Changing Organisational Structures in Slovenia*

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Slovenia's post World War II economic developments from a centrally-planned economy to an integrated self-management system have resulted in a specific organisational structure that, to some extent, continues to influence current developments in the organisational field. The beginning of this article deals with changes in organisational structures of Slovenian companies in the context of the changing environment from the industrialisation to the transition period. The subsequent chapter describes the findings of the empirical research, which studied organisational changes of eight Slovene enterprises in 1996. In conclusion, possible future developments in the organisational field in Slovenia stand out.

Sloweniens ökonomische Entwicklungen nach dem zweiten Weltkrieg, von einer zentralen Planwirtschaft hin zu einem integrierten selbst-organisierenden System, resultierten in einer spezifischen Struktur. Diese spezifische Struktur beeinflußt noch immer aktuelle Entwicklungen im Bereich der Organisation. Der Anfang dieses Artikels handelt von Veränderungen in den Organisationsstrukturen slowenischer Unternehmen. Im darauf folgenden Kapitel werden die Ergebnisse einer empirischen Studie beschrieben, welche die organisatorischen Veränderungen von acht slowenischen Unternehmen im Jahr 1996 zum Thema hat. In der Zusammenfassung werden mögliche künftige Entwicklungen hervorgehoben.

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1. Introduction

Slovenia, together with the other republics of former Yugoslavia, occupies a unique place in the field of the organisational structure of enterprise. Its post-World War II economic developments from a centrally-planned economy to an integrated self-management system have resulted in a specific organisational structure that, to some extent, continues to influence the current developments in the organisational field.

Both before and after Slovenian independence in 1991, Slovenia was the most successful of the state socialist economies in Eastern Europe. In 1989 its GDP per capita was US$ 5,869, almost twice that of Hungary's, while in 1993 its GDP per capita in terms of purchasing power parities was US$ 10,585 compared to US$ 7,550 in the Czech Republic and US$ 6,050 in Hungary. In 1997 its GDP per capita in purchasing power parity terms was estimated to be US$ 12,629 (Banka Slovenije, 1998). By 1992, 87.6% of its trade took place with countries having developed market economies, while only 56.9% of Czechoslovakia's, and 66.6% of Hungary's did (Mencinger, 1995). Furthermore, the value of Slovenia's exports to OECD economies continued to rise in the 1990s, from US$ 6,083 million in 1993 to US$ 8,410 million in 1997. According to Rojec et al (1998), Slovenia's global competitiveness index value at the end of 1997 remained above that of the Czech Republic and Hungary. At the corporate level, the net operating profits of most Slovene firms, especially those that are in majority owned by internal and private external shareholders, increased strongly in 1996. Only the companies remaining in state hands continued to make operational losses.

In this paper we explore the organisational developments in the past with the development of the unique self-management system and the transformation of organisational forms in the transition period after 1989. This organisational uniqueness can also be credited for the relative economic success in Slovenia both during the transition period and in the past with respect to other socialist countries. However, it is the aim of this paper to compare Slovenian organisational developments with those in developed market economies. We will try to unveil logical reasons for the development of specific organisational structures in Slovenian history as well as specifics of the socio-economic environment in Slovenia.

In the first part of the paper we briefly present historical developments which had an influence on organisational structures until the beginning of the development of the integrated self-management system in 1971. In the second part we present the unique organisational solutions in the period of integrated self-management which directly precedes the transition period. In the last part of the paper we present the development in the field of organisational structures during the transition period. Our findings, presented in this paper, are based on field research, which we conducted in 1996 in eight large Slovenian companies

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from six different industries. In the concluding section we speculate on possible future developments in the organisational field.

2. Organisational structures before the introduction of the integrated self-management system in 1971

Throughout history, Slovenes were subject to foreigners, who were, in the beginning, important landowners, and who later turned into founders and principal owners of the first factories, mines, mills and saws in Slovenia. The possibility of throwing off the yoke of foreigners had poor predispositions, partly because small Slovene farmers, once liberated from servitude, had to take on expensive debt from the newly established banks, in order to become, after 1848, owners of small tracts of land. The first industrial developments and the first working relationships were established between foreign owners on one hand and the Slovenian workforce on the other. Simultaneously, genuine relationships were established between Slovenes themselves, who helped each other by establishing a small "black" market, by selling farm products on the markets, working in forests and establishing small crafts, specialising in the production of unique local products. The foreign owners were thus not endangered by a threat of growing local businesses, which were at stagnation at the level of small local crafts. Lack of competition was one of the reasons for only moderate economic development which slowed down, among other processes, also the process of organisational evolution.

In the period immediately following World War II, Slovene partisans, having strong support from the Communist Party, took control of the nationalised companies and established new businesses. Actually the role of partisans as new entrepreneurs was institutionalised soon after the liberation. They took on this role after property was nationalised in conformity with the new socialist ideology. They also became the new driving force of the national economy. From then on, informal networks of partisans were the most important factor determining the economic behaviour of firms (Kristensen, Jaklic, 1998). The central government authority never developed to an extent that would endanger this position of ex-partisans.

The period after World War II can be, from the viewpoint of socio-economic developments, separated into several phases (Zuber, 1987: 23-25). The period immediately following World War II (1947-1952) was characterised by *centrally-planned governance* with state ownership. Competition between domestic firms was low, as top management positions were being put into the hands of a group of former partisans, which formed a closed network of friends and business partners. Combined with protection of the domestic industry, the competitiveness of Slovenian companies was confined to stagnation. Lack of strategic vision also caused stagnation in the organisational field; the simple

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functional structures met the requirements of the operations, which were carried out by the companies.

In Yugoslavia, the year 1952 represents the cornerstone of important changes in the socio-economic system. A novelty introduced was the term "social ownership", that replaced the former "state ownership". This was the *beginning of self-management* and the gradual introduction of a market mechanism. In 1965 the new economic reform emphasised the importance of a market mechanism as a means of economic efficiency and effective performance (*market socialism*). The companies became more independent and responsible for their own business decision-making processes. Although market mechanisms were introduced, both social ownership and lack of experience related to a market economy still prevented extensive growth and organisational change that would follow Western trends. The organisational structures were very simple, following the logic of a basic functional structure with the emphasis on production, whereas commercial and financial functions were to some extent neglected, because of a protected and undeveloped market.

2.1. Comparison with capitalist organisational developments

If we examine the organisational structure of Slovenian firms before the transition period, we can identify some clear characteristics: (1) a distinctive hierarchical structure, (2) dependence upon bureaucratic models, (3) low levels of sub-unit autonomy within the macro system of companies, and consequently, (4) low levels of any socio-organizational group autonomy within a company, (5) rigid leadership, (6) and personnel promotion policies which, to a great extent, ignored skills, talents, and work results of an individual worker (Jerovsek and Rus, 1989: 17).

At the same time, important organisational developments started in the United States and spread to Europe. In the beginning of the 50's, the prevailing, simple centralised functional organisational structure, became increasingly inefficient, due to the increasing diversification of companies. Within the functional organisational structure, management was no longer capable of co-ordinating the increasingly complex assignments; this resulted in both a loss of strategic control and a limitation in growth potential. This saturation of information was a consequence of the fact that the top management had to deal with both day-to-day tactic problems as well as long-term strategies. Decentralisation of decision-making was the first step in changing organisational structure. Decentralisation caused the problem of opportunism: because line managers were making decisions, the interests of departments often prevailed over those of the company as a whole. The simultaneous solution of informational saturation and opportunism was found with the implementation of a multidivisional organisational structure. Line managers were responsible for operational short-term decision-making, while top management was able to focus on scanning the

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business environment – to predict threats, perceive opportunities, create long-term strategies and allocate funds accordingly. In such situations the problem of opportunism no longer existed, and possibilities for further growth and diversification were created (Hoskisson, 1994: 23). This was also the period of intense conglomeration in highly developed countries, which, in that period, achieved high returns. Also, multidivisional organisational structure allowed for an accelerated and increasingly varied diversification and internationalisation.

We can see that in this period the organisational structure developments in Slovenia were different in comparison with developed market economies as well as with other socialist economies. In Slovenia, centralised companies with a lot of freedom in the hands of managers prevailed, which was not the case in other socialist countries. In the West, the trend in this field was towards increased decentralisation and diversification.

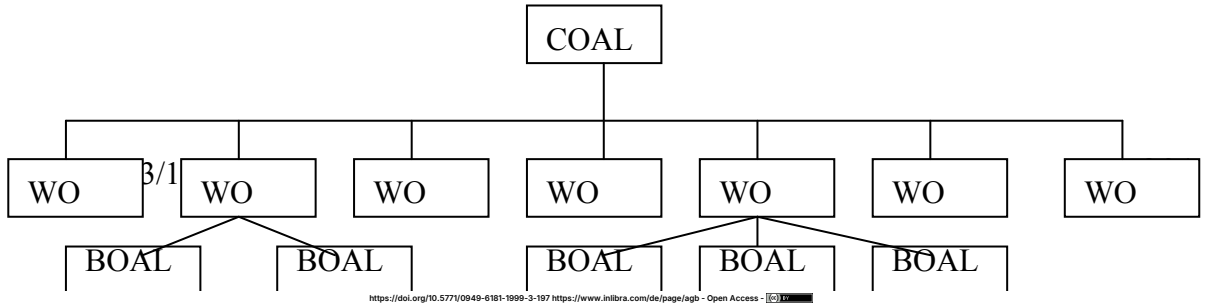
3. Yugoslav organisational uniqueness: the period of integrated self-management

During the period of market socialism, which preceded the period of integrated self-management, crucial experience and knowledge related to market economy, which could lead to strategic changes within Slovenian companies in the future, were being accumulated.

The period of *integrated self-management* was a step away from the market. The vision of following Western trends collapsed with the legislation of 1976. It was a period of crucial changes in organisational structures that still influence Slovenian companies today.

In the beginning of the 70's, different relationships and organisational structures representing a combination of market economy and a centrally-planned mechanism followed the new constitution of 1974. This was the period that affected the organisational structure of Slovene enterprises to the largest extent, the cornerstone being the 1976 legislation on "associated labour", according to which, Yugoslav companies were reorganised into basic organisations of associated labour (BOALs). A number of BOALs were integrated into a work organisation (WO), whereas an integrated group of WOs formed a powerful giant called a composed organisation of associated labour (COAL); this COAL may be described as a diversified "socialist" conglomerate with a specific form of divisional organisational structure as can be seen in Figure 1.

Figure 1: Structure of a "socialist" conglomerate company (COAL)



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The megalomaniac idea of integration, in the sense of quantitative growth, resulted in a number of diversified companies with divisional organisational structures, some of them employing over 10,000 employees. The basic decision-making unit was a BOAL, which could employ a quite small number of people (minimum 7 employees). In reality, there were BOALs of very different sizes. A BOAL could be a simple workshop or a big industrial factory. There was political pressure on companies to establish more BOALs, which would, in theory, increase industrial democracy and further develop the idea of self-management. However, the final decision on the number of BOALs in the company was left to the company itself. The conglomeration idea also reached the financial sector. Industrial conglomerates established internal banks while on the other hand commercial banks were integrated.

It was interesting that such systems were at the same time both very centralised and very decentralised. The diversity of the production programs allowed the companies to decide independently on the level of production and production technologies. Operational decisions, decisions related to products and processes, and other business function decisions apart from production ones, were therefore made at the level of BOALs and/or WOs. The socialist system itself, discouraging the closing of unprofitable units and the dismissing of employees, called for a centralised financial function and intra-company transfers of money from highly profitable sectors to loss-making units.

3.1. Slovenian corporate strategy influence on organisation during the period of integrated self-management

The main characteristic of Slovenian enterprises in this period was their overall pursuit of growth strategies. Growth strategies are by far the most widely pursued corporate strategies, designed to achieve growth in sales, assets, profits, or a combination of the three (Hunger and Wheelen, 1996: 151). However, Slovenian companies' growth was, as we have just seen, often encouraged by the megalomaniac vision, in the sense of quantitative enlargement of companies, of the leading Yugoslav and Slovene political authorities.

In a competitive market environment, the continued growth by increasing production offers the possibility to take advantage of the experience curve, which helps reduce cost per unit and, holding the price constant, increases profits. Those companies that do not achieve the critical mass, which is necessary for benefiting from economies of scale, usually specialise in profitable market niches, which they can serve effectively by engaging in product differentiation and high quality of their products. In Yugoslavia and in Slovenia, the reasons for persistent growth were different for at least two reasons:

- the lack of the profit motive, characteristic of economies with "state" or "social" ownership, resulted in the absence of an essential driving force towards overall efficiency of the national economy; the companies grew

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larger than the neo-classical theory suggests, resulting from the socialist ideology and

- the absence of competition at the market, which was the consequence of the closed and protected local market, resulted in a number of monopolies which were not forced into achieving either cost or differentiation effectiveness;

Corporate strategy specifies both a firm's orientation towards growth and the industries or markets in which it will compete. According to its orientation towards growth, the enterprises can follow either growth, stability or retrenchment strategies. According to the industries or markets in which the company will compete, Hunger, Flynn and Wheelen developed a Model of Corporate Strategies (Hunger and Wheelen, 1996: 152), in which they identified nine strategies, depending on the company's business strengths (competitive position) and industry attractiveness.

In Figure 2, Slovene "socialist" conglomerates can be located in two cells: concentric diversification and conglomerate diversification.

Several studies have shown that conglomerate diversification is less profitable than concentric diversification, which is not surprising, considering the factors that lead to one or the other form of diversification. A study was also made in Yugoslavia to determine the differences between conglomerate diversification and other types of corporate strategies (Kiauta et al., 1975: 119). The results showed that it was, on one hand, typical for conglomerates to reveal higher growth of employment, higher salaries relative to companies from comparable industries, and, on the other hand, lower growth of income, income per employee and rentability.

Figure 2: Model of Corporate Strategies

		Business Strengths / Competitive Position		
		Strong	Average	Weak
Industry Attractiveness	High	Growth Concentration via Vertical Integration	Growth Concentration via Horizontal Integration	Retrenchment Turnaround
	Medium	Stability Pause or Proceed with Caution	Growth Horizontal Integration Stability No Change or Profit Strategy	Retrenchment Captive Company or Selling Out

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	Low	Growth Concentric Diversification[1]	Growth Conglomerate Diversification[2]	Retrenchment Bankruptcy or Liquidation

Source: Hunger and Wheelen, 1996: 152

Table 1: Integrations in Yugoslavia in 1973

Type of integration	%
Same line of business	20,2
Related industry[3]	33,4
Unrelated industry[4]	46,4

Source: Kiauta et al., 1975: 4

Table 1 shows that in the period of integrated self-management in Yugoslavia the majority of integrations were either concentric or conglomerate diversifications.

We can argue that few industries were unattractive to support exclusively the influence of industry attractiveness and business strengths (as Hunger's, Flynn's and Wheelen's model would suggest) on the corporate strategies. In fact, corporate strategies were decided politically, with lack of strategic management knowledge and crucial financial analysis.

3.2. Comparison with capitalist organisational developments

Comparing the processes of conglomeration between developed countries and in Yugoslavia, one common reason stands out: it is the institutional environment of

[1] *Concentric diversification* as growth through diversification into a related industry is beneficial when the company has already achieved a competitive advantage which can successfully be used in related industries and when industry attractiveness is so low that it limits the company's possibilities of growth and long-term profitability within its original business line. By focusing on their key resources and capabilities, such firms can take advantage of resulting synergies and diversify away some of the risk that arises from dependence on a single line of business.

[2] *Conglomerate diversification* is, as theory suggests, appropriate when the firm's current position is poor, considering both industry attractiveness and business strengths. Only average business strength with no competitive advantages that can be successfully integrated into a related business and low industry attractiveness which limits the growth potential and endangers the long-term survival of the company, forces it to diversify away from its core business into an unrelated industry.

[3] concentric diversification

[4] conglomerate diversification

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companies. Kristensen (1996: 13) explains the success of multidivisional structure in the United States with the development of American institutions: since the state and the banks did not interfere in the companies' activities, the companies were obliged to carry all the risk and had difficulties making contact with other business subjects. In such conditions and in combination with a large internal market, the development of large multidivisional companies was a logical consequence.

As opposed to the American and Western European conglomerates emerging in the 1960's, the Slovene "socialist" conglomerates were not operated following the profit motive, mainly due to the lack of private ownership. Instead, the political initiative with goals such as a high level of employment and social stability, development of regions and megalomaniac size, praising the socialist system, influenced the enterprise policy.

In Western economies as well as in Slovenia, the conglomerates were composed of many independent units with decentralised production and research and development functions. While purchasing and marketing were decentralised in the former, they were still centralised in the latter. In both cases, independent units were responsible to the central department that carried out the function of "internal capital market". And in this function lies the biggest difference between the two types of conglomerates:

- in the Western "market" conglomerates, the internal capital market selected among independent units which competed for the limited financial funds of the system, by comparing their financial results, contribution to the profitability of the system as a whole and predicted returns for future projects;
- in the Slovene "socialist" conglomerates, the centralised financial department made decisions related to the allocation of funds, ignoring the profit motive; the prevailing motives were high employment and social stability which resulted in infinite covering of financial losses and re-routing the funds accumulated in perspective and healthy units. The explanation for this behaviour can be found in local Slovenian specifics and political pressure. From either side it was unacceptable to close production units (Kristensen, Jaklic, 1998). The absence of a financial function which could, on the basis of expected financial results, carry out the selection and allocate financial resources among different WOs and BOALs in order to increase the yield of the COAL as a whole (or decrease its risk) was therefore the biggest difference between the Slovene "socialist" conglomerates and Western European, American and others, which were driven by the profit motive. Within the "socialist" conglomerates individual BOAL units were more important than the COAL system they belonged to, which prevented financial synergy. The possibility of closing down an individual unit did not exist, as the losses of one unit were covered by other profitable units. Such policies

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resulted in decreased motivation, lower investments and decreased competitiveness of perspective BOALs.

Because of the lack of strategic management and overall economic thinking, perspective BOALs were neither identified nor encouraged. At the same time, BOALs that operated in industries with low attractiveness, had no competitive advantages and accumulated losses were able to continue their operations. The biggest problem was not so much the lack of formal business plans as was the lack of responsibility to carry out these plans. This behaviour was possible because of a very peculiar "soft-budget" constrained Slovenian financial system (see Hocevar, Jaklic 1997: 3-6) and the highly protected Yugoslav market. This weakness of Yugoslav "socialist" conglomerates led to high accumulated losses of conglomerate systems and serious macroeconomic problems by the end of the 1980's. The consequence was disintegration and deconglomeration of "socialist" giants that have, in the new system, lost political support.

4. Transition into market economy: Slovenia after 1989

Large macroeconomic problems were accumulated in the second half of the 1980's.[5] The need for a fundamental change in the system arose and the new (Markovic) Government introduced institutions based on principles of market economy. Liberalisation of prices, wages and foreign trade caused the establishment of the equilibrium of prices, but at the end of 1989 a shock therapy was implemented to stop the hyper-inflation which was primarily a result of an expansive monetary policy. With the new economic reform of 1990, the exchange rate of YU dinar was fixed to the value of DEM and wages were temporarily frozen, while most prices were still allowed to adjust freely (Prasnikar, Pregl, 1991: 193). However, the policy was not strictly followed: wages increased, public spending remained unchanged, the banking system reform failed, industrial production further decreased and the main goal of eliminating inflation was not achieved. Financial irresponsibility of banks and companies contributed to even larger recession. A few years later, when a new stabilisation policy of the Slovenian Government was being formed, this financial chaos appeared to be the main reason for the restructuring of companies and the rehabilitation of the banking system.

The domestic Yugoslav market that in 1990 presented 82% of sales of Slovenian companies has shrunk substantially since 1991. Export increased in 1992 to 27% from 18% in 1990, sales on the domestic Slovenian market increased to 64% and the export to former Yugoslav republics decreased from 25% to 9% as a percentage of sales of all Slovenian companies (ZMAR, 1992: 6). Purchases of

[5] It is true that in the last period, Yugoslavia reached high rates of economic growth, but it was mostly due to increases in external debt (Prasnikar, Pregl, 1991).

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Slovenian companies on the markets of former Yugoslav republics decreased by 60% in a 2-year period of 1991-1992. In 1995 only Croatia was one of the important Slovenian trade partners from the region of former Yugoslavia, and it represented 10% of the aggregate sales of all Slovenian companies. Slovenia succeeded to a large extent in increasing the share of developed market economies in its international trade, which, in 1992, represented 87.6% of all Slovenian international trade (Mencinger, 1995). The most important partner was Germany, where in 1994 Slovenia sold 30% of its exports and bought 25% of its imports. Germany is followed in order of importance by Croatia, Italy, France, Austria, Yugoslavia, USA and Russia. All of this points to the fact that the performance of Slovenian companies depends mainly on their performance in developed and highly competitive markets of developed countries. However, competition has also increased on the Slovenian market that has liberalised. The actual custom tax protection in 1992 was 8% on average (Potocnik, 1993: 108), taking into consideration the fact that Slovenia doesn't have sophisticated means of non-tariff protection. These conditions mainly affected the manufacturing sector, where the activities decreased more than 15% from 1991 to 1992. The unemployment rate increased considerably from 3.2% in 1989 to 16.4% in 1994 (Mencinger, 1995). It is necessary to say that the loss of Yugoslav and to some extent Eastern European markets mainly affected large state owned companies; small private companies that weren't largely dependent on international trade were less affected. This fact illustrates how large state-owned companies were integrated vertically or dependent on foreign suppliers and were not very dependent on outsourcing from small Slovenian companies that, on the other hand, weren't export oriented.

The restructuring of companies has primarily been focused on the privatised companies. After long discussions the law on privatisation was passed at the end of 1992. The law allows for different types of privatisation with the combination of distribution and sale (also with discounts) of equity possible. The result of this privatisation model is highly dispersed ownership and a large share of internal owners. This condition gives a lot of power to managers in companies that even in the past had large decision making autonomy in companies (Whitley, Jaklic, Hocevar, 1997). We can confirm that privatisation until now hasn't brought strong pressure from the side of the owners, but it is expected that higher ownership concentration will happen in the future, which will presumably affect the organisational issues as well.

4.1. Deconglomeration of socialist conglomerates

In Slovenia, deconglomeration was a result of new legislation in 1989, which gave companies the opportunity to become independent. According to the new legislation, the former COALs were transformed into holding companies. Former WOs and BOALs had the choice of either staying within said holding company or spinning off and continuing their operations as independent

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companies. Understanding the bad past experiences we have presented, it was not surprising that perspective companies decided to leave the system whereas unperspective and/or loss-making companies decided to remain a part of the newly established holding companies. The final outcome was to a great extent dependent upon the leadership of a specific company and a power struggle between different managers in a conglomerate. In principle only those companies that practised centralised decision-making (i.e. autocratic management) maintained their large size. The companies with decentralised decision-making disintegrated, but kept their old internal organisational structures as well as their old top management.

4.2. Comparisons with developments in the developed market economies

As it was interesting to compare the reasons that prevailed in the conglomeration process in Western countries versus those of Yugoslavia, we can make a similar comparison for the deconglomeration processes.

In the United States and in Europe the increasing complexity of conglomerate giants became difficult to control. Also, the increasingly efficient capital markets wiped out the initial competitive advantage of conglomerates, resulting in a world-wide trend of deconglomeration. In the highly competitive environment companies have found their competitive advantage in specialisation and related diversification, which enables them to take advantage of the synergies and risk reduction, as the four-cell Boston Consulting Group growth-share matrix model suggests. According to this model the goal of a company is to maintain a balanced portfolio that allows sufficient cash flow and the ability to harvest mature products in declining industries in order to support new ones in growing industries (Hunger and Wheelen, 1996: 169).

In Slovenia deconglomeration is influenced to the greatest extent by the changes in the Slovenian socio-economic environment. On one side, there was a desire of managers of ex-BOALs and ex-WOs to become independent. The logic was to preserve their own positions and that COALs were too costly for them, being both inefficient and inflexible. In many cases this was a subjective judgement not based on economic analysis and regardless the changed competitive positions of companies. This was most obvious in the marketing function. The customer relations practised by Slovenian companies have changed substantially since 1989. The basic change is related to the loss of the former common Yugoslav market. Slovenian companies, as a rule, have several problems finding new markets and establishing relations with old and new customers, which was previously basically done through COALs. COALs were financially, organisationally and knowledge-wise more capable to perform this task than smaller companies currently are.

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5. Empirical research of organisational changes in Slovene companies

It is obvious that during the process of transition, the environment that previously influenced the organisational structures, has changed drastically. In the continuation we will look at these changes from the perspective of our field analysis. In 1996 we conducted a study to examine these changes in eight large Slovenian companies, where we interviewed 71 top managers about relations their companies had with customers, suppliers and competitors. Three of these companies are among the top twenty companies in Slovenia according to the number of employees, five of these companies are among the top eighty in Slovenia.

The size structure of our sample is as follows: 0-500 employees - 1 company; 501-1000 - 3 companies; 1001-2000 - 1 company; 2001-3000 - 1 company; 3001-4000 - 0 company; 4001-5000 - 1 company; 5000-6500 - 1 company. Seven of these companies are the largest in their industry or segment, and one company ranks third in its segment. Two companies are among the top ten companies in Slovenia, according to the total turnover in 1995. One company ranks among the top 10 companies according to total profit in 1995. Two companies are among the ten largest companies that were listed on the stock exchange in 1997. Six companies are in the production sector: three in different segments of electric and mechanical engineering industry; one in the timber industry, one in food and beverage production, and one in the chemical industry. Two companies are from the service sector: one of these is in trade, the other is in the tourism and hotel industry[6]. Ownership structure of these companies is highly diversified as is typical of Slovenian companies and is the result of privatisation. In three companies the ownership is as follows: 60% of owners are employees, around 20% of the three companies' shares are owned by private authorised investment companies, 10% are owned by the Pension fund and 10% by the Compensation fund. Three companies were privatised through public offering as they either hadn't collected enough vouchers from their employees or their capital was too large to reach 60% of equity. One company has 51% foreign ownership, and the remaining equity is owned by employees. One company is owned by the state or the Development Fund, which is protecting the company from bankruptcy. All of the companies reported profits in 1991, 1993 and 1994, except the one owned by the Development Fund.

The goal of our research was to study how organisation structures are changing and how these developments affect performance of business functions in the

[6] Our sample is not statistically representative but covers the dominant sector of the economy.

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companies[7]. On the other hand, the purpose of the research was for Slovenian managers to get a complete picture of the environment within which their companies operate, which could enable them to make better and easier decisions.

The major research instruments were based on Mintzberg and Waters' strategy-tracking method, Kagono et al's questionnaires on management systems and the Aston questionnaires on organisational structure. However, it was evident from the beginning that research instruments would have to be greatly accommodated in order to suit Slovenian circumstances. In-depth interviews were held with the director, deputy directors and department heads of each enterprise, as well as with members of middle management, supervisors and the manual workforce. These interviews and the analysis of company's material and data were used to generate information on such features as the nature of ownership, governance and organisation structures, the role of foreign companies or joint ventures, relations with financial institutions and government agencies, the nature of labour markets and labour organisations, inter-firm supply and sub-contracting arrangements, the nature of the labour process and managerial control and the relation of education, training and credentials to employment and promotion. We also conducted research on social institutional development through interviews and background material. Several government bodies and agencies were visited, interviewed and studied.

In our sample of eight companies, four of them were formerly a part of a COAL structure, three were independent WOs (not included in a COAL) which were organised in BOALs, and one company was a uniform WO (it had no BOALs) of a joint venture with a foreign partner. For the sample of profitable Slovenian companies it is characteristic that they were part of COAL integration of relatively similar (not very diversified) activities. One company was part of a COAL that was in tourism, food business and commerce and the second company was part of a COAL that was mainly in food business. The third and fourth companies were part of two different COALs that did business in different segments of the power supply industry. If we go back to 1989 when, with the new company law, all COALs which the studied companies were part of broke up, we can see that, paradoxically, there was very little co-operation between companies joined in COAL in production and production services. Out

[7] The contents of our research were divided into the following segments: a) ownership of a company, b) strategy of a company, c) company's organisation, d) company's marketing and relations with customers and competition, e) company's supplying policy and relations with suppliers, f) personnel policy field and education, g) management control over company and decentralisation of decision-making, h) production organisation and decision-making, and i) relations with workers' representatives.

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of the five largest customers of the four companies, there was none from their COAL. It is very similar for suppliers as for three companies none of their largest five suppliers was from their COAL. One company that was previously a BOAL had the largest supplier from the same COAL or WO. None of the competitors was part of the same COAL.

Regarding the organisational structure, not many changes took place. In the newly established companies, which were BOALs under the previous regime, financial and marketing departments had to be reinstated, whereas the companies which were former COALs retained most of their organisational characteristics. Our analysis has shown that the prevailing organisational structure of Slovenian companies after the deconglomeration process is the functional organisational structure. The results have shown that among the 8 large Slovenian companies that were included in the research all 8 had a typical functional organisational structure[8]. In the past, within the divisional structure of the former COAL, some business functions (such as R&D) were organised separately for the three organisational levels: top COAL level, intermediate WO level and operational BOAL level (where the function was further decentralised within each BOAL). The problem of duplicating (or even tripling) business functions now represents one of the factors that endanger the companies' flexibility.

The studied companies have lost close to 30% of their annual sales on average. Namely, in the past, Slovenian companies have, as a rule, invested in their own distribution network in Yugoslavia; the exportation to other countries went through large export companies or through trade companies within COALs. Some companies, which in the past exported in order to acquire foreign currency, have, after the transition, realised that the importance of their export departments and companies abroad has increased. In the case which we have studied, most of the sales went through a foreign (German) partner, and after the partner had gone bankrupt the company immediately lost its buyers or was unknown to them. Slovenian companies, as a rule, wanted to replace the decrease in sales with the increase of sales on the traditional export markets of Western Europe (especially the new Germany) and on the Eastern markets (especially Russia). Because of increasing competition it is more and more difficult to sustain or even increase market shares in these markets. These companies are thinking about finding and linking up with local partners especially in Eastern markets. They would like to establish firms that would

[8] It is interesting that in many of the companies, they specified their production departments as being organised as profit centres. It needs to be emphasised, though, that these are not profit centres as the definition describes (responsible for cost and income), because the sales department is still centrally organised. It would be more appropriate to talk about the cost centres.

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perform technologically less demanding production operations and the sale of goods.

6. Conclusions and prospects for the future

For Slovenian companies the environment has changed drastically since the beginning of the 90's. These changes are mostly connected with the shift of the main markets.

In the past, Slovenian companies were engaged in mass production directed to a wide (20-million) domestic Yugoslav market. This market, which was not very demanding and at the same time partially protected, absorbed most of the production of Slovene and other Yugoslav companies.

With Slovenia's independence, Slovene companies were forced to re-route their exports to the more demanding western markets and increase their market share on the increasingly competitive Eastern markets. The domestic market has shrunk from 20- million to 2-million.

In spite of this change towards the highly competitive export markets and the simultaneous liberalisation of the domestic market, no important changes have taken place in the organisational field of companies. The sample of eight companies that were included in the research of organisational change in Slovenia showed that the internal reorganisation process has not started yet. The companies still practice the simple functional organisational structures, which are not flexible enough to respond quickly to new market threats and opportunities, which have both increased along with the competition. Current world developments in the organisational field are towards advanced organisational structures such as strategic business units, matrix structure and network structures (Hunger, 1996: 237). These structures further improve a company's flexibility in the present turbulent environment.

In addition, new benchmarks have appeared in the global market. In this situation, Slovenian companies suddenly became small competitors in the world market. Specialisation and orientation toward market niches is one possible solution for small companies to survive in such a competitive environment. On the other hand, specialisation is very risky, not only for companies, but for the small economy in general. In Slovenia and in other small market economies a collapse of one single company, large from a national viewpoint but unimportant on a world scale, can cause a major deterioration of the national economy. Therefore, in order to be competitive and still diversify away some of the risk, the possibility of *diversification inside the market niches* should be considered.

The most perspective companies and groups in Slovenia (such as Rotomatika, Kolektor, Kolinska, Istrabenz and Autocommerce) have already restarted the

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diversification processes. The diversification is now based on market criteria, as opposed to the criteria of socialist conglomerate diversification. Since the mechanisms supporting the establishment and growth of new business units do not exist in Slovenia, and it is difficult to expect that they will be developed similar to those in the United States (venture capital funds demand highly developed capital markets), the responsibility to enter new business lines is placed on existing managers. Slovenian companies will have to speed up the process of internationalisation in order to be competitive on the markets. During the internationalisation process the companies could diversify away the risk of entering new businesses by establishing networks with companies from similar market branches. Forming partnerships, especially in internationalisation, will become a crucial organisational challenge. The two crucial factors of success in the global competition are the company's marketing and R&D functions. In the case of partnership with a foreign partner, the company must not waive these two crucial functions, and it must not lose its own strategy (for more on this see Jaklic, 1998). Partnerships between Slovenian companies and the role of local institutions with respect to global competition will also have to exhibit some strengths in order to help Slovenian companies.[9]

We believe that two types of organisational change will have to be implemented in order to improve the competitiveness of Slovene companies:

- *internal changes*; The described strategies call for flexible, decentralised, flatter organisational structures. We believe that the implementation of internal reorganisation will be the most challenging goal to be reached by the companies' management once the privatisation process is over.
- *external changes*; Increasing competition increases business risk of highly specialised companies. Building strategic partnerships and engaging in mergers will help Slovenian companies to protect against this risk. Also, the shift from mass production to the flexible one requires formation of flexible networks, which can be quickly formed or dropped.

On one hand, the Slovenian business environment is becoming increasingly similar to that of other developed countries. On the other hand, there are still many specifics in the Slovenian business system (i.e. history and culture, specific characteristics of life in small local communities) which will influence organisational response in the future. However, it is expected that the response in the field of organisational structures will be, for the first time in Slovenian history, economically more rational and "natural".

[9] For more on this see Kristensen, Jaklic, 1998. It is expected that some form of entrepreneurial districts will emerge in Slovenia. The development of Italian style industrial districts are less probable in Slovenia.

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