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**POSSIBILITIES AND EFFECTS
OF IMPLEMENTATION OF OUTSOURCING
IN POWER UTILITY OF THE REPUBLIC OF SRPSKA**

Miladin Jovičić *

Rajko Stevanović *

Abstract: *The issue of company effectiveness is a matter of relationship between results and investment. Michael Porter considered that competitive advantage could be acquired either by diversity of products or lower prices. To manufacture with minimum costs has become a key task of every company. These costs are the subject of analysis of this paper – the costs in a specific system like power utility. They are specific because there are no stocks of finished products (electricity), but there is greater demand. At the same time, a single market of energy at the EU level is created (at least, trying to be created), which significantly increases the competitiveness. Since production is limited by technical properties of manufacture, transmission and distribution systems, the only possibility is to “knockdown” the costs in order to be competitive. However, the savings can be made to a certain level as long as we do not endanger the quality and quantity of production. For this reason, this paper wants to indicate the effects and possibilities of transferring a part of activities from the “jurisdiction” of power utilities, thus reducing the costs and raising the efficiency and safety of the system’s work. Outsourcing, as a possibility of raising company efficiency, has only recently become a subject of more serious consideration by those in charge for the company efficiency in this region. The world has been using it for a long time. Nowadays, outsourcing is the central element of economic globalization and a new way of creating competitiveness.*

Key words: *Outsourcing, competitive advantages, results, possibilities*

1. Introduction

The issue of sustainability of Power Utility of the Republic of Srpska has become a very interesting issue in terms of the existing prices of electricity and the efficiency of the

* University of East Sarajevo, Faculty of Business Economy Bijeljina, BIH;

✉ miladinjovicic@yahoo.com

* Subsidiary Company “Mine and Thermal Power Plant Ugljevik“ a.d. Ugljevik, BIH;

✉ rajkostev@gmail.com

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organization of the system itself. Only two realistic options are: increasing the selling price and internal reserves.

Electricity costs are one of the most important “items” of the prices of most of the products. The low price of electricity and low price of labor are unfortunately key factors in achieving certain competitive position. At the same time, the standard of population is extremely low and any increase in electricity prices would substantially burden the budget, especially the population which is socially the most sensitive.

In these circumstances, we must turn towards internal reserves, which are not insignificant. This paper has directed the focus to the possibility of outsourcing certain activities which would significantly make savings. At the same time, they would not jeopardize the system efficiency; on the contrary, they would raise it. This paper is going to process only some functions whose effects are the most visible ones and whose outsourcing should not cause greater “disturbances” inside the system. Namely, the key reason of resistance towards transferring certain functions is disbelief. This is something which must be worked on. The type of property is not something which should be important, but the fact whether the company does business efficiently and whether it respects the defined procedures, especially when it comes to protection of workers’ rights.

2. The Concept Of Outsourcing

Literature defines outsourcing, as potential source of raising competitive advantage of a company, in various ways. Some see it as a significant factor that primarily affects the “knockdown” of production costs and other see it as something that can “help” raising the quality of business, but actually has no significant share in it.

What supports this are different definitions of the term outsourcing. Most often, it is defined as an attempt to transfer a part of company activities to some other, specialized companies in order to reduce costs and raise efficiency. Most frequently, these companies are abroad. Also, outsourcing is often defined as contracting a certain service, which is in the jurisdiction of a company, and which will be done by third party.

What is typical for large global corporations is the fact they keep their basic strategic activities and leave everything else to other specialized companies which will do it in a better and cheaper way, especially in conditions of global business where the only certain constant is the constant of change. In all spheres, in order to maintain competitiveness, companies decide that changes in this domain are “followed” by companies specialized for that type of activity. Outsourcing is one of strategic possibilities which companies can use in order to maintain or improve their business. The implementation of outsourcing can also mean that corporation’s business has developed so much that it is “forced” to separate its non-core activities from the basic business in order to get rid of “unnecessary” expenses.

What is common to all definitions is that work, functions and services are relocated outside the organization (N. Popovic, O. Jasko, S. Prokic, 2010, p. 64). Outsourcing can be defined as a strategic approach to organization's way of organizing the functioning of the organization in order to improve the quality of business. Ultimately, it all comes down to a better financial result, which should be the consequence of focusing the organization on the basic, essential functions. All other activities that one could do in a better and more efficient way are outsourced. The place of the seat of organization or

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outsourcing of the company is the least important. It will be in a place from where it can provide the best effects.

The reflection of Executive Director of “General Electric” from the USA Jack Welch is a very interesting one: “The essence of outsourcing is to recognize activities that create added value for the customer and to allocate the best people and resources for performing those activities. Our secondary activities will never attract the most talented people. However, if we turn them into key activities of our suppliers, they will surely succeed. This exactly is the sense of outsourcing.” This reflection probably contains the overall philosophy of the usage of outsourcing.

What could be the subject of outsourcing? Most often, outsourcing is divided into: a) IT Outsourcing, Eng. *Information Technology Outsourcing* (ITO) and b) business outsourcing, Eng. *Business Process Outsourcing* (BPO).

The fact is that activities from the field of informatics are most outsourced. In the beginning, they were almost exclusively the activities which were outsourced. However, as time passed, the situation has changed. Outsourcing is present in all activities of a company if it has better effects for a company than in the period before the transfer. There is an interesting example of an Austrian company Alpina, which was among three leading construction companies in Austria. Company Hewlett-Packard-HP did all the informatics activities on behalf and for Alpina Company, including equipment and personnel, as well. Alpina Company paid contractual amounts for the services.¹

Recently, more and more outsourcing is present in the field of the so-called CRM – customer relationship management, especially in retail industry. A specially developed business of outsourcing is in the field of provision of security. In fact, more and more companies and even countries entrust the tasks related to protection or security to specialized companies whose main activity is security.²

Practically, in a company there is not an activity that cannot be outsourced. Time ahead us will probably prove that Peter Drucker was right when he said that “the corporation of future will consist of top management. Everything else can be outsourced!”

3. Possible Fields of Outsourcing in Power Utility of the Republic of Srpska

Mixed Holding “Power Utility of the Republic of Srpska” is a strategic company, which performs tasks of general interest in the Republic of Srpska. It was founded by the

¹ In the meantime, Alpina Company was bought by a Spanish Corporation and for some reasons, that company entered into the process of liquidation several months ago.

² This type of outsourcing to other companies in the field of protection is especially important in conditions of war. In May, the Fiscal Times magazine wrote that according to the last census by Professional Overseas Contractors, there were 110,404 contract soldiers at that moment in Afghanistan. Out of whom, there were 33,444 US citizens. The rest were Afghans and citizens of other countries. In general, they were leased “employees” for the needs of the US government. Workers or rather contract soldiers are a less cost for the budget. All costs for their accommodation and insurance are on management of the companies. Also, the state is not burdened with obligations in case of death or injury. When the Pentagon was recently accused of not being informed what was happening and what precisely were its company-contractors doing in Afghanistan, the officials responded that the Military Ministry set strategic tasks, and how those tasks would be met is the matter of private contractors.

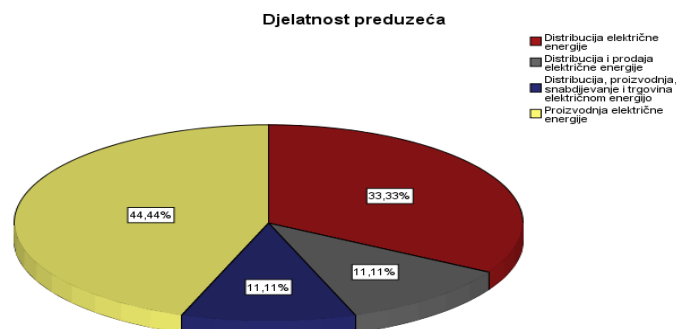
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decision of the Republic of Srpska Government in late 2005, in order to implement the reform objectives of the Action Plan of the Government of the Republic of Srpska for restructuring of the energy sector and transform the former state-owned enterprise into a new form of organization, i.e. corporation. This transformation was conducted in the second half of 2006 and it actually performed organizational upgrade of the previous system, which organized the electric power sector of the economy in 2005 on the principle of completely independent enterprises, which were present on the market independently.³ Mixed Holding of the Power Utility of the Republic of Srpska is organized on the basis of linking the Parent Company with eleven subsidiaries through capital investment of the Parent Company into subsidiaries. On that basis, the Parent Company, as the majority owner (shareholder), participates in the management of subsidiaries. This is due to the fact that the Parent Company has shares in subsidiaries in the amount of 65%, so its vote is the crucial one in the decision making process. The Parent Company has shares in five electric-distribution utilities and in five production companies, as well as in IRCE East Sarajevo (51% of shares). This way, it links all the companies in one group with a clear division of labor, and that group is coordinated by the Parent Company which also provides functional and technological unity. The companies within the group have the status of separate legal entities, which run their books, calculate the income taxes and submit their annual tax return for assessment of tax on profits.

Activities of the company

Activity of the company	Frequency	Percentage (%)
Distribution of electricity	3	33.3
Distribution and sale of electricity	1	11.1
Distribution, production, supply and trade of electricity	1	11.1
Production of electricity	4	44.4
Total	9	100.0

Graph 1. Activity of the company



Red – distribution of electricity; grey – distribution and sale of electricity; purple – distribution, production, supply and trade of electricity; yellow – production of electricity

³ This corporatisation or establishment of Holding of PU of the RS met all legal requirements and reform requirements; it also enabled the functioning of the company on a new basis with respect to market conditions. The introduction of VAT in the system of tax liabilities led to new relationships between the subsidiaries and the Parent Company within the Holding of PU of the RS. This additionally commercialized the relationships between these related companies and put the relationships closer to market conditions.

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Special attention was dedicated to activities which could be transferred to other specialized companies most easily at the moment without causing severe consequences to relationships in the company itself. This paper dealt with the following: social nutrition, ongoing maintenance, legal services, automated data processing and security. These are all the activities that are currently performed by employees in subsidiary companies.

Two manufacturing thermal power companies are discussed in this paper – Subsidiary company “Mine and Thermal Power Plant“ a.d. Ugljevik and Subsidiary company”Gacko“ a.d. Gacko. They can be an excellent representative of the Electric Power System of the Republic of Srpska, especially for manufacturing companies in the system and also for thermal power producers.

Table 1. Structure of income of Mine and Thermal Power Plant Ugljevik

Year	Production in GWh	Income from electricity
2007	1,457.73	99,018
2008	1,531.17	126,845
2009	1,559.00	123,329
2010	1,315.72	110,338
2011	1,836.22	140,071
2012	1,837.05	142,249
2013	1,616.80	130,663
2014	1,591.40	122,413

Source: SC Mine and Thermal Power Plant Ugljevik balance sheets

Table 2. The structure of income of Mine and Thermal Power Plant Gacko

Year	Production in GWh	Income from electricity
2007	1,149.42	72,300
2008	1,563.25	122,821
2009	1,434.02	119,841
2010	1,540.28	118,466
2011	1,613.53	115,242
2012	1,414.65	102,333
2013	1,773.32	132,242
2014	1,542.26	110,168

Source: SC Mine and Thermal Power Plant Gacko balance sheets

Table 3. Costs of the canteen

Year	Number of employees	Expenses	Amort.	Salaries	Total
2009	115	1,394,161	68,800	3,152,955	4,615,916
2010	117	1,348,849	68,820	3,207,789	4,625,458
2011	119	1,167,962	68,910	3,262,623	4,499,495
2012	116	1,218,441	68,807	3,180,372	4,467,620
2013	119	1,213,966	68,993	3,262,623	4,545,582
2014	91	1,250,520	68,813	3,110,241	4,429,574

Source: SC Mine and Thermal Power Plant Ugljevik balance sheets

Table 4. Costs of the canteen of SC Mine and Thermal Power Plant Gacko

Year	Number of employees	Expenses	Amort.	Salaries	Total
2009	73	1,012,327	56,148	2,345,781	3,414,256
2010	72	1,057,455	56,879	2,298,754	3,413,088
2011	66	1,024,987	56,457	2,301,245	3,382,689
2012	67	1,000,657	56,754	2,307,289	3,364,700
2013	66	1,098,467	56,745	2,297,599	3,452,811
2014	78	1,124,659	56,873	2,311,457	3,492,989

Source: SC Mine and Thermal Power Plant Gacko balance sheets

The first thing that was analyzed was the costs of the so-called social nutrition. More than three thousand people are still being provided with meals in the facilities whose owner is the company and with the people who are permanently employed at the company.

These are only immediate costs. If we calculated the costs of purchase of goods, verification of goods, warehousing, medical examination of employees and the related part of costs of those who are in charge and make decisions, the costs would be approximately BAM 9,000,000 or around EUR 4,500,000.

This activity does not belong to the core activity of the company and it could be easily transferred to some other organization which is specialized for that type of activity. It is estimated that the expenses would be up to 30% lower than they are now, that is, they would be smaller for around BAM 2,700,000 or EUR 1,350,000.

Table 5. Costs of maintenance of Mine and Thermal Power Plant Ugljevik

Year	Number of employees		MINE		THERMAL POWER PLANT		
	MINE	TPP	Expenses	Amort.	Expenses	Amort.	Overhaul
2009	283	189	2,389,239	707,370	1,267,981	216,308	2,926,458
2010	281	188	2,397,572	662,456	1,190,571	216,984	3,567,536
2011	285	184	3,158,870	555,325	2,306,947	229,805	1,286,417
2012	305	193	3,251,548	547,702	2,680,357	253,223	4,763,896
2013	301	192	3,131,959	563,263	2,426,379	261,077	4,879,435
2014	313	210	3,102,908	641,284	2,011,990	277,034	4,088,600

Source: SC Mine and Thermal Power Plant Ugljevik balance sheets

Table 6. Costs of maintenance of Mine and Thermal Power Plant Gacko

Year	Number of employees		MINE		THERMAL POWER PLANT		
	MINE	TPP	Expenses	Amort.	Expenses	Amort.	Overhaul
2009	274	171	2,041,513	651,402	1,035,672	201,401	2,651,421
2010	271	173	2,092,701	613,192	1,114,632	200,589	2,911,872
2011	276	170	2,451,321	670,560	1,301,457	216,748	3,012,407
2012	287	179	2,741,162	598,340	1,679,823	221,458	4,870,501
2013	289	183	2,815,032	601,648	1,599,325	232,497	3,701,582

Source: SC Mine and Thermal Power Plant Gacko balance sheets

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The issue of maintenance is something which should be especially and thoroughly processed. In fact, a significant number of large systems of this type of activities handed over the routine maintenance tasks to specialized companies. Only the most essential employees are permanently employed. The advantages of this are multiple.

The Mine is specific since what we are dealing here is truck transport of overburden, so a bigger number of employees on routine maintenance is required due to the nature of failure. Around 1,000 employees work on routine maintenance, making approximately BAM 19,000,000 or somewhere around EUR 9,500,000 of costs annually. These are only direct costs of maintenance. Estimations suggest that outsourcing a part of routing maintenance activities can “save” around 20% or 5.7 million convertible marks. The costs of physical security of facilities can be outsourced most easily, and this has been partially done.

Table 7. Costs of security, Mine and Thermal Power Plant Ugljevik

Year	Number of employees	Expenses
2009	56	1,903,442
2010	57	2,001,050
2011	57	2,001,144
2012	58	2,188,139
2013	56	2,112,686
2014	52	2,107,328

Source: SC Mine and Thermal Power Plant Gacko balance sheets

Table 8. Costs of security, Mine and Thermal Power Plant Gacko

Year	Number of employees	Expenses
2009	106	2,213,106
2010	113	2,487,300
2011	109	2,311,021
2012	102	2,372,050
2013	101	2,405,601
2014	124	2,409,016

Source: SC Mine and Thermal Power Plant Gacko balance sheets

These are the costs that are related for direct involvement of the people employed in the company. One should add additional costs for protective equipment, cameras, food and other things to these costs which amounts to approximately BAM 1,000,000 annually. Estimations suggest that around 30% of the costs could be saved or over BAM 1,650,000 or EUR 825,000.

It is particularly interesting to monitor the costs of Legal Department. Tables 9 and 10 provide the direct costs of that Department.

Table 9. Costs of Legal Department, Mine and Thermal Power Plant Ugljevik

Year	Number of employees	Expenses
2009	8	292,530
2010	9	293,540
2011	9	293,630
2012	8	292,553
2013	8	292,554
2014	9	301,012

Source: SC Mine and Thermal Power Plant Ugljevik balance sheets

Table 10. Costs of Legal Department, Mine and Thermal Power Plant Gacko

Year	Number of employees	Expenses
2009	12	321,457
2010	12	322,466
2011	12	322,711
2012	12	322,798
2013	12	323,014
2014	12	323,124

Source: SC Mine and Thermal Power Plant Gacko balance sheets

This amount, when compared to the “game” of big numbers does not seem as a significant item. However, what we have here is much more important. Annually, companies lead dozens of disputes worth millions. A following issue is raised – the issue of competence and motivation of people to lead such disputes and win them in the end. Most of such disputes are lost in the end. These damages amount to millions. Estimations suggest that annually, the company would save around BAM 1,500,000 or EUR 750,000 if this function was outsourced.

Table 11. Costs of Department for Automatic Data Processing of Mine and Thermal Power Plant Ugljevik

Year	Number of employees	Expenses
2009	8	418,330
2010	8	420,140
2011	8	412,250
2012	13	565,614
2013	12	522,106
2014	22	647,261

Source: SC Mine and Thermal Power Plant Ugljevik balance sheets

Table 12. Costs of Department for Automatic Data Processing of Mine and Thermal Power Plant Gacko

Year	Number of employees	Expenses
2009	9	439,750
2010	9	441,057
2011	9	480,144
2012	9	476,588
2013	9	487,388
2014	8	480,578

Source: SC Mine and Thermal Power Plant Gacko balance sheets

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Table 13. Bookkeeping costs of Mine and Thermal Power Plant Ugljevik

Year	Number of employees	Expenses
2009	18	799,230
2010	19	874,300
2011	19	860,350
2012	18	844,720
2013	18	808,927
2014	22	891,261

Source: SC Mine and Thermal Power Plant Ugljevik balance sheets

Table 14. Bookkeeping costs of Mine and Thermal Power Plant Gacko

Year	Number of employees	Expenses
2009	19	805,689
2010	19	801,477
2011	19	814,688
2012	19	822,788
2013	19	834,689
2014	19	854,997

Source: SC Mine and Thermal Power Plant Gacko balance sheets

Direct costs of outsourcing of automated data processing activities and accounting services, where costs amount to approximately 2.8 million convertible marks annually, would provide a saving of approximately BAM 840,000 or about EUR 420,000.

Outsourcing only some of the functions to specialized companies would save over 12.49 million convertible marks or over EUR 6,245,000, which makes 5.6% of income per year. If we take into consideration that the analysis was done for only two companies and the savings were this big, what amount would be saved at the level of the Parent company⁴? We must point out that we only considered the expenditure aspect; significant income would be achieved through a well-performed job.

Conclusion

Based on the analyses in these two companies of Power Utility of the Republic of Srpska, we have concluded that the possibilities are extremely big. What is more important, the effects are remarkable both in the part of savings, that is, rationalization of costs, and in the part of increasing the safety of system and therefore, increasing income.

If we take into consideration that electricity is a significant input in almost every production, it is clear that we would raise the level of economy competitiveness as a whole, by reducing the costs and keeping unchanged conditions. Taking into account the current difficult economic and social situation in the Republic of Srpska and the request of Republic of Srpska Power Utility directed to Regulatory Agency to increase the selling

⁴ Surely there are different options and different levels of potential savings for each company within the parent company.

price of electricity, it is clear that the outsourcing of certain activities would create space for this increase to be less or even avoided.

If we analyzed each of the eleven companies separately, we would probably be surprised what possibilities are being missed⁵. Those possibilities, which we would have to use, basically do not jeopardize anyone.

The thing we would have to work on in the period that is ahead us is the “preparation” of employees for a decision like this one – a decision which would transfer a part of functions from the company itself and organize them on totally different grounds and most probably, on totally different property relationships. Based on the results obtained during the research of this issue, the biggest problem lies in the lack of trust of employees to other forms of company property, in which they would work and perform the same tasks as they performed before. More specifically, the employees, reasonably or not, do not have confidence in the private sector. The employees still think that a state-owned company is a place where they can exercise their rights most easily or to put it in a different way – where they do not have to work hard, but are fully protected at the same time. Their fear is partially justified since the private sector is profit-oriented and it tries to achieve its goal through cheap labor, low costs of energy and avoidance of paying taxes to the state in the full amount. Their earnings must be based on productivity growth, which is primarily a consequence of the quality of the working tools and good organization.

Sooner or later, Power Utility of the Republic of Srpska will have to outsource a part of its activities. The sooner it comes up with this process well and the sooner it approaches the realization, it will have better effects.

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⁵ The authors have spent over 25 years in the system of Power Utility of the Republic of Srpska and they know the system “from the inside“ quite well.