Strategic Management of Development and Promotion of Competitiveness of the Industry in Serbia

Zhivorad Gligorievich, Ph.D.
Goritsa Boshkovich, Ph.D.

Summary: Modern processes developing in world economy, lead to ever growing competition among enterprises on the international market level. Thus, the phenomenon of competition breaks out and becomes more important, bringing a lot of attention of legal entities.

Irrespectively of the growth phase of industry in Serbia, the issue of competitiveness represents one of key questions to be answered. In that sense, to achieve the goals of promotion and development of competitiveness, Serbia should have a long-term vision of industry development.

Key words: Strategic management of growth, industry, competitiveness, the concept of industry development, production orientation, export-oriented development strategy, industrial policy.

JEL: D2, D24, D41.

Introduction

1. The process of industry development embraced all parts of the world playing a decisive role in the economic development of a large number of countries. Many of them achieved their high rates of growth as a result of industry, reaching an extremely high level of economic – and, on this basis, general development.

The development of modern industry up to the present moment and its expansion to become a leading economic activity are a consequence of the action of many different factors. **Competition** has played an important role in industry development and its role is still essential. Nevertheless, industry development up to now, exactly because of the importance of competition, of its role and place in the economic and general development, has never and nowhere taken place in the conditions, i.e. according to the principles of free market competition (regardless of the agents of economic policy, respectively independently of their impact). Quite the opposite – the agents of economic policy have always understood the importance of industry and have treated it as a field of material production, whose development

should be intentionally guided (in parallel with free competition), i.e. **managing this development** to achieve certain goals in both economic and general development.

2. With a view of the actual (internal and international) conditions and the importance of encouraging industry competitiveness, we consider that strategic management of its development is the basis and the only correct way of increasing the efficiency of business, the effectiveness of development, and of improving the competitiveness of Serbian industry.

1. Strategic Management of Industry Development

1. The process of industry development as a part of the unified process of economic development is susceptible to human control, intentional guidance, respectively management of its development. Management of industry development as an intentional activity had an early start, without being comprehensive or organized in the beginning. Nevertheless, with the faster industry development, with the occurrence of confusion and crises in this development (especially in the 1930s), the interest of economic policy agents increased and their role was more and more important and, with time, this led to broadening the field of management, as well as management instruments. Therefore, in modern conditions, the influence of economic policy agents on industry development (especially in countries with industrial development) is strongly expressed with the parallel protection of production relations based on private property. The influence of economic policy agents on industry development, respectively the management of this development, is also caused by the extremely fast development of information technologies, the rapid progress in research&development, which is maximally stimulated, as well as by the fact that industry development is the basis of the economic, technological, political, and military strength of a country.

2. The contemporary industry development is extremely dynamic and for this development, in addition to high efficiency, a high degree of stability must be also ensured, so that the key development goals can be reached. This imposes the necessity of constituting a reliable and effective system of **strategic management of industry development**, thus defining a long-term development vision.

Strategic management of industry development is considered of increasingly high importance as in the process of accelerated civilization changes, the long-term development goals must be defined, decisions must be prepared and finalized, and timely actions should be undertaken, applying proper instruments. Appropriate information is also needed for that: on resources, on physical volume, value of industrial production, new products, the market (internal and external), industrial production, new technologies, labour force that can be engaged in industry, etc. This information is produced, collected, processed, and stored by a number of institutions (research institutes, faculties, industrial enterprises, banks, the stock exchange, statistical institutes, commercial chambers, etc.), and for the successful management it must be, above all, accessible, timely, and of practical use. Therefore, it is necessary to develop a respective information system.

3. Strategic management of industrial development is understood as modern management of knowledge, skills, and modern technologies of making decisions. These are, indeed, very complex functions related to scientific **activities** like: (1) **forecasting** (a process of preparing forecasts for future industry development, especially on the basis of the existing state and the necessary changes

in the future), (2) **diagnostics** (the temporary picture of the state, which shows us where is the place of industry in the process of development from the point of view of development opportunities), (3) **planning** (central section of strategic management representing the process of adopting a plan – forming optimal vision of future industry development), and (4) **making a decision** (the process of making a decision or, respectively, choice between strategic decisions on industry development).

4. Strategic management of industry development is a system, whose structure is made up of the following components: (1) **industry development concept** (choice of the main development) goals, (2) **production orientation of the industry** (choice of alternatives to achieve the main development goals), (3) **strategy for industry development** (procedures, ways, and methods of implementation of the development concept and the coordinated production orientations), and (4) **industrial policy** (set of operative instruments for implementation of the development strategy). [9, pp. 91-109]

There is high degree of interdependence between the mentioned components of strategic management of industry development and a strongly expressed feedback; the successive order of defining them should be observed. Otherwise, from a methodological point of view, defining the main components of strategic management of industry development is realized in three phases, which are the following: (1) an analysis of the previous period is performed in the first phase – an exact diagnosis, which "must show all specific characteristics of the moment, from which the further development starts and a main basis should be given for defining problems, which should be dealt with from that moment onwards"; [1, p. 408] (2) after the analysis of the previous period, in the second phase, the process of determining the opportunities for future development takes place, i.e. determining preconditions and limitations of future development, and (3) in the third phase, using quantitative methods, a forecast of future industry development is made (the opportunities are explored and the future trends of industry development are forecasted in alternative versions).

2. Competitiveness of Serbian Industry

1. Developing within the frontiers of former Yugoslavia, Serbia is an example of a country, which had no clearly defined concept, therefore, no clearly defined production orientation, and has kept for too long the strategy of import substitution as a main strategy of industrial development. Such a development strategy resulted in positive effects until the economic reform in 1965. Afterwards, a period of wandering followed in the search of appropriate strategy for further industry development, marked by the efforts to implement the central stage of industrialization (known as stage of balancing the development), within which the necessary preconditions for the application of a strategy for export expansion should have been created. However, no strategy for industry development was implemented. The 1970s and 1980s can be named a period of illusionary growth, during which a conservative and inadequate economic and, in particular, industrial structure (high share for traditional labour-intensive branches, requiring high levels of raw materials and energy consumption, with low degree of processing) was created. This was economic growth which, on its turn, has not been verified as such by the market, especially in the face of foreign competition. As such, this growth did not include the quality inherent to growth in open market economies and did not create any conditions for development during the following period. The country faced a number of negative consequences caused

by the strategy of import substitution. Such development strategy was not able to ensure adequate participation of the industry in the international division of labour, within which the dynamic development of the production of machines, plastic products, transport vehicles, and chemical industry products can be observed. Although a large part of export was exactly from these branches "...our competitiveness was artificial, respectively, based on high labour costs and the depreciated exchange rate of the dinar." [2, p. 206]

Taking into account, above all, the inadequate development strategy and favourable environment, it is well-known that the negative aspirations in industry development continued and became even stronger in the 1990s. The realized industrial production in the beginning of 1995 was only 36 % of the industrial production in 1989.

2. The end of 20th and the beginning of the 21st century is characterized by the creation of the European Union and the "New World Order". The new economic relations in the world economy are characterized not only by the transition to a more sophisticated phase of developing mutual links between market participants, but also by the development of economic interdependence in the world reproduction cycle. In these conditions prevailing in the world economy, Serbia, after long years of isolation, is now in a period of delayed transition to market economy, private property, and business standards applied in the industrially developed countries.

The essence of the successful recovery of the economy, the realization of transformation processes and the accession to the European Union are critically related to the growth of the gross internal product, and its growth is decisively linked to the growth of industrial production, the increase of export and the implementation of a strategy of open economy.

Nevertheless, the actual status of the economic and industrial base of Serbia is characterized, first of all, by economic and technological backwardness of the major part of the installed capacity, by dominant presence of traditional industrial production (the so called standardized products), by rather dispersive product range for export (without constantly recognizable product), intended for changing buyers and sold in a limited number of destinations. An additional limitation as of now consist in the problems of the obvious lag in the privatization process, the underdevelopment of adequate institutions of the economic infrastructure, and the lack of financial institutions with a market profile. For years, the industry is faced with the disinvestment problem (lack of investment related to writing off long-term assets).

Because of the greater lag in the quality of products in the structure of export, products at higher or highest degree of finalization rarely appear or do not appear at all in the export to developed countries. For example, products of non-ferrous industry, food industry, and basic chemical industry occupy the largest part of exports, while the export to the European Union market contains eight of the largest basic elements of primary products and reproduction materials, and final products are represented only by clothing and shoes.

3. Many factors have influenced the decrease in competitiveness of export of industrial commodities. The decrease in labour productivity in Serbian industry during the last years, combined with the dynamic growth of productivity and efficiency in competitor countries influenced the cost and price competitiveness of export products. The increase of production expenses was influenced also by the circumstances related to the disintegration of former Yugoslavia and the closure of the market for purchasing of reproduction materials from the former Yugoslav republics. Nevertheless, if we take into account

the fact that the share of final products like machines, pharmaceutical products, cars, etc. in which non-price attributes – product quality in particular – are the most important, significantly dropped during the period 1990-2005, then it is justified to assert that the decrease of export competitiveness occurred because of non-price factors (besides quality, these are product design, packaging, brand, and other elements, which in combination make an industrial enterprise and its products recognizable on the foreign market).

One of the factors, which have influenced the decrease of industrial products quality and, as a consequence, the decrease of their competitiveness is, of course, the equipment used in industrial production, respectively its obsoleteness. Industrial enterprises, mainly for objective reasons (sanctions, lack of financial resources) could not live up to their competitors on the world market, which used the most modern technologies. Product quality is also affected by the degree of amortization of equipment, which has increased and is over 85 %. In addition, one of the main reasons for the worsening of product quality is definitely the increasingly heavy condition of research&development activity, as well as the fact that the import of knowledge both through the purchase of intellectual property and through higher and more sophisticated forms of cooperation is also decreased to a certain degree. The expressed drop of the import of knowledge through purchase of intellectual property and other more sophisticated forms of international cooperation in industry production was accompanied by the increasingly lower creativity of research&development activity in Serbian industry, or the disrespect of the fact of its considerable contribution to the higher competitiveness of the country on the world market.

The reasons for the deterioration of product quality can be also found in the deficit of foreign currency, which would serve to purchase higher quality raw materials abroad and for new production cycle. Serbian producers and importers are oriented towards imported or locally produced raw materials with lower quality for reproduction, which should have affected negatively the quality of end products as well.

4. Many industrially developed countries during the last years formed or improved the business operation of their national institutions with a view of encouraging exports, achieving in this way higher competitiveness, which was not the case with the economy of Serbia as a whole, as well as with its industry. The extremely bad situation of the bank system did not leave any opportunities to local producers and exporters for credits and insurance of their export – and this is also a factor of lower competitiveness.

The process of standardization of product manufacturing, developed in the European Union (by the introduction of a system of business operation in compliance with the standards ISO 9000 and ISO 14000), is not fully adopted and developed in the manufacturing of industrial products in Serbia. The individual standards in the Union are very stringent, especially those related to product safety, life and health protection, environmental and consumer protection (for example, the CE marking), and this also has had unfavourable influence on competitiveness of export products.

One of the preconditions for cooperation with foreign business partners is the participation in the international system of product coding (EAN), as well as the application of EDI and EDIFACT systems, and the technology of electronic data exchange. The insufficient qualification in the Serbian enterprises concerning the application of these systems also affects negatively their competitiveness. In addition, because of limited financial resources, the investments in economic advertisement and promotion are decreased,

which also has a negative effect on product competitiveness.

3. Improving Competitiveness of Serbian Industry

1. Getting out of the deep and lasting crisis **and overcoming the existing economic problems is possible** for the industry and economy of Serbia, as a whole, only by encouraging comprehensive international cooperation in the transfer of goods, services, and capital; as well as through links in the field of science, technology, and other forms of social life. This practically means that the future development of Serbia cannot be an extrapolation of previous trends, but must be based on the new economic, financial, and institutional realities and newly introduced development goals. Building a full and complete system of export oriented market economy would ensure the specialization in production, higher export and incoming currency flow, which would serve to finance the growing import needs. [4, p. 49]

As a small country without important traditions in industrial production, Serbia is not able to compete on the world market with sophisticated commodities (televisors, automobiles, computers); but the optimal opportunity seems to be the development of cooperative relations with big foreign producers. Even, for example, the supply of textile and leather on the internal market is based mainly on imported design and imported materials, as we do not have the necessary technology for their production. In order to include the country in the international division of labour, the authors of industrial and general economic policy face rather responsible tasks, in the sense of creating conditions for opening to foreign investors and conditions for the inflow of direct foreign investment, while observing all relevant legal and institutional limits, as well as guaranteeing a real exchange rate to ensure export competitiveness.

It is especially important, when the question is about export stimulation, to liberalize import of appropriate materials for the production in the driver sectors of the industry, because, as it is well-known, an important part of industrial export is relatively highly dependent on the imported reproduction material (energy and textile raw materials, natural caoutchouc, other raw materials coming from metal production and electrical industry, the pharmaceutical industry, etc.).

2. The most important criterion for industrial development in the following period must be the market, i.e. the possibility of sale of products and services. "As the internal market is limited, the potential opportunity for sales is on the world market, where the criteria are, however, much more stringent than on the national one. For the country to participate adequately in the international division of labour, and for the export to become the basis of the development strategy, the whole production must be performed according to world efficiency criteria." [2, p. 209] Therefore, the industry is faced with the task of accelerated rate of overcoming its development lag. This can be achieved only through sales of the highest possible number of its products on the international market. For that reason, it is necessary to maximize the profitable and research&development positive export, as well as to ensure an overall restructuring of the industry and economy, which would provide the prospective opportunity for the economy of Serbia to be successfully integrated into the economy of the European Union. In this sense, it is crucial, in the conditions of limited resources, to identify those industrial branches and programs, which can initiate development, so that Serbian industry would offer new – specific products as fast as possible, to ensure

much bigger participation in the world trade exchanges.

A priority task in the industrial development of Serbia represents the solution of three groups of problems, namely: (1) the low level of technological and market capacity of industrial equipment and production lines (product range); (2) inefficiency of trade activity (which is inadequate – at an unsatisfactory level of productivity and production costs savings), and (3) the unsatisfactory level of quality of products and services according to internationally accepted competition levels (the necessity of introducing marketing elements – brand, design, etc.).

3. The industrial policy instruments must create favourable business environment and development, in order for the market development potential to be better valued. It is impossible to complete the restructuring of the economy and of industry, in particular, exclusively relying on market operation. Market mechanisms must influence economic and industrial development, but they should not be the decisive factor as in the phase, in which the economy of Serbia is at present, market institutions are still to be created. On the other hand, the process of globalization can also have negative consequences on the situation of the economy and, therefore, it would be irresponsible to leave development (both of the industry and of the economy as a whole) to spontaneous factors. As for the globalization process, it is estimated that almost 50 % of the world gross internal product is a result of industrial activity, which is to a high degree already included or is on the way of being included in the process of globalization, and the estimation is that until 2027, globally positioned industry will take part by 80 % in the generation of the gross internal product – from the expected 91,000 billions dollars of gross internal product, about 73,000 billions will be generated on a global basis [3, p. 25]

The mentioned factors and many others unambiguously indicate that Serbia should define its own concept of industrial policy, which by its action on the market, within the market mechanism, would influence directly the orientation of industrial production and the distribution of resources for future industry development. At the same time, this concept should be based on the overall system of export oriented market economy – the open economy. The open economy implies the creation of financial ties with the world, so that there is no direct link between the level of savings on the internal market and the volume of investment. In this way, the accumulation on the internal market looses its role as a key factor, determining the volume of potential investments, their structure, as well as the timing of economic growth, because with the involvement of foreign capital (according to different bases and sources) can ensure higher growth of investment of those who allow for an Internal accumulation fund.

The initial and most important precondition for realizing the abovementioned concept of industrial policy consists in ensuring full and equal access to international financial institutions and sources of external capital accumulation. Moreover, it is normal to make a distinction between the different sources (direct investment, portfolio investment, total investment, bank loans, loans from international financial institutions, etc.). This is of special importance for Serbian industry, which because of the insufficient volume of internal accumulation in the process of the further development will have to use foreign accumulation, i.e. will be a participant in the international financial market. Its further growth and development will depend on its competitiveness, which means that the speed of growth will be determined, most of all, by the growth of foreign trade exchange and, for this reason, industrial policy must be conceived and directed towards reaching this goal.

Accordingly, industrial policy should maintain the development of those industrial branches, which in the specific moment use in the best way (most productively) the competitiveness factors of the country. Therefore, in the formation of its industrial and economic structure, the less developed countries (Serbia being one of them) should not fully follow the example of developed countries. "...Industries, which are the fastest to develop in the leading economies in the world like, for example, software production, information and genetic technologies, bioengineering, and others, are not appropriate for developing countries. The scientific and professional human resources of Serbia must be better qualified for the unimpeded transfer of appropriate technologies; the same applies to the development of technologies, which can find some conditions for development in the country, but they cannot be an industry priority for the moment. The reason is that all these branches require the most modern technologies and very high investment in scientific research and development, respectively in the factors that are the scarcest in developing countries. The manufacturers in these countries cannot be competitive with respect to their opponents in highly developed countries, where the conditions for the development of these branches are much more favourable, so that developing countries are compelled to turn to industry branches developing in the best way, based on the factors of competitiveness they have at their disposal (an analysis should be made of the status of production factors, demand, market structure, etc.)" [5, p. 226] Taking this into account that "...on the world market, the following Serbian industrial branches can consolidate their positions, increasing the competitiveness of their products: (1) labour-intensive branches: textile industry and leather/shoe industry, (2) branches with advantages regarding the raw materials base: food industry, furniture manufacturing, and non-ferrous metals production, (3) dynamically growing branches: production and processing of metals, production of transport vehicles, chemical industry. Encouraging the development of the mentioned industrial branches should be directed towards the goal of making competitive industries (and competitive enterprises within those industries) even more competitive. This means creating conditions in favour of competitive industrial branches, the basis of the process of the industry restructuring, accounting for the fact that the main goal of this process is improving competitiveness and further development of industry (and of the economy as a whole, in this way). The development of these industry branches and the influx of funds on the basis of export will build a solid financial basis for the development of driver industries. Nevertheless, production in which Serbia has the best conditions for the moment should be supported first, and this is mostly the production of traditional industries. The capital, which would be accumulated in these industries, should be mobilized by means of an efficient banking system (which should be further developed) and directed towards the development of driver industries." [5, p. 229]

Using an appropriate concept and industrial policy measures (as, for example: constant decrease of tariff and non-tariff protection, liberalization of the foreign trade flow, real exchange rate policy, encouraging direct foreign investment) should influence the formation of conditions for faster development of those industry branches, which under the existing conditions of international competition can move the industrial sector towards a higher growth rate and provide it with the possibility of withstanding the contest of international exchange. It is necessary, indeed, to activate the process of competition, respectively to open the possibility for the competitive process to affect directly the growth of work competitiveness, the improvement of product quality, the decrease of production expenses in industry, the modernization of marketing elements, etc.

Conclusion

Serbia must have its long-term vision of industry development. The meaning of this is for the country to first build its own concept of industrial development, in which the key development goals will be defined. On the basis of the industrial development concept, development priorities should be defined for the different industry branches, as well as territorial regions.

There is no doubt that the export-oriented industrial development strategy is the only acceptable option as a whole, but this strategy, at least in the beginning, must be combined with other approaches, taking into account the fact that Serbian industry is not sufficiently competitive and a "direct collision" with highly competitive industries would be a grave temptation. Therefore, Serbia must put together its own development strategy, which, implemented within the market mechanism, would influence the orientation of industrial production and the allocation of its resources into future development.

Industrial policy measures should influence the creation of conditions for faster development of branches which, under the existing conditions of international competition, can push the industrial sector towards a higher growth rate and make possible for the country to withstand the competition in international in exchange. Such a (strategic) approach to management of industry development implies, above all, the development of industrial branches and the export of products, which would bring profits and make possible the further growth and development of the industry and of the economy as a whole. It is certain that these cannot be primary products because of the low prices and the trend towards their further decrease in the future, as well as for the fact that the export of products at a higher and highest phase of finalization would be more economical (especially those in compliance with international quality standards).

It is, indeed, necessary to activate the process of competition, respectively to find out possibilities for the competitive process to influence directly the growth of labour productivity, the improvement of product quality, lower production expenses in industry, etc. As a matter of fact, a lasting revitalization of export activity implies major financial resources, which cannot be accumulated only based on local sources. It is necessary, therefore, to ensure coordination of external trade flows and a policy of attracting direct foreign investment. It is very important for Serbian industry that an incoming flow of foreign capital in its different forms starts as soon as possible and is invested according to the defined development priorities.

For the abovementioned reasons, the conclusion can be made that industry development must be managed also from a long-term prospective. Only by strategic management of development, it is possible to improve competitiveness and encourage further industrial development of Serbia.

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