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THE NECESSITY OF IMPLEMENTATION OF THE SO-CALLED NON-COST CONCEPT IN THE CORPORATIZATION OF THE PUBLIC SECTOR

ABSTRACT. Corporatization of public enterprises implies the conversion of public services into real companies, i.e. converstion of public enterprises into joint stock companies or limited liability companies, as a form of business organization. This is no doubt a necessary precondition for increasing their business performance, because public companies manage state property, which is kept as the property of others, and used as their own. This way, public enterprises would operate just like any other company.

Nevertheless, corporatisation is much broader phenomenon than simple transformation of public enterprises into some form of business organization. It involves change of management system, formation of management bodies and the regulation of their business through the charter,the method of forming a selling priceof public services and the philosophy of economic use of resources.This is, apparently, a far more important element of corporatization because it shows that every form of property rights can be effective if entrusted to professional managers.

This paper examines the issue of corporatization by determining the selling prices of public services on the basis of the 'non-cost' principle instead of the traditional concept of cost.

KEY WORDS: implementation, non-cost concept, public sector

Introduction

The public sectorin transition countries and especially the public enterprises in Serbia for decades have displayed high degree of business in efficiency and ineffectiveness. On the issue of public enterprises and the country's attitude towards this part of the Serbian economy many governments rose and fell, and this issue was decisive in several elections. This is especially evident when it comes to large public companies, such as PTT, EPS, Zelecnice Srbije, Telekom, and others, which serve to satisfy either party or coalition's appetite. Thus, the public enterprises have be come party, i.e. political phenomenon, which is contrary to the purpose of their existence. This is primarily related to the economic dimension of each organization, because it shows that the purpose of every single economic organization, including public enterprises, is to achieve defined goals and interests with the lowest possible economic sacrifices.

Accordingly, public companies are monopolies, i.e. they are not exposed to competition. The losses of public enterprises keep increasing year after year, so that many companies are heavily indebted and unable to meet their financial obligations. On the other hand, the quality of the services provided by Serbian public enterprises at all levels is questionable, which is natural, because they are under the «umbrella» of the state and as such are not exposed to competition, and consequently are not stimulated to provide neither better quality of service, nor lower prices.

Unsustainability of pricing public services based on the cost principle

Public enterprises in countries in transition, as well as in Serbia, operate in the traditional manner. They represent the classical organizational structure, and a high level of determinism and schematism, where the emphasis is placed on efficiency, but at the expense of effectiveness [1]. Often incorporation requires the centralization of resource management, with a deep and hierarchical organizational structure. Regarding pricing, the classic formula is often used, i.e. the calculation in which costs are calculated, i.e. the cost of a particular productor service. On top of this it is possible to add profit, thus arriving at the selling price. Simplified, this could be presented in the following form:

cost price + profit → selling price

Previous formula in determining the selling price is a ctually aconcept that arises from or is the cause of classical public sector governance, and prof. Hayek statement can serve as a warning: «My whole economic concept based on the ideat hat we need to explain how prices act as signals telling people what they should do in certain circumstances. Thus, through determination of the selling price of public services, it is possible to establish an appropriate management concept.» [2]

A selling price calculated in the above way suggests the so-called cost management approach. By decree, or certain regulations, decisions and other instruments oblige citizens to pay this price. So, it is costs, i.e. cost price, that determine the selling price here.

The above formula, or concept of the formation of the sales price suggests the so-called cost approach or concept of public sector management, which is the opposite of market management models. In fact, the government calculates the necessary funds to meet its own expenses, such as salaries of civil servants, expenditure on maintenance of facilities, supply of necessary materials, etc. which shows the amount of expenditure fromthe budget. In subsequent processes, the state searches for budgetary revenues of income necessary to cover expenses, such as various types of taxes, duties, etc. In the event that certain income can not meet expenses, the government increases taxes and other charges, in order for additional income to «cover» planned expenditures.

This indicates significant influence of a feudal state in modern conditions, where the state seeks to ensure the maintenance of public administration, or bureaucracy through paid duties. In the case of Serbia it is party bureaucracy. Any duty imposed on the real sector means, in fact, incapacitation of this sector to ensure competition in the market. At the same time, it the real sector is expected to increase the comfort of the party politocracy.

The problem of this method of forming the selling price is that there are no standards for determining the costs or the criteria by which to perform their collection. For example, this is going from public enterprises towards — conditionally speaking — the market. Therefore, a public company calculative calculates depreciation costs, labor costs, raw materials and the so-called general costs and thus arrives at the cost price (CP). Considering that public enterprises are oversized with property, and that they have a much larger number of employees than is required, costs, i.e. cost prices are generally higher than the real or market price. In this context, the user or the consumer is irrelevant, because he is more or less forced to pay for public service, regardless of level of quality and prices, given that due to the monopoly position of the consumer he is unable to choose a provider of a particular service. Further, the consumer can not take into account any price competitiveness as it is virtually non-existent.

Just how absurd this classical way of forming the selling price of public service may be is evident from, for example, utilities for cleaning, garbage, waste,heating, etc. that are charged per square meter, regardless of the type of activity, location of the activity is performed, power consumption, etc. Thus, highly sophisticated companies which apply information technology in fullest and have virtually no paper waste in their operations still have to pay the same utility charges, including paper waste. Irrespective of the above, they still have to pay the costs of municipal waste per square meter, in the same amount as companies that operate in the traditional manner. The situation is similar with heating, water collection, etc.

On the other hand, if public companies want to make profit, expansion or improvement of the material basis of their work, the only way to do this is to increase the selling price. It has been constantly happening in the last few years and thus public enterprises somehow managed to cover their inability to manage the assets allocated according toeconomic principles.

The consequences of the classical management through classical-formation of sales prices of public services are evident not only in transition countries but alsoin developed countries.The state does not want to reduce costs and balance expenditures with revenue, and faced with the lack of financial resources it take loans to support its own unproductive state apparatus. This led to all transition countries being heavily indebted and over-indebtedness tends to increase, with far-reaching negative effects on the sustainability of a country and the world on a global level. The situation is dramatic in developed countries too, including the United States as the most developed country in the world. The data show that each year about 50,000 families in the US go bankrupt because of inability to pay for medical care, even though they paid compulsory health contributions. This shall happen in countries in transition too, unless current business philosophyof the public sector gets changed [3].

Public sector management at the so-called ‘non-cost principle’

Instead of the classic ways of forming selling price, it is necessary to apply a completely opposite manner, and that is that the selling price is determined by public service costs or expensesin the public sector. Therefore, it is necessary first to determine the selling price, i.e. the standard price that customerscan afford to pay, and then in the inverse direction projectcosts. In this context, a new formulathat promotes a new concept of management would be:

The selling price determins costs

This concept is based on the view that the sale price is determined by the supply and demand andthat, as such, it is a given, i.e. it applies to every service provider, even when it comes tothe state. In other words, the selling price of public services is based on the purchasing power of citizens and it should provide for all expenses incurred in respect of its provision. Starting point is that everyone, including the public company must use their income to pay for their expenses, and it must determine expenditures in accordance with the selling price.This further means that in this concept the emphasis is on cost management and that coss must be kept 'as tight as possible,'i.e. we must reduce the number of employees in public enterprises to increase their competencies in order to give better solutions and better quality public services.

In the new concept of governance the only way for a public company to fund the expansion of its material basis is to cut its costs. It is within successfulcost management that we find the core of any administration, because every system or process can be managed, but it must be carried out with the least economic sacrifice. In this concept, the selling price remains fixed, but reduction of costs we can achieve greater effect (profit), and thus higherbusiness performance. Here it is necessary to introducemethods for stimulating employees and management for busines ssuccess achieved, as well as to sanction underachievements in planned or expected results of operations.

For public enterprises to operate successfully there must be a professionalization of management; this is the biggest problem in modern conditions. This means that the state as atitular or founder of a public company must be separated from the management, but further management be separated from the founder — state — and must function under the rules of the profession, and professional management. [4] For those of public enterprises where the state does not interfere in the management of daily business and management activities, business performance is usually higher, and vice versa.This shows that the state throughcontrol mechanisms, and it is the pricing, can best provide for business success. Naturally, boards of directors and supervisory boards should demonstrate their rolein the approval of the selling price of public services. They must leave it to professional management to exercise its mission for which a public company was established in the first place. In the event that a public company does not achieve the objectives and business performance, the supervisory board puts new management consisting of those that can achieve the set goals.

Nevertheless, in modern conditions it is evidnet that the best way to raise the performance of the public sector is its abolition, with the introduction of the concept, where public services are provided by companies in the statusof joint stock or limited liability companies, or by companies that are partly entrepreneurial. This practice exists in developed countries where the state entrusts all traditional business, including military affairs, to private sector with which the state has precise agreements with mutual rights and obligations. In other words, incorporation is certainly preferable to a public company, but it is much better to include the rea lsector into the provision of public services, as it is competitive and able to provide cheaper service.

Conclusion

Modern conditionsi mpose the need for rational operations of all segments of the economy and society. State is a major consumer of financial assets, so even minimal savings can provide great benefit sat the national level. Therefore, the public demonstrates growing interest in where their money is spent and how the state acts in the provision of public services, especially since the modern state, especially in countries in transition, still operates on the principles of classical feudal state, where the state ensures its survival on the basis of taxes, fees and other taxes and duties.

This paper points out the necessity of introducing a new concept of public sector management, and this is the use of so-called non-cost concept in business. This concept implies that primarily we must manage thecost, together with the overall effort of public enterprises to keep costs as low as possible in order to correspond to the purchasing power of the citizens who use public services. In conclusion, solution is the formation of an inverse manner of forming the sales price where the selling price determins the costs. In this way, the classical management model becomes obsolete. It is still present mainly in state enterprises and it unnecessarily saps resources from the real sector. Of course, all the above cannot be accomplished without highly professional management, able to manage the resources and potential of enterprises in the most efficient and effective way.

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МІКРОЕКОНОМІЧНІ ДЕТЕРМІНАНТИ КОНКУРЕНТНОГО ВИБОРУ ПІДПРИЄМСТВА В НОВІЙ ЕКОНОМІЦІ

АНОТАЦІЯ. У статті надано визначення поняття конкурентного вибору підприємства, розглянуто глобальні тенденції нової економіки, визначено мікроекономічні детермінанти конкурентного вибору компанії в аспекті конкурентної стратегії, конкурентної поведінки та тактики конкурентних дій.

КЛЮЧОВІ СЛОВА: нова економіка, конкурентний вибір підприємства, інформатизація, конкурентна поведінка.

MICROECONOMIC DETERMINANTS OF THE COMPETITIVE COMPANY CHOICE IN A NEW ECONOMY

ABSTRACT. In the article the concept of a competitive company choice is determined, the global trends of a new economy are considered, the microeconomic determinants of the competitive company choice in terms of the competitive strategy, competitive behavior and competitive action tactics are determined.

KEYWORDS: new economy, competitive company choice, informatization, competitive behavior.

Конкурентний вибір — ієрархія стратегічних рішень щодо взаємоузгодження цілей, типу поведінки та відповідного набору тактичних засобів, яким віддає перевагу підприємство в галузевій