

334.724(497.11)
656.2:658.1(497.11)

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PROBLEMS OF RESTRUCTURING SERBIAN RAILWAYS AND POSSIBILITIES TO OVERCOME THEM

Abstract: The issue of restructuring public enterprises is extremely topical today due to their enormous size while actual material possibilities for their overcoming are relatively small. The restructuring process is currently underway but it does not take place at an appropriate pace and speed since it is accompanied by significant problems, and the state (i.e. the government) is expected to take an action, and so far it has been inert and ineffective. This slow pace of restructuring is especially true in the case of the Serbian Railways Public Company, which represents a very significant traffic infrastructure system, not only from the standpoint of Serbian, but also from the standpoint of European and global needs and interests.

In this article we try to point out the major difficulties and problems of restructuring Serbian Railways, and especially those predominantly connected to material and human resources, but also the inadequate conception of macro and micro organizations with simultaneous indications to the approaches and possibilities for overcoming them, particularly those indicated by the theory and practice of modern management.

Key words: Restructuring; Restructuring problems, Possibilities for overcoming problems; Role of the state.

INTRODUCION

The term *restructuring* refers to a number of changes in all aspects of the business, with a view to ensuring the vitality of enterprises and adapting them to the competitive challenges of both the narrow and wide environment. In the professional scientific literature, in business and economic practices, seeking to highlight the importance and emphasize the aspect of comprehensive, rapid and radical changes dictated by the dynamism of the environment, the term transformation, which aspires to universality, is often used. However, besides this term, there are also some others such as: restructuring; reorganizing; revitalizing; overhauling; rehabilitating; shifting; healing; etc. Although we could discuss specific particularities of each term separately, in fact they are all synonymous, and the „triumph of terminology,“ which is in fact the case here,

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instead of giving simple explanations often leads to creating unnecessary complexity and fogging the character of changes that should be made. In this paper, for the most part, dominates the term and concept of „restructuring“ (this term is primarily associated with the mechanism of market economy functioning which punishes companies that fail to harmonize their relationship with the demands of the external environment), whereby, in the context of restructuring, other terms are also used, when it comes to a particular aspect of change.

Restructuring processes involve a wide range of changes and their synchronized execution. In fact, they refer to the following processes: 1) the ownership restructuring, so that by creating corporation and recognizing the owner, as well as through the policy of issuing and purchasing shares, a more propulsive business and economic activities are ensured; 2) market restructuring, which enables companies to do business in the new market environment, both domestic and international; 3) financial restructuring, i.e. optimizing the financial structure on the bases of new criteria and sources of funding; 4) organizational and managerial restructuring, carried out through differentiation, positioning and integration of organizational parts by which the accountability for the results and affirmed entrepreneurship would be stimulated; 5) technological restructuring, which refers to rational inclusion of companies in the creation and use of new technological concepts (Janosevic 1977).

These restructuring processes, started by the Serbian Railways company in 2001, involve a wide range of interventions, ranging from replacing management and introducing strict financial control, over changes in organizational structure, market adjustment and repositioning of the marketing, to the cost reduction, redefining the business and investment policy, debt rescheduling and so on. However, these processes have not taken place at an appropriate pace and speed, since they are being accompanied by great difficulties and problems (technical and technological obsolescence and physical deterioration of transport capacities; redundant employees; inadequate macro and micro concept of organizing the company with diverse and unrelated activities within the railway system; big over-indebtedness, loss, insolvency, etc.). Since the company was unable to solve these problems on its own, the state (i.e. the government) is constantly being expected to take an action, and so far it has been inert and inefficient.

This paper aims at highlighting problems that arise in these processes of restructuring the railways, especially those related to material resources, human resources and organizational structure... There is also a need to point out the possible ways and approaches for overcoming the existing difficulties, particularly those indicated by the theory and practice of modern management.

For the purpose of identifying and analyzing problems and opportunities for their elimination, the method of content analysis, and application of logical actions, such as analysis, synthesis, induction, deduction, comparison, abstraction, generalization are being used in this paper.

ASPECTS AND PHASES OF RESTUCTURING

Market conditions, globalization, new technologies, new needs of customers, competition – all of them require adjustment, i.e. restructuring of large public companies, especially those in the field of transportation. This especially applies to the restructuring of the railway traffic system in Serbia, and that in all aspects of its organization and operations. First of all, we need market changes that involve retaining the existing and winning new markets, along with improving the existing and introducing new services. In this regard, the Serbian Railways, among other things, must have a clear program of services, such as the program of improving the existing and introducing new services, with a clear assessment of difficulties related to their placement on domestic and international markets; program of temporary and permanent abandonment of certain services beyond basic activities; as well as the program of services whose implementation has already started (e.g. the investments which are currently in progress), with a clear demonstration of the state of their implementation.

The introduction of modern management is an important aspect of change in the context of creating a different organizational structure, without which a successful restructuring cannot be imagined, let alone a successful business performance in the future. The introduction of modern management involves the introduction of those solutions that have been successfully used by developed countries, namely: the organization of modern management companies - holding; separation of management from the ownership; developing professional management functions; introducing performance standards for professional managers, primarily in the form of planned profit; introduction of a modern system of incentives and rewards for managers; etc.

Restructuring has to be considered by managers as a great challenge and opportunity for successful operation and development of Serbian Railways. In this sense, they have to prepare the employees for the process of restructuring, and also get involved in creating a favorable atmosphere for the implementation of the planned program of restructuring, all that by explaining that this is an opportunity not only for the successful operation and further development of Serbian Railways, but also a chance for progress of each individual, meaning that its future career and social status depend on the success of the restructuring project.

As confirmed by the recent practice, there are some unavoidable phases that should be followed and fully observed for the efficient implementation of restructuring program, and they involve: 1) establishing a powerful coalition of business and management entities, which has to include the entire management headed by the General Manager, but also some other economic, political and scientific entities; 2) organizing training for the personnel on the implementation of the restructuring program, especially if the program has been developed by some scientific research institutions, as it happened the case of the Serbian Railways, whose employees were not given an opportunity to be promptly and properly informed about it; 3) informing the employees about the restructuring program so they could clearly observe which of the effects of restructuring can be expected realistically; 4) raising awareness of employees about the necessity of restructuring to create confidence that the implementation of the program is possible, and in that manner they could accept all initiatives launched by the management of the company; 5) increasing the general and business culture of employees, which includes, among other things, a change of thinking and behavior patterns and harmonizing them with modern civilization values as a part of the process of achieving adequate quality of railway-traffic services; and 6) achieving short-term success quickly and efficiently in order to reinforce the belief among employees that the restructuring program has no alternative (Djordjevic 2005).

Two main objectives should be taken in consideration throughout the entire restructuring process and these are: improving the efficiency of the existing lines and raising the quality of railway-traffic services. In addition, the concept of a new railway system must be based on an independent business of railway companies, and also on the division of management systems into railway infrastructure, passenger transport, and freight traffic, as well as the free formation of prices. Better conditions for financing the improvement of railways infrastructure have to be created, along with the possibility that it could be available not only to domestic but to foreign customers because the Serbian Railways Act, which entered into force already on 1 March 2005, envisaged that.

PROBLEMS OF RESTUCTURING RELATED TO MATERIAL RESOURCES

Problems of restructuring Serbian Railways are numerous and diverse and they manifest in all sectors of the business. Therefore, the need for change, starting from organizational (ownership transformation, management training, etc.), through economic and financial (liquidity, balancing infrastructure and transport, etc.), to the business and technology (establishing operational quality

systems, automation and computerization of all business segments, etc.) has become obvious. In order to achieve such ventures, in principal, a radical change is required in the way of approaching the work and doing business, above all the change in the way of thinking. In fact, changing the way of thinking and creating awareness of the necessity for change among all employees is the first prerequisite for a successful turnaround. If this plan fails to achieve visible results, the restructuring of the railways will face, as it has faced so far, with high limitations and resistance. From this perspective, it is necessary to set the commercial interest as the benchmark for the success of the company. In this case, the company management will not be primarily oriented to the state, but to the market and customers, and their needs and interests (Djordjevic 2005). But for all that, as the past practice shows, the necessary assumptions have not yet been created. The main problems of Serbian Railways are, in their most part, related to the available financial and human resources, as well as the organizational structure.

When it comes to material resources, it should be said that the average age of the rails, switches and rail accessories in the Serbian Railways, with a network of 3,808 km of the railway lines in total, is about 40 years. The level of written-off rail surface structure is very high (99.6%) and there are only 46.4% of the lines capable to endure loads greater than 20 tons per axle. While in developed European countries the speed of over 300 km/h (which is considered as the upper limit of the economic viability of the rail transport) can be achieved, the Serbian rail speed is 100-120 km/h, and only 6.7% of the lines are efficient in this regard, and out of a total of length of lines, there is only 31.5% electrified, and those include mainly main directions (Lucanin 1999).

The Serbian Railways network, and its most important part, is actually a part of the European network of international lines, and the backbone of the network is located on the European high-speed railway network, or the Corridor X, as the most important international main line. Having this in mind, the modernization of Corridor X is a unique opportunity, not only for the development of the railroads, but also for the development of the country as a whole. The goal of modernization is to raise the quality of the entire network to a higher level, according to standards established by international agreements on the rail infrastructure quality level.

In addition to the railway network, its fleet has also been largely mitigated. Some 48% of the total number of towed vehicles is older than 40 years, so the write-off of the railway transport capacity reaches 94%. The poor condition of the fleet is therefore constantly emerging as a major limiting factor in achieving better transport conditions, but financial results as well. Besides that, loss is constant in doing business, followed by permanent insolvency. Such economic situation in the railway network is constantly being deepened by

irrational capacity maintenance costs, reducing the volume and quality of transportation, high social costs, primarily due to redundancies, as well as high indebtedness, mainly for the loans for infrastructure modernization.

PROBLEMS RELATED TO RESTUCTURING HUMAN RECOURCES

Restructuring of the Serbian Railways on the market basis (i.e. market restructuring) requires, among other things, reducing the number of employees, but also the change in the structure and quality of the actual workforce. In recent years, the number of employees in the Serbian Railways has been significantly reduced with a trend of further decrease but the issue that still lingers is the lack of knowledge on the market aspect of the offer, which will undoubtedly remain that way in the long run. In addition, the tendency of the stimulating voluntary departure from the company, as agreed with the Government or the competent ministry, is still relevant. However, even though the voluntary departure of employees has been initially financially supported it is no longer the case, and the remaining employees have not been paid for months so they are forced to seek new employment, according to their qualifications (the same has happened to the writer of these lines, who worked with the „Zelturist“ tourist railways company).

The issue of reducing the number and dismissing employees in the restructuring process is difficult and socially painful because it directly affects the very existence of people and their families. Therefore, it needs to be addressed systematically and responsibly, both from the standpoint of the company and the state, because the state is obliged, unlike companies, to establish social programs for resolving redundancies (creating new jobs, organizing training and additional retraining, sponsoring individual business-initiatives etc.).

For the restructuring process to be successful in this regard, it is necessary to create awareness of the necessity for implementing such changes and encourage individual initiative in finding solutions. In companies, especially in such large systems such as the railways, with irrationally accumulated labor beyond economic criteria, remembering the „good old days“ still dominates, and therefore the existence of strong resistance to the restructuring process is quite understandable. The awareness of the necessity of change can be altered by finding solutions for each individual, and not due to negligence of the state, including the "top management" in the company. In this manner not only the social stability and security can be ensured but also the support to reform undertakings in the spirit of market orientation (Djordjevic 2005).

Another problem that appears here, as mentioned above, is the

familiarity of employees with the commercial aspect of supply. There is no doubt that the majority of employees, among them even most responsible managers and senior officers of the company, including those who are employed for being members of the ruling political party, have not been educated on the aspect of the market supply. They all lack the „basic tool“ for making a business

contact in the modern market economy, and that tool is proper knowledge (or information). Consequently, it leads to making business deals which are not based on regulations and standards or criteria, but on improvisation without reaching any adequate economic results. This contradiction between the modern role of the railways in the transport market and the necessary knowledge and skills of employees in the market economy is a very serious limitation for the restructuring of the railway and its further development.

Modern railway systems demand its workforce to be “aggressive” in creating and offering services that meet needs and desires of customers in terms of quality, range, accuracy, speed, etc. In addition, the range of market requirements is very broad. Among other things, it contains cultural behavior, starting from the initiative, over the business skillfulness, to the attentiveness. For the railways restructuring to be successful it is necessary to adopt new knowledge and information both on users-customers and competitors, because failing to do so makes tracking changes impossible, let alone creating them. Gaining higher level of education and expertise is now an imperative, and it should be a permanent process. This particularly must be valid for transport engineers who are employed by the railways, since the highest expectations are related to them. Currently, it is insufficient to rest on the level of classical transport engineering and technology education, but the knowledge on economy, information technology, law, environment, foreign languages, logistics, management, selected parts of operational research, telecommunications, etc. (Colic 1999) have also become a prerequisite.

Today, traffic and transport, as professions, change and develop very quickly and creatively, passing in the last few decades through four transitional phases: transition from traffic engineering to traffic planner; from traffic planning to transportation planning; from transport planning to integral planning; and finally the transition from integral planning to environmental planning. In other words, in its essence it is a transition from engineering to planning; from traffic to transport; from a uniform view to an integrated approach; from local to global responsibility (Ivic 1999).

There is no doubt that human resources are essential asset of any organization, primarily for gaining a competitive advantage on the market. It can be particularly applied to the Serbian Railways as a large traffic-transport system facing the final form of restructuring. High quality personnel cannot be

completely secured in the market, regardless of the existence of specialized educational and scientific institutions. They are primarily built in the continuous process of permanent education and training, especially when the quality as a universal measure, has no upper limit.

Human resources are at the very center of the Modern Management interests and study. Extensive research on achieving synergy effects have been carried out because it is evident that the competitive advantage can be achieved

only by having high quality personnel. In that respect, some changes in the organizational structures have been underway and separate organizational units are created to deal with developing human resources.

RESTUCTURING PROBLEMS WITHIN ORGANIZATIONAL STRUCTURE

A special group of problems related to the Serbian Railways organizational structure originates from the nature of railway activities themselves, as well as from its technical and technological development, way of doing business, property ownership and management methods. The current organization of the national railway company is a very inflexible structure, based largely on the organization from the past. Such a structure, based on the production and functional units (organization of traffic and transport, hauling and maintenance of rolling vehicles, tracks and installation), is now considered to be outdated because the market economy conditions require new organizational forms.

The current organizational structure of the Serbian Railways still maintains a global production concept. This must be overcome by a new concept - the transition from manufacturing to market organization which involves fundamental changes which refer to the introduction of new tasks and new rules (legislative changes); the entrepreneurial form and content of business activities and accountability for business results (changes in the way of doing business); responsibility for the economy of resources; realistic evaluation of the factors related to production and services; market liberalization of transport services; ownership transformation of related activities and companies; separation of transport and infrastructure accounts; responsibility of the state as a whole for providing finances for the reproduction of infrastructure; managing according to market principles (Market Management); organizing the business on the principle of „profit centers“; market segmentation; establishing management control „by objectives“; and so on. Therefore, it is necessary to carry out a number of substantial changes to establish the market driven organizational structure of the railway company which would have a positive

impact on all factors of providing railway services. The Law on the Serbian Railways, passed 9 years ago, created some important prerequisites for establishing the market driven organizational structure. However, not much has been done so far, therefore and due to accumulated difficulties it is the „last minute“ to speed up the process of restructuring in all sectors of work and way of doing business.

The concept of restructuring in terms of rapid change (socio-economic, political, technological, demographic, IT, etc.) is calling for major and not partial changes, especially now when a new model or “a paradigm of interrupted

balance” has been activated. Therefore, the restructuring of public enterprises, and especially the railways, is a challenge for management and primary task for business leaders and government entities.

THE POSITION AND ROLE OF THE STATE AND ENTERPRISES IN THE RESTUCTURINF PROCESS

Among other things, the internal activities of the very railway system are crucial for the restructuring process of the Serbian Railways, and of course together with establishing coordination of all activities with the state, i.e. with its relevant ministry. This means that the Serbian Railways must obtain quality restructuring programs by segments, related to technology, business, and economic, organizational and other changes (Vojvodic 1999).

What could be expected from the state to do in these conditions, may be summoned to the following: 1) the institutionalization of the entire concept of the railway market economy (consistent application of the existing laws and regulations on rail or innovation of existing laws or the enactment of new legislation); 2) the state as a whole should take the responsibility for creating financial infrastructure; 3) the state, together with the company, should innovate the existing or to adopt a new restructuring program; 4) the state, together with the company, should establish the principles for normalization of accounts (fees for non-profitable lines, subsidies for non-commercial transport, compensation for various „social services“, and similar); etc.

The Serbian Railways, in these conditions, should do the following: 1) to mobilize all its resources in the implementation of the restructuring on market principles; 2) to continue with the training of personnel, taking into account primarily the needs of a professional staff and quality management at all levels, from the lower and middle managers to top management; 3) to intensify the activity of the introduction of modern management and control methods; 4) clearly to differentiate organizational units and individuals on the principle of actual performance; 5) to innovate the existing or create a new development

concept for the medium term and a development program on market principles (Djordjevic 2005).

Although the internal activities of the railway system are almost decisive and crucial, however, the role of the state as the owner of the restructuring process is very important. It should be oriented to permanent reviewing and defining of the public interest in railway transport. In the case when there is a state interest in controlling public transport services, we need to find appropriate solutions in terms of price, in accordance with market conditions, and the economic interests of the company. The main conditions which have to be taken in consideration in the process of regulating relations between the state and enterprises, can be reduced to the following: 1) the existence of mutual interest for the regulation and identification of common interest; 2) mutual will to realize the contractual relationship; 3) the existence of competent personnel capable to adequately determine the problem and the subject of contractual relations, and to ensure their implementation; 4) the existence of minimum specific regulations in this area, appropriate to the particular circumstances; and 5) planning the development of railway traffic system, aimed at meeting the needs for a longer period of time.

CONCLUSION

The restructuring process of Serbian Railways is very complex and long-term undertaking, and therefore it must be designed and managed professionally, so that all responsibilities and obligations of the state which creates the environment and conditions, as well as the company itself, were properly coordinated and implemented. The current restructuring process, which has lasted for more than 12 years, has not yielded the desired results. Time is lost, but the problems have become more acrimonious and more complicated.

The current crisis, characterized by low quality of transport services, high operating costs, huge losses, inadequate organization and difficult financial and social status of employees - cannot be overcome without introducing some radical measures to overcome the problems identified, both by the enterprise itself and especially by the state (the government and its competent ministries), whose responsibility, particularly towards the railway infrastructure and character of public services must be precisely defined.

In this context, the responsibility of the state and enterprises originates from the most recent EU documents, which start from the free transport market and explicit insistence on separating the function of using the infrastructure from the function of transport in order to enable competition and increased efficiency and effectiveness in the provision of rail services, and in that manner creating conditions for rapid integration of Serbian railways into Europe and

world railway system, especially because the membership in the EU with prospects by 2020 – is for now a strategic orientation of Serbia.

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Резиме

Проблем реструктурирања јавних предузећа је изузетно актуелан и данас због свог значаја. Стварне могућности за њихово превазилажење су релативно мале. Процес реструктурирања је тренутно у току. Праћен значајним проблемима он се не одвија у одговарајућим темпом и брзином и од државе (тј владе) очекује се да предузме неку акцију која је до сада била инертна и неефикасна. Овај спор темпо реструктурирања је нарочито тачно у случају Јавно предузеће Железнице Србије, што представља веома значајан систем саобраћајне инфраструктуре, не само са становишта српског, већ и са становишта европских и глобалних потреба и интереса.

У овом раду поушаћемо да укажемо на велике тешкоће и проблеме реструктурирања српских железница. Посебно указујемо на проблеме који су везани за материјалне и људске ресурсе, као и на неадекватно схватање макро и микро организација са истовременим индикације приступа и

могућности за њихово превазилажење , нарочито оне за које је теорије и праксе савременог менаџмента.