

CHALLENGES OF LEADERSHIP IN YUGOSLAV BUILDING CONSTRUCTION INDUSTRY

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Abstract

The aim of the paper is to highlight the prevailing top leadership styles in the Yugoslav Building and Construction Industry (BCI), known as an industry that significantly influences economic development of the country. Since Yugoslavia (YU) is the latest former East European country to fully enter the transition from a self-managed to a market economy, this industry faces a demand to quickly develop global competitiveness. One way to gain competitive advantage is to have top management styles supported by social protection programs (SPP). Since this is not the case in YU at present, leadership in the BCI struggles with many challenges that slow down the transition process.

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INTRODUCTION

The Building Construction Industry (BCI) plays an important role in economic growth in every country for three reasons. First, this industry significantly contributes to gross domestic product (Hillebrandt, 1985). Second, it interacts with other industries while creating its products and services in a way that, when there is a need to accelerate economic growth, governments usually undertake measures that directly improve a BCI's competitive advantage. Indirectly then the efficiency and effectiveness of other industries also improve (Medanic, 1997). Third, the BCI mainly employs unskilled and semi-skilled workers influencing the rate of employment (Petrovic-Lazarevic, 1989).

Yugoslavia is the latest former East European socialist country to fully enter the transition period and begin the process of building an industrial base competitive with a market economy. Three factors have adversely affected the transition process: low gross domestic product (GDP) (See Table 1), an average wage of US\$840 per year and third of its population under the poverty line. Consequently, the BCI has been forced to struggle to gain and sustain global competitiveness (Djelic, 2002, and FRY Memorandum of Economic and Financial Policies, 2001).

Table 1: Gross domestic product of Yugoslavia

Year	1989	1990	1991	1992	1993	1994	1995	1996
Per capita (US dollars)	2547	3144	3997	2691	1443	1484	1487	1018
Growth rates (percentage)	1.1	-6.5	-8.0	-26.0	-28.0	6.5	6.0	4.3

Source: United Nations Statistical Yearbook, 1999, p. 21.

According to available data, as indicated in Table 2, the percentage of the BCI value added in the GDP remains constant, confirming our statement of the potential BCI significance in economic recovery of Yugoslavia.

Table 2: The BCI value added in GDP of Yugoslavia

Year	1988	1989	1990	1994
Percentage of GDP	6.2	6.4	7.9	6.3

Source: United Nations Statistical Yearbook, 1999, p.183.

In addition, Table 3 points to an increase of BCI productivity in the country and a decrease of productivity outside the country in a two-year period. This was registered before the NATO intervention in 1999. Clearly, this points to the necessity of the BCI gaining global competitive advantage, but also the importance of the BCI in the economic recovery of the country. Without similar statistical data available after 1998, one could assume an increase in BCI activities in the country in order to build and rebuild infrastructure, and buildings and constructions destroyed during the NATO bombing.

Since transition comprises many aspects of transformation of firms and industries of which top management styles (TMS) play an important role, in this paper we emphasize the prevailing TMS in the BCI and how they influence the process of transition of YU economy.

Table 3: Design, building construction, and production of building construction material

	Value of final work	Employment in the BCI	Level of Productivity
Final work in Yugoslavia	US\$ 000	in numbers	in %
1997	19.178	55,000	0.035
1998	33.534	54,000	0.062
Final work in foreign countries			
1997	44.021	2,375	1.85
1998	20.637	2,659	0.78

Source: 1998 Beretta www.yugoslavia-ofer.org.yu

Milner et al (1986) define TMS as a way the executive personnel of a management system of an enterprise perform duties of fulfillment, maintenance and support of managerial functions. Leadership is an important characteristic of top management style that points to requirements of executives and their role in strategic and investment decision-making processes. Since leadership indicates power relationship, it can be considered through the social and economic context in which it is implemented. In particular, it can be considered through SPP. By SPP is meant public intervention that assists individuals, households, and communities to manage social risk effectively and to provide support to the poor (World Bank, 2000, World Labor Report, 2000).

At present a gap between the old abandoned SPP and the new infant SPP in YU influences leadership styles in BCI enterprises. As a consequence, in the BCI there are TMS developed under the influence of old cradle-to-grave SPP typical of market socialism. There are also new TMS that, being without support of SPP as it is a practice in a free-market economies, slowly adapt elements of contemporary Western management styles and leadership. Top managers following both leadership styles, those of self-management socialism and Western management, are faced with constraints while managing their firms. These constraints are imposed by lack of SPP support, abolition of soft budgeting institutions, and the common practice of corruption and wild building. This paper suggests what could possibly be done in this phase of transition towards economic prosperity of the country to improve top management in the BCI. In this respect the paper is divided as follows: Part two explains leadership styles in the YU BCI in the pre transition period. Part three examines TMS in the transition period. The paper ends with concluding remarks and future research directions.

LEADERSHIP STYLES IN THE BCI IN THE PRE-TRANSITION PERIOD

The economic system in YU in the pre transition period had four distinctive features. The first is the openness of the economy and the freedom of circulation of people and products across borders. Second, enterprises operating in a system of market socialism, the so-called self-management and social capital, were subject to a global competition and free market (CCNM-OECD, 1999). Third, the market played an important role in allocation of resources throughout the economy (Petrovic-Lazarevic, 1989). Fourth, SPP were based on cradle-to-grave programs with full labour market goals, including a social safety net to cover social risks, and large amounts of resources devoted to health and pensions (Heller, Keller, 2001).

The characteristic of the pre transition period of the BCI was the Organisation of Associated Labour based on social ownership of assets, decentralization of decision-making, and self-management (Edwards & Lawrence, 2000). Social ownership gave rights to employees to enjoy economic benefits of ownership, but from the legal point of view, they did not own enterprises. Decentralization was understood as a responsibility for political authorities to suggest strategic directions through overall region wide plans, such as productivity level and rise of employment. It was expected that BCI companies would incorporate these plans on a voluntary basis when creating their own organisational plans. In addition, it meant that enterprises were involved in strategic and investment decisions that were influenced by the overall region wide plan. Self-management signified that workers managed the enterprise indirectly through the Workers' Council and directly through referendums at the Workers Assembly (See Figure 1). The management system was based on four levels of decision-making processes. The Workers' Council at level one was the top management body made up of worker representatives and a general manager of the BCI Company. Members of the Workers' Council elected a Management Board as its executive body. The Management Board's role was to appoint a Chief Executive Officer (CEO) or a General Manager of the enterprise and senior managers (Prascevic et al, 1984).

CEOs were appointed subject to their political loyalty and their useful connections with the political elite. They did not have any executive role but represented social interests and exerted political control (Culpan and Kumar, 1995). Accordingly, they lacked financial accountability, paying little attention to whether their enterprise was profitable (Havrylyshyn & Nsouli, 2001). Such performance was supported by a concept of soft budget institutions overlooking efficiency or profit achievement incentives by allowing compensations in the form of subsidies and loans on easy terms. It also forced general managers to negotiate the enterprise's tax obligation with the state authorities. This led to corruption.

In each organization at level two of the decision-making process there were managers, professionals in charge of sub-contractors and detailed building plan realisation, who were running an Operational Board (OB). The role of these managers was to be in charge of gaining and sustaining competitive advantage and, therefore, initiating the strategic actions of their organizations. The third and fourth level of the decision-making process included middle managers who were professionals (Petrovic-Lazarevic, 1989).

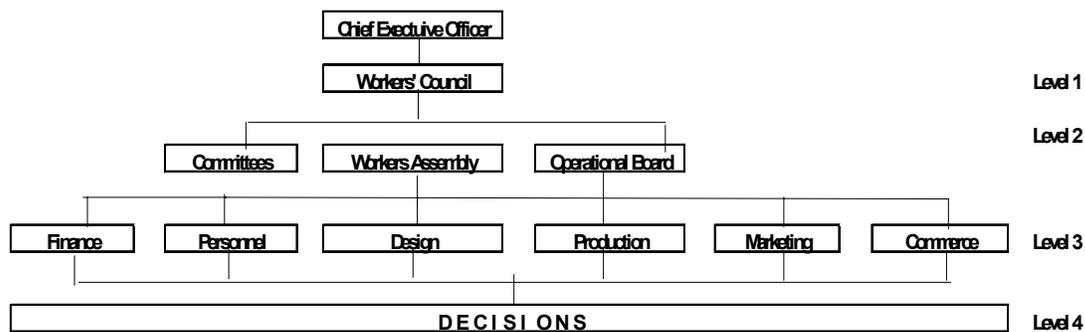


Figure 1: Self-Management Structure

In the pre transition period BCI professionals were subject to a triple relationship client-designer-contractor. This affected their activities. The client is usually an initiator of a building-work construction. In the very beginning of a building process, the client looks for a designer to do the first phase of a project construction. A chosen designer nominates a tender for selection of equipment for the building work. After the completion and closing of the tender, the client has all the necessary documentation to apply for a bank loan. Then, with the approval of a loan, the financial construction of a project is closed. Having the equipment selected and financial construction closed, the designer plans the principle activities of the building work. After that, a tender is created for contractors or BCI organizations. To compete, each contractor must follow a legal bidding procedure. With the appointed BCI organisation, the designer makes a detailed final plan of building work activities. The chosen BCI organisation has to follow the established plan. Accordingly, the contractor

cannot add, change, or reject any of the planned actions. This inevitably creates a conflict of interests between designer and contractor resulting in prolonged construction periods and additional building costs.

In the self-management era the most important problem in managing building work was the role of contractors. The situation was that the designer, who created the final building work plan on behalf of a client, determined working conditions for a contractor. Thus, the contractor represented by an OB manager was unable to implement cost saving or to build objects faster. Such a situation caused frustration among OB managers who consequently lacked an interest in providing efficient and effective service.

As a result of SPP in the former YU, the BCI suffered from a lack of workers in peak seasons. This was a consequence of the majority of labour in BCI taking sick leave in summer. Labour was unskilled, recruited from among villagers who would do agricultural work while officially being on sick leave. With top managers being disinterested to running their business efficiently, and OB managers being unable to take any action to improve efficiency and effectiveness for BCI companies, the shortage of labour in a peak season was a long-term unsolved problem.

Another consequence of SPP was the practice by which OB managers refused to acknowledge executive and employees' use of organizational resources for their own purposes. In the case of executive's use it had a moral tone usually justified through a General Manager's developed networks with the political elite and, therefore, being considered important for the strategic development of the enterprise. With employees' use, however, it was often characterised as cheating and stealing (Maruyama, 1993). This practice of skimming off funds from the BCI enterprise, led to increased wealth among top managers and their families.

The major problem that faced the BCI in the pre transition period, however, was the duality of a top manager's role. On one hand, there were CEOs who, although being officially leaders, in fact, did not participate in the strategic and investment decision making processes of their organization. On the other hand, there were OB managers who through their position would have played the role of CEOs if there was not a triple relationship client-designer-contractor that underestimated contractors. Also, the position of an OB was shaken by SPP that protected unjustified absenteeism of workers and the use of organizational resources for private purposes, primarily by general managers and to a certain extent by employees. These issues instigated disagreements over managing BCI firms. In other words, the CEO as a non-professional, who was fully supported by the political regime, could and did sabotage decisions of OB managers. In this respect the Workers Council supported the CEO. Then, there was the OB manager who could not erect building constructions in the most efficient way because of a lack of power. As a consequence of such conflict of interest, OB managers would slow down or eventually stop a building process, imposing heavy penalties on their organizations. But since SPP were based on the soft-budget institution, their organizations' inefficient and ineffective work was usually masked.

LEADERSHIP STYLES IN THE BCI IN THE TRANSITION PERIOD

The economic and political transformation of YU started in the early 1990s with the collapse of cradle-to-grave protection programs.

Transformation of firms in the BCI was followed by privatization of socially owned enterprises. It was initiated by the sale of large-scale state owned building and construction firms to top managers, primarily those who were close to the state elite, in order to remain intact a company's leaders' power (Bojnec, 1999). With the imposition of United Nations sanctions, the development of a financial market and stock exchange were stopped, leaving practically the unchanged role of top managers. In those firms, leadership style resembled that of the self-management era, followed by the old triple relationship and a negative general stance on workers' participation in decision-making processes. As the political elite protected top managers, the managers main concern was to become rich overnight.

Individuals who were facing unemployment caused by privatization of state-owned BCI companies, established small and medium-sized enterprises (SME). But since the former state owned firms were able to keep a monopolistic position in the market by maintaining a close relationship with the state, and there was

lack of adequate legal frameworks, development of SME was slow. That is, the effective enforcement did not allow enterprises to enforce contracts, collect debts and resolve disputes. Over-taxation, heavy administrative burdens and corruption further deteriorated SME. Finally, banks as a primary source of finance for SME, did not show any interest in supporting them (Privatizacija u Srbiji, 2001).

Although facing difficulties in running business, SMEs made a considerable step forward from the pre transition period in order to attempt to solve the problem of the duality in a top managers' role. Now, leaders in SME are in fact entrepreneurs that mostly run family business. Their interest is to reach high profitability through competitive advantage, which is a characteristic of Western top management styles. Although some SMEs have improved their businesses within a short period of time, many new problems have appeared since there are no SPP to follow up the transformation of leadership styles. That is, as a result of high unemployment, unsolved health system and pension system, and a lack of laws to protect labor, in SMEs managers are allowed to treat employees the way they like. Salaries are not paid regularly, there is no health and pension insurance, and employees can be sacked without cause. On the other hand, since there is no law to protect private business, SMEs face problems relating to the Mafia. The Mafia as an underground entrepreneur group who have established rackets in SMEs. Accordingly, because of this phenomenon many SMEs have had to close their businesses (Serbainfo, 2000).

In SMEs the organization of building and construction went in favor of the contractor, rather than designer's superiority as existed in the old triple client-designer-contractor relationship. Also, the old problem of the use of organizational resources for top managers purposes disappeared. By owing an SME, managers become very cautious about the extent to which they used their own resources for private purposes compared to business purposes. Since an SME manager's determination is to run a business profitably, there is no more use of organizational resources from the employees' side (Fogel & Zapalska, 2001).

With the non-existence of SPP to support transition, specific forms of corruption in the BCI appeared affecting primarily SME. They are related to a wild building consent (Nezavisni, 2001, Bakovic, 2001). A wild building consent is a part of organized crime that deals with collecting certificates and permission to start small-capacity buildings or alterations for residential and small business purposes. People who provide these certificates and permission are employees of local government, that is, city councils or shire councils. They are insufficiently paid, and, therefore, willing to accept bribes. At present, the existing procedure to obtain building consent is the same as in the pre transition period. It involves too many complicated steps. And since there is no clear procedure as to what must be done legally, wild building consent is an unsolved problem.

Formerly state-owned companies, on the other hand, are not affected by a wild building consent since they concentrate on large capacity building constructions, which with the ending of Balkan wars and termination of United Nations sanctions have been initiated by the state.

WHAT SHOULD BE DONE

Today, the BCI is in great demand to reconstruct the country. Both privatized former state-owned firms and SMEs face many project offers. However, since there is still no SPP to support YU economy in transition, it seems there is only a slight chance that leadership in the BCI will adopt management styles typical for free-market economies.

Privatization in the BCI is still not fully implemented on a large-scale imposing many constraints on companies trying to compete and satisfy both domestic and global demand. In particular, there is a need to create rules that directly impose anti competitive restrictions and regulate industries, including the BCI, in which there is some natural monopoly aspect (DOS, 2001). With the development of a financial market and a stock exchange, top management in BCI companies should act on behalf of shareholders interests abandoning the self-centered and non-strategic intent in becoming rich within a short period of time. Logically, such a management style would favor contractors rather than designers. This then would coincide with the practices of BCI in developed countries.

One could argue that leadership styles in BCI enterprises can be improved through foreign direct investment (FDI) since foreign owners would import Western leadership styles into their enterprises (Bojnec, 1999). But, first of all, to attract foreign investors, it should be known what the comparative advantages of the YU economy are, including the BCI. Then, fiscal policies and spending on incentives should eliminate barriers to investment. Finally, the labour market should be developed as an important promotion component for FDI. These elements point to quality of overall economic and social conditions and the assurance that foreign investment will be “protected by a stable, predictable regime based on the rule of law” (Barsony, 2000).

At present, leading financial institutions offer their help to the YU Government in developing SPP to accelerate transition to a free-market economy (Einhorn, 2001, IMF Survey, 2001). However, the evidence from other European countries in transition indicates that with existing state ownership of assets, Mafia, corruption, wild building consent, and absence of financial markets, such programs may not prevent rising poverty (Wolfensohn, 2001). Consequently, there is concern as to what extent these programs will really establish a health system, employment benefits, pensions, and financial sector reform, to create the environment for BCI companies to develop Western TMS.

CONCLUSIONS

The transition period in the YU BCI has been followed by development of TMS that differ from TMS in the pre transition period. As an industry that influences the economic growth of YU, the BCI has specific leadership styles caused by characteristics of the industry itself: influence of the old SPP and the lack of new SPP in the transition era. At present these leadership styles have some elements of TMS in free-market economies, but have had an insignificant effect on the ability of BCI companies to compete effectively both on foreign and domestic markets. It is believed that new SPP would accelerate transition but it is questionable to what extent because of constraints imposed by the non-existence of free market institutions. For future research it will be interesting to investigate new SPP the effect of the new SPP on the BCI in overcoming present difficulties in developing TMS.

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