, extremely important for development of Serbia. Besides it employs, directly or indirectly, many people, it also provides inhabitants' food safety and contributes to rural development and ecological balance, it also participates significantly in foreign trade. In such conditions, developmental behaviour of enterprises in Serbian agrarian sector implies searching for concepts and instruments which adjust goals and possibilities of enterprises with challenges and threats from the environment. The developmental goals define anticipated effects, conditions or situations which the enterprise desires to achieve. The developmental policy comprises a selection of principles and criteria by which the enterprise will be guided during decision-making in the field of managing growth and development. In order to achieve the developmental goals, must formulate a direction and a method of the enterprise's performance in agriculture. Managing growth and development of the enterprise implies formulating a strategy, as a unique concretization of the developmental policy.

The reform of agricultural sector can hardly get back to a starting position, but prior to it can talk about its vacillating tempo and agrarian policy instruments, which often should set up a balance between diametrically opposed goals. Generally, the most important elements of the reform processes in Serbian agrarian sector, since 2000 until now, have surely been: market liberalization, privatisation of processing industry, activating agrarian financial market, as well as starting to form new institutional forms at larger-scale.

6.4.1. Agricultural enterprises

Agriculture in Serbia is encumbered by consequences of central- planned economy regarding ownership and land use. For development is necessary a policy which can affect on productivity increase by restructuring and investments, which implies clear proprietary rights and forming the efficient land market, credits and inputs inevitable for agricultural enterprises. As all others, the agricultural enterprises have a legal obligation to keep the books, to pay sales tax, property tax, income tax, so their formal-legal position is much more unfavourable in regard to rural husbandries position. The accent is on less working-intensive production lines and is relatively high level of specialization within some production units. The agricultural enterprises

have relatively high level of agro-technical measures appliance (in regard to individual husbandries), because a size of property is not a limitation factor.

As significant limitation appears a way of agricultural enterprises' taxation. Agriculture is an unprofitable branch all over the world, but in Serbia, tax burdens are the same as for self-service markets etc. At the same time, while starting business in agribusiness, entrepreneurs face the problem of insufficiently developed agro-engineering, while technological ground significantly lags behind with up-to-date technological solutions in the world. An important factor which affects the performances of big systems in Serbian agro-complex represents a problem of agricultural land lease. The main weakness come out from organizational-technological and economically anachronistic provision of fragmentizing big organized land complexes in state property and devastation of extremely important assets invested in programs of arrangements and protection of the state agricultural land in past five decades. On the other side, opposite to fragmentation of organized land complexes, on organization of fragmented and cultivation of hundred thousands hectares of non-cultivated plough lands has been done practically nothing in past years. Owing to it, a size of agricultural production (especially livestock) is still significantly under the level realized during '80s, and today Serbia increasingly lags behind the results of neighboring countries, once far behind it. However, continuing decreasing trend of share of agriculture, forestry and fishery in the total GDP has not been determined by decline of agricultural production value, but development of other sectors of the national economy. In spite of it, the agriculture in 2009 – the year of the world economic crisis – had significantly contributed to revival of Serbian total economy, regarding that it had realized a positive growth of physical production size and a positive balance of foreign trade exchange. The agriculture had an anti-inflationary effect, because high production size had affected a decline of food prices and total stabilization of retail prices. Now cannot be denied an advantage of big organized land complexes by which manage several big agricultural enterprises and agro-systems in agriculture of Serbia. These land complexes provide, primarily, the appliance of economy of scope concept and there is not necessary many words for approving that is more economic and more profitable to produce on big land complexes, while on them can apply modern technique and technology, new scientific solutions, to build less expensive and more efficient irrigation systems, bigger and more profitable livestock farms.

6.4.2. Strategic planning

The strategic planning is mainly periodical activity, which overtakes in order for enterprise to face changes in the environment. A strategy is a planned decision by which, starting from goals and policy, precise a way of their realizing in enterprise's

business. The strategy is a science and a skill of using a method for realizing the goals. The enterprise is obliged to learn not only on its own, but also on experience of others. Continual adjustment and progress in modern economy implies making new values for buyers, while otherwise there is no stimulus for them to buy products and services. In such conditions, a success of business making dominantly depends on ability to anticipate, understand and adequately and timely react to impulses from the environment. Exactly the environment's dynamism, in the unique way, tests the ability of the enterprise to provide its vitality. In such struggle with the environment, the enterprise finds itself between two extremes:

- To initiate new trends and changes, making new products and markets through innovation processes,
- To defend existing position, so the environment could stabile, i.e. to amortize its influence on its business.

First orientation implies developed system of long-term foreseeing and observance of the environment, as well as decoding the signals while they are still weak (philosophy of interactivism and preactivism), while the other prefer internal, defensive flexibility, i.e. step by step strategy. Between these extremes, de facto, is series of options which must be analyzed by the enterprise.²⁶⁷ There is noticeable a tendency toward activities diversification, which resort the modern enterprises with a view to provide business stability. Thereby affirms a need that, together with economy of scope realizes also economy of width. Then is the most important to keep a synergy between several activities in the enterprise. During the strategy formulation should know that a growth is not a goal per se, nor can be achieved by random actions. It is necessary planned, proactive and interactive observance of the environment. In order for enterprise to be successful, there must formulate the strategies based on one extrovert approach to developmental behaviour. According to proactive and interactive acting, the enterprise must train to use and create chances timely, i.e. which, along with lower costs of adaption, avoid shocks in the environment and business. Each growth strategy must be adequately financed, because always puts a question how much money is necessary to support the enterprise's growth.²⁶⁸ Experience in business of modern enterprises had affected the appearance of new paradigm of strategic management, which had been considered as a process of directing the enterprise's activities by which, based on anticipating chances and threats from the environment and respect of strong and good aspects of the enterprise, set up the best balance between the goals,

²⁶⁷ Milisavljević, M., Todorović, J. (1991): *Strategijsko upravljanje*, Ekonomski fakultet, Beograd, p. 257.

²⁶⁸ Milisavljević, M. (2002): *Savremeni strategijski menadžment*, Ekonomski fakultet, Beograd, p.241.

strategies, directions, methods and growth tempo, macro-organizational structure and the environment criteria.

6.4.3. Defining organizational change

Implementation of marketing strategy in modern conditions requires a flexible organizational structure. That is to say, the enterprises in Serbian agrarian sector must continuously adjust its organizational design and organizational processes to fast-changing marketing trends. Accordingly, there will be analyzed certain techniques of organizational changes, which should provide to the enterprises in agrarian sector, a theoretical-methodological framework and practical instructions for conduction of organizational changes. The organizational structure of enterprises in agrarian sector in Serbia is very complex and often very dissected, and caused by development and abundance of business functions, formal-legal position, production specialization etc. The agricultural enterprises still dispose with certain capacities for storing and finishing the agricultural products, regarding that their development went in direction of big factory-farm type business systems, which has implied also development of food industry within the agricultural enterprises.

Most of food industry has separated, in organizational sense, from agricultural enterprises structure into specific business systems, but some part of storing, finishing and primary processing of agricultural products' facilities have yet remained within the agricultural enterprises. Scarce, highly developed giants in Serbian agriculture (PKB Corporation, Delta Agrar etc.) are only small islands in a sea of still predominantly traditional rural agriculture. A need of their existence should not be especially proved, in regard that there is more than obvious that – only those systems can provide higher production (naturally, quantitatively) and appliance of scientific solutions, i.e. technical-technological innovations.

The complex business systems consist of more organizational units for which are characteristic relatively huge scope of individual business decision-making. The most often, the complex business system is made of numerous special economic entities, enterprises which do not have a special legal and economic status (giro-account). The thing that connects these enterprises into the complex business system is ownership, i.e. interests of controlling shareholders. Some enterprises within the complex business systems in agro-industry are mainly mutually production-technologically connected.

If there is such connection within the complex business systems, then they are mainly organized by strategic business units' principle, i.e. profitable centres. In that case, a priority goal is not a profit of individual enterprises, but maximal total profit

on entire complex system scale, while it, as a rule, does not represent a simple sum of individual enterprises' maximum profits, due to synergetic connections among them. Today, the big systems in agro-complex do not face so much with a problem of investments shortage, as much as with an obligation of starting privatization processes, which demolish them by already tested fragmentation practice, by which was jeopardize also their survival.²⁶⁹ There were separated repro-chains, as well as primary agricultural production from processing, while on the market dominate traders and import lobby. There are lost all functions of one solid system which had functioned in previous period, based on big systems in agriculture around which were gathered agricultural cooperatives and small proprietors.

Initiatives for conduction of analysis of indispensable changes in Serbian agricultural sector enterprises can be started by the enterprise's management or external consultants, which should investigate a specific problem in organization. For the overall analysis is necessary teams to be formed which mostly consist of the organization's top management and external consultants. The state diagnosis is made according to some diagnostic model of the organization. The diagnosis the most often contains two steps: 1) collecting data, 2) data analysis and defining changes. Research, beside an internal focus, connected to the organization, must be also externally oriented.

The organizational structure is not an independent variable in regard to conditions in which the organization functions. In other words, a concrete model of organizational structure is caused by many factors, which nature and action the concrete structure model must adjust to. Thereby should have in mind that the most expressed influence on organizational structure change origins from the external organizational surroundings' forces.

Under the influence of dynamics of the external organizational environment factors, very fast can come to a disturbance on relation: acting factors – organizational structure. Whether will change happen or not depend on a level of organizational structure flexibility, i.e. from the organization's skill to form an adequate structural arrangement according to anticipated changes in the organizational environment.²⁷⁰

²⁶⁹ Fokus grupa: Mesto i uloga velikih poljoprivrednih sistema u strategiji razvoja poljoprivrede, prehrambene industrije i ruralnog razvoja na području grada Beograda, Privredna komora Beograda, 23. maj 2008.

²⁷⁰ Simić, I. (1999): "Fleksibilnost organizacije u funkciji organizacione transformacije", Zbornik radova *Upravljanje ključnim aspektima transformacije preduzeća*, Ekonomski fakultet, Kragujevac, p. 116.

The diagnosis of the organization includes the following diagnostic variables:²⁷¹

- Environment: including market, technological, social, etc.,
- Purpose (mission) of the organization and its strategy,
- Organizational arrangements: organizational structure (jobs division, units grouping, coordination, authority distribution), systems (planning, human resources, information systems), procedure, policies,
- Social relations: human relations, culture, informal communication,
- Technology: a process by which inputs transform into outputs, including design of work places and processes,
- Physical conditions: location, spatial disposition, work conditions,
- Results (individual and organizational), productivity, profit, sales, climate and satisfaction of employees, absence from work.

Components or methods of reliable diagnosis can understand as complementary or substitutes. The enterprise can use one or more diagnosis methods. Managing directors often do interviews of main stakeholders of the organization. The key stakeholders are: main stakeholders, unions, banks-creditors, suppliers, main buyers and distributors, Government, etc. A managing director in discussion with them reveals causes of changes and has a task to determine their attitude on eventual directions of changes. If the managing director is not capable to make a diagnosis in the organization, special teams of external consultants engage to do the diagnosis. It is more qualitative because the consultants are objective, impartial, unburdened by experience and heritage of the organization and its internal relations. They have expert knowledge, necessary for diagnosis.

The diagnosis can do through special working teams, too. In many situations, the diagnosis should not be left only to the external consultants, but it is necessary to do it in the enterprise. Internal experts are burdened by their experience, relations and connections in the organization, but, at the same time, they dispose with great knowledge on the situation and history of the organization by which do not dispose the external consultants.

They can organize so called diagnostic seminars. The external consultants are best used when they do not bring only necessary expert knowledge into a diagnosis process, but also when they structure and lead a process of diagnosis in which an active role have internal experts and managers. Such seminars outside the enterprise, in duration of two-three days, can be very useful, not only for determining of crisis' cause, but also as a mean for the organization "thawing". In these seminars

²⁷¹ Janićjević, N. (2002): *Organizacione promene i razvoj*, Ekonomski fakultet, Beograd, p. 39.

should take part experts from different functions, but also mid- and top-management.

For determination of indispensable changes in domestic organizations can use also benchmarking studies, by which collect information on competitors or similar enterprises performances and those performances compare with the enterprise's performances. The benchmarking studies aim to determine a gap between the enterprise and its competitors, as well as to reveal sources of that gap. For complete recognition of problems which the organization faces, there conduct the organizational climate researches. This part of diagnosis should determine a pleasure and motivation of employees as possible source of problems which led to the crisis. There also use: simulations, scenario models, heuristic model, detailed analysis of previous data. In diagnosis can be used also sophisticated mathematic and statistical methods in order to reveal causes of the problem. With trends analysis of productivity, costs, sale, profit is possible to reveal causes and to get an idea on possible directions for coming out of the crisis. Previous analysis point out to existence of customary mistakes for changes actions in the organization. The most often are the following²⁷²: surrender to excessive pleasure, negligence in forming sufficiently powerful leading coalition, underestimation of power of vision, allowing obstacles to block a new vision, negligence in realizing long-term successes, early victory announcement, changes which have not been steadily rooted into the company's culture.

The enterprises in Serbian agrarian sector must adjust their organization to trends in the environment. Of modern tendencies in organizational design should surely mention the three dominating. Those are: tendency of forming the teams, tendency of hierarchy minimizing and forming so called "flat" organizations and tendency of networking.

6.4.4. Conducting the organizational changes

After the analysis of necessary changes in the organizations, it is necessary to define a plan of changes realization. The most important elements of the plan are:²⁷³

- Determining priorities (time chronology and inter-dependence, resource support, engagement and responsibility of management),
- Adjustment with current activities of the organization,

²⁷² Koter, D. P. (1998): *Vođenje promene*, Zelnid, Beograd, pp. 14-28 .

²⁷³ Jaško, O., Petrović, D. (1997): "Upravljanje organizacionim promenama", *Zbornik radova: Menadžment i strategije transformacije preduzeća*, Ekonomski fakultet Univerziteta u Beogradu, Beograd, p. 242.

- Determining parameters of realization course control,
- Appointment of changes management (by directions and phases),
- Suppressing a resistance to changes (strategy and tactics, management style).

When all necessary preparations were come to an end, there realized an intervention which can last from several days to several months. In this phase of changes is necessary to do three tasks: ²⁷⁴

1. Tracking the intervention effects. During the whole process of intervention conduction is necessary to track constantly its effects. Very often, an agent of changes has an obligation to inform the organization's management on the intervention realization and its effects. Regardless to it, the agent for changes has obligation to track the changes effects and to react if necessary.
2. Overtaking corrective actions. Often shows that, during the intervention, the changes cannot be realized in a way they were planned. In that case is necessary to make some additional collections and analysis of data, in order to make well thought-out the changes correction.
3. Integration of made changes in the organizations. If the changes were of such character to affect also other components of the organization, it is necessary to do integration of made changes with other components of the organization during their realization and after it.

After done intervention, i.e. the changes, it is inevitable to stabilize the done changes and make them an integral part of the organization's routine functioning. During the changes conduction appear limiting forces, regarding that employees mostly act by inertia. Consequentially, it is needed to defeat the resistance to the changes. Therefore is priceless that the organizational changes, in relatively short term, bring to a positive move (though mild) in business of the organization. Such improvement has a positive psychological effect on winning employees for further conduction of the changes.

Besides a great potential in the sector of agricultural production, which has been a result of favourable climatic conditions, natural land characteristics and available water resources, it has not been optimally utilized. Just due to such potential, the agriculture in Serbia does not represent a common economic branch, regarding that in all municipal and regional strategies it has been defined as one of the strategic development directions. The most important economic actors in processing sector are enterprises. That is to say, agricultural enterprises had based their business in

²⁷⁴ Janičijević, N. (2002): *Organizacione promene i razvoj*, Ekonomski fakultet, Beograd, p. 42.

previous period on economy of scale, which had created conditions for applying the modern technique and technology and development of seed production. As such, they have been a stimulating factor for emergence and development of food industry in the same organizational frames of factory-farm type. Through the state, and later on also public property, was assigned a role of cheap products producer, which goal was to maintain a self-sufficiency of basic agricultural products, which actually provides a strategic stability of the country and social security of citizens.

In accordance to such concept of agriculture development, which has implied a direct administrative control of courses in agriculture, the agricultural enterprises had a mediator role between agricultural husbandries and food industry inputs' producers. As distinguished from individual husbandries, a size of agricultural enterprises' property is not a limiting factor, so thanks to it, have high level of agro-technical measures application.

6.5. Challenges of business and financial restructuring of enterprises in terms of the global crisis

The companies in Serbia have functioned on non-market principles for years. It had led to a domestic economy lagging in regard to the market ones. It had turned out that partial changes, without encroaching in ownership structure and prevailing ownership relation, do not lead to business efficiency increase. But, increasing competition and aspiration for business success have motivated the companies in Serbia to apply the market business principles.

Adjusting to a new business environment realizes through the restructuring process, which aims to improve business performances of the company. Necessity of overall transformation requires knowing the specific activities and interventions, as a catalyst of the market economy efficient companies' creation. That is to say, the domestic companies must make significant changes in order to come out from the economic crisis.

There are many individual changes and interventions which can practice in every company, aiming to improve the business results. When the companies' performances cannot assess as satisfying, there are inevitable the changes in organization, composition of jobs, the company's assets and its financial structure etc. Restructuring can define as an activity which carries out in the company which performances are declining, in order for the company to survive, and then make a turning point toward a profitable business. Our companies' restructuring is a consequence of overdue reacting and adjustment to the changes. However, in high developed market, the companies restructure. The difference is in a fact that their

experience in market conditions makes them capable to adjust simultaneously and make changes in business, organization, funding method etc. There can expect that the domestic companies, after restructuring as a result of economic crisis, will enter the efficient business period, when will be qualified for adjustment to the modern trends.

Economic activity in our country has a downward path for years. Inadequate economic development was determined by numerous factors, among which are the following: deterioration of a country's geopolitical position, unfavourable economy structure, loss of traditional markets, financial indiscipline at all levels, as well as insufficient managerial abilities and skills. The enterprises have done their activities in business environment, which had characterized as inefficiency of business and lack of motivation among employees. Thereby, the official statistics of the socialist countries have shown a growth of economic activities, which sometimes had exceeded growth rates of progressive market economies. However, it is about the growth which does not create, but destroy enterprises' value. Such economic and social model was unsustainable in long-term, so at the end of 20th Century, had stopped to be an alternative to the market economic model.

Many countries, due to previously mentioned reasons, have entered the transition process, which means transformation of ex-socialistic economies into market economies. In front of us is also an imperative of transformation of economic model and prevailing ownership relation. The transition represents the transformation of governmental, economic and psychological structure of society. In the transition focus is a private ownership, as a symbol for individualism and efficiency. It implies that employees in our privatized enterprises will have a motive to work more efficient and more effective, because it is a system which motivates those men who know how to work and who accept a risk.²⁷⁵

Serbian economy development and transition to the market business require not only a new conception, but a new functioning system, and especially a new system of enterprises' development management. Nowadays, when most of countries in surroundings, tend to solve a problem of institutional infrastructure development, necessary for the market economy strengthening, strengthening the ability of a state to ensure incomes for financing public services, as well as a recovery of business conditions – Serbia is being late with it: the market economy basically is brought down to narrow goods and services market, without capital, enterprises and labour market. In such conditions is necessary restructuring which represent the activity

²⁷⁵ **Mihailović, B.** (2007): *Uloga konsaltinga u restrukturiranju preduzeća u tranziciji*, monografija, Institut za ekonomiku poljoprivrede, Beograd, p. 8.

which conducts in an enterprise, which performances are decreasing, in order for enterprise to survive, and then make a turning point toward a profitable business. Business restructuring resulted in significant changes in work which the enterprise performs. The management of enterprises has been focused to the following fields:

- Finishing some businesses and starting some other,
- Acquisition and merging of enterprises,
- Making business plans,
- Interventions in the fields of production and technology.

Every intervention goal is to increase a firm's economic value and improvement of its negotiating power on the market. For successful business restructuring is necessary to analyze different ways of combining markets and products, as basic potential resources of enterprise's growth. In this regard, the market restructuring is a starting assumption for business restructuring of enterprises. On the other hand, financial restructuring implies the change in capital structure of an enterprise, whereby changes the relation between the ownership and a debt. Domestic enterprises have disordered financial balance, inappropriate structure of resources, as well as a high indebtedness. In non-privatized enterprises mostly do the settlement or re-program of debts. In privatized enterprises, the financial restructuring refers to shares operations. In the previous practice, the main subjects in these activities are an issue candidate, Commission for Securities, a guarantor (or investment bank), an authorized auditor and various types of consultants.

An extreme variant of the financial restructuring represents the privatization, i.e. the ownership restructuring, which result by transformation of registered and national capital into an equity capitals. In this restructuring dimension distinguish by pre - and post-privatization activities. In the privatization activities, the focus was on preparation of an enterprise to enter the privatization procedure and to sell successfully. In the post-privatization activities emphasize defend measures of overtaking the privatized enterprises, as well as the application of adequate management concepts by an enterprise of joint-stock form of organization.

6.5.1. Concepts and techniques of business restructuring of enterprises

The business restructuring results in significant changes in business which the enterprise performs. All interventions goal is to increase the economic value of the firm and to improve its negotiating powers on the market. For successful business restructuring is necessary to analyze different ways of combining markets and products, as basic potentials of enterprises growth resource. In regard to it, the market restructuring is a premise for the business restructuring of the enterprise.

The consulting company *Deloitte & Touche* has developed a turning point methodology in the enterprises business, which consists of three integrated steps²⁷⁶: 1. State diagnosis of financial and production possibilities of an enterprise, 2. Crisis management and 3. Turn management. The first step comprises the analysis of financial possibilities of a client and provides access into the current financial position and projection of earning power, if such trends continue. The production opportunities diagnosis encircles: analysis of purchase and sale market, analysis of production process and a production program, price strategies, competitive advantage source, etc.

Suggestion of the strategic alternatives for the client-enterprise, bases on the state diagnosis and the production possibilities. The second step is crisis management, which, by *Deloitte & Touche* approach, comprises five groups of activities: financial restructuring, sale of unnecessary assets, products rationalization, regular determination of employees' number and the market review. The third step in crisis surpassing, is the turn management, which comprises the financial and production restructuring. This step's goal is to introduce an enterprise into the profitability zone. The strategic turn provides to the enterprise to position adequately on the market. It requires investigating the key relations between: buyers, competition, partners in business and internal relations among workers and managers, as creators and executors of business processes.²⁷⁷

For getting to know a competitive position of a client, the consultants use its strategic position analysis. That is to say, knowing the existing and the potential competition represents one of the basic assumptions of successful business restructuring. The Space Analysis - Strategic Position and Action Evaluation Analysis expand a reflection on the environment to: a branch power and its connection with the competitive advantage and financial power of the enterprise.²⁷⁸

With the Space Analysis support determines the strategic position of the enterprise relatively in regard to the branch. A relative size of opposite dimensions provides determination of the strategic position of the enterprises on the market.

- *Concrete position* is typical for the enterprises which have the competitive advantage in an attractive branch. Such enterprises need necessary additional financial resources to maintain the competitive position on the

²⁷⁶ Deloitte & Touche, *Corporate Recovery Services in Central Europe*, 1994, p. 2.

²⁷⁷ Piercy, M. (1997): *Market-Led Strategic Change*, Butterworth Heineman, p. 235.

²⁷⁸ Hooley, G., and Saunders, J. (1993): *Competitive Positioning - The key to market success*, Prentice Hall Inc. Engle wood Cliffs, NJ., pp 75-77.

market. In long-term, it can achieve with significant efficiency and productivity, but the enterprise is necessary to increase the capital or to associate with the enterprise with a large capital.

- *Aggressive position* of an enterprise on the market implies facing with significant advantages, but also threats from new competitors. It is necessary to analyze the performance on the market and the relation towards the competition.
- *Defensive position* have the enterprise which dispose with poor power in overcoming the competition, so there should improve the sources by more efficient production or to be ready to withdraw from the competitive market in order to concentrate where they have protection possibilities. Here research the possibilities of new techniques and technologies application. This research goal is to improve an enterprise's technological system, in order its products to fulfil the market requirements.

It is necessary to identify different resources and possibilities of growth, from the total portfolio of an enterprise's business point of view. From this has derived a need for concepts which help evaluating different businesses, as within the specific business portfolio, as well as in regard to the competitors businesses. One of the first attempts in operationalization of these variables represents a study of the *Boston Consulting Group – BCG*. In meantime, this model was multiple modified and was developed a series of different models for some aspects of the strategic management²⁷⁹. That is to say, many world famous consulting houses have developed new models, which, in fact, were based on the BCG model. The portfolio concept the consultants use for determination of the best business combinations, aiming to realize long-term profitability of the client. Synergetic effects realize based on different developmental possibilities and profitability of different businesses' financial courses. Applying the BCG approach, the consultants categorize businesses or products if they have low or high relatively market share on the market, which has high or low growth rate. The businesses with high market share are generators of financial resources. According to the BCG model, it is possible to identify four business types: market leaders („star” products), perspective products („questionable” products), mature products („milking cows”), stagnant products („dogs”). The businesses characterized by high market growth rate and high market share are called the market leaders. However, a contribution of these products to cash inflow is small, because there are expressed the requirements for significant

²⁷⁹ Todorović, J., Djuričin, D., i Janošević, S. (1998): *Strategijski menadžment*, II edition, IZIT, Belgrade, p. 221.

investments, due to a need of keeping the high market share on the fast developing market. The perspective products or businesses have been characterized by a high market growth and a low market share. The key decision for these products is to invest in them or eliminate them from the business portfolio. The mature products have a dominant position on the market, but those products show relatively low growth.

Consequentially, for these products are necessary small investments. At the same time, they insure the resources for new investments, of which depends a survival and development of an enterprise. The stagnant products or businesses have poor competitive position on the market, which shows slow growth. Only in the special cases, there is a need not to be eliminated, i.e. there should investigate a possibility to provide the favourable market position, along with adequate product modifications. The consultants do not compose only the existing, but project also the future stencil, anticipating where in the future will be the specific client's products, on the stencil. Thereby, the consultants for the specific groups of businesses, i.e. the products suggest different strategies. In determination of some business goal and support character, which can be assigned to it, there suggests four basic strategic options:²⁸⁰

- *Build*. This strategy has been directed to improvement of the market position with readiness not to realize yields in short term. The strategy is favourable for the perspective products, which can become „stars“ only with increase of the market share,
- *Keep*. In this case wants to preserve the market share of some business, which is favourable with the mature products of higher power, because they ensure significant financial resources,
- *Reap*. By the strategy wants to provide the financial resources in short term, independently from long-term possibilities. This strategy is favourable for „milking cows“, of insufficient power and of indistinct future, and which can ensure fast the financial resources, or regarding some stagnant and perspective products,

²⁸⁰ Kotler, P. (1984): *Marketing Management*, (4th edition), Prentice Hall International, Inc., London, pp. 77-78.

- *Divest.* Here tends to sale or liquidate the business, because the resources can be better used in other purposes. It is favourable for the “dogs” and the „questionnaires“, for which assess that they are not in function of an enterprise's growth.

By the products policy clearly perceives that the business restructuring prefers the termination of some businesses and opening of the others, all in accordance with the market trends.

6.5.2. Merger and acquisition of enterprises

Merging and acquisition of enterprises represent a technique of business restructuring. The decision whether will go to merger or acquisition with some enterprise has a far-reaching business consequences. In these business transactions are involved the financial and other consultants – commercial and investment banks, broker and auditing, solicitor's and other houses. There is especially significant a role of investment bankers in merger and acquisition process, which is multiple and directed to:²⁸¹

- Searching for firms – potential targets for winning (firms which, in comparison with other enterprises, have bad performances, firms which have a surplus of liquid assets or which assets can be sold more expensive than their present market value, cases in which has been neglected a synergy which could realize by overtaking,
- Participation in preparations of decisions and negotiations on buying and selling,
- Support to target companies to develop a defensive tactics and the participation in tactics creation, which will make those companies less attractive to overtake,
- Engagement in the target company evaluation,
- Financing the acquisition of the target company,
- Various operations with potential candidates' actions for risk arbitrage.

²⁸¹ Denčić-Mihajlov, K, (2003): „Uloga finansijskih konsultanata u procesima spajanja i pripajanja preduzeća“, *Svet finansija*, April-May-June 2003, p. 21.

It is obvious that the consultants are engaged, as by the enterprise-buyer, as well as by the target enterprise. A need for the consultants increases due to a fact that both parties, engaged in the prior processes, have been incompletely informed on the other enterprise's business.

In this situation, the need for complex and integrated information initiates a need for the consulting. The enterprise-buyer's managers engage the consultants to evaluate the values of the target enterprise. Also, the consultants are engaged for doing more tasks, which the client state in the agreement. At the same time, the enterprise-candidate for the acquisition can also search for the consultants' services. In that case, the final result considerably depends on an expertise and informing of the consultants on the opposite sides.

A size of services which requires from the consultant is under the influence of possibilities of the enterprise to do the financial analysis and to finance the merging (acquisition) strategy, by its personnel and financial resources. If it is a low-value transaction, in most of cases will be sufficient a professional support of financial, legal and accounting sector of the enterprises. In more complex higher-value transactions engage the consultants in a planning phase and a phase of the merger (acquisition) strategy realization.

Financial compensations, which require the consultants, depend on the transaction size, as well as on the consulting services' character, which are asked of them. The most often are composed of a fix part, which the client pays in accordance to the consultant's engagement and a variable part, which depends on the transaction's success. The amount of the financial compensation is a subject of negotiations among the involved interest groups. Lately there find many ways in order to motivate the consultants to work maximum in the client's interest.

If the consultants are engaged by the enterprise-buyer, the consulting support includes advices regarding the value for the enterprise-candidate for the acquisition, structuring the offer to the target enterprise, all up to indications to eventual legal limitations which refer to increased concentration in the specific branch. A basic function of the consultants is help in finding the acquisition opportunities and locating the attractive enterprises for the acquisition. Investment and commercial banks have their special departments which collect information on the enterprises with bad business performances in regard to the others in branch, which have great unused indebtedness capacity, where is an unused synergy etc.

After the consulting support in finding the target enterprise, there is needed different form of consulting. That is to say, the consultants engage aiming to evaluate the

target enterprise's business, as well as the services of value assessments. Auditing-consulting houses provide information to interested enterprises on a financial position and results in the previous period. Also, the consultants make the evaluation of obligations, business risks, as well as the strategic powers and the target weaknesses.

If it is about a voluntary merging transaction of two enterprises, it is important that the enterprises agree on the target's fair price. A key field, in which are important expertness and an experience of the consultant, is evaluation of synergetic effects, which will realize by an extreme growth. The basic motive for creating merger is that the market value of a new enterprise be higher than the total market value of enterprises which business independently. Making the added value by mergers is a result of the synergy. A combined value after the mergers creation is higher than individual firms' value sum, when they were individual entities.²⁸²

In forming the mergers, the consultants role reflects in determination of the market enterprise value, which merges and determination of a barter coefficient, i.e. a ratio in which, one share of the merged enterprise, will exchange for the existing enterprise's shares. In methodological sense, the barter coefficient can be represented by a current market price of common shares of the enterprise which merges, as a bottom barter limit. Upper limit would represent the value which the consultant gets based on the expected growth rate of net income and a dividend per a share, as well as the adequate market capitalization rates. However, a real size determines in a negotiation process on the mergers forming, in which is very important the consultants' expertise, engaged whether by the enterprise-buyer or the enterprise-candidate for the acquisition.

Besides the previous support, the consultants collect also information on the potential competitive enterprises. That information provides to define the negotiation tactics with the target firm's managers. At the same time is necessary the engagement of legal consultants, which provide the legal advices, in order not to come to violation of anti-monopoly legislation, as well as to prepare an advocacy for the enterprise-buyer, if there comes to the law violation.

For the mergers and acquisitions success is necessary to ensure the reports accuracy. In regard to it, there engage brokers, auditing-consulting houses, public relations consultants and others. For the complex recognition of the consulting role in the prior processes, is useful to perceive also the consulting services, which are required from the target enterprise. The role of the consultant in the merger

²⁸² Aragon, G. A. (1989): *Financial Management*, Allyn and Bacon, Boston, p. 827.

(acquisition) process, from the target's needs point of view, has been multiple directed mostly to:²⁸³

- Signalizing the target on the potential enterprises-buyers,
- Developing the defence tactics from undesired acquisitions,
- Evaluating the target and participation in negotiations with the buyer on the merger and acquisition conduction.

The consultants, according to the shares prices trends tracking and the target enterprise's performances, give prognosis if the potential interested enterprise-buyer is likely in the next period. The commercial and investment banks, as well as the lawyers' houses, represent the consultants often specialized for help provision aiming to block the mergers and acquisitions. The consulting support in this situation implies convincing the target firm's shareholders that the offered price for their shares is low, consulting for a statute changes, purchasing own shares on the secondary market, aiming to increase the market prices of shares etc. The merger and acquisition processes of enterprises represent one of the transition phases. Thereby, they are a significant technique of enterprises' business restructuring in which the consultants have a significant role. Since the privatization in Serbia is ongoing, as well as the shareholding culture is just going to be practiced, there can expect that in the future period, the consulting services regarding the merger and acquisition of enterprises will be in high demand.

6.5.3. Challenges of enterprises' financial restructuring

For a long time, the enterprises in Serbia have been characterized by lack of working assets, a financial imbalance and a low profitability. The goal of the financial restructuring is to improve the enterprises financing structure, in order to make a turn toward the profitable business. Thereby, there must make a difference between the financial restructuring before and after the privatization.

The financial restructuring before the privatization implies synchronized interventions on the assets side and on the liabilities side. After the privatization, the financial restructuring comprises certain operations with actions, by which achieve the wanted capital structure. The privatization, by its own, can be comprehended as the extreme variant of the financial restructuring. Partnerships with the foreign

²⁸³ Denčić-Mihajlov, K. (2003): „Uloga finansijskih konsultanata u procesima spajanja i pripajanja preduzeća“, *Svet finansija*, April-May-June 2003, p. 21.

companies represent one of the most important strategies of the financial restructuring and the privatization, in general.

There is needed to define the adequate financial restructuring strategies before and after the privatization. In pre-privatization period analyses the enterprise's financial health and suggest measures, which contribute to a financial consolidation. There also negotiates with creditors and potential strategic partners. The total enterprises business reflects in the final financial results, so a financial analysis is very important part of the total analyses. Data got by the analysis uses for directing the further investigation, as well as taking the corrective measures. The analysis starts by a consideration of accounting reports which contain a balance sheet and a profit and loss account. According to the reports determines the following:²⁸⁴

- If the enterprise realizes a profit, i.e. is it profitable,
- How financially strong is,
- Whether it grows fast or aging fast,
- If the liquidity improves, etc.

After the financial situation is stable, it is necessary to direct the resources to improvement of innovative processes in an enterprise, by stimulating new ideas, creative personnel, high premiums and other ways of motivation. Also is necessary to introduce new working methods, to invest in computer equipment, etc.

The significant strategy of financial restructuring is a partnership with foreign companies, interested for the privatization in our country. Entering the foreign companies has effects as on the economy, as on a host-country economy, as well as on parent-states' economy. With their entry on the market, the foreign companies stimulate economic growth and export possibilities of the host-country, if they involve in their production system the local firms and provide the production growth, meant for domestic and foreign market. For the host-countries, the partnerships with the foreign companies have been a source of capital, technology, know-how management and the market approach. Exactly these are the components which substantially miss, first of all, to the countries in transition.

Since the domestic enterprises have no sufficient experience in selection of foreign partners, as well as designing the partnerships through various forms of contracts, they are necessarily directed to the consulting companies, which have the expertise, experience, but also numerous business contacts which can capitalize. Including the

²⁸⁴ Živanović, N. (1994): „Strukturiranje poželjne konsalting pomoći preduzećima u krizi“, *Poslovna politika*, June, p. 36.

foreign companies into the privatization process would come to a fresh capital inflow, as necessary, due to lack of domestic accumulation. At the same time, their more favourable financial structure enables more favourable approach on the international financial market. A procedure of making contacts and partners connection realizes in 4 phases.²⁸⁵

In the first phase comes to pre-orientation to the market economy. In fact, the changes are primarily in attitudes and a theory on market principles that have been present in the West. The countries-foreign-capital-importers approach to the changes resolutely in legislation. This phase shows different duration from country to country. In regard to an internal situation of each of them, the next step refers to initial, small projects, while, on one hand, the foreign entities show interest, but, on the other hand, is present a fear from the political situation or, for example, a tax system. The third phase starts when the foreign participant draws a conclusion that the situation in the country, in which economy would invest, is „healthy”. And finally, there expects the foreign capital inflow, until than just potential.

After the privatization of enterprises, attention was focused on help in capital issuance and operations with shares, aiming to achieve the optimal financial structure, which represents a final transition phase. The consulting companies offer advices and support on issues like credits or taxes, a mediation between the securities issuance and the clients which buy them, negotiations with creditors on crediting conditions, etc.

There are various gaps in enterprises' business in Serbia, which can be eliminated by a new approach, but it implies significant changes, directed to establishment of new relation toward the business environment. Aiming to be compatible with relevant market economies, as well as of a need of increasing the general business efficiency of domestic enterprises, the transition processes and restructuring have become a necessity.

That is to say, constituting a propulsive market business is inevitable to realize without radical changes at the enterprise level. Set conceptual frames and defined methodology for conducting the business and financial restructuring of the enterprise in the global crisis terms represents an establishment rapidity factor of a modern market economy, which will have its support in vital, business attractive and perspective enterprises. Foreign investors have proved to be successful owners, with great positive effects on productivity growth, production size, investments in

²⁸⁵ Radenković-Jocić, D. (1997): *Strane investicije u zemljama u tranziciji*, Zadužbina Adrejević, Beograd, p. 111.

enterprises, etc. Partly, there is astonishing fact that there have been noticed also the positive effects on employment increase in long-term. Overtaking the enterprises from the foreign investors, as a rule, has led to a significant reduction of employees' number. However, after the executed changes, investments and enabling the enterprise for the competitive business on the world market, there notices a tendency of employees increase in those enterprises, too.

Restructuring the enterprises in transition has been an expression of overdue reacting in the business environment. In the past has dominated the production orientation, which had no respect for the market requirements. The Serbian enterprises lost a brand and the traditional markets. Coming out of the crisis requires a constitution of the market-oriented enterprises, which implies a series of structural changes, directed to business efficiency improvement and adjustment to the market requirements. The structural changes within the enterprise base on internal orientation, based on the improved efficiency, or an external orientation, focused on the effectiveness improvement.

VII MANAGEMENT CONSULTING AS A FACTOR OF ENTERPRISES' DEVELOPMENT IN SERBIAN AGRIBUSINESS

Engaging consultants by the enterprise in agribusiness of Serbia can understand as their investment in “know-how”, i.e. non-material assets of the enterprise. Economic effectiveness of such understood investment will be higher if it comes to knowledge transfer from a consultant to a client in the process of consulting, in a way that the client could henceforth independently to solve or avoid an appearance of similar business problem. Naturally, thereby does not stop a need for consulting, because there are also other aspects of business making, which require additional professional help regarding consulting and knowledge transfer. Introduction of changes requires from employees in the organization to adopt new knowledge, collect more information, to cope with new tasks, to improve their skills, so they often change their work habits, values and attitudes. This includes changes within humans – regarding management and employees, their abilities, motivation, behaviour and efficiency at work. At the same time include also changes in organizational structure – changes of values, settled habits, information relations, managing style. As it is a whole process of sea changes – it does not develop by its self: it is necessary learning, time, effort, persistence, capability, loyalty and devotion to the work. Although, it all cannot be done, at least in short time, without support of those who have already collected huge amounts of knowledge, gain experiences and all that can transfer to the others.

Starting from previously mentioned we have made up our mind to explore in the paper a contribution of consulting organizations to improvement of enterprises' performances in agribusiness of Serbia. The additional motive for such orientation is a fact that previous scarce research of consulting and its influence to business making in enterprises in Serbia are often incomplete and partial. On the other hand, from social legitimacy point of view, it is important to determine the influence of consulting services to the performances of enterprises (in which extent creates a value for clients through the consulting process), regarding that engagement of many consulting organizations is financed from the Republic of Serbia's budget and by the sources of international financial institutions and banks for development.

7.1. Analysis of the impact of management consulting to agricultural enterprises

The consulting represents a specific activity of helping the managers to solve the problems in business, for which they do not have enough expertness, knowledge and experience. In the modern market economies, especially in those which aim at

setting up the market mechanisms, the consulting is the result of need for adequate and timely information, which became the key factor of business success. Domestic enterprises have done business in non-market conditions and had not created professional and dynamic managers, which successfully manage the changes. Necessity of overall transformation requires a skill of specific activities and interventions, which are a catalyst of efficient enterprises making in the market economy.²⁸⁶

7.1.1. Approaches regarding the management consulting impact measurement

Business consulting has very accelerated development in past two decades. Enterprises often engage the consultants due to their external perspective and expert opinion, hoping that the consulting intervention will improve business performances. On enterprises' performances have effect many factors, which have interweaving and multiplying influence. Therefore is heavy to measure precisely the consulting influence, and in many situations requires highly sophisticated statistical methodology, for which appliance is necessary to fulfil numerous requirements. Accordingly, researching the influence of the consulting services on enterprise's performances in Serbian agro-complex is based on application of two, basically, similar approaches: 1) Balanced Score Card Approach; 2) Consultant's Score Card Approach.

The Balanced Score Card Approach of balanced standard system ensures connection of long-term strategic goals and short-term actions in the enterprise. With a view to help the enterprise to plan more realistic and to measure business performances, Robert Kaplan and David Norton have developed it during '90s.²⁸⁷ At first has developed the concept by which have wanted to supplement the traditional financial indicators with standards to show the mission realization of enterprises from three additional perspectives, from the following points of view: a) consumer, b) internal business processes and c) teaching and growth.²⁸⁸ Consequentially, there requires the balanced use of financial standards which show a progress in business, observed from the aspect of: 1) consumer, i.e. marketing, 2) internal possibilities of

²⁸⁶ **Cvijanović, D., Mihailović, B.** (2013): „Consulting as a Factor of Enterprises' Development in Serbian Agribusiness”, *Sustainable Technologies, Policies, and Constraints in the Green Economy*, A book edited by: PhDs Andrei Jean, PhD Adrian Turek, PhD Jonel Subic, PhD Dorel Dusmanescu, Advances in Environmental Engineering and Green Technologies Series, Published in the United States of America by Information Sciences Reference (an imprint of IGI Global), pp. 80-105.

²⁸⁷ Kaplan, R. and D.P. Norton (1992): „The Balanced Scorecard Measures That Drive Performance“, *Harvard Business Review*, January-February, pp. 71-79.

²⁸⁸ Kaplan, R. and D.P. Norton (1992): „The Balanced Scorecard Measures That Drive Performance“, *Harvard Business Review*, January-February, pp. 71-79.

the enterprise to do adequately good operations which require for servicing consumers' needs and desires and thereby gain competitive advantages, 3) opportunities of the enterprise to track a dynamism of market and technological factors through a teaching curve capitalization and thereby keeps and increases its competitive advantage.

The process of business management should be perceived through a dioptr of previous aspects in order to provide, through a transparency of goals, standards and initiatives, the connection of long-term strategies with the short-term actions. Accordingly, it is necessary to present each perspective through the goals, standards and initiatives. The consulting impact to the performances of enterprise in agro-complex of Serbia was analyzed by the *Consultant's Score Card* methodology. This methodology consists of six key measurements (reaction and satisfaction, teaching, implementation, business impact, ROI, non-material benefits) which encircle quantity and quality data. Thereat must take into consideration a fact that mostly consulting projects show the effect in couple of years after the implementation.²⁸⁹

On the enterprise's performances have effect numerous factors which belong to personnel education management, finances, institutional infrastructure etc. Consequentially, there puts a question of place and role of the consulting services in the enterprise performances' development in Serbian agro-complex, formulated in the form of the next hypothesis: *The consulting services are the fifth factor of agro-complex performances' development – besides education, management, finances and institutional infrastructure.*²⁹⁰ The evaluation of the consulting impact the enterprise performances were done by the *factorial analysis*.²⁹¹ Through it will isolate individual factors of the consulting services' development in Serbia, the factors which affect the enterprise performances, including also the consulting services, in order to determine the influence of each factor on the enterprise's

²⁸⁹ Simple method for isolation of the consulting impact is getting the information directly from participants in the consulting process. This approach starts from a fact that the participants of the consulting process are capable to determine or evaluate in which extent is improvement of the performances a consequence of the consulting intervention. Regarding that their actions produce improvement of the performances, the participants have high accuracy in the impact evaluation. They actually know in which extent have been the current changes in business of the enterprise provoked by the consulting intervention.

²⁹⁰ **Mihailović, B.** (2011): *Razvoj konsultantskih usluga u Srbiji i njihov uticaj na performanse preduzeća u agrokomplesu*, monografija, Institut za ekonomiku poljoprivrede Beograd, p. 156.

²⁹¹ **Mihailović, B.** (2011): *Razvoj konsultantskih usluga u Srbiji i njihov uticaj na performanse preduzeća u agrokomplesu*, monografija, Institut za ekonomiku poljoprivrede Beograd, p. 24.

business performances.²⁹² The factorial analysis represents multi-variance procedure which provides that in numerous observed variables, among which is a correlation, determine small number of basic variables which explain such inter-correlation. Those basic/latent variables are well-known as the factors.²⁹³

7.1.2. Controversies in funding the consulting services

The factors which make a rhombus of the national competitive advantage (state of production factors, domestic demand character, connected and supported branches and strategies of the company), give signals that the competitive potential of Serbia in agricultural production is on the bottom of the European countries' list. Statistical data, especially unfavourable export structure (domination of raw materials, more accurate, the products of low-processing stage in export) point out to non-competitiveness of domestic agriculture, observed from price, and more over marketing non-price elements points of view.²⁹⁴ The enterprises in Serbian agribusiness are in paradoxical situation: a way out from the crisis „searches for” the consulting services, which are very expensive, and the key reason for the enterprise restructuring is the financial crisis. In such conditions is hindered the consulting services' financing. In previous practice single out three special variants of the consulting services financing in those enterprises which do not have their own financial sources: 1) the consulting services financed by sources lent from banks for development; 2) the consulting financed by different donations and loans; 3) the consulting model for subsidizing small businesses.

However, besides numerous difficulties they face, the enterprises in Serbian agro-complex for financing the consulting services use the most their own assets (in 60% of surveyed enterprises). Also, significant number of the surveyed enterprises has combined source of the consulting services financing. The research of the consulting services market in Serbia shows that the enterprises in agro-complex fund the consulting services from the following sources: own assets 60.00%; sources from the international financial organizations program 6.67%; bank credits 3.33%; budget of the Ministry of Agriculture (incentives) 3.33%; Fund of Provincial Government – Secretariat for Agriculture 6.67%; own assets, assets via the SIEPA program 3.33%;

²⁹² Mihailović, B., Tepavac, R., Kovačević, M. (2012): „Application of factor analysis in evaluation of the consulting development in Serbia”, *Ekonomika poljoprivrede* br. 2/2012, pp. 229-242.

²⁹³ Tošić, V. (2007): *Primena metoda multivarijacione analize u istraživanju pozicioniranja turističkog proizvoda*. doktorska disertacija, Univerzitet Braća Karić.

²⁹⁴ Paraušić, V., Cvijanović, D. (2006): „Značaj i uloga klastera u identifikaciji izvora konkurentnosti agrarnog sektora”, *Industrija 2006*, vol. 34, br. 1-2, pp. 81-90.

own assets and bank credits 13.33%; own assets and incentives from the Ministry's budget 3.33%.²⁹⁵

Funding the consulting projects does not mean anything else but funding business projects. Method of the projects financing basically does not differ from the current business funding. What makes the projects funding from the current business funding is the extent and complexity of financing construction.²⁹⁶ For example, regarding investment projects which require great sources often forms a consortium in order to disperse a risk and collect a critical mass of assets necessary for the project initiation. Usually minor of necessary assets get by shares sale and major part from the credit and other sources.

7.1.3. Business problems of the enterprises in Serbian agro-complex

Agro-complex can be defined as a big sub-system of the total economy which encircles 1) industry of means for production in agriculture and food industry, 2) primary agricultural production, 3) processing industry for agricultural products (into final industrial-food and industrial non-food products), 4) turnover of agricultural-food products and 5) final food consumption. The essence of this big sub-system makes a complexity of functional connections and relations of inter-correlation and stipulation between some segments.²⁹⁷ Performances improvement of agro-complex in Serbia requires a constitution of market oriented enterprises, which implies series of structural changes, directed toward business efficiency improvement and adjustment to the market requirements.

Successful positioning on the agricultural products' market in Serbia requires adequate information on changes in the environment, and, before all on the market, in order to decrease risk and uncertainty. The market risk cannot be eliminated, but by the market research, it can be significantly comprehended and reduced. To the market needs should adjust by production structure changes and by adaptation of production regarding quality, quantity and competitiveness. According to our production capacities and comparative advantages, it is necessary to project the strategy of technological progress, agriculture, village and food industry development, as well as an offensive export orientation. The competitiveness on well organized market of goods and services has an irreplaceable role of efficient technological development filter, and it is the state's role to direct and stimulate the

²⁹⁵ Mihailović, B. (2011): *Razvoj konsultantskih usluga u Srbiji i njihov uticaj na performanse preduzeća u agrokompleksu*, monografija, Institut za ekonomiku poljoprivrede Beograd, p. 173.

²⁹⁶ Đuričin, D. (1996): *Upravljanje pomoću projekata*. Ekonomski institut, Deloitte&Touche, Beograd.

²⁹⁷ Milanović, M.R. (2002): *Prehrambena industrija SR Jugoslavije*. Društvo agrarnih ekonomista Jugoslavija, Institut za ekonomiku poljoprivrede, Beograd, p. 35.

intensity of technological development in the common interest.²⁹⁸ Serbia has a great potential in agricultural sector, which has not been completely used. Along with adequate agrarian policy, the agriculture can provide the significant contribution to the country's economic development. Due to its correlation and influence on other sectors, it is very important for development of Serbia. Besides it employs many people, directly or indirectly, it provides food safety of the people and contributes to rural development and ecological balance, and participates in foreign trade. The agriculture in Serbia faces many problems, which have been, beside other things, the result of limitations occurred in terms of economic environment and agrarian policy led after the Second World War until the SFRY decline, difficulties appeared in past fifteen years and difficulties in adjustment to the market economy.²⁹⁹

The agriculture in Serbia has been encumbered by consequences of central planned economy regarding property and land use. For development is necessary the policy which can have an effect on productivity increase by restructuring and investments, which implies clear ownership rights and forming the efficient market of land, credits and inputs needed for agricultural enterprises. Fundamentally, the managers in enterprises in Serbian agro-complex invite the consultants when they need help in solving the problems they face with. The concept "problem" uses here for indicating the situation in which the management, worried for the enterprise's fate, indecisive what to undertake, wherefrom to start and how to keep on. This is, of course, very common definition of the problem in management, but it suits to a reality. Indeed, a scope of the problems which entrust to the consultants is very wide. From the aspect of quality and seriousness of the situation, the consultants can engage to correct the specific situation (corrective problems), improve the current situation (progressive problems) or to create a brand new situation (creative problems). The research of the consulting services market in Serbia points out that the enterprise from the Serbian agro-complex engages the consultants due to:

- Progressive problems: 23.33%;
- Creative problems: 26.67%;
- Progressive and creative problems: 33.34%;
- Corrective and creative problems: 3.33%;
- Corrective, progressive and creative problems: 13.33%.³⁰⁰

There is noticeable that the enterprises from Serbian agro-complex engage the consultants the most due to progressive and corrective problems. None of the

²⁹⁸ Mandal, Š. (2004): *Tehnološki razvoj i politika*, Ekonomski fakultet, Beograd.

²⁹⁹ *Strategija poljoprivrede Srbije*, Ministarstvo poljoprivrede, šumarstva i vodoprivrede, Beograd, 2004, p. 8.

³⁰⁰ **Mihailović, B.** (2011): *Razvoj konsultantskih usluga u Srbiji i njihov uticaj na performanse preduzeća u agrokompleksu*, monografija, Institut za ekonomiku poljoprivrede Beograd, p. 157.

surveyed enterprises use the consulting services only due to the corrective problems. It is partly understandable, regarding that the consultants avoid the enterprises in liquidity and solvency crisis, primarily due to a fear from image and fee loss.

The corrective problems relate on the crisis situations. In the enterprise, for example, difficulties can appear in marketing. Size of products sale, successfully distributed for years, without obvious reasons starts to decrease and this starts to make a serious financial difficulties. Everyone will agree that this is an alarming problem which calls to an urgent solving, because it is sure that it is done with the available assets, by which has been realized much better effect in the past than today. This problem is clearly defined: it is, obviously the corrective problem and enough term for its settlement is turning back to the previous status, i.e. „finding the cause“. The settlement process starts with turning back to the aberration point, continues with finding the reason for the aberration, and ends with correction. Also, there is a great probability that, during this process, will find out many opportunities, not only for bringing back to the previous satisfactory status, but also for the situation improvement in regard to that status.

The progressive problems – overtaking the current status and its improvement. They can relate to the partial management elements, like accounting techniques, administrative procedures or keeping data. For example, the enterprise which uses one method of costs calculation wants to switch to another, more modern, in order to increase a precision and efficiency of costs control, by which will find its self in more favourable situation to take over the measures of savings, if necessary. In such cases, the consultant can have models or standards he usually uses and his main job will be to inquire their applicability terms, to decide on necessary changes and to persuade and train the stuff directly interested in the improvement procedure.

The creative problems place in front of the consultant minimum information. Sometimes there is nothing else than a couple of desires and a couple of fantastic ideas. It applies, for example, on enterprises in the agro-complex which have no particular business or financial difficulties and special desire for interventions, aiming to improve the short-term effect. The business predictions point out that there should not be any problem in foreseeable period of time, neither in marketing nor in raw materials and other means acquisition, but management considers that the enterprise has much bigger potential for development than the realized one at present. Therefore, the management is in dilemma regarding series of questions that logically intrude their selves:

- What should be done in order to use the future possibilities and prepare for them?

- Whether to spend more assets on research and development?
- To build new factory in order to enlarge facilities for the current products?
- Which type of the market research should undertake?
- Are there standards after which the enterprise could affect the future demand for the products?

If this is about, then the consultant surely must do many creative considerations and to set aside assets for thinking up the problems solution in the most unconventional ways. No necessary to emphasize that numerous of tasks will have elements of all three types of problems we have mentioned here. While he works on some obviously progressive type, the consultant might discover that there is necessary to make great number of corrective moves. Or, quite the reverse, the corrective problem could require completely new, creative approach, because otherwise, could not stop the process of continuous aggravation. The consulting character requires recognizing every situation in the future possibilities perspective. If resolves the corrective problem, the consultant will always wonder if it is really necessary to improve the poor situation or to search for new ways of defining the organization goals, in order to bring to increasing efficiency of the activities. The basic corrective problem can turn into the progressive or the creative one.

7.1.4. Demand for consulting services in Serbian agro-complex

The structure of used consulting services represents wide fan of the consulting projects, so it is often hard to make clear difference between some consulting services. Aiming at analysis and comparison with developed market economies, the used consulting services were grouped in specific categories by the FEACO classification. Accordingly, there can do differentiation to the following service lines: Corporative Strategy (CS), Operational Management (OM), Information Technology (IT), Human Resources (HR), management and Outsourcing services (OS).³⁰¹ The results of empirical research point out to the following structure of the consulting services use in Serbian agro-complex:³⁰² *The corporative strategy*: Marketing researches - 9,09%; Strategic planning – 9.09%; Enterprise's value evaluation – 2.27%; Consulting on the firm's sale issue – 2.27%; Financial consulting – 4.55%; *Operational management*: The standards HACCP, ISO, QMS -38.63%; Investment programs and reports – 2.27%; Production consulting -6.82%; Business plans - 6.82%; *Information technology*: Support in information resources use – 4.55%; *Human resources*: Human resources development – 4.55%; Personnel education –

³⁰¹ Survey of the European Management Consultancy Market, 2004, p. 8.

³⁰² Mihailović, B., Milanović, M.R., Cvijanović, D. (2010): "Ocena tražnje za konsultantskim uslugama kod preduzeća u agrokompleksu Srbije", *Ekonomika poljoprivrede*, vol. 57, br. 1, pp. 1-13.

4.55%; *Outsourcing services: Web design and internet marketing* – 4.54%. According to the results of the empirical research, the *highest demand for the consulting services in Serbian agro-complex relates to the field of the operational management and the corporative strategy*.³⁰³ That is to say, there are several “external” imperatives which increase the demand for the consulting services. The first, *standardization imperative*, increases the demand for the consulting services, regarding that enterprises cannot export goods to the EU market, unless specific standards in production have not been fulfilled. The second, *privatization imperative*, because it is about the legal obligation that enterprises finish the privatization until the end of 2008. The third one, *the imperative of business plan creation*, exist in order to have a base supported by documentary evidence in order to apply for assets at some funds, state institutions and banks. *If we neglect this type of demand (and take into consideration the previous demand structure) the total demand for the consulting services in Serbian agro-complex would be almost halved.*

The average grade of the clients' managerial support to the consultants during their work in the enterprise (client) is 3.74 (on the scale from 1 to 5), which represents a solid support to the consulting interventions. However, the more we stray from the top management level, the situation becomes worse, and i.e. there occurs an obstruction. At the same time, the analysis has shown that the consulting activity represents, for some, a suitable form of know-how transfer, i.e. necessary professional knowledge and experience, and for others a possibility for faster qualification, betterment, avoiding unwanted phases of roaming and eventual failures. The consulting bring good results if the consultants were competent for providing the services to the clients, and the clients were competent for using the consultants. The skill and expertise in using the consultants come together with the practice, but the practical experiences help only to those who make the evaluation and learn a lesson from that, and along with it, search for additional and more challenging experiences, which would provide them to expand their knowledge. The consulting service is of use to the client's interest only if the consultant keeps full objectivity and fairness. The consultant's professionalism reflects in independent opinion, even if it differs from the one the client wants to hear. The fairness means that the consultant must not be involved in internal policy of the company.

The management consulting organizations exist for the good reason: a spirit of management has changed. Unlike some periods before, abstract issues regarding transactional costs in economy require the manager's attention. The external management consultants are completely ready to fulfil these requirements. They

³⁰³ **Mihailović, B.**, Milanović, M.R., **Cvijanović, D.** (2010): “Ocena tražnje za konsultantskim uslugama kod preduzeća u agrokompleksu Srbije”, *Ekonomika poljoprivrede*, vol. 57, br. 1, pp. 1-13.

bring objectivity, experience and high productivity. Cooperation with the external experts, though not in all the cases, can cost the client less than using the internal resources, when calculate both direct and indirect costs. This will probably be in effect in the future, too. More than fifty years ago, the management consulting was considered one of the most exciting and the most influential trade branches in development.³⁰⁴ If nothing else, this is the same nowadays. The most of observers expect from the consultants to proceed with increasing their market share in the field of problem resolution on behalf of corporations and other organizations, so therefore will provide further economic growth. On the other side, there can happen that the client stop searching for the external consultants' services, especially in the cases with highly-skilled employees. This will appear instantaneously with internal system of business negotiations. In this scenario, the field of consulting will stagnate and wither away.

None of these two scenarios seem to be very convincingly. Regardless to that, if we observe the period of next 10-15 years, several factors are of use to the "scenario of persistent development". That is to say, the results of the survey showed that 19.3% of surveyed enterprises in Serbian agro-complex (which had not used the consulting) planned to use the consulting services in the next period (*Table 21*). Taking into consideration that more than half of the surveyed enterprises were using the consulting services, such business expectations should contribute to development of the consulting sector in Serbia.

Table 21. Using the consulting services in Serbian agro-complex

Using consulting services	% of enterprises in agro-complex
Used the consulting services	52.63
No, in the future period will not use the consulting services	28.07
No, in the future period plans to use the consulting services	19.3

Source: Mihailović, B., Milanović, M.R., Cvijanović, D. (2010): "Ocena tražnje za konsultantskim uslugama kod preduzeća u agrokompleksu Srbije", *Ekonomika poljoprivrede*, vol. 57, br. 1, pp. 1-13.

The consulting could not substantially to overcome a difficulty of work specialization and in that way, to redefine the adequate work division among the clients and the consultants. New forms of cooperation make easier the clients to export the problem outside. The example is a tendency of consulting organizations to long for long-term relations with the clients, as distinguished from doing business on individual

³⁰⁴ Stryker, P. (1954): „The Ambitious Consultants“, *Fortune*, May, 82-85. Teece, D. J. 1981. Internal Organization and Economic Performance: An Empirical Analysis of the Profitability of Principal Firms, *Journal of Industrial Economics* 30 (2), pp. 173-199.

projects. The second example is when the consultants ran from the classical model of „consulting analysis and recommendations where the clients make decisions and apply the solutions“. The cooperation is nowadays much more complex than it was fifteen years ago, when the clients and the consultants had been working together during the entire changing process. This trend can expect in the future, too.

The same significance has an indication that the internal (bureaucratic) transactional costs in big enterprises will decrease. In contrast to it, as we already mentioned, the transactional costs in economy have gradually and steadily increasing since '70s. This trend will not change easily in the future, at least for one reason: the global economy is starting to be more and more complex. In big enterprises, a need for cooperation and coordination will increase. If we track a life course of the consulting services during the transition, then is noticeable that in the future will be great demand for the consulting regarding: capital emission, shares operations, as well as integrations and takeover of enterprises, which all together require the complex business planning. Exactly for that reason, one of the potential fields of further research in this area, are previously mentioned consulting dimensions, which are going to become attractive with the privatization ending of domestic enterprises. The consulting support is necessary regarding the emission of capital and the operations with shares which realize on financial market. In that sense, the new hypothesis by which should handle another researchers is that the consulting represents a valuable support to business activities which realizes on the financial market, and thereat contributes to their development and adequate investments of the enterprise.

7.1.5. Results of the research, solutions and recommendations

The research has comprised many variables which affected the performance of enterprises in agro-complex (*Table 22*). Those variables have been used in a questionnaire in the form of “mark that and that characteristic”. Next step was to select the sample. The size and structure of the sample is adequate concerning the total number of enterprises (population). Accordingly, there was enabled the statistical analysis, because the criteria for the factorial analysis application are within allowed. The variables are the questionnaires' questions. Each variable has its value from 1 (minimum) up to 5 (maximum). The variable *Business incubators and clusters* were exempted from the consideration.³⁰⁵ Tests for the factorial analysis application have shown that this variable can have very low correlation coefficient with almost all other variables and is not suitable for including in the factorial analysis. These forms of enterprises association are still in „embryo phase“

³⁰⁵ **Mihailović, B.** (2011): *Razvoj konsultantskih usluga u Srbiji i njihov uticaj na performanse preduzeća u agrokompleksu*, monografija, Institut za ekonomiku poljoprivrede Beograd, p. 150.

of development and of sporadic character, so it is understandable that their influence, for now, is statistically irrelevant. The application of the factorial analysis implies extracting of the factors and determination of their participation in the variance. This is Kaiser's method of factors extracting, which has many imperfections, and uses only if the sample is higher than 250 and communality average is higher than 0.6, and in those case when the number of variables is lower than 30, and communalities higher than 0.7. There can see that the average value is higher than 0.7, so there is satisfied, so called, Kaiser's criterion for factors' determination.

Table 22. Variables which affect on enterprises performances in agro-complex

1. Consulting services
2. Institutional infrastructure
3. Political stability
4. Market liberalization
5. Privatization of enterprises
6. Competition
7. Prices
8. Exchange rate
9. Taxes
10. Education
11. Management
12. Technological development
13. Business strategy
14. Innovations
15. Business incubators and clusters
16. Finances

Source: Mihailović, B. (2011): *Razvoj konsultantskih usluga u Srbiji i njihov uticaj na performanse preduzeća u agrokompleksu*, monografija, Institut za ekonomiku poljoprivrede Beograd, p. 150.

According to the research results,³⁰⁶ we can notice the following: the factor 1 explains 41.43% of the phenomenon we are researching; the factor 2 explains 14.02% of the phenomenon we are researching; the factor 3 explains 9.1% of the phenomenon we are researching; the factor 4 explains 8.62% of the phenomenon we are researching; the factor 5 explains 6.85% of the phenomenon we are researching. It is obvious that these 5 factors represent 80% cumulatively variances, i.e. explain the phenomenon we are researching. From the last table can recognize which 5 variables make these five factors. We will take into consideration the

³⁰⁶³⁰⁶ **Mihailović, B.** (2011): *Razvoj konsultantskih usluga u Srbiji i njihov uticaj na performanse preduzeća u agrokompleksu*, monografija, Institut za ekonomiku poljoprivrede Beograd, p. 155.

variables, which make the factor, to be in correlation with it, which coefficient is higher than 0.6 (or 0.5).

- Factor 1 (Macroeconomic stability): Exchange rate, Institutional infrastructure, Prices, Taxes.
- Factor 2 (Innovativeness): Innovations, Business strategy, Consulting services, Finances,
- Factor 3 (Privatization): Enterprises privatization, Competitiveness,
- Factor 4 (Political-technological factor): Political stability, Technological development,
- Factor 5 (Competition in the sector): Market liberalization, Competition.

It is perceptible that the variables are grouped in certain factors according to their character, and that is why the factorial analysis is about. The first factor could be called *Macroeconomic stability*, the second could be called *Innovativeness*, the third *Privatization*, the fourth could be called *Political-technological* factor, and the fifth one is *Competition in the sector*. The variables which make some factors can supplement by criteria reduction to 0.5 and that would make a review of each factor more detailed. The competition is in the Factor 3 and the Factor 5, which leads to the conclusion that these two factors have been very similar by their characters. It is probably the consequence of comprehension, stated in answers to the survey that the concepts like *Privatization* and *Market liberalization* are very close to the concept *Competition*. In Serbian agro-complex 80% of variances in enterprise's performances can be credited to the group of 5 factors: macroeconomic stability, innovativeness, privatization, political-technological factor and competition in the sector.³⁰⁷

- The consulting services are, by their nature and connections with other variables, in the second group of factors, which represents innovativeness of the enterprise, which can be assessed as relatively significant influence to the performances of the enterprise in Serbian agro-complex.
- The surveyed enterprises in agro-complex were assessed with the highest grades the influence of the consulting services to the performances in the fields: quality of products (4.2); satisfaction of consumers (4.1); skills and knowledge of employees (3.83) and values for shareholders (3.73).

In the previous research has started from the hypothesis: *The consulting services are the fifth factor of performances development of enterprises in agro-complex – along with education, management, finances and institutional infrastructure*. However, the results of the factorial analysis have caused differently grouping of

³⁰⁷ **Mihailović, B.** (2011): *Razvoj konsultantskih usluga u Srbiji i njihov uticaj na performanse preduzeća u agrokompleksu*, monografija, Institut za ekonomiku poljoprivrede Beograd, p. 156.

some variables which influence on enterprises' performances in Serbian agro-complex. Therefore are the consulting services in the group of variables which belong to the Factor 2 – Innovativeness.

The variable Education and Management, too, according to the given criteria of the factorial analysis are not comprised by the final factors grouping, so in accordance to it, it is necessary to redefine a starting hypothesis in accordance with the previously stated conclusions of the research: *The primary factor which affects the enterprises' performances in agro-complex is macroeconomic stability, which comprises the next variables: exchange rate, institutional infrastructure, prices and taxes. The second factor is innovativeness of enterprises which, besides the consulting services, includes the innovations, business strategy and finances. These two factors describe more than 50% of variances in enterprises' performances of Serbian agro-complex.*

The significance of the theme analyzed in the paper multiplies by a fact that a special accent was put on agro-complex of Serbia, as well as its existing conditions. Therefore was necessary to do, in the approach, some forms of pre-research, testing, to handle with available literature, to study the processes in this field in developed European economies, as well as the phases of behaviour of some surrounding economies which had terminated the transition or are in the last phase. It is a logical assumption that all those experiences can pay attention to the paths Serbian economy is passing along, regarding that the transition in east-European countries is the same or similar, or this is the way it should be. In Serbia, since 2000, the consulting has become very topical.

Demand for the consulting services increases with objective needs, while dictates it: privatization, value evaluation of the enterprise, establishment of new small and medium enterprises as an assumption of market economy faster development, new products, searching for new markets, etc. Serbia, for its objective and subjective reasons, is late with the transition, so with a view to keep a pace with other countries, it hurriedly privatizes public property, often very awkwardly, sometimes insufficiently controlled and under nebulous circumstances. Follow-up effect of these processes is inevitably rapid development of the consulting services. It is natural that the consulting will be similar to something which happens in the economy: intensive, aggressive, almost uncontrolled, so no wonder it is often vulgarized. The consulting until now has not been defined in statistical classification of activities in Serbia, and therefore is difficult to analyze its development. According to initiated economic reforms, development of the consulting services' market is in direct dependence with a course of the transition process and restructuring of domestic enterprises. At the same time, clearing away the external limitations and bringing back Serbia into

international economic courses has conditioned a significant increase of demand for new knowledge, experiences and expertises, including those in form of the consulting services. Special interest is related to rehabilitation and enterprises' restructuring programs, but also on formulation and implementation of development strategy and networking with economic actors on international market, introduction of information technologies, improvement of management of enterprises basic functions' performances, joint ventures, technological cooperation etc. Privatization of enterprises requires many knowledge and creativity, which represents significant area of activity of consulting organizations. Introduction of market business in enterprises in Serbia represents a stimulus for the consultants to widen assortment of the consulting services, regarding that the clients must prepare to use rationally internal and external professional and creative potentials. Development of the consulting services market is neither simple, nor easy task which can be realized in short term and with modest financial support of the state.

Local private consulting sector often misses not just interest for this field, but also real capacities, and entrepreneurs are ready to spend their time and money only on those services which provide direct benefit in very short term. In such circumstances, the private market of these services can hardly to generate independently. At the same time, it is unrealistic to expect that the whole range of services for business development will be able to realize on the market principle, without the state intervention, because a part of the services, primarily those meant for beginners in business, are not sufficiently profitable.

The research has shown that the variable which affect on enterprise's performances in Serbian agro-complex have been grouped in specific factors by their character. The first factor could call *Macro-economic stability*, the second could be named *Innovativeness*, and the third factor could be called *Privatization*, the fourth *Political-technological factor*, while the fifth *Competition in the sector*. The competition is in the Factor 3 and the Factor 5, which leads to a conclusion that those two factors are similar or very close by their nature. It is probably a consequence of an idea, presented in answers to the survey that the concepts like „privatization” and „liberalization” of the market are very close to the „competition” concept. At this moment, the laws of the market business do not manifest their effect in many sectors. Big enterprises are in the phase of transformational changes expectation, medium enterprises are mostly finished the privatization, while small enterprises, without sufficient financial sources and business experiences, search for the market niches with the weakest competition. In such conditions, the consulting organizations help enterprises to realize their goals, to solve the problems regarding business and management, to identify and use new opportunities, to increase their knowledge and apply practically the suggested changes. The consulting services

can differ from case to case, depending on the goals they try to achieve, but their basic role is to increase the value and reputation of the enterprise, i.e. the client. Successful resolution of accumulated problems in period of the market economy affirmation is possible if creates the business environment which instigate the processes of economic and social system transformation in Serbia. The market way of business will not happen by its self. That is to say, except the factors, for example the state, which should be a catalyst of transformation processes, there is necessary also the support of private consulting firms in order to make easy making the market system in Serbia. The programs of consulting support for enterprises in Serbia exactly contribute to business development on the market economy principles. The consulting interventions lead to development of spontaneous economic processes which characterize the market economy. Those processes are development of the new sector, entrepreneurial initiative and business activities of already transformed enterprises.

7.2. Approach to formulation and conduction of a strategy in an agricultural enterprise

The enterprises do business in changeable and unpredictable environment. There is necessary a strategic approach during goals, strategies, policies, plans, programs and projects formulation. It is needed to evaluate weak and strong characteristics of enterprises and its strategic position in economy. The alternative goals of the enterprise which consider are neither real, nor acceptable, if does not have the resources' critical mass.

There can say that the most settling economic indicator of business results is a profit in short-term sense, and in long-term sense – income on investments. Gaining the profit at all costs cannot be socially acceptable approach to formulation and conduction of the strategy in modern market economy. Managing the enterprise is continuing process, by which starts and directs business activity in order to realize the business goals.

The result of managing process is managing decision and its conduction in business activity. Strategic management is a new concept which includes, as the strategic planning, as well as the strategic action in situation when the environment changes fast and the environment resistances increase.³⁰⁸ Critical capabilities necessary for success of the enterprise in modern economy are capability and swiftness of adjusting. The strategy is necessary in order for enterprise to react rationally on changes in the environment. Economic history shows that there survived those

³⁰⁸ Milisavljević, M., Todorović, J. (1991). *Strategijsko Upravljanje*, Ekonomski Fakultet, Beograd.

enterprises which have adjusted successfully to changes, becoming in certain intervals of time and certain business fields – initiators of changes. The strategic planning is mostly periodical activity which undertakes in order for enterprises to face with the changes in the environment. The strategy is planned decision by which, starting from goals and policy, precise the ways of their realization in enterprise's business policy. The strategy is a science and a skill of using the way to realize the goals.³⁰⁹

The enterprise is forced to learn not only on its own, but also on experience of others. Continual adjustment and progress in modern economy, means making new values for buyers, while, otherwise, there is no stimulus for buying products and services. Successful is the strategy which, as a result, has continual creation of real value for buyers, specific and unique in regard to the alternative ways of needs satisfaction.

There is also noticeable the connection of the strategy with the goals, as well as with time dimension of realizing the goals in the future. It is inevitable to mention always present, not only potential gain, but also a loss, in case if the action fails. The strategy is more series of decisions than only one decision. It will bring success to the enterprise if it provides making the unique competence in doing business activity, which is an assumption for competitive advantages.

In order for the enterprise to be successful, there must formulate the strategies based on an extrovert approach to developmental behaviour. According to proactive and inter-activist acting in the enterprise, the enterprise is becoming qualified to use and create changes timely, i.e. that, along with as lower as possible adaptation costs, avoid shocks in business and in the environment. Each growth strategy must be adequately financed, because always puts a question how much money is necessary to support the enterprise's growth.³¹⁰

Experience in modern enterprises business has influenced to a manifestation of new paradigm of strategic management which comprehends as a process of directing the enterprise's activities by which, based on anticipating the changes and threats from the environment and respecting strong and good characteristics of the enterprise, strikes the best balance between the goals, strategies, directions, methods and rhythm of growth, macro-organizational structure and the environment criteria.³¹¹

³⁰⁹ Voich, W. (1994): *Menadžment*, Poslovni sistem, Grmeč AD-Privredni pregled, Beograd.

³¹⁰ Milisavljević, M. (2002): *Savremeni strategijski menadžment*, Institut ekonomskih nauka, Beograd,

³¹¹ Mihailović, B., Simonović, Z., Hamović, V. (2008): "Formulisanje i realizacija strategije internacionalizacije poslovanja", *Ekonomika poljoprivrede, broj 3* (237-338) 2008, str. 289-305.

7.2.1. Systematic approach in the strategy formulation

Managing the enterprise represents a continual process by which starts and directs business activity in order to achieve business goals. A result of the management process is managing decision and its implementation in business activity. Strategic management is a new concept which includes, as the strategic planning, as well as the strategic action in terms when business environment changes quickly and the environment resistances increase.³¹² Key factors of the enterprise's success in modern economy are capability and swiftness of adjustment. The strategy is necessary in order the enterprise to react rationally on changes in the environment. Economic history shows that have survived those enterprises, which had successfully adjusted to the changes, becoming by themselves, in certain time intervals and specific business fields, the initiators of changes in the global economy. As basic characteristics of the world economy in the beginning of the XXI Century can cite some of the following:³¹³

- Globalization of total goods and financial flows along with concentration of the global decision-making power in several world centres,
- Liberalization of goods and capital flows at the global scene under pressures of the most powerful world economies, along with simultaneously withholding of restrictions for free motion of labour,
- Harmonization, coordination and regionalization of economic policies of member-countries of various economic-political groups, like the EU, ASEAN, NAFTA etc.

Accordingly, the strategy represents a rational reaction of organization on the events from its environment in which it does its business and wider social mission. Formulating the strategy comprises the missions and the goals of the organization.³¹⁴ A response can be found in formulating the adequate strategy or strategies as a logical interactive step of the strategic management. The systematic approach has significantly contributed to comprehension of an enterprise as a specific business system with economic, sociological and technological component. The strategies mostly divide by business system range. One is the enterprise's strategy as a complex business system, and others are the strategies which define

³¹² Kuzman, B. (2006): *Metodologije za poslovno i strateško planiranje*, monografija, Opštinska uprava Beočin; Srpska knjiga.

³¹³ Nacionalna strategija održivog razvoja, „Službeni glasnik RS”, br. 55/05, 71/05-ispavka i 101/07, p. 17.

³¹⁴ Mihailović, B., Simonović, Z., Subić, J. (2008): “Strategija preduzeća u funkciji efikasne alokacije resursa”, International Scientific Meeting: “*Multifunctional Agriculture and Rural Development III – rural development and (un)limited resources*”, 4-5th December 2008, Faculty of Agriculture in Zemun – Belgrade, knjiga 2, pp. 89-94;

for specific sub-systems which can have a status of a profit centre, and the third for business functions. After this approach, the most important is to ensure directing and cohesion of business system. The cohesion represents a mutual correlation between individual sub-systems activities. There is present an adequate holistic principle, which has two components: a principle of coordination and a principle of integration. The coordination deals with relations among different sub-systems on the same organizational level, and the integration deals with connection among the sub-systems on different levels in the organization. For comprehension of the enterprise as a business system should start from its entirety to its parts, not from the parts to the entirety. There should make a labour division among the sub-systems and to ensure their business activities coordination.

The strategy of the enterprise which has, in its content, the sub-systems which can have the status of profit centre, i.e. they represent relatively independent strategic business units, is a unique portfolio strategy. A role of portfolio is to balance between an income/risk among the sub-systems.³¹⁵ Rational relation among the enterprise's actions and its sub-systems in space and time achieves through formulating and conduction of the strategy. A task of a manager is to set goals and develops the strategies by which he will realize it. Setting the goals and determining the strategy is connected with prognostication or anticipation of a firm's final product demand.³¹⁶ In the concepts analysis which provides successful formulation and conduction of the strategy, there was concluded that there were four alternatives: portfolio, restructuring, expertness transfer and mutual activities.³¹⁷ Portfolio concept gave the best results. It is possible to integrate in an enterprise, as a whole, sub-systems which have been, until then, independent enterprises, run into difficulties for various reasons. That can be done through a restructuring process. There is also needed readiness and capability to do restructuring. Expertness transfer of a sub-system to the other is possible only if there is a similarity among them. A concept of mutual activities applies for more sub-systems which make »value chain«.

7.2.2. Strategic options and a process of the strategy formulation

If we do a review of the existing strategy rationality, there opens a possibility to consider a spectrum of possible ways for better realization of the existing and the potential goals. When the enterprise is satisfied by business results and expects

³¹⁵ Mašić, B. (1996): *Strategijski Menadžment*, Univerzitet "Braća Karić" BK Institut, Beograd, p. 8.

³¹⁶ Todorović, J., Đuričin, D., Janošević, S. (1998): *Strategijski Menadžment*, Institut za tržišna istraživanja, Beograd.

³¹⁷ Schweinic, C. R. (1988): *The Essence of Strategic Decision-making*, Lexington Books, Lexington Mass, p. 10.

every year approximately the same growth rates in the same business areas, then applies, so called, stabile growth strategy. There can formulate the strategy of concentration on a certain market segment, which can bring making a competing priority to a successfully specialized enterprise. A diversification strategy is also attractive and can be realized by adding a new product line into a production program, which insignificantly differ from the existing one, which represents a concentric diversification. There can do the integration with the enterprises, which have done different activities, and this is called a conglomerated diversification. The strategy represents rational reaction of organization to events from its surroundings in which it does its business and wider social mission. Formulating the strategy comprises a determination of various paths, i.e. various strategic options for realization of the mission and the goals of the organization. The mission and developmental goals of the organization imposed a question how to realize them. The answer can be found in formulating the adequate strategy or strategies, as a logical interactive step of the strategic management.

The process of the strategy formulation encircles: a suggestion of strategic alternatives, an evaluation of the alternatives, decision-making, determination of strategy priorities for different levels of the strategies. The process of formulation by itself is in jurisdiction of a general manager, i.e. an owner, directors' board, general directors, top managers of the corporation, including also professional planers. The strategic management systems and functions of the manager change permanently due to the changes acceleration in the strategic ambience and the environment complexity in which the organization does its business and wider social mission. Through the process of the strategy formulation shows: how an enterprise have assessed chances and threats, how it has understood the strategic situation, as well as how it has identified ways and methods of acting in specific business environment. In regard that it is about a key planned decision, it is relevant to put the strategy formulation in a context of strategic management. As well as every decision-making process of strategy formulation, there must respect necessarily:³¹⁸

1. Logical order of phases,
2. Needed research-creative effort and
3. Organizational-procedural dimension.

It is necessary to understand the strategy formulation as the appropriate process, which contain the logical order of phases. That process must provide:

1. Regular definition of a problem,
2. Dimensioning its significance,
3. Identifying the alternative solutions,

³¹⁸ Todorović, J., Đuričin, D., Janošević, S. (1998): *Strategijski Menadžment*, Institut za tržišna istraživanja, Beograd.

4. Assessment of the alternative and
5. Selection or decision-making on strategic option.

There is also inevitable the appropriate research-creative effort and understanding the relation among planned decision. In regard to that, the formulation of the strategy should involve the strategic analysis of the environment and the research-creative phase, out of which should result the possible options of enterprises' reaction. Considering that the strategy realization upsets wider circle of actors, there is relevant an organizational-procedural dimension. This dimension has been caused by the strategy coverage and accepted management style. Successful formulation of the strategy is a base for successful strategy implementation. There can say that the strategy goal is to produce the most favourable conditions for one side, accurately evaluating the favourable moment for attack, retreat, compromise or cooperation. Formulating the strategy comprises determination of various paths, i.e. generating, valuating and selecting the strategic options for realization of the enterprises' mission and goals.

7.2.3. Decision-making models

In theory and practice were developed numerous decision-making models, which involve the strategic deliberation and analytical contemplation. Each of these models bases on adequate concepts, which alleviate the formulation of the optimal strategy in the environment circumstances and in resource limitations. A classical economic or rational decision-making model, which has been very popular, starts from a rational behaviour of the one who makes decisions, according to verified facts and thereby has been economically motivated.³¹⁹ In this model is not given a specific significance to value statements, emotions and personal preferences of those who make decisions. Decision makers perceive all possible solutions of certain problem and perceive all possible consequences of every alternative. Unlike the economic model, the management model starts from an assumption on limited rationality of those who make decisions. During the strategy formulation and making the adequate decisions, the goals from which starts are often blurred conflicting and there is no consensus on them by those who make decisions. There is also no consciousness on these problems and possible alternative solutions and opportunities which occur in the enterprise. On one hand, many managers do not have enough information, and on the other hand, are unclear criterion what is an optimal solution. According to an apprehension, there are three models of the strategic decisions-making processes: cognitive (experiential) processes,

³¹⁹ Milisavljević, M., Todorović, J. (1991): *Strategijsko Upravljanje*, Ekonomski Fakultet, Beograd.

organizational processes and political processes.³²⁰ In the cognitive processes model, an enterprise observes as a rational personality, and an accent is on perceiving the factors which affect on the decision. In the organizational processes model, the main assumption is that the organizational structure and processes affect to decisions making. At the end, regarding the political processes model, decision-making realizes under the influence of political power.

In literature is also present an apprehension that there are three ways of making the strategy: entrepreneurial, adaptive and planned.³²¹ Regarding the entrepreneurial approach is characteristic also an endeavour to find and create new possibilities for an enterprise's growth. There is also a tendency toward a centralization of decision-making and risk acceptance. Regarding the adaptive approach, the strategy is obtained step by step, through series of decisions, in a way, we can say, more reactive than pro-active. In third one, i.e. the planned approach, the analysts play significant role in making and formulating the strategy. In defining the strategy, should start from the mission or the purpose of an enterprise at the first hierarchy level, and at the second should perceive the factors that make the situation risky, while at the third should make scenarios (for example, status quo, optimistic and pessimistic). At the third hierarchical level should define goals, and at the fifth to suggest actions, i.e. the ways in which the goals could achieve.

7.2.4. Strategic contemplation

The enterprise meets different difficulties and problems during its mission achievement. The problems can be defined as obstacles in goals achievement, and the strategy as a way of goals realization, where the strategic decisions aim to solve the problem of strategic significance from the enterprise. There is widely accepted opinion that a manager plays a decisive role in his organizational unit or enterprise. In accordance to the formal organization, only he can oblige the organizational unit or enterprise for new direction of the action and only he has enough information to make decisions, which determine the action's direction. Often speaks on the strategic management process as the systematic approach in making the essential decisions for survival, growth and development of an enterprise. The basic assumption is availability of information, based on which is possible to make the effective decisions in terms of uncertainty. There accentuates that the strategic

³²⁰ Schweinic, C. R. (1988): *The Essence of Strategic Decision-making*. Lexington Books, Lexington Mass.

³²¹ Minzberg, H. (1973): *Strategy-making in three models*. California Management Review 2, pp. 44-53.

decisions, in comparison with purely intuitive decisions, base on the objective criteria and the analysis, not only on previous experiences, evaluation and premonition.

Pleading for the strategic management, as the approach in decision making, Henderson, who has founded and has given a great contribution to development of Boston Consulting group, said: »Accelerated rate of change makes today business world, in which are common habits of the enterprise's management inadequate. The experience was an adequate base when changes happened at small-scale. But intuitive and, on experience based management philosophies, are very inadequate when decisions are strategic and have unrepeatable consequences«. ³²² Henderson's attitude should be considered as a critic of decision-making in which dominate prejudices over logical reasoning. The previous experience was useful as one of the basis in making the strategic decisions. However, the experience should be an adaptability base, and not a cause of blindly observance to a business tradition. Therefore considers that there should be creative in thinking and decision-making. The creativity is the availability to strike on an idea that is new and useful.

The phases in creative process are: preparation – incubation – recognition. The creative persons are sensible and they prefer complexity. For creative thinking is necessary the ability of lateral thinking. Conception thinking is the ability to start from concrete toward abstract one, and then backwards to the concrete situation. It is needed to have a holistic vision in sense of the ability to see totality and not to be confused by individual events in the middle. There might rightly conclude a necessity of holistic approach to strategic thinking. It is important to understand interdependence of the events, not only individual events. The strategic way of thinking is necessary for decisions which directly lead to a business action.

In decision-making should avoid three types of „destructive thoughts“: 1. Rigid mind which limits originality, ignores changes and encourages self-satisfaction, 2. Ego-mind which destroys objectivity and makes impossible common thinking, 3. So called, Machiavelli's thinking, while the whole thinking becomes „a policy“. Modern information systems alleviate a process of strategic thinking, decision-making and formulating of high quality decisions of strategic character. There is necessary the ability of logical thinking to draw conclusions from the available information fund. The logical thinking can be as deductive, as well as inductive. The logical thinking provides that a problem perceives, divides into elements and restructure. Before the decision is made is necessary to check whether was put the right question, whether all reasonable alternatives and their consequences were considered and whether were really evaluated all necessary reserves for case of surprise. The most attention

³²² Henderson, B. (1979): *Henderson on Corporate Strategy*. ABT Books, Boston.

must pay on evaluation of probability and a balance between a risk and a profit. Real recognition of current position of an enterprise in the middle is significant for formulating the high quality strategic decisions.

7.2.5. Strategic decision-making

The strategic decision-making has for its purpose the improvement of the strategic position of an enterprise in the future, by initiating the actions in present time. The strategic decisions must bring according to facts, knowledge and area of business. Besides the experience, it is necessary also reasoning to do the current state analysis, anticipate business perspective and bring the most quality decision. According to a comprehension, standard distribution of decision quality is the following: 68% are acceptable decisions, 14% are weak decisions, 14% are superior decisions, 2% are unacceptable decisions, 2% are exceptional decisions.³²³ There should keep up to certain rules of decision making, in order to avoid unacceptable and weak, and to increase a number of superior and exceptional decisions. Energy consumed for decision making should be in proportion with significance of problems, which solve for the strategic position of an enterprise. A key phase in the process of strategic decision making is a selection of an alternative which considers the most favourable. In economic practice are two approaches for evaluation and selection of alternatives. The second approach is scoring approach, after which determine scores for each alternative and selects the alternative with the highest scores. The experience shows that, in making such decisions which require significant investments of production factors, there is a tendency for putting in relation a result character and investments dimension for the alternatives which are observed. It is undoubtedly that the most difficult is to choose the alternative direction in situation which the enterprise can characterize as crisis. It is a situation in which exists a need for quick reaction, and capability of reacting is problematic. In complex situation is present a risk of impulsive reacting and selection of an alternative, which promises a way out from the situation, without its consequences perceiving. When the situation requires direct reacting, there must say that the strategic change is urgent.

In crisis situation, in which symptoms are clear, requires overall corrective action. The enterprise also reacts reactively when the symptoms are visible, but not pressing. There must diagnose the state and take over the corrective action. If the problems, the enterprise will face with, are predictable, there is possible the reactive reacting. In the crisis situation is necessary urgent decision and prompt action. The

³²³ Monday, P. E. (1989): *Decision-Making*. McGraw-Hill Book Company, New York, p. 186.

pressure of time increases a tension between the participants in decision making in the enterprise, which can lead to decreasing the number of alternatives which consider, rigidity in thinking and lack of readiness for making decisions.

There is desirable a person with leader characteristics in order to solve the problem, and overcome the crisis situation. A suggestion and an action plan are necessary to make. The change starts when the decision is made and some procedures and its realization methods are defined. In strategic decision making should take care of characteristics which successful strategy should have.

The effective strategy should contain the following characteristics: continuance, accomplished performances, quality, action direction, certain focus, connectivity and importance. The strategic decision making includes the adequate situation analysis and evaluation of important external and internal information for identification of short-term and long-term problems and alternative resolutions. Step by step, the situation analysis evaluates the market service and non-service, characteristics of buyers' behaviour, competitive situation, production programs, distributive policies, prices, and financial strategies.

When ends the situation analysis, the strategies and tactics and budgets can be formulated. There is interesting the Japanese practice where uses, so called, a visionary decision making, which respects decision making rules. Analyzing the environment factors leads to logical hypothesis according to which makes a scenario of the future.

Of many options, only few are of interest for the enterprise. When the decisions are made, the production factors should allocate aggressively. The strategy directs according to the current and future potential and does not strive to realize in a short term. As long as a question is not put regarding the main assumptions, according to which has been made a decision on the strategy, it should be conducted decisively. If some changes are made, the strategy should be re-formulated. There could conclude that the most of successful strategies are always simple and that successful business requires a leadership.

7.2.6. Group decision making

In modern world economy there are different styles of decision making in enterprises. Five usual decision-making styles of managers in enterprises are present. The first one is when the manager makes decisions by his own, using available information. The second one is when the manager collects the information, but makes the decision by himself. The third one is when the manager perceives the

problem with associates individually and gets from each of them ideas and suggestions, without gathering them as a group. The fourth style is the manager presents a problem in front of his associates and tries to get some ideas and suggestions from them, as a group. Finally, the fifth style is when a group of associates helps the manager to mutually make and evaluate the alternatives, according to which they, as a group, make decisions on selection of the most favourable.

There are managers who believe that group decisions have effectiveness, while use knowledge of many people. The others avoid group decisions, due to slowness and tendency to respect all presented aspects. Advantages in making the group decisions should put in relation with noticed failures. The advantages are the following:

1. Defining the group goals ensures increasing knowledge fund,
2. In making the alternatives, individual effort of group members ensures wider comprehensions in different functional areas of enterprise,
3. In evaluation of alternatives, the group has more aspects,
4. In selection of alternatives, the group tends to accept higher risk than individual who makes decisions by himself,
5. Due to participation in decision making process, individuals as the group members, are more motivated for decision making,
6. More creativity results from interactions of individuals with different aspects.

Deficiencies of group decision making are:

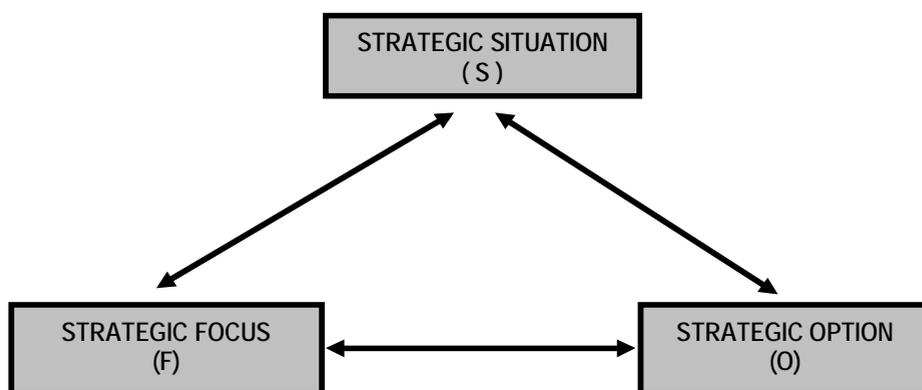
1. Implementation of decisions,
2. Group decisions are more expensive if values the time of many participants in decision-making,
3. Group decisions are inefficient when there is inevitable to make quick decision,
4. Group decisions can, in some situations, be a result of compromise and indecision of some members of the group,
5. If the manager is biased or one of the members has a dominant position of group decision and are not a result of mutual group work.

The group should be consisted of experienced people, who are ready to give a full contribution in decision making process. We can say that free communication is a good way to make cohesion of the group. The group leader must know how to direct the process of decision making, and not to dominate by it.

7.2.7. Analytical frame for the strategy selection

There are numerous kinds of strategies and wider repertoire of strategic options. Important is that the process of the strategy selection be appropriate to the strategic situation's nature. For defining the strategic situation is primarily significant to deal with the business environment analysis and enterprise and enterprise resources. A purpose of the analysis is to identify possible chances and threats and thereby create a base for directing the enterprise's effort. Defining the strategic situation is a part of a conceptual frame which shows a relation between the strategic situation, strategic focus and strategic option. So called, SFO approach (situation, focus, option) relates chances and threats, the relation between enterprise and them, as well as directions and methods of concrete acting. The relation between the situation, focus and option can be seen in the next *picture 4*.

Picture 4. SFO approach to strategy formulation



Source: Todorović, J., Đuričin, D., Janošević, S. (1998): *Strategijski Menadžment*, Institut za tržišna istraživanja, Beograd.

In defining the strategic situation we must analyze the environment and resources. The environment can be: general and target, favourable and unfavourable, good and bad, urgent, postponable and permanent. The impact can also be negative, positive and stabilization. Regarding the resources should test the state, utilization level and balance.

Accordingly, we can use various instruments. The most are used: TOWS matrixes, matrix of chances and threats, experience chain, financial analysis instruments and experience curve. Considering that just through coming face to face the environment and the resources of the enterprise, can closer determine the chances and threats

and critical factors of business success, it is relevant for the research to be directed towards the analysis of enterprise's internal opportunities.

It is about the analysis which was directed to an identification of the enterprise's strategic capabilities.³²⁴ Those capabilities origin from material, financial, personnel and other know-how characteristics, as well as from the quality of their utilization and balance in some area of the business. The analysis should comprise input and output logistics, marketing and servicing. For identifying the strategic capabilities of the enterprise is good to perceive the balance between the activities and the resources, from the following points of view:

1. complementarity of their allocation on some products, where can determine a priority of resorces engagement by application of matrix portfolio,
2. level of personnel characterics adjustment with work place requirements, and especially when it is about the key business functions,
3. flexibility level in regard to the nevironment dynamic and a level of involved risk.

In accordance to the state of resources and critical factors of success should identify the strategic capability of the enterprise, which will compare then with the environment state and according to it, draws conclusions on chances and threats. For defining the strategic situation is good to rely on previously mentioned concepts: chances and threats matrixes, TOWS matrix, as well as the matrix of facing the quality of the environment and the strategic capabilities, and especially regarding the strategic situation transformation into the strategic focus. The next phase within the SFO approach is the orientation of the strategic focus, where perceive the strategic capabilities of the enterprise and the environment state.

7.2.8. Orientation of the strategic focus

The analysis and polarization of the environment and the strategic capabilities of the enterprise should provide the orientation of the enterprise's general activity direction. Based on understanding the relation between general and competitive environment can evaluate the alternatives and main directions toward the general and target environment. The goal is to choose the strategic focus by facing different states of the environment quality and capability of the enterprise, which can be seen in the *picture 5*. The first quadrant represents a combination of favourable environment and strong strategic capabilities of the enterprise. We can say that the primary

³²⁴ Todorović, J., Đuričin, D., Janošević, S. (1998): *Strategijski Menadžment*, Institut za tržišna istraživanja, Beograd.

strategic focus is on: the environment preservation, increase of own market share, position insurance in regard to new and existing competitors attack.

Picture 5. Identification of the strategic focus

	<i>Strong abilities</i>	<i>Poor abilities</i>
<i>Favourable state of the environment</i>	<p>1</p> <ul style="list-style-type: none"> -Keep the favourable environment -Increase market participation -To gain a dominant position -To cooperate with competition -Preventive defense 	<p>3</p> <p>To stay in the favourable environment through:</p> <ul style="list-style-type: none"> a) stabile growth b) to gain upon resources through a vertical and a horizontal integration
<i>Unfavourable state of the environment</i>	<p>2</p> <ul style="list-style-type: none"> -to change the environment (internationalization, initiation of new market and technological trends) -To amortize the environment impact -To organize defense 	<p>4</p> <p>Planned withdrawal through:</p> <ul style="list-style-type: none"> a) divestment, b) spin off, c) sell off operations

Source: Todorović, J., Đuričin, D., Janošević, S. (1998): *Strategijski Menadžment*, Institut za tržišna istraživanja, Beograd.

The second quadrant is combination of unfavourable environment and strong strategic capabilities of the enterprise. In that regard, the main strategic focuses are: 1. Change of the environment through interactivity approach and business internationalization, 2. Amortization of unfavourable environment impact through certain forms of business diversification and investments in relevant elements of internal flexibility, 3. Adjustment to the environment, where, through the pre-activity approach, anticipate in time unfavourable trends and reacts according to a plan on them. The third quadrant shows the combination of favourable environment and the weak strategic abilities of the enterprise. In this case is logical that the focus is directed to strengthening of resource and other possibilities of the enterprise, in order to use generosity of the environment.

At the end, the fourth quadrant represents a constellation of the unfavourable environment and weak strategic abilities of the enterprise. It is necessary that the enterprise withdraws from certain business space and area of activity, along with, as less as possible, losses.

7.2.9. Selection of the strategic option

When once approach to reconsideration of the existing strategy rationality, there occurs a possibility to take into consideration a spectrum of potential ways for better goals realization. If the inertia is strong, there usually seeks the ways which are „the same, just a little different” in regard to the existing strategy. The enterprises are often not satisfied with business results, but there is great fear of drastic changes in regard to the traditional orientation to some business area. Taking into consideration the strategic situation and the strategic focus, there is necessary to select a strategy by which will concretize the enterprise's behaviour.

There should respect interests of the main stakeholders, as well as an intensity of some chances and threats. It is about the unique research-creative in which create possible actions at the beginning, and then make a selection of the most favourable. Dynamism of the environment and complexity of the enterprise's structure limit a rational selection. Besides, the selection of the strategy is conditioned by accepted management style.

Regarding that predominant characteristic of the strategy is exactly the way how adjusting the possibilities of the enterprise to the environment dynamism, points out to enterprises' division: defenders, prospectors, analysts and re-activists.³²⁵ The defender strategy is characteristic for those enterprises which do business in stable and less risky environment. The enterprise-defender tries to choose and defend some market segment, getting into it through concentrated marketing and using certain distinctive competitiveness. The enterprise-prospector does business in the environment with the risk and uncertainty, i.e. chances and threats, so it bases its strategy on revealing new markets, stimulating the creativity, innovations and taking the risk. The analyst strategy is practiced at those enterprises which do business in relatively stable environment and medium expressed risk and uncertainties. They want to preserve a stability of the existing activities' core, but also to have a function of these new production and market chances dynamism, as well as technological possibilities. Finally, re-activists are specific after their inadequate reacting and, exactly because of that, they have a low level of business performances. It can be due to a bad management, non-adjustment of the strategy and the structure and due to non-propulsive business culture. There considers that the strategy formulation, besides a meticulous analysis of the environment factors and enterprise capability, implies also a social-cultural process in which become prominent, so called, soft components of the organizational structure. Identifying and setting up the relation among the chances and threats and weak and strong aspects of the enterprise is

³²⁵ Griffin, R. (1990): *Management*, Houghton Milton.

pervaded by the constellation of business culture elements, such as: rituals and myths, power structure, routines, power structure, control system and the organizational structure. We can say that, by creating and selecting the strategic options, concretizes the enterprise's behaviour in a way that just it fits to: possibilities of the enterprise, interests of the main stakeholders, the chances and the threats.

The research has shown that formulating the efficient strategy of an enterprise requires appropriate research-creative effort and understanding of relation between planned decisions. In regard to that, formulation of the strategy should include strategic analysis of the environment and research-creative phase, out of which should result possible options of the enterprise's reaction. Regarding that the strategy realization upsets wider circle of actors, there is relevant an organizational-procedural dimension. This dimension has been caused by coverage of the strategy and accepted management style.

The successful strategy formulation is a base of successful strategy implementation. There can say that the strategy goal is to produce the most favourable conditions for one side, exactly assessing the favourable moment for attack, retreat, compromise or cooperation. The strategy formulation comprises determination of different paths, i.e. generating, valuating and selecting the strategy options for realization of an enterprise's mission and goals.

When defining the strategy should start from the mission or purpose of an enterprise at the first hierarchy level, at the second level should perceive factors which make the situation risky, and at the third level should create scenarios (for example, status quo, optimistic and pessimistic). At the fourth hierarchical level should define the goals, and at the fifth to suggest actions or ways in which the goals could realize. Theoretically and practically, there have been developed numerous models of decision-making, which include the strategic deliberation and analytical contemplation. Each of these models basis on the appropriate concepts which easy the optimal strategy formulation in given conditions of the environment and at given recourse limitations.

The analysis showed that there were numerous types of strategy and wide repertoire of strategic options. It is important that the process of the strategy selection be appropriate to the strategic situation characteristic. For defining the strategy situation is primarily important the analysis of business environment and an enterprise's resources. A purpose of the analysis is to identify possible chances and threats and thereby create a base for directing the enterprise's efforts. Of the manager is required to think analytically, to be a visionary and to experiment with

new opportunities. The business is a dynamic process, so the goals and the strategies must reconsider continuously, in order to make enterprise ready to respond on competition and technology development. At the end, we can conclude that formulating the strategy comprises the determination of different ways, i.e. different strategic options for achieving the organization's missions and goals.

7.3. The role of financial consulting in the modern business of agricultural enterprises

Founding business-attractive enterprises initiates a need for financial consulting. The consulting organizations support the companies to achieve their financial goals, solve the issues concerning finances and management, identify and use new financial possibilities, increase their knowledge and apply suggested changes in practice. In domestic economy lacks the knowledge in the field of financial planning, which has been an integral element of modern business. Due to its nature, managing the finances comes into every business sphere. It is a way to get assets for realization of business operations and measure business effect and business results, in detail and globally.

In concrete surroundings, in order to survive, the enterprises have to change and develop again and again. The survival and develop imply the efforts in re-evaluation and repeated affirmation of the enterprise's competitive advantages and their positions on the market. As to that achievement, great and well-known firms, internationally recognized, have to hire consulting firms to help them, setting aside significant assets for that. This is a course Serbian economy should also inevitably take, because it is the only way which leads to EC's economy connection, i.e. to survival, stabilization and development.

Financial consulting of the enterprise requires a meticulous financial analysis, i.e. diagnosis of the enterprise's financial possibilities, according to which create financial projections and give financial recommendations, but also provides support during their implementation. The role of financial consultants is also emphasized during negotiations with potential creditors and investors. The essence of finances management results from a fact that enterprise can disburse its due liabilities only in cash, in normal circumstances. The financial problems of the enterprise are obvious when disposable cash inflows are not sufficient to cover the expenses in accordance to due liabilities. Considering forms of financial difficulties that occur and possible alternatives for their resolution, *Giroux and Wiggins* think that there is no general recipe, i.e. that the alternatives of overcoming the difficulties are dictated by causes, which have already initiated also the intensity of crisis (level of the enterprise's

jeopardy).³²⁶ Longtime- lasted crisis of domestic economy has led to increase of the enterprise's accumulative capacity. In such situation, there is no critical mass of assets needed for organizing the investment activity, neither a readiness to overtake financial risks, followed by these activities.³²⁷

Financial evaluation is the essential component of the business diagnostic research and efficiency of organization.³²⁸ In working tasks, financial consultant can cooperate with consultants in other fields, especially in the field of production and marketing, measuring financial consequences of their proposals or working on questions like price formation, where apply also financial and market considerations. He can, however, overtake a task which is connected only with financial issues, like planning financial structures, finding assets and designing the accountancy system. Sometimes financial consulting occurs due to clients reasoning that there is a lack of cash problem. In other cases, research of the client's business activity, especially financial audit, can reveal a lack in financial structures, systems and control. The consultants often require support of financial consultants in other fields, in order to assess financial feasibility of their proposals.

If the working task is in the field of business strategy and long-term planning, it will contain, in any case, the consulting about financial consequences of the alternative strategies and strategies in financial field of activity, including new assets sources and their optimal use. Such consulting will require knowledge of financial expert or general management consultant will have to be well familiar with financial terms and theories.

The enterprise always has a possibility to reduce some expenses or eliminate them completely in short term (research and development expenses, advertising and propaganda, knowledge innovation etc.). Unless the expenses reduction does not provide surplus in monetary flows of the enterprise, next step would be postponement of loan payments and property sale. Failure of mentioned corrective

³²⁶ Giroux, G., Wiggins, E. (1983): *Chapter XI and corporate resuscitation*, Financial Executiva, December, p. 425.

³²⁷ **Mihailović, B.**, Subić, J., **Cvijanović, D.** (2007): "Makroeconomic's indicators of investments moving in Serbia at period 2000-2005", Simpozionul Internațional *Investițiile și Relansarea Economică*, Ediția a VII-a, SYMPOSIUM ON INVESTMENTS AND ECONOMIC RECOVERY, 25-27 Mai 2007., București, Academia de Studii Economice din București, Facultatea Management, Catedra de Eficiență Economică, p. 26.

³²⁸ **Mihailović, B.**, **Cvijanović, D.**, Gligić, P. (2010): „The Role of Financial Consulting in modern business”, *Zbornik radova sa II Međunarodne naučn-stručne konferencije koja je održana 15 i 16. juna 2010. godine u Stavropolju – Ruska Federacija*. Stavropoljski državni poljoprivredni Univerzitet, Stavropolj – Ruska Federacija; Slovački agarni univerzitet, Nitra – Slovačka i Institut za ekonomiku poljoprivrede, Beograd – Srbija, pp. 19-30.

activities in overcoming financial difficulties probably leads to problems escalation and often leaves to the enterprise additional possibility – termination of business activities. Although the order of individual moves can vary from situation to situation, the exposed measures on balance of monetary flows reflect typical „scenario“ of facing the financial difficulties and their overcoming.³²⁹

The consulting organizations which provide services within financial restructuring do business on high-competitive consulting market. The competitiveness is important engine and factor which effects on demand and behavior of consulting companies. They contest for the clients and markets with other firms within the same field and with the firms of other specialties.

The consulting companies which provide financial services and investmentbankers include in their offer also legal advices to clients, instead of recommending them independent legal agencies. It is obvious that the consulting aims to adapt at most to the client needs and specific situation in organization. Since it is hard to define problems only as financial, it is important for the clients to request and get financial and other consulting services, which are coordinated and supplemented by advices concerning different perceptions of the problem which solves.

Most clients prefer to buy services that one consulting company has selected, coordinated and formed into one package. It is, so called, „*one shop or one window service*“.³³⁰

7.3.1. Elements of financial analysis

Analysis of profitability. The profitability of totally invested capital, accurately , totally invested assets, can be measured in two ways: by gross income rate, got from quotient of gross profit increased for financing expenses and average total capital and net income rate, got from quotient of net profit increased for financing expenses and average total capital.

The profitability of own capital also can be measured by two rates – gross income rate on own capital, got from the quotient of gross profit and average own capital and net income rate on own capital, got from the quotient of net profit and average

³²⁹ Stančić, P. (1998): „Alternative za izlazak iz finansijskih teškoća preduzeća“, *Zbornik radova sa II Simpozijuma SRR Republike Srpske*, Banja Luka, pp. 28-40.

³³⁰ Petrović, P. (2002): „Porast tražnje za uslugama finansijskog konsaltinga“, časopis *Finansije*, broj (9-10), 2002., p. 557.

own capital. The elements for profitability analysis of total and own capital of the enterprise are presented in next *table 23*.

Table 23. Profitability analysis

Ordinal No.	Profitability elements
1	Gross profit
2	Taxes and contributions
3	Net profit (1-2)
4	Expenses of funding
5	Gross income on total capital (1+4)
6	Net income on total capital (3+4)
7	Total capital at the end of previous year
8	Total capital at the end of current year
9	Average total capital (7+8)/2
10	Gross income rate on total capital 5/9
11	Net income rate on total capital 6/9
12	Own capital at the end of previous year
13	Own capital at the end of current year
14	Average total capital (12+13)/2
15	Gross income rate on own capital 1/14
16	Net income rate on own capital 3/14

Indicators of liquidity. The indicators of liquidity or liquidity ratio must point out to ability of enterprise to pay due pecuniary obligations, along with maintenance of necessary size and structure of working assets and preservation of good credit worthiness. In *table 24* were showed three levels of the enterprise liquidity.

Table 24. Analysis of liquidity

Liquidity indicators
Liquidity of I degree (cash/ short-term liabilities)
Liquidity of II degree (working capital without stocks/ short-term liabilities)
Liquidity of III degree (working capital/ short-term liabilities)

III degree liquidity ratio shows with how many RSD of working capital was covered each dinar of short-term liabilities. The analytical interpretation of this ratio has been significantly difficult, thereby it is difficult to find a standard relation between working capital and short-term liabilities. The relation 2:1 in favor of working assets considers traditionally as normal (respect the rules „2:1“).

II degree liquidity ratio, so called, special or rigorous liquidity ratio is more austere test of current liquidity. This ratio shows with how many RSD of solvent working assets (from working assets were excluded stocks and AVR) was covered every

dinar of short-term liabilities. If the ratio in the enterprise is 1:1, it considers by principle that the state of its current liquidity is relatively satisfying (respect financing rules 1:1 or “acid-test”).

I degree liquidity ratio is the most austere liquidity ratio, since it shows how much of free cash is disposable for paying due short-term liabilities.

Analysis of indebtedness. The analysis of indebtedness evaluates through liabilities structure from aspect of ownership, where excludes long-term reservations and accruals and deferred income from the liabilities and unallocated profit of current year. The acceptable structure of liabilities from ownership aspect is determined by: kind and size of enterprise, structure of assets, size of inflation rate, exposition to business risk, profitability and liquidity, i.e. adjustment of monetary flows.

Analysis of working fund. Net working fund represents a difference between long-term capital and fixed assets and shows a sum of long-term capital which stays available for financing working assets. As one of the instruments of financial analysis, which uses for efficiency evaluation of managing the enterprise, NWF bases on idea of „golden balance rule in wider point of view“ and rule „1:1 –acid test“.

Analysis of financial balance. There differs long-term financial balance, whose condition determines by comparing liquid assets, increased for long-term linked assets and own capital, increased for long-term liabilities and long-term reservations. For example, if the enterprise, in analyzed period, has a coefficient of accelerated liquidity lower than 1, it means that short-term financial balance is moved to short-term liabilities, which by is jeopardized maintenance of the enterprise's liquidity. At the same time, if the coefficient of financial stability is higher than 1, than long-term financial balance is moved to long-term linked assets, which points out to a conclusion that the enterprise does not have assurance in liquidity maintenance.

7.3.2. Feasibility studies and managing the capital

The companies in Serbia are in period of adopting market business concept, except specific parts of economy where will further be public ownership. Approaching Serbia to the EU and market development and market relations have influenced on consulting development as professional activity, which has specific methodological,

conceptual, ethical and other performances³³¹ At the same time, due to insufficient market experience in some phases of enterprise development, there lack managerial ability and skill, as well as necessary knowledge for efficient management of the enterprise's capital.

Development of enterprise. This field of consulting refers to *feasibility studies of new business possibilities*. New projects often refer to purchase of new plants, addition of new production lines, change of productive processes, installing new equipment, entering new markets, establishing new sale and distributive centres and expansion of existing business. In each of these examples, the consultant has to measure necessary assets, outcome and feasible expenses.

When the project is unknown and new, like construction of new factory abroad, the consultant evaluates total incomes and expenses. In expanding or adding new operations, it is more reliable to measure additional incomes and expenses. The subject of the task is evaluation if expected interests justify assets which the client has set aside for new project.

Financial evaluations refer to financial value of work, material, machines and installation, as well as results and activities which take place. Before he can express expectations in monetary units, the consultant has to get basic information from marketing, production, research and development, while feasibility studies usually undertake a team of consultants.

Next example shows how the consultants work as a team in feasibility study. The producer of leather shoes, who wants to enter the rubber footwear market, can ask from the consultant to do the feasibility study.³³² Marketing consultant can start with measurement of demand for various types of rubber footwear, like as sneakers, working shoes and boots on the market, which has been opened to the producer. After research he chooses the best types and fixes probable prices and size of sale. Besides, he suggests a campaign for market research and sale organization.

If the client plans to expand by purchase or fusion with other enterprise, he can hire the consultant to evaluate financial consequences. They both anticipate results effects, incomes and expenses of fusion two or more enterprises. One of the possibilities is that production lines can be mutually fused and increased total sale,

³³¹ **Mihailović, B.** (2007): „Analiza sektora konsultantskih usluga u Srbiji“, *Anali Ekonomskog fakulteta u Subotici*, broj 17/2007., p. 121.

³³² Kubr, M. (1976): *Management consulting – A guide to the profession*, International Labour Office, Geneva, p. 182.

but also can overlap, so whole sale fall off. Productive and market capacities and administration can be directed in a way total investments and expenses to be less than those in two separated enterprises. In this way, the consultant advises clients whether planned purchase or fusion are in their interest.

Management of capital (managing capital). In management of capital, the consultant inquires two main items. The first refers to financing sources, and the second to the best use of funds. The task can relate to one of these aspects (or they can combine when the client wants to evaluate needed capital), as well as recommendations how to get evaluated amount of money. When he advises capital purchase, the consultant enquires structure of the client's capital and suggests appropriate balance of own assets and loans, as well as certain relation between long-term and short-term loans. He also considers conditions on money market, chances for getting risk capital or loans and relative costs of various long-term and short-term financing sources.

If his client has a need for taking loan in other currency, the consultant suggest the best market strategy in order to draw capital and follows carefully the condition on stock market. The subject of the research in client's organization can also be a policy of dividend, which by would provide the reinvestment of profit to be in harmony with the investor requirements.

The financial consultant often advises his client about appropriate use of capital. His directives are priceless when it is about regular balance between fixed and working assets and keeping the liquidity. In this field, he separates faults of both elements and explains to his client relations between expenses and profitability. The consultant has to help the client to understand significance of faster capital turnover and keeping up economic level of revenues and expenses, aiming to increase profitability of the enterprise. The profitability is a term of final financial effect of investments, i.e. the term of total success of the enterprise's business activity.³³³

In numerous countries, the enterprises have faced problems in managing the credits they provided to their clients, as well as with financial and technical problems in decision-making when and how they could pay their debts to suppliers. The financial consultants and commercial banks can give useful advices to managers about these items and help them to keep up monetary flow on required level. The financial consultant often emphasizes a need for taking into consideration replacement policy,

³³³ Stavrić, B., Kokeza, G. (2002): *Upravljanje poslovnim sistemom – Ekonomika preduzeća i menadžment*, Tehnološko-metalurški fakultet, Beograd, p. 205.

in order to provide constant renewal and purchase of new equipment, which has been often neglected issue in numerous developing countries.

Analysis of business opportunities. The financial consultant can be called to estimate better variant, in case when the manager or consultant in management can make a choice between two or more ways in carrying out some activity. The scope of such consultations is wide and refer to choices in any field of management (like to repair or to renew equipment, using overtime work or more shifts, purchasing the equipment on leasing, developing new product or buying license etc.). Approach of the consultant is similar in all these examples. For each alternative, he estimates size of investing assets, possible income and expenses. He compares one alternative with others in order to reveal which shows the most favourable return of investments during expected lifetime of the equipment. While he deals with enlarging and changing of existing business activities, the consultant must base his decisions on additional expenses and incomes, as a base of cost-benefit analysis. In many cases, the support which the consultant provides can be increased by thinking up development methodology, favourable for specific conditions of client's organization and its transfer to the client, so his personnel could do additional routine assessments.

7.3.3. Accounting systems

There are different definitions of accountancy in professional literature, depending on tasks and procedures which are used. Therefore, according to wide comprehensive definition in professional literature – Committee for Terminology of American Institute of Public Accountants - „the accountancy is a science on recording and classifying business transactions and occurrences, primarily financial character and a skill in making significant reports, analysis and interpreting of those transactions and occurrences and transferring results to persons who have to bring decision or to give an assessment“.³³⁴ Basic purpose of the accountancy is to make business of the enterprise reasonable, because, according to that creates the conditions for undertaking corrective actions.

The financial consultant gets numerous requirements for projecting and development of accounting systems. The clients expect from him to apply comprehensive knowledge and experience in development of systems for: managing information; financial accountancy; reimburse from users; assets control;

³³⁴ Aubrey, C. and Asburne, J. (1960): *Financial and administrative accounting*, McGraw Hill Company, New York, prema Ilić, G., Škorić-Jovanović, K., Radovanović, R., Krstić, J. i Stojanović D., Računovodstvo I (1995), Savez RR Srbije.

collecting requirements; budget control; calculation of expenses; analysis of information, including mechanical and electronic analysis of data. During setting up some of these systems, the managers try to provide all adequate assets for carrying out some parts of task and planning control operation. Before he starts with system designing, the consultant has to determine which kind of support (service) the managers expect, what is a goal of the system, which information he must provide, who gets these information and how are they going to be used. In order to provide the system usability, the consultant must:

- Create appropriate organization,
- Copy procedures for collecting, stocking and analysis of data allocation of information,
- Designing formulars which match up with mentioned procedures,
- To choose appropriate equipment,
- To put into controlling mechanisms.

Considering that the client's personnel have to manage the system, the consultant the most often gain their confidence in a way he includes them in projecting and organizing process. He realizes that by training those who will accomplish procedures and their directing in early phases of implementation.

CONSLUSION

Management consulting is one of the important factors for development of spontaneous order of the market economy, which is based on private ownership, entrepreneurs' initiative and social responsible work. Consulting interventions and coordination affect creation of the spontaneous market order, on the other hand the development of the market and market relations affects the development of the consulting as a profession. The changes will become irreversible at the moment when most of national product is created by the companies in private ownership. Then there will be conditions for establishing relation between economic, social and ecological criteria for resource allocation. The consulting that respects situational approach in practice can help achieving balance of economic efficiency, social responsible work and production standards.

The consulting service presents a recommendation of adequate measures, and support implementing the recommendation which is a result of research, identification and analysis of problems in a certain organization. A consultant is an expert who provides the consulting services. His education and experience, in combination with realistic and complete informing of concrete situation, make it possible for him to offer support to enterprises in a proper way. Companies in Serbia are in stage of adopting the conception of the market economy, except some parts of economy where government property will further exist.

The development of the market and the market relations influenced the development of consulting as a professional service with its specific methodological, conceptual, ethical and other performances. Various consulting organizations and consultants are quite different regarding education, experience, competency, work style, conditions of intervention, service quality and professional standards. Education through the consulting is not automatic. The consulting with clients' active participation gives the best results.

Significant problem in the field of education and improvement in agriculture sector, being present for many years back, is a lack of acquired knowledge transfer. In numerous situations, the acquired knowledge does not transfer in real work environment. During the consulting intervention, participants can be engaged in many educational activities, but it is of crucial importance to provide the transfer of the acquired knowledge into business activities. Implementation of changes requires from employees in some organization to adopt new knowledge, collect more information, deal with new tasks, and improve their skills, so they often change their working habits, values and attitudes. This includes changes within labor – in management and employees, their capabilities, motivation, behavior and efficiency at work. In the same time, it includes also the changes in

organizational structure – value changes, routine practice, information relations, influences, and managing style. As it is a whole process of fundamental changes involved – it does not realize by its own: there is necessary education, time, effort, perseverance, ability, loyalty and dedication to work which has been done. However, it all cannot be achieved, at least in eligible time, without support of those who have already collected great deal of knowledge, have acquired the experience and can pass on all of it to others.

Globally, the managers of enterprises in agro complex of Serbia invite consultants when they expect help in solving the problems they face with. A term "problem" uses here for naming the situation in which the management, concerned for the enterprise's destiny, have not got a clue what action to take, wherefrom to start or how to carry on. This is, however, just general definition of a problem in management, but it suits to reality. As a matter of fact, a range of problems that entrust to the consultants is very long. From the quality point of view or seriousness of situation, the consultants can be engaged to correct the specific situation (corrective problems), improve the existing situation (progressive problems) or to create completely new situation (creative problems).

There is obvious that enterprises from agro complex of Serbia engage the consultants most often owing to progressive and corrective problems. None of surveyed enterprises use the consulting services strictly for corrective problems. It is rather expectable, since the consultants avoid those enterprises in solvency and liquidity crisis, primarily by reason of loosing the image and honorarium loss. Nature of consulting requires that any of situation experiences in future possibilities perspective. If he refers to overcoming of the corrective problem, the consultant will always wonder if it is really necessary to fix already bad situation, or, instead of that, it is better to look for new ways of defining the goals of organization, in order to achieve improving efficiency of activities. Basic corrective problem can be turnover into progressive or creative.

In order to get transfer of the consulting knowledge and managerial skills and abilities' development, it is necessary that certain conditions have been accomplished. Primarily, the most important are business integrity and qualification of the consultant. Business integrity, i.e. the consultant's ethics contributes to an image and reputation and is a significant factor of competitiveness on the consulting services' market.

Cooperation between the consultant and the manager, based on ethics principle, contributes to development of managerial skills. Thereby, it implies that the consultants and the managers do not have latent intentions and interests, i.e. that mutual goal is to solve business issues. It requires business qualification, as from the consulting organization, as well as from the consultant as an individual, knowing in detail branch within the client makes business, knowing in detail country and culture of the client, presence of creativity and innovations. The manager must have a desire to acquire new

knowledge and a motive for new achievements. Comparing with working results of the successful enterprises' managers, the consultants can motivate the managers-clients in direction of continual learning and specialization. The consultant's work has been based on creating new solutions. It obtains in cooperation with the managers, as active partners of their consultant.

Participation of the manager in the consultant's work represents a basic principle of modern consulting. Integration of consultants and managers leads to higher probability of solving problems and greater transfer of knowledge. Role of the consultants is to stimulate the managers to think creative, which is a base of managerial skills development. Creative thinking bases on creating ideas and their evaluation.



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REVIEW

of the monograph:
**„CHALLENGES OF MANAGEMENT CONSULTING IN MODERN BUSINESS OF
AGRICULTURAL ENTERPRISES“**

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The gist of agricultural enterprises' restructuring in Serbia is in increase of external and internal competitiveness, through opening toward the international market and pressing forward making a mass of new small and medium enterprises. Development of a new sector should be simultaneous with the privatization process implementation. That is to say, the privatization of enterprises in Serbia aims to increase the total business efficiency. However, the transformational processes of enterprises in the transition period have delicate outcomes, which reflect in firing jobs and firing employees. Besides the privatization, the transition has been followed also by the „transitional shock“, which manifests through decrease of business activity and price pressure. According to evaluations of the World Bank experts, there is necessary that 40% of the domestic product makes in a new sector, in order to annul negative effects of the transitional shock.

This monograph's authors emphasize that, making business-attractive agricultural enterprises, initiates a need for the consulting management. That is to say, the consulting organizations help the companies to achieve their goals, to solve the problems regarding business and management, to identify and use new opportunities, to increase their knowledge and apply practically the suggested changes. There is a lack of knowledge in the field of business planning, in domestic economy, necessary while opening new small and medium firms. The gist of necessary changes we can identify as a new entrepreneurship society, which encourages taking the risk and makes new entrepreneurial skills. Implemented research has shown that the agricultural enterprises still dispose with certain capacities for storage and finishing of agricultural products, regarding that their development went in direction of big business systems of combine type building, which has implied also development of food industry within the agricultural enterprises. Most of food industry stands out of the agricultural enterprises' structure into special business systems, but some part of storage facilities, finishing and primary processing of agricultural products, although, kept within the agricultural enterprises. The authors of the monograph point out that, new methods of

investment decision-making require establishing connections between economic, social and ecological criteria of resources' allocation. By consulting, which takes into consideration the situational approach in work, there can achieve a balance between: economic efficiency, socially-responsible business and agricultural production standards. In such conditions, a vision of Serbian food industry prefers industry development, directed to the consumers' need and desires satisfaction, with a focus on innovations, quality, high level of food hygiene and food safety standards. In such conditions is necessary strong and aggressive marketing on individual and collective level, along with improvement of cooperation with farmers and agricultural producers' associations.

Of food industry has been expected, on one side, to guarantee for high quality standards and food safety with optimal use of capacities, and on the other side, to be capable to provide sufficient profitability for necessary investments and to obtain competent and experienced managerial staff. In meeting such demand, the food industry would instigate development of small and medium enterprises which produce and place on the market the products with protected designation of origin and protected geographical indication, as well as the products based on traditional recipes. In previous period, in Serbian agricultural enterprises has dominated a production orientation, which had no respect for the market requirements. The enterprises had lost a brand and traditional markets. Improvement of their business performances requires a constitution of market-oriented enterprises, which can be achieved with structural changes, directed to improvement of business efficiency and adjustment to the market requirements. Development of agricultural enterprises in terms of intensive transformational changes requires much more professional knowledge and skills in comparison with developed market economies, in which has been accumulated great knowledge and experience. At the same time, the modern agricultural production implies modern technologies. Accordingly, aiming to fulfil the EU standards, there is necessary for the consultants to have new specialized knowledge and to build their relations with the clients based on trust, knowledge, credibility, understanding and creativity. The consultants, actually, become a part of a client's organization in specific period.

Besides the research results which have a theoretical and practical value, this monograph provides a series of consulting techniques and tools, which can help to efficient management of consulting services, on one side, and to improvement of agricultural enterprises' business, on the other side.

In Skopje, October 2013

R e v i e w e r
Professor Mile Pesevski, Ph.D.

REVIEW

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**„CHALLENGES OF MANAGEMENT CONSULTING IN MODERN BUSINESS OF
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This monograph has theoretical and practical value, whereby have been especially actual conclusions of the authors, which refer to the significance of the consulting management in modern business of agricultural enterprises. That is to say, in the monograph was analyzed supply of the consulting management in Serbia, structure of the consulting organization, models of consulting services' payment, investment in marketing and managerial support, conditions and effects of the consulting organizations' networking, as well as used consulting techniques in agricultural enterprises. Relying on the results of the conducted research, the authors were defined basic assumptions for management of agricultural enterprises in sense of managing and using the consulting services.

According to the authors, in competitive environment, in order to survive, agricultural enterprises have to change and develop permanently. Survival and development imply making efforts in re-evaluation and re-affirmation of competitive advantages of enterprises and their positions on the market. To achieve it, big and famous firms, firms of world renown, and on developed European market, hire well-known consulting houses to step into the breach, setting aside significant assets. That way unavoidably has to take also Serbian economy, because it is the only way which leads to accession to the European community's economy, and this means survival, stabilization and development. However, introducing the changes requires from employees in agricultural enterprises to adopt new knowledge, collect more information, to cope with new tasks, to improve their skills, so often change their work habits, values and attitudes. This includes changes in people – in management and employees, their abilities, motivation, behaviour and efficiency at work. In the same way includes also the changes in organizational culture – change of values, settled habits, influences, management style. As it is a whole process of radical changes – it does not develop by itself: there is needed teaching, time, effort, persistence, ability, dedication to work. Still, these all cannot be achieved, at least not in preferred time, without support of those who had already collected extensive

knowledge, obtained experience and can easily and successfully to pass it to managers.

The managers of agricultural enterprises spend most time and spend significant energy for identifying and analyzing business problems, tending to find efficient solutions. Internal management teams solve the most of problems in the management field, within daily routine activities. When a problem is solved, there appears the other to which should focus and in that way business performs. However, there appear also non-structural problems to which cannot apply routine solutions. They become a subject of serious consideration. Often happens that managers avoid them, or to mention them often, and not to make any decision. Causes for such business problems are numerous and often mutually interweaved. Usually is about innovations, ambiguities, complexity, fast changes of essence and size of problems, conflict of interests, long-term influence to future company's business, etc. In some situations is more purposeful to engage a consultant to solve the problem, than to spend time and assets in searching the solution which exceeds the company's capacities. The goal of the consulting companies is to be continuously informed and to keep up with innovations in the field of theory, concepts, methods and management system. The entire consulting „know-how“ and business ideas, which are a result of business experience and research, are available to entrepreneurs and managers of agricultural enterprises, aiming to conduct various initiatives, innovations and improvements in many fields and business functions.

The role of the consulting management is more important for agricultural enterprises, because it contributes to necessary revitalization and permanent recovery of the company, to which the authors paid special attention. Due to the above mentioned, I evaluate this monograph as a contribution to affirmation of the consulting management, as a professional field and applied economy.

Podgorica, October 2013

R e v i e w e r
Professor Aleksandra Despotovic, Ph.D.

REVIEW

Monograph title:
**„CHALLENGES OF MANAGEMENT CONSULTING IN MODERN BUSINESS OF
AGRICULTURAL ENTERPRISES“**

Authors:
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The focus of topics to be treated in this monograph is the management consulting in agricultural companies in Serbia, and it is natural that research attention is devoted just to it, especially as the area that is not sufficiently processed, investigated or partially analyzed, and the prevailing opinions have to be based on a reliable scientific basis. This will clear up many doubts and show clear paths that lead to a substantial improvement of the position of agricultural enterprises on the market and determine reliable directions for further development.

The authors of the monograph point out those different models of extension are always directly or indirectly determined by the social context in which institutions of extension should work. At the same time, it is important to point out the existence of increasing specialization of consultants in certain areas. Specifically, in order to meet the standards of organic production, it is necessary to have new consultants with highly specialized knowledge. Consultants' specialization includes knowledge of specific areas such as socio - economic consulting, environmental consulting, as well as the introduction of new regulations and standards of the EU. Engagement of consultants in this field can be understood as an investment in knowledge concerning the regulations and standards in the field of organic farming. Consulting services also imply support for the implementation of these standards. Economic efficiency of such investments will be greater understood if in the process of consulting it comes to knowledge transfer from consultants to clients. This does not stop the need for consulting, because there are other aspects that require additional expertise and knowledge transfer.

The qualitative research included consulting service lines by "FEACO" (European Federation of Management Consultants) classification of consulting activities in the following areas: (1) Operational Management - covers the operational aspects of the organization, that is production management, procurement and distribution, (2) Information technology - refers to the storage, organization and use of business information, (3) Corporate strategy - focusing on strategic and long-term health of

the company, (4) Human resources - main areas of this service line of consulting services include: research and selection, training and development, performance measurement (the goal is to improve the human resources of the organization), (5) Services of "outsourcing" - many of the big companies of the management consulting services have become very important with the growth rate, which is the highest in comparison with all other service lines.

Consulting, in spite of the strong influence that the development has been taking, it is not, or at least not enough, studied or explained, nor is its essence popularized. It remains, so to speak, and to this day, the privilege narrow the number of people," the puzzle outside observers", and quite unknown to the agents - managers. The secrecy that accompanies it from the very beginnings can be nurtured so that consultants and consulting organizations because of the long survival of their uniqueness. Despite the current popularity and stunning percentage growth consulting remains one of the least explored and described field in the economy. Consequently, one of the reasons in monograph researching is just investigative curiosity. However, it certainly is not the only culprit of such an endeavor. Suspicion that the situation that is described and creates a prevailing belief is not precisely defined has further fueled the challenge, and some benefit from such programs, especially for companies in Serbia, finally prevailed to approach such a complex research questions.

The research results in this monograph can significantly affect the form the country's official opinion what should be done and in what order to accelerate the development of our agricultural companies and their approach to the requirements of the European Union that would allow competition in that market.

In Bucharest, October 2013

Reviewer
Professor Claudiu Cicea, Ph.D.

CIP - Каталогизација у публикацији
Народна библиотека Србије, Београд

005.942:338.43

MIHAILOVIĆ, Branko, 1978-
Challenges of Management Consulting in
Modern Business of Agricultural Enterprises /
Branko Mihailović, Drago Cvijanović, Boris
Kuzman. - Beograd : Institute of Agricultural
Economics, 2014 (Beograd : Dis Public). - 318
str. : graf. prikazi, tabele ; 24 cm

Tiraž 500. - Str. 313-314: Review of the
Monograph "Challenges of Management
Consulting in Modern Business of Agricultural
Enterprises / Mile Pesevski. - Str. 315-316:
Review of the Monograph "Challenges of
Management Consulting in Modern Business of
Agricultural Enterprises / Aleksandra
Despotovic. - Str. 317-318: Review of the
Monograph "Challenges of Management
Consulting in Modern Business of Agricultural
Enterprises / Claudiu Cicea. - Napomene i
bibliografske reference uz tekst. -
Bibliografija: str. 299-312.

ISBN 978-86-6269-032-6

1. Cvijanović, Drago, 1960- [аутор]
[уредник] 2. Kuzman, Boris, 1975- [аутор]
а) Пољопривредна предузећа - Консалтинг
COBISS.SR-ID 205679628

