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CORPORATE RESTRUCTURING

DMS AS A PROACTIVE APPROACH IN RESPONSIBLE RESTRUCTURING

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Abstract: *The world economy has been and will be seeing a great number of corporate restructuring due to the environmental changes which require radical actions. This research has been guided by the idea of analysing manners in which a responsible operational restructuring could be achieved by emphasizing standardization, reliability and flexibility. DMS directs a company towards a disciplined approach, shaping operational restructuring as a proactive process, while supplying decision makers with relevant and accurate information necessary for making a call for significant changes in processes and responsible elimination of excess capacity.*

Keywords: *DMS, operational restructuring, proactive approach, responsible restructuring*

1. INTRODUCTION

Corporate restructuring is usually the most common logical step when a company faces some serious difficulties in keeping its position on the market. The first association with corporate restructuring is a severe type of crisis which results in distress and bankruptcy. Such crisis is then correspondingly solved by merger or acquisition or takeover. However, corporate restructuring is also applicable as reasonable means for keeping pace with changing environment when company faces constant underperformance for a remarkable period of time, failing to remain as competitive. And the environmental changes are grand, frequent, and very often unpredictable. If a company could know what was coming ahead it would have planned its optimal moves and the impact of the environment would be directly related to the company's level of proficiency.

According to Pomerleano and Shaw (2005), "addressing [corporate restructuring] problem requires the complementary efforts of policymakers, regulators, lawyers, insolvency experts, corporate restructuring specialists, and financiers" (p. 436). Pomerleano and Shaw are making that statement in relation to severe corporate crisis. It is an utmost complex and painful process. Up until that point, a company should act on the very first signs of decline and take necessary actions in operational restructuring towards achieving overall business improvement and avoiding the distress scenario. Since redesigning business processes implies strategic actions, which "require consistency between the company's business strategy and vision" which further "require understanding the company's strengths and weaknesses, and the market structure and opportunities", it indirectly provides grounds for well driven and detailed analysis and insight into the existing conditions (Attaran, 2004, p. 7). Process based restructuring helps in identifying critical business activities, providing flexible distribution of accountability and responsibility, thus affecting organizational performance.

Burchell (2011) adduces that Information Technology (IT) is involved in any major organizational change; be it a major business process re-engineering project or a merger or acquisition, in order to consolidate the system(s), current IT infrastructure must be evaluated (p. 20). It gives insight into current portions of work. "In this case, because many major change initiatives can occur in stages, the IT portion of the merger may be treated as its own IT change project occurring after the physical merger has been completed" (p. 20).

Standardization, in general, helps to ease existing disturbance present in different segments of the company dealing with the same set of data or activities. While improving quality and predictability of business deliverables, it also reduces cost and boosts efficiency. It further helps defining a unique routine when it comes to evaluating cross-organizational portions of business, thus providing means for defining and generating appropriate indicators which will be used for analysis and decision making when it comes to building the operational restructuring strategy.

While standardization helps setting relevant and uniform base for work, pursuing thoughtful process management will improve optimization, collaboration and harmonize overall efforts. According to Becker et al

(2013), unstructured processes are difficult to be adopted due to the fact that there is no control of the side effects, further stating that “clearly structured processes show interdependencies with other processes and can therefore be changed in partial sections without losing the overall context” (p. 7).

As Attaran (2004) suggests, the most effective enabling technology for Businesses Process Reengineering (BPR) is Information Technology, which is present through the phases “before the process is designed, while the process design is underway, and after the design is complete” (p. 7), helping in meeting the objectives of reengineering in three ways: “By providing information across functional levels and establishing easy communication, improving the process performance and finally by helping the reengineering effort by modeling, optimizing and assessing its consequences.” (p. 21).

The usefulness of Document Management System (DMS) in companies is multifaceted. This paper will address how DMS could help in analysis and valuation process aiming at finding the optimal operational restructuring strategy, as well as support its implementation. It also gives a brief overview of some restructuring approaches in recent practice, and further discusses the importance of flexibility of the system needed for addressing the issue with respected company’s specifics. The aim of the paper is to provide an overview of key DMS aspects and how they influence restructuring process.

Assumptions on which this discussion is based on are that DMS is being implemented according to results of a well driven analysis, thus structured and customized in a way that it reflects the true state of the needs and the work at the company. Furthermore, the term of DMS concept is used in its general and most comprehensive form; the term corporate restructuring is mainly referring to organizational restructuring as a strategy to respond to both decline and new opportunities.

2. A COMPREHENSIVE DMS CONCEPT

The term and functionality of DMS is inconsistent both in literature and in practice. As stated in ISO/TR 22957:2009, “Terms and acronyms associated with various aspects of EDMS technologies commonly change over time, as technology developers and vendors update product lines and solutions to address customer requirements.” Due to that fact, the concept of DMS has evolved and judging by certain customized implementations can be said to have most of the functionalities commonly related to Content Management Systems (CMS), Electronic Records Management Systems (ERMS), Business Process Management (BPM) and Enterprise Report Management (ERM).

Each of the various segments of such comprehensively defined DMS supply the company, in different proportions albeit jointly, with an expedient manner for defining, changing, controlling and improving the overall performance of the company.

3. TAKING A LOOK AT THE FIELD OF PRACTICE

In practice, companies have been orchestrating and pulling off some major restructuring plans. With big corporations in question, they have almost by the rule been oriented towards both operational and financial restructuring.

Some of most recent examples include Advanced Micro Devices, Inc. (AMD), an American multinational company, which has in the third quarter of 2015 implemented a restructuring plan with focus on simplifying the business and aligning resources. Some of the action steps included a workforce reduction of approximately 5% and outsourcing certain IT services and application development. While taking their actions they were, at the same time, aware of the fact that restructuring actions could have an impact on decreases in employee morale and possibility of failing to meet operational targets due to the loss of employees (AMD Annual Report 2015, 2016, p. 22). However, while being aware of the risks, along with realized “operational savings, primarily in operating expenses, of approximately \$8 million in 2015”, they “expect the 2015 Restructuring Plan to result in operational savings, primarily in operating expenses, of approximately \$48 million in 2016” (AMD Annual Report 2015, 2016, p. 42). [Note: forward looking statement.]

Another example is Samsung, a South Korean multinational conglomerate company, which along with its annual reorganization (Samsung Press Release, 2015), has decreased its workforce and cut down research and development investment. The most recent restructuring plan that significantly reduces the number of employees belongs to Intel Corporation, an American multinational company, reducing global workforce by up to 12,000 jobs, which is approximately 11 percent of employees (Intel Corporation News Release, 2016). The restructuring initiative aims “to accelerate its evolution from a PC company to one

that powers the cloud and billions of smart, connected computing devices.” Aside from improving efficiency, Intel plans to increase investments in the products and technologies.

On the other hand, a Japanese conglomerate company Sony, striving to reinforce competitiveness and enhance effectiveness and efficiency, is undergoing splitting out of business as well as realigning their platform functions that support each of its business units (Sony Corporation Press Release, 2016). In conjunction with this structural realignment, where the responsibilities are transferred from Sony Group to its affiliates, additional changes are to be made to Sony’s executive assignments –in order to further clarify lines of responsibility and assignments within each business and the headquarters organization” (Sony Corporation Press Release, 2016). The number of ranks in the organization is cut from eight to six, thus fostering better communication with upper management.

One of the most magnificent examples, if not the most magnificent one, is the corporate restructuring that has taken place at the Renault-Nissan Alliance. Resulting in best performance makes it a finest example of sustainable entrepreneurship in practice, in the related industry. As stated in Hughes et al (2003) case study, back in the 90’s, Nissan’s problems were summed by having too many plants, too many car platforms, too many suppliers and too many dealers in Japan (p. 2).

Today, the Renault-Nissan Alliance is boosting efficiency and revenue by strengthening synergies in four core divisions and launching new convergence projects, where “convergence includes integrating divisions, creating common processes, exchanging talent and other significant sharing of resources”, also stating that “convergence helped Renault and Nissan generate more than €4 billion in annualized synergies in calendar year 2015” (Renault-Nissan Alliance Press Release, 2016). As an example of a company not being in crisis nowadays but rather following an evident need for keeping pace with the changing environment, their restructuring is a remarkable state-of-art in taking a proactive approach in accordance with the fact that “globalization is happening; no matter you want it or not, if you think there’s a risk or not, you need to play by it” (Ghosn, 2016).

In other practices, some companies are experimenting with different approaches, be them referred to as reorganization, restructuring or different.

An American company Amazon.com, Inc. (Amazon) decided to have three CEO’s – CEO of the entire company, CEO of Worldwide Consumer and CEO of Amazon Web Services, “not as a reorganization but rather a recognition of the roles they’ve played for a while” (Amazon.com, Inc. Press Release, 2016). Another American company, Google Inc, created a parent company, actually restructured to a new holding company Alphabet Inc. with Google being its largest subsidiary (Alphabet Inc. Certificate of incorporation, 2015).

Lin et al (2006) point out that “restructuring plans take many forms, such exiting a line of business, closing or relocating a facility; though can be a broad company-wide reorganization that impinges upon nature and focus of operations.”, following with emphasizing that “difficult decisions must be made” that “can affect business strategies, operations, organizational functions and existing management structures” (p. 655).

4. HOW CAN DMS ASSIST

Holmstrom (1999) observes, discussing operational restructuring of more than half of all Fortune 500 firms that has taken place in 80’s and 90’s in the US, that they have had a focus on their core competencies (p. 408-409). Those concurrently reflect both internal and external triggered issues, i.e. the ones coming from over stuffing or under stuffing, inconsistent and inefficient communication, outdated technology or work procedures, inadequate performance indicators, loosely defined accountability for outputs, poor management, as well as lack of compliance regarding existing market needs, underdeveloped and unaffordable outputs, poorly managed partners’ and suppliers’ relationships, and others. DMS could assist in identify roots of company decline, and visualize some of the actions to be taken towards regaining its strength.

- Company
 - DMS

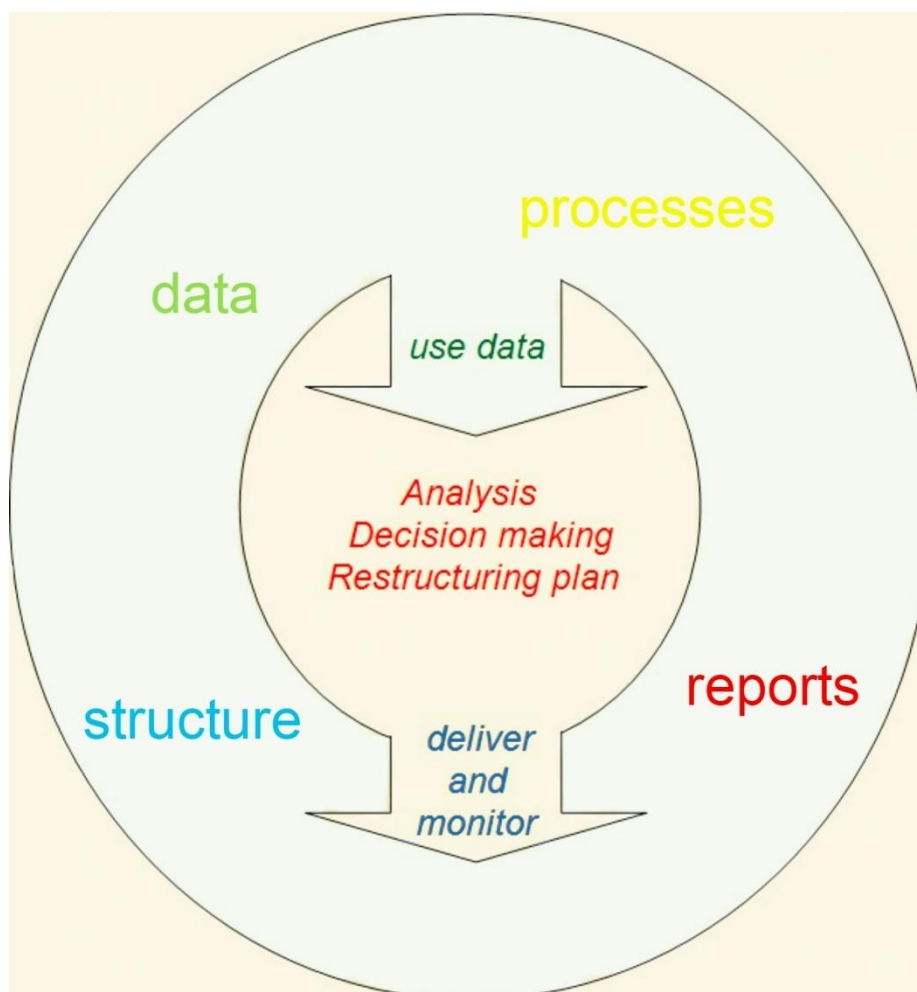


Figure 1: DMS as a pragmatic tool

4.1 The importance of analysis and valuation

It is a great challenge when it comes to valuing declining companies. According to Ruiz (2014), regarding traditional valuation methods in companies in decline and distress, their applicability is limited due to the fact that the fundamental assumptions of these methods are violated by the characteristics of these companies, consequently leading practitioners to incorporate new approach —based primarily on personal assessments to value distressed securities” (p. 6). The use of personal judgment and new paradigms instead of the traditional theoretical approach resulted in high variation in the estimates (Damodaran, 2009).

For a company, in order to define guidelines for future actions, it is necessary to find an adequate series of methods for capturing possible causes of underperformance as well as to conduct a valuation of the company, and finally architect a restructuring plan. There are no universal methods that would deliver a finest precision in all scenarios of underperforming companies. Practitioners are guided by traditional methods supporting them with personal approach addressing each individual company in accordance with its specifics.

If a company is facing a decline, it should be put through the analysis to find the possible reasons for it. The company’s performance is to be evaluated and it is to be estimated whether the decline is reversible or not, and hence the relevant issues should be addressed. One of the assisting tools for that kind of analysis is DMS which supplements managerial efforts in identifying key business areas which are underperforming and consequently listed for cut-off, as well as those prosperous enough but needing adjustments in order to provide expected level of performance. It enables a company to spot emerging sections of work and to accelerate decision making process.

4.2 Tracking the cause

After having in depth analysis and evaluation, it is of great importance to the analysts to track the cause for the decline in performance. It is one of the prerequisites in regaining the stability and achieving velocity, and eventually ultimately accomplishing a firm management of change in velocity. It is not only about gaining the speed, the direction matters as much, if not more. While evaluating various elements in search for possible causes for the corporate decline, analysts will determine a range of those that are to be tracked within the business and work processes, as well as those related to the environment, such as strengthening of a competitor or shift in consumer preference. Each of the factors related to the environment should be reviewed and a judgment should be made on the persistence of designated changes. With a clear vision of the framework that the company was to work within, the fields and scope of the flexibility that it was to deliver, a list of actions is to be presented which will make grounds for restructuring plan.

Performance evaluation is lead by taking a closer look at the outputs of the business processes. A detailed analysis of relevant outputs throughout a certain period is taken into account along with relevant conditions that influenced and accompanied them. What gives an extra perspective is analyzing those processes in depth, with their corresponding activities and the employees conducting them, which can be retrieved from DMS data. Such analysis would result in possible work spots that underperformed, leading to a set of required actions based on that finding. Another perspective that could be looked from is cross engaging relevant responding managers who were business process owners at the time of each of the periods analyzed. All of these analytical actions based on the information that could be found in DMS could result in a conclusion that the company decline is a reversible one while pointing out the specific causes and issues requiring adjustments.

4.3 Communication and collaboration

By its definition and one of the key functionalities, DMS helps in relaxing congested communication channels, implementing clearly attributable and transparent communication, and finally setting clearly attributable accountability and responsibility.

The core values of the processes are imposed through its structure and algorithm, boosting efficiency by optimal collaboration practices. DMS also assists in introducing new business processes added as a result of restructuring, in a smooth way. It further helps managing diversity of business processes setting the ground for it in the main DMS structure, allowing adjustments that would affect all or some processes previously implemented.

Guided by the nature and the extent of projected business processes, it eases delivering an adequate training for existing or new employees. It is by far much easier to develop and realize a successful training with known and acceptance-proved tailored methods, previously defined and performed for earlier similar processes.

4.4 The importance of clear and reliable information

As Peter F. Drucker observed in his famous quote: "Whenever you see a successful business, someone once made a courageous decision". It takes clear, reliable and accurate information to make such kind of decision. Finally, it takes well captured and flexibly implemented IT infrastructure to successfully deliver it.

Quality of the information is primarily based on the quality of the data within DMS. However, having an accurate and relevant set of data is not enough, it has to be classified and categorized in a useful manner. Furthermore, it is important to have the information presented in a useful form.

Quality of data within DMS is imposed by various aspects of implementation of the system. Predefined input formats are set whenever possible, mandatory entry rules defined at all levels of processes, data set available for input or edit only to the desired work spots or employees, necessary logical entry or forward/pass item checks are implemented throughout the system, and others. There are numerous implementation instruments insuring best quality of data possible.

With the quality being assured, information is put in a series of synthetic forms, supplying decision makers with a spectrum of needed views.

4.5 Reporting and decision making

Having daily reliable reports allows the company to be able to exercise better control over monitoring and decision making in face of the volume of both the employee and the process diversity.

Aside from various predefined reports, custom-made ones are designed to address a specific business need. Furthermore, the whole set of information can be additionally empowered by integrating DMS data with other available system.

After perceiving all business processes, it is to be decided which ones will be discontinued, which are to be intensified, which are to be modified, what new processes are to be introduced. It is very common for a corporate restructuring plan to involve a significant headcount cut. Based on the results of the analysis it is crucial to make reasonable projections concerning optimal employee selection, both in number and reliable required knowledge and skills.

It is of great importance for decision makers to find the optimal set of operational restructuring actions as not to unsettle current business. What triggers the distortion of business processes does not necessarily have to be the volume of operational restructuring actions but rather their incompatibility and unbalanced range. Thus a cyclic and continuous observance of different aspects of business using different relevant reports is necessary, this making DMS a pragmatic business tool.

Deploying in accordance with previous discussion enables company to develop better performance management system, adequately accessing lagging indicators thus assessing important key factors and developing new leading indicators.

5. CONCLUSION

DMS can assist a company in a major part of restructuring process, from detecting a need for a radical change, conducting the analysis and tracking the critical issues, providing information needed for decision making and designing a restructuring plan, providing a business IT infrastructure in which to implement the changes while having employees work within the known system, providing grounds for designing and generating suitable reports which will enable continuous monitor over the realization of the process.

Back in 1877, Leo Tolstoy observed that ~~happy~~ families are all alike; each unhappy family is unhappy in its own way". That applies to companies as well which is why each company needs to have its own tailor made approach when it comes to restructuring. There is no unique kind of approach that would suit every possible scenario, not even within a single company let alone having a global market in mind. By using DMS, a company achieves a great level of flexibility in redesigning business process structure, as well as in strong communication and collaboration capabilities throughout the restructuring process.

Moreover, while supporting the implementation of operational restructuring it is providing means for designing a sustainable concept of continuous improvement. No matter how grand and well conducted the change is, their effects are not everlasting and the company remains sensitive to environmental changes, thus a continuous improvement is forced upon.

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MODEL FOR RESTRUCTURING PUBLIC PROCUREMENT SYSTEM IN SERBIA

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Abstract: *Models for organizing public procurement systems tend to find the compromise between the efficiency and the control of budgetary funds utilization. Centralization of public procurements at local level can provide significant benefits for local self-governments. It is present at certain form in almost all EU countries. However, users of local budgetary funds in Serbia perform completely independently, which causes irrational behavior and financial losses. Belgrade is the only local self-government where the body for centralized procurements was formed. This paper provides the model for restructuring public procurement system in Serbia by introducing centralization of public procurement at local level, considering the existing organizational models of local administrations and their current capacities.*

Keywords: *public procurement, restructuring, centralization, local self-government, public administration, organizational structure, body for centralized procurement*

1. INTRODUCTION

One aspect in the centralization of public administration is the centralization of public procurements (Brezovnik & Oplotnik, 2015). It considers the introduction of the Central Purchasing Body at the level of local self-government. Such entity either acquires works, goods and services for the needs of one or more purchasers from the public sector, or concludes the contracts for the works, goods and services for the needs of one or more purchasers from the public sector, or concludes the framework agreements for works, goods and services for the needs of one or more purchasers from the public sector (European Union No. 2004/18/EC). Besides this, Central Purchasing Body should also have advisory and control functions. Public procurements have a very major impact on public finance and the budgets of local self-governments (Jansen, 2012). Their centralization can provide significant benefits, especially in terms of financial savings, due to economy of scale, and increased control, because of decreased number of individual procurements. However, it is important to find the balance between the efficiency and control (Pegnato, 2003), since the centralization at local level complicates the procurement process and carries certain risks (Dimitri, Piga & Spagnolo, 2006; Albano & Spar, 2010). The purpose of this paper is to determine the capacities of local self-governments for performing the functions of the body for centralized procurements and to propose the model for centralizing public procurements at local level in Serbia, which is applicable considering existing organizational models and current process flow.

At present, in Serbia there are more than 12,000 purchasers obliged to apply the Law on Public Procurements (2015). According to the Standing Conference of Towns and Municipalities (SCTM) data they are territorially arranged in 168 local self-government units (excluding Kosovo) or 197 local self-governments including Kosovo (Mapping municipalities, SCTM). The largest number of purchasers conduct public procurement procedures independently. The city of Belgrade is the only local self-government in Serbia which formed the body for centralized procurements. The service for the centralized public procurements and control of procurements is an independent and autonomous organizational unit and for its work reports directly to the mayor (Official Gazette of the City of Belgrade, 2014). This raises the question of their ability to appropriately and at the best conditions procure the necessary goods and services. This is primarily related to personnel, organizational and technical capacities of the local self-governments to implement public procurement procedures in full compliance with the Law on Public Procurements (2015), and in accordance with EU directives (Arrowsmith, 2009). Findings related to these issues will be presented in paragraph three, after the methodology description in second part. Fourth section will provide the proposal of the model for centralizing public procurements at local level in Serbia, while final chapter will point out the conclusions and directions for further research.

2. METHODOLOGY

The findings presented in this article were generated during the United Nations Development Programme (UNDP) project performed by the authors during the year 2015. Analysis of EU directives and relevant literature provided the theoretical background and framework for the proposed centralization model. The capacities of local self-governments in Serbia for performing the functions of the body for centralized procurements were determined using the questionnaire that was created for this purpose, while certain conclusions were extracted from the interviews with the representatives of SCTM and Public Procurement Office. Proposed model was based on research results and authors' previous expertise in the field of organizational design and restructuring.

3. CAPACITIES OF LOCAL SELF-GOVERNMENTS IN SERBIA FOR PERFORMING THE FUNCTIONS OF THE CENTRAL BODY

3.1. Human resource capacities

The results showed that personnel capacities represent one of the main problems in local self-governments for the implementation of the Law on Public Procurements (2015). As without adequate personnel capacities, it is impossible to ensure transparent and efficient public procurements (Sakane, 2009), a special attention should be given to this issue. Based on the conducted research, it is possible to draw certain conclusions about the human capacities of the local self-governments in the area of public procurements.

Unlike the results of similar research conducted immediately after the introduction of the new Law on Public Procurements in 2012, which was organized by the Standing Conference of Towns and Municipalities (SCTM), where one of the main identified problems was the lack of public procurement officers (Komazec, Todorović, Krivokapić & Jaško, 2013), the situation in this segment is significantly better today. Current situation regarding the number of certified officers for the public procurements in the analyzed municipalities has drastically improved. Although there are still cases of municipalities where certified procurement officers are working on the jobs have no even indirect connection with public procurements, such examples are rare, and in all those municipalities more than 50% of employees on public procurement jobs have the status of certified officers for public procurements, while in some local self-governments that percentage exceeds 80%. This fact demonstrates the strengthening of the capacities of local self-governments for planning and implementing public procurement procedures.

At the same time, a part of this research was related to the workload of employees engaged on public procurement jobs. Data on the number of public procurement procedures and contract values were analyzed for the previous three years, in order to determine the trend and eliminate any variation in the number or value and determine realistic, expected number of procedures on the level of one year. Since such variations were not determined, number of procedures and contract values referred to the year 2015 were used for the analysis. Differences in the workload of employees on public procurement jobs per various local self-governments, expressed in a number of procedures that they carry out during a year, are very visible, so the number of procedures per employee varies from 6 to 26, which indicates the overload of employees in some municipalities, or underutilized human capacities in others. Also, it is important to emphasize that in almost 100% of cases the type of procedure was either the open procedure or the procedure for the public procurement of small value, which indicates that the opinions of employees that they are able to conduct all types of procedures should be accepted with the reserve.

Another parameter that needs to be considered in terms of workload is the total contract value per employee on public procurement jobs. In 2015 it was ranged from 13,843,054 RSD (around 115,000 €) to 89,081,492 RSD (around 740,000 €). By comparing this data, the differences in the public procurement structures can easily be spotted. Namely, it is evident that in the local self-governments where there is relatively similar workload of employees in term of number of procedures, drastic differences in the value of public procurements per employee can be identified, which can lead to the conclusion that some of the local self-governments are better prepared for the public procurements centralization, having in mind that the employees on public procurement in those municipalities implement the procedures of higher values.

By observing the future public procurements centralization, control of public procurements was identified as a critical part of the public procurement process, in term of personnel capacities for conducting it properly. The subject of the analysis was the control of local self-governments regarding the implementation of public procurements in the institutions that are budget beneficiaries within the territory of local self-government. While in some local self-governments certain scope of control is done, in most of them such control is not

performed at all. However, the problem increases when we look at the answers on the question: "Do you think that you have personnel and technical capacities for the implementation of the public procurements CONTROL on the territory of your local self-government? Why?" More than 80% of the municipalities responded that they do not have personnel capacities for the proper implementation of control activities. Even in some of the municipalities where the control is carried out, above mentioned problem with personnel capacities refers to the fact that such control is performed by the employees who have no experience in the public procurement realization. Based on these observations, it is clear that during the public procurements centralization special attention must be paid to the development of control function. The development of the body for centralized procurements should include a gradual increase of the control function, especially in term of control objects and phases of a process that are controlled.

Finally, we also examined the situation in local self-governments related to education and advisory. First of all, it was necessary to study the existing need for education and advisory at the local level, and later the current situation in that area. On the question "How often do the budget users address with the requirements related to the public procurements (opinions, advices etc.?)" employees from 3 of 5 analyzed local self-governments responded with "very often", which confirms a clear need for constant advisory to budget users in the field of public procurements, or the necessity to develop the advisory function in the body for central procurements at local level. It can be assumed that the need for the education of budget users is also present, in order to decrease advisory requests over time. At the same time, despite the continual need for advisory, in only two municipalities were organized trainings from the field of public procurements for budget beneficiaries (by local self-government employees), and only twice in past three years. Local self-governments must find a way to provide education and advisory to employees on public procurement jobs at public sector entities which are based on their territory, since they are not often able to attend seminars from this field. In daily work they do not meet new challenges, but perform mostly routine procedures, which are repeated from year to year. For this reason they do not have the opportunity to develop themselves within the workplace.

Based on the foregoing, it is clear that in case of public procurements centralization local self-governments are currently best qualified for the function of planning and implementing the procedures, and the level of this function can be satisfactory from the very beginning of the centralization process. On the other hand, the further institutional development of the body for central procurements at the level of local self-government should be followed by the appropriate development of advisory and in particular of control function, which requires hiring additional employees and development of existing ones through specialized training.

3.2. Organizational capacities

Since public procurements, of all the activities carried out by public entities, are the most vulnerable to corruption (European Parliament - Directorate General for Research, 1998), a special attention should be paid to the control of planning, implementation and realization of public procurement procedures. The EU directives related to the public procurements contribute to the fight against corruption through two sets of measures. First, through its very nature, or through a legal framework, and second, specifically through promoting fairness among the entities that appear in a public procurement process (Bovis, 2006).

Based on research results, it is evident that only in Belgrade and Kragujevac can be identified separate organizational units for the control of planning, implementation and realization of public procurements. However, in the municipalities where there are no such organizational units, neither the employees who are assigned on these activities exclusively cannot be identified, although in larger municipalities number of employees on public procurement jobs leaves the possibility for introducing such position. The largest problem related to the jurisdiction over the control of planning, implementation and realization of public procurement procedures, in general, appears in smaller municipalities where there is no separate organizational unit for public procurements. In such municipalities it is not clearly defined who is responsible for the control, or in other words, which employees among the other tasks controls the planning, implementation and realization of public procurements. In larger local self-governments, head of the organizational unit for public procurements carries out the control activities. Due to extremely high level and extent of corruption in the Republic of Serbia, comparing to the EU member states (Transparency International, 2012), and because of the highlighted importance of the fight against corruption in the EU directives, local self-governments in Serbia should pay particular attention to the public procurements control and find adequate organizational solutions for solving identified problems in this field. They should strive for the separation of planning and implementation from the control of public procurement procedures, in several ways. Smaller municipalities, where the scope and number of public procurements does not allow organizational separation and the establishment of an independent organizational unit only for control of planning, implementation and realization of public procurements, should form a special position with

responsibilities related exclusively to the control. Regardless the model of public procurement centralization, with or without the establishment of the central body for procurements at the local level, this principle of separating organizational units or workplaces for control activities should be applied.

Within the organizational capacities, special attention should be paid to the proven capacities of certain municipalities to implement integrated public procurements, which are substantively similar to the future centralized procurements. Namely, in the last two years a unified public procurement for energy products, insurance and school furniture for elementary and secondary schools was implemented in Niš, while a unified public procurement for mobile services was implemented in Zrenjanin in 2015.

3.3. Technical capacities

In the EU regulations there are several directives which generally promote electronic procurements (e-trade) (Pearce & Platten, 2000). The European Commission in 2004 published an action plan for the implementation of electronic procurements, which is accompanied by the document that explains the rules of the e-procurement implementation (Commission of the European Communities, 2005). One of the most important segments of the framework for public procurements in the EU is related to the conducting of electronic auctions, which is covered by the Articles 1(7) and 54 of the Directive 2004/18/EZ (Arrowsmith, 2005). However, the results of earlier research showed that in most municipalities, regardless of size and level of development, there are no adequate technical capacities for the implementation of electronic auctions, neither for the implementation of other activities in domain of electronic procurement (Komazec, Todorović, Krivokapić & Jaško, 2013). On the other hand, all local self-governments are expected to significantly improve their technical capacities for implementation of all procedures provided by the Law on Public Procurements (2015), since the need for them will certainly be increasing as the Republic of Serbia gets closer to the EU. Centralization of certain activities in the field of public procurements at the local level emerges as a potential solution to this problem, since current situation suggests that smaller local self-governments for some time will not possess the technical capacities to independently conduct electronic procurements, so they will not have the ability to provide them independently.

Improvement of technical capacities can positively influence the expansion of personnel capacities of local self-governments in the field of public procurements. Implementation of software solutions for conducting public procurements can significantly reduce the participation of labor work in these activities.

4. MODEL FOR PUBLIC PROCUREMENTS CENTRALIZATION IN SERBIA

As mentioned previously, Belgrade is the only example of public procurements centralization at local level in Serbia. In many municipalities conducted situational analysis has identified significant space for personnel, organizational and technical capacity improvement in this area. Considering the expected effects of public procurement centralization and examples of good practice, such problems can be overcome by centralizing public procurements through the introduction of centralized procurement bodies at the local level. The body for the centralized public procurements should perform following functions:

- 1) Planning, implementation of procedures and realization of contracts,
- 2) Controlling public procurements,
- 3) Providing advisory services to purchasers.

Newly formed bodies for the central public procurements should act as mediators between the purchasers covered by centralization and suppliers, or to conclude framework agreements. Centralization of public procurements in Serbia should be conducted through the steps shown on the following figure.

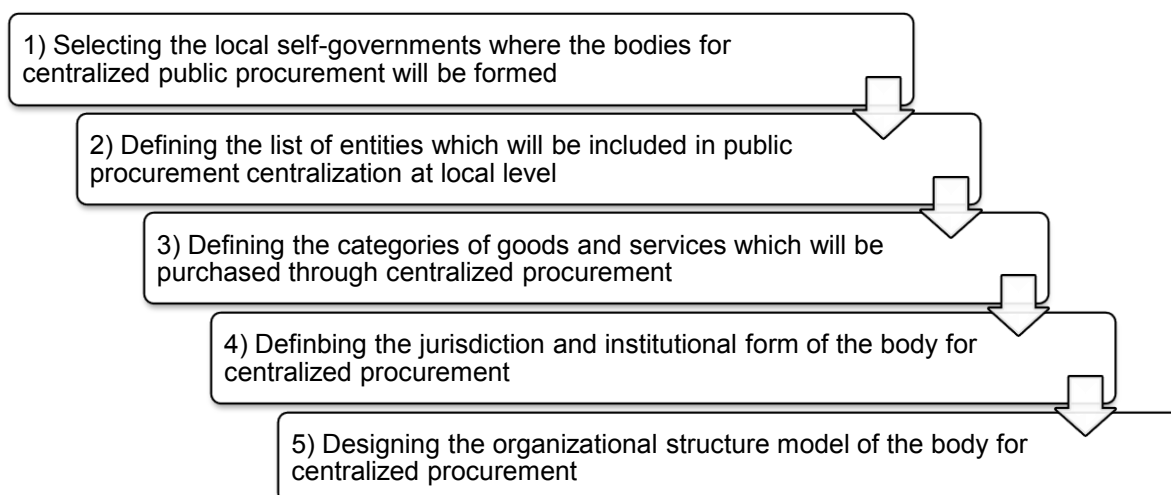


Figure 1: Model for public procurement centralization at local level

4.1. Selection of the local self-governments where the body for centralized procurement will be formed

As a first step there is a selection of the local self-government units in which centralization will be implemented. Criteria to be considered are: size of the local self-government, in terms of surface area of the territory, size of the budget and the number of budget beneficiaries. Based on situational analysis and interviews with the representatives of SCTM and Public Procurement Office, following 10 local self-governments should be included in the first phase of public procurement centralization in Serbia: Belgrade, Novi Sad, Niš, Kragujevac, Čačak, Kraljevo, Subotica, Zrenjanin, Užice and Pirot.

4.2. Defining the list of purchasers which will be included in the public procurement centralization at local level

Local self-government bodies should, by appropriate decision, define the list of the purchasers included in the centralized public procurements. Categories of institutions, enterprises and organizations that may be covered by such a decision are:

- City authorities (Assembly, Mayor, City government - organizational units etc.),
- Cultural institutions (theaters, museums, libraries, cultural centers etc.),
- Facilities for physical culture,
- Health care facilities (health centers, pharmacies, local institutes etc.),
- Child care institutions,
- Social welfare institutions,
- Public utility companies,
- Other companies and organizations founded by the local self-government.

List of entities which will be included in an annual plan of centralized public procurements is determined by numerous different factors, from which the most important are the number of institutions, companies and organizations in the local self-government territory, as well as the current capacities of local self-government to centralize public procurements.

4.3. Defining the categories of goods and services which will be purchased through centralized procurement

One of the basic decisions that should be adopted during the public procurements centralization is the subjects of centralized procurements. Based on years of experience in implementation of the central public procurements, and the best practice in this field in EU, it is possible to identify a list of products and services categories that are suitable for the public procurements centralization. With very few exceptions, by watching centralized procurements at all levels, the list of products and services is as follows (SIGMA/OECD, 2011):

- ICT products and services (computers, copiers, printers, servers, software, additional equipment),
- Products in telecommunication areas (networks, mobile phones, fixed phones),
- Office furniture,
- Travel services,

- Stationery (office supplies),
- Vehicles and transport services,
- Energy products (for heating and transportation, electricity),
- Food (groceries and meals),
- Employees' development services.

It is important to note that not all categories are equally suitable for the inclusion in the system of centralized public procurements at the same time of the centralization development at the local level. Enclosure of some categories (ICT – software, for example) can assume the existence of experience, primarily in conclusion of the framework agreements, possibly with multiple suppliers, and it cannot be the subject of centralized procurements from the very beginning of the centralization process. On the other hand, it is important to emphasize that, in terms of volume and contract value, the field of information and communication technologies is the most significant area of centralized public procurements in the EU states. Also, centralized procurements do not necessarily need to be limited to standardized and simple products and services. Central bodies for procurements in the EU have developed expertise for the centralized procurement of complex, advanced information systems, that takes into account the specificities of each order, that uses a technique of concluding a framework agreement with several suppliers, with a mini tender, which should enable subsequent necessary adjustments to the needs of purchasers (SIGMA / OECD, 2011). In addition, centralization of some of these categories may have limited effects at the local level (travel services, for example) due to probable small total value of such purchases. Therefore, the list should be seen as a framework for the initial selection of categories, or specific products and services that will be established by the certain regulation as objects of centralized procurements.

4.4. Defining the jurisdiction and institutional form of the body for centralized procurements at local level

As previously was mentioned, the body for centralized public procurements, in addition to planning, implementation and realization of procedures, also needs to control public procurements of all purchasers, as well as to provide advisory services and education to all users of budget resources at the local level. Accordingly, it is necessary to, at the highest level of abstraction, define the activities that this body performs, as well as its relations with other participants in the process of centralized procurements. For these purposes, the swim lane diagram presented on next figure was prepared, which shows the process flow through its core activities, and the participants who are responsible for carrying out each of them.

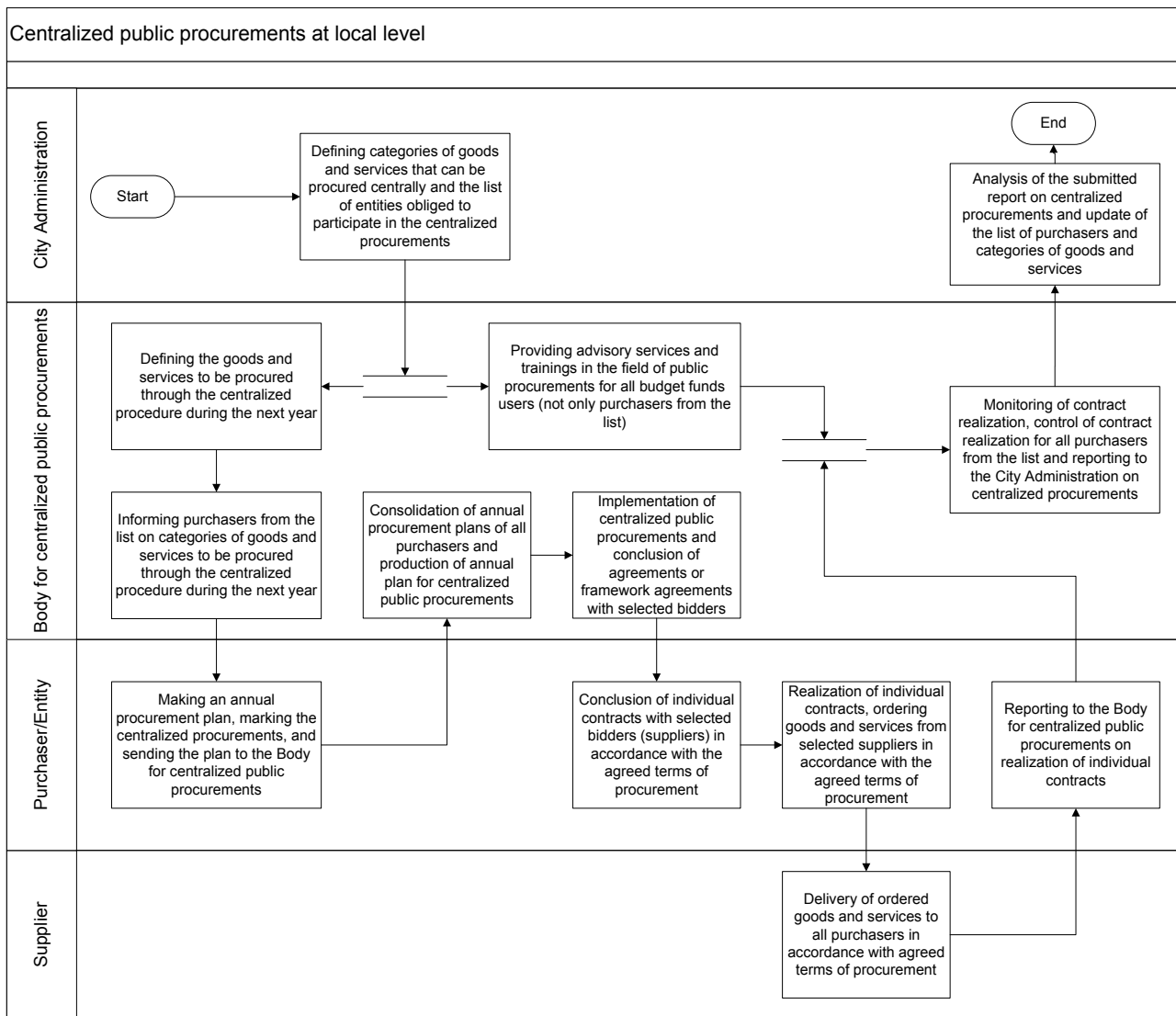


Figure 2: Process of centralized procurement at local level

The body for centralized procurements, at the beginning of each year, should make a plan of categories of goods and services which will be procured through centralized procedures in the coming year, to define the planned duration of the contract or framework agreement for each procedure, and in a timely manner notify all purchasers that are required to implement centralized procurements. Goods and services for which will be implemented centralized procurement must be included in the decision adopted by the city government, while the list of purchasers is also previously defined by the city authorities. Purchasers from the list, during the preparation of the annual procurement plan, should indicate the procedures relating to goods and services which are planned to be processed by the body for centralized procurement in the following year. After its adoption at organizational level, the procurement plan should be submitted to the body for centralized procurements. Through unification of the individual annual public procurement plans of all the purchasers from the list, the body for centralized procurements produces an annual plan for centralized procedures and defines the required attributes for each procedure, which will be implemented centrally.

After that, the body for centralized procurements implements centralized procedures for the relevant goods or services, according to the needs expressed by the purchasers in the annual procurement plan, and concludes the contracts or framework agreements with the best bidders. It is recommended that each procedure should lead to the conclusion of the framework agreement, especially in the initial phase of public procurements centralization, for the purpose of easier implementation and delegation of significant part of responsibility for realization to the purchasers. After completed procedure the purchasers who participated in it, conclude a joint contract with a selected bidder, or individual contracts if the framework agreement was concluded.

This is followed by the realization of contracts, during which each purchaser communicates directly to the supplier and orders the contracted amount, under the centrally conducted terms. Suppliers deliver the goods and services directly to the purchasers. During realization of the contract, all documentation is needed to be

prepared in two copies, as one could be delivered to the body for centralized procurements. Purchasers monitor the implementation of the agreement and submit a report on the implementation to the body for centralized procurements, together with the supporting documentation. The Body for centralized procurements monitors the implementation of contracts at the aggregate level, through the individual reports submitted by the purchasers. It is recommended that to perform various analyzes during this phase, in order to assess the effects of public procurements centralization and identify the savings. The body for centralized procurements simultaneously, through regular and ad-hoc revisions, controls the public procurement operations of purchasers, as well as of all other budget beneficiaries at the local level.

At the end of year, the body for centralized procurements reports to the city government on implemented centralized public procurement procedures. It also provides the results of conducted analyzes and the estimated savings. Based on this, the city government decides on any changes in the list of purchasers and categories of goods and services that must be procured centrally.

In parallel with the described activities, the body for centralized procurements consistently provides advisory services and education to all budgetary beneficiaries at the local level. They can be arranged at specific request of any purchaser, but also through organized seminars and trainings.

The body for centralized procurements should have the jurisdiction to conduct all required functions, which includes implementation, control and advisory. For this reason it is necessary to find a suitable organizational position in the city government for such entity, which on the other hand does not require significant structural changes that would slow down the implementation process at the very beginning. Taking into account the existing organizational structure of the city administration in mentioned cities, it is recommended that the body for centralized procurements, in the beginning, should be a specialized department within the organizational unit for public procurements. In further stages of public procurements centralization development at the local level, special attention should be paid to the institutional form and status of the body for centralized procurements.

4.5. Designing the organizational structure model of the body for centralized procurements

After defining the jurisdiction and the activities that an independent department for centralized procurements within the city service for public procurements should perform, it is necessary to define an appropriate model of organizational structure which will be applied to it. This includes the division of work and definition of typical workplaces within the department. Proposal of a typical organizational model of the department for centralized public procurements at the local level is shown on the following figure.

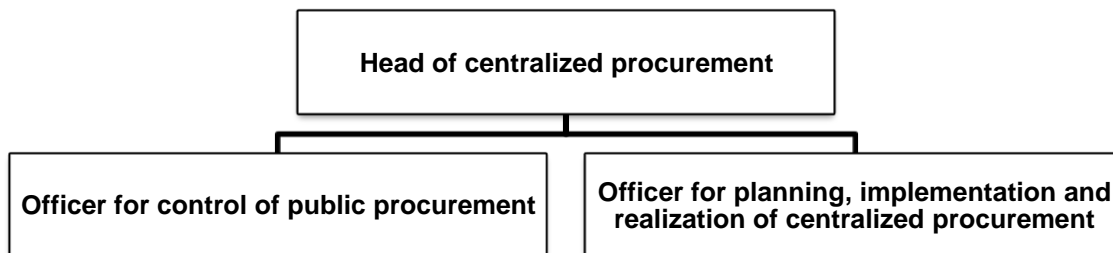


Figure 3: Organizational structure of the body for public procurements at local level

Number of employees on these workplaces should be adapted to the particular units of local self-government. It primarily depends on the municipality size, number of purchasers and number of procedures.

Head of centralized procurements is a typical workplace that should perform the following tasks:

- Governs the affairs of centralized public procurements at the municipality level,
- Annually proposes the categories of works, goods and services for which will be implemented centralized procedures,
- Proposes the annual plan of centralized public procurements at the municipality level,
- Appoints members of the commission for centralized public procurement procedures,
- Reports to the municipality administration representatives on implemented centralized procurements,
- Reports to the municipality administration representatives on the carried out controls of budget funds users in the area of public procurements.

Officer for control of public procurements is a typical workplace that should perform the following tasks:

- Controls the planning, implementation and realization of the centralized public procurement procedures,
- Plans and implements regular controls of all the municipality budget beneficiaries in the field of public procurements,

- Performs controls of the municipality budget beneficiaries in the field of public procurements,
- Provides advisory services to the municipality budget beneficiaries in the field of public procurements,
- Organizes and conducts trainings and education on public procurements for employees in the municipality budget beneficiaries.

Officer for planning, implementation and realization of centralized procurements is a typical workplace that should perform the following tasks:

- Collects annual procurement plans of the purchasers participating in the centralized procurements at the local level,
- Participates in preparation of the annual plan of centralized public procurements at the local level,
- Implements centralized procurement procedures in accordance with the approved annual plan of centralized public procurements,
- Monitors realization of the implemented centralized procurement procedures,
- Collects reports from purchasers on the implementation of individual contracts within the centrally contracted procurement procedures,
- Prepares reports on implemented centralized procurements,
- Provides advisory services to the municipality budget beneficiaries in the field of public procurements,
- Organizes and conducts trainings for employees on public procurements at the budget beneficiaries of local self-government.

5. CONCLUSION

Taking into account the examples of good practice regarding the public procurements organization at the local level, as well as the current situation in local self-governments in Serbia, public procurement centralization at the local level emerges as a logical improvement of the public procurements system in Serbia. The restructuring model presented in this paper is based on current personnel, organizational and technical capacities of local self-governments for performing functions of the body for public procurements, which makes it applicable. On the other hand, it incorporated the advantages of the public procurements centralization, while at the same time the potential risks were taken into account.

It is recommended to form the bodies for centralized procurements in selected cities in Serbia. They should play the intermediary role between the purchasers and the suppliers, and thus implement centralized procurement procedures for certain types of goods and services and for defined categories of budget beneficiaries at local level. In addition, the body should have an advisory function, and provide support in the field of public procurements to all budget beneficiaries on the territory of local self-government. Also, it needs to control non-centralized procurement procedures that budget beneficiaries conduct.

Described model should be seen only as a first stage in the public procurements centralization in Serbia. In later stages, bodies for centralized procurements should grow into the independent organizational units at the local level, which will create the basis for the formation of the regional centers for centralized public procurements and inclusion of a greater number of purchasers through joint procurements. Besides dealing with this issue, further research should also show the concrete benefits of the proposed public procurements centralization at the local level in Serbia, primarily in terms of actual economical savings and increased level of control.

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PUBLIC PROCUREMENT CENTRALIZATION – FUNCTIONS OF THE CENTRAL BODY FOR PUBLIC PROCUREMENTS

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Abstract: *In recent years, there have been major changes in the Republic of Serbia public procurement system. A new Public Procurement Law, which is completely in accordance with the legislation of the European Union in this field, was adopted in 2013. However, previous studies have shown that the contracting authorities do not use all the opportunities provided by the Law. The aim of this paper is to look at all the benefits and the risks of public procurement centralization at the local level, as one of the possibilities allowed by the Law. Also, the paper will propose functions and activities that should be done by the centralized procurement body, which represents a basis for later defining organizational models.*

Keywords: *public procurement, public procurement centralization, centralization model, central procurement body, functions of central procurement body*

1. INTRODUCTION

The issue of centralization of public procurement is a part of the wider issue of (de)centralization of the public administration, where, in the broadest sense, decentralization means any weakening of direct impact of a organized system centre to the parts of the same system (Brezovnik, Oplotnik, 2015). One of the main tasks of public administration organization is finding the balance between centralization and decentralization. However, unlike the other elements of public administration, flexibility in organizing public procurement process at various levels, or relatively simple ability to change the level of (de)centralization, keeps this area constantly in the focus of researchers. Centralization of public procurement at various levels, from local to national, is subject of constant reviews. In addition, organizational models which should support different degrees of centralization are also often in the focus of research.

On the other hand, despite the undoubted importance for the functioning of local government, public procurement is still characterized by ambivalences. Specifically, question whether the public procurement is the issue of regulations or a good governance is constantly raised among theorists and practitioners (Jovanović, 2015). The attitude that public procurement is a subject of regulation involves the focus on clearly defined procedures and rules for public procurement implementation. This approach to public procurement can easily limit the efficiency of processes, and achievement of the public procurement objectives. On the other hand, the attitude that public procurement is the subject of good governance presupposes that it is necessary to set up only a legal framework for implementation of the procedures within which it would be possible to achieve public procurement efficiency and effectiveness. However, not so strict rules for implementation of procedures, often lead to the occurrence of anomalies in the system, growing corruption, and the focus shifts towards regulation. When the system becomes too regulated and begins to "suffocate" efficiency, initiatives to reduce the regulation in this area are being re-implemented. It can be clearly seen the cyclicity in development of the public procurement system (Pegnato, 2003).

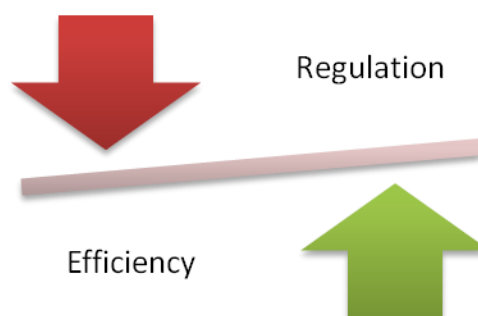


Figure 1: Strategic goals of public procurements

It can be said that there are two seemingly conflicting strategic objectives of public procurements, one is introduction of a higher degree of control, or regulation in area, while the other aims to attain efficiency and

effectiveness of procedures. However, by narrowly observing public procurements at the local level, it can be assumed that the centralization of public procurements at the local level can significantly contribute to the simultaneous fulfilment of both strategic objectives of public procurements, which will be described in detail below.

Special importance of public procurements at local level illustrates assessment that the share of public procurements in the local government budgets in Serbia, amounted an average 20-25% in 2011. It is obvious that public procurements have enormous significance in the management of public finances at the local level (Jansen, 2012). According to the Ministry of Finance and the Public Procurement Office data, the share of public procurements, which were undertaken by the city and municipal administrations in the value of local budgets amounted 7.2% in 2014 (Jovanović & Benković, 2012).

2. ADVANTAGES OF PUBLIC PROCUREMENT CENTRALIZATION

We will use the definition of the Central Purchasing Body - CPB from the Directive on the public sector of the European Union No. 2004/18/EC, in order to illustrate what the concept of centralized public procurements can relate on, regardless of the level of implemented centralization. The Central Purchasing Body is the authority which:

- Acquires goods and services for the needs of one or more purchasers (entities) from the public sector; or
- Concludes contracts for works, goods and services for the needs of one or more purchasers (entities) from the public sector; or
- Concludes framework agreements for works, goods and services for the needs of one or more purchasers (entities) from the public sector.

Benefits of the public procurements centralization are, in essence, common to all three forms of centralization, as will be explained below. In most cases, as the basic benefit of public procurements centralization at any level, reducing of the purchasing prices due the realization of economies of scale is emphasized. Enlargement of demand, by merging (joining) needs of more purchasers (entities), strengthens the negotiating power of a buyer, and creates the basis for achieving the lower prices of goods and services in public procurement procedures. Public procurements become more attractive to bidders, not only because of its size, but also because of the public sector nature and the payment security. On the other hand, on the supply side, certainty of large quantities sale creates the possibility for lower prices through reduction of the fixed costs share in total costs, but also through surely administrative costs reduction in contracting job, and possibly other costs in the process of product delivery (depending on the structure of delivery). All of the above circumstances, primarily on the supply side, are very clear when it comes to direct, centralized public procurement, in which the centralized body for public procurements directly buys goods or services from suppliers. In addition to direct price reductions, mentioned bargaining power may lead to better payment terms, price of the subsequent maintenance in terms of better organization of services, standardization of spare parts, specialization of repairers etc.

However, it is extremely important to pay particular attention on the framework agreements, as the most common output from the process of centralized public procurements. When concluding the framework agreement, the final quantity of goods or services to be delivered is not known, but possibly only an estimated amount. Automatically, it makes difficult for the bidders to assess their costs, and could become an obstacle to achieving the desired price reduction. On the other hand, the framework agreement will certainly lead to a greater number of smaller deliveries, which increases the bidders' costs and certainly reflects negatively on the economies of scale and the price reduction. Similar to the bidders, centralization of public procurements leads to cost reductions at the purchasers (entities). In any procedure, there are activities that must be carried out, starting from the eventual market research, to the conclusion of contracts in public procurement. Sometimes, the values of public procurements are so small that the question of cost effectiveness is being asked when compared to the value of acquisition and transaction costs, or expenses required to realize the process (Jovanović, 2015). Given that the public procurements centralization replaces more procedures with one, it is clear that it terminates repetition of the same activities at purchasers (entities) and reduces the transaction costs in the system. It is clear that the transaction costs of centralized procurement procedure will be greater than the costs of each procedure, but they will be less than the sum of costs of all replaced procedures. Reduction of transaction costs is primarily reflected in time release of certain employees for performing other activities. Conclusion of a framework agreement certainly brings higher transaction costs, especially if it comes to a framework agreement with several suppliers.

Establishment of the centralized procurement body, either at the national, or at the level of local government, leads to concentration of knowledge and skills in one place. The most experienced procurement officers should be employed in the body of that type, which opens up numerous opportunities for improving the

public procurement system. First of all, formation of this kind of expert centre will also enable implementation of the more complex types of procedures for purchasers for which such a type of procedure otherwise would be inaccessible due to lack of employees' knowledge. At the same time, concentrated knowledge in the expert center can easily be offered to purchasers, for implementation of procurements that are not centralized, whether through formal training or through the opening of a permanent communication channel. In addition, advisory services may also be required from purchasers who are not covered by centralization of public procurements at all, which strengthens capacity of the public procurement system.

In this regard, concentration of knowledge and skills in one body can overcome the lack of capacity of the individual purchasers for implementation of specific procedure types, or the specific public procurements. Many purchasers have a problem with implementation of procedures for goods, works or services that have been never purchased before. Another problem is the choice of an appropriate type of procedure, preparation of technical specifications etc.

In addition to experience and knowledge that the procurement officers "enter" into the body for centralized procurements at the local government level, the basis for use of these advantages creates formation of the **knowledge base** on public procurements. The knowledge base will be formed through work of the body, and will contain models of tender documentation, contracts, lists of suppliers, prices, product codebooks, technical specifications etc. Putting such a knowledge base available to all potential purchasers leads to the full utilization of public procurements centralization in terms of capacity improvement for the public procurements implementation at the local level.

Advantages arising from concentration of the best officers for public procurements and formation of the knowledge base will significantly reduce the risk that the public procurement procedure could be cancelled due to an error of employees. With regard that centralized procurements, as a rule, are implemented by the most qualified experts, the chances are greater that tender documentation will be better prepared in terms of quantification of quality criteria and other elements, and that the process will be well managed, unlike if it works each purchaser for itself (Jovanović, 2015).

Procurement subject standardization is often named as one of primary benefits that can be gained through public procurements centralization. Procurement subject standardization increases compatibility between institutions and opens possibilities for achieving better coordination and cooperation among the purchasers at the local level. It can be particularly important to emphasize standardization in the field of information systems. It is clear that the purchase of databases and other components of information systems from the same supplier facilitates the exchange of information and knowledge between the purchasers, but also facilitates control of purchasers by local government. On the other hand, standardization of procurement subjects among purchasers is one of the foundations for the later realization of economies of scale, where local government through the body for centralized procurements can eliminate unnecessary variations between the needs of purchasers.

Centralized procurements facilitate achievement of the public procurement policy objectives (SIGMA/OECD, 2011). The very nature of centralized public procurements, or a procedure that replaces procedures at more purchasers, represents an ideal basis for implementation of the public procurement policy, such as environmental, social responsible, etc.

The second strategic objective of the public procurements is to increase the control system, which is usually achieved through introduction of additional regulations in the system. However, centralization of public procurements at the local level in several ways contributes to improvement of the public procurement system control, without introduction of additional regulations and rules.

Centralization increases the transparency of procurements because several dozens of smaller purchases are replaced with a large one, which, due to its value and importance, attracts attention not only from suppliers, but often from the wider public (Jovanovic, 2015). In this regard, the relevant regulatory institutions much easier control a centralized procedure, instead of multiple processes at different purchasers, thereby significantly reducing the possibility of corruption and achieving the desired effect of introducing regulations. At the same time, capacity for control of individual public procurements at purchasers is being created in the expert centre, primarily in terms of knowledge, and possibly in terms of number of employees.

Centralization of public procurements contributes to reducing the risk of favouring pre-selected bidders. Customization of specifications and criteria in order to favour a particular bidder is usually based on local specificities in terms of delivery specifications, features etc. "Adjusting" specifications, criteria and requirements to the certain bidder is easily revealed on the centralized level than when the majority number of smaller purchases is being realized (Jovanović, 2015).

The following figure shows the positive impact of public procurements centralization at the local level for achievement of a strategic objective of public procurements – efficiency.

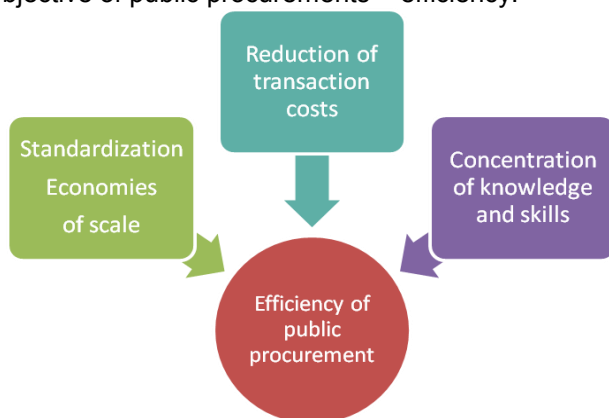


Figure 2: Public procurement centralization effects on public procurement efficiency

At the same time, public procurements centralization at the local level leads to increased control of public procurements, and to the fulfilment of the second strategic objective of public procurements - regulation.

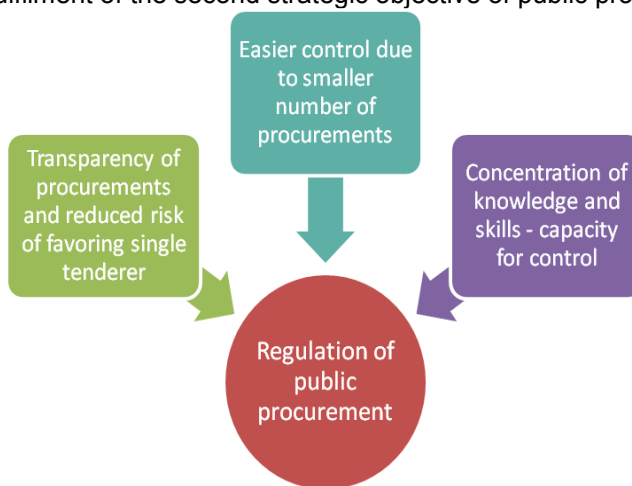


Figure 3: Public procurement centralization effects on public procurement regulation

3. RISKS OF PUBLIC PROCUREMENTS CENTRALIZATION

Public procurements centralization generally carries certain risks. However, the risks of centralization are directly linked to the level at the centralization is being carried, and the risks may be considerably smaller when it comes to the public procurements centralization at the local level.

3.1. Concentration of offers market

The main risks related to the public procurements centralization arise from the very essence of centralization and the basic advantages it offers, related to the integration of demand. There is certainly the risk that the higher purchased volumes will exclude a part of suppliers from competition, which could cause neutralization of opportunities for lower prices. Risk is particularly evident if only one bidder is able to meet mentioned needs, but even if it is not a single, but a small number of suppliers, there is always possibility of an agreement on the offered prices. In each of these situations, the bargaining power of suppliers is extremely high, which could be reflected on the other procurement conditions.

Generally, due to the mentioned characteristic of public procurements centralization, it can often be found the state that such a way of organizing public procurements, represents an insurmountable obstacle for small and medium-sized enterprises, because they cannot, primarily quantitative, respond to demand. More broadly, especially in the case of signing long-term contracts, this way of organizing public procurements can inflict some damage to the entire sector of small and medium-sized enterprises, because in addition to being unable to participate in large procurements, reduces the market of smaller purchases, on which they are

competitive . Consequently, this risk can get a certain political connotation, in terms of endangering an extremely important economic sector.

However, the smallest risks of this type occur during the public procurements centralization at the local level, because that is the lowest level of centralization within the public sector, and the value of procurement in most cases will not be a factor that limits competition. In addition, forward mentioned conclusion of the framework agreements can open the space for participation of small enterprises, provided they are price competitive, since the framework agreement does not involve one huge supply, but "withdrawal" of goods or services by the purchasers as required.

On the other hand, also in the case of complete public procurements decentralization there is no guarantee that the job will always get small or medium-sized enterprises, although statistical studies show that their chances in this case are higher (SIGMA/OECD, 2007).

3.2. Procurement of inadequate goods and services

Some risk is associated with the necessary standardization of goods and services in a procurement and possible inadequacy of the subject of procurement for all purchasers. Simply, during a centralized public procurements there is a risk that the specificities of the individual purchasers will not be fully taken into account. This type of risk is most pronounced when the body for centralized public procurements carries out procedures and buys goods or services from suppliers and sells them to purchasers. Then the risk may be manifested in the way that the purchasers do not want to buy inappropriate (inadequate) products and services from the central body, which threatens its financial stability and functioning. This risk is one of the main reasons for changing the basic role of the central body through the time, from the body which acquires products or services, and then sells them to purchasers, to body which concludes framework agreements for the needs of purchasers. Framework agreement defines the prices and estimated quantities of products or services, while the structure of each procurement (and later delivery) may be the subject of contracting directly with purchasers.

Also, attempts for reduction this kind of risk led to the limited list of purchase subjects that can be procured centrally, which will later be analyzed in more details. Viewed by the EU countries, centralized public procurements do not exceed 10% of the total value of public procurements (SIGMA/OECD, 2011). One of the reasons is that the integration of procurements does not apply to works that, in most countries, have a significant share in the total value of purchases. Also, the list of goods and services which may be subject of centralized procurements is very limited (Dimitri, Piga & Spagnolo, 2006; Albano & Spar, 2010).

3.3. Other risks

Centralized procurements are certainly more complex than decentralized. Their successful implementation presupposes well done market and potential bidders research, as well as regulations governing the areas relevant to the subject of procurement. This gives rise to a few risks. The first risk is the longer duration of the procurement procedure. The main difference in time for the centralized procurements implementation occurs in part of the process relating to the collection and aggregation of purchasers needs. Later, during the procedure, increased number of requests for protection of bidders (suppliers) could occurs in centralized procedures, because of a larger amounts of public procurement contracts and also because of long-term contracts.

On the other hand, experience from countries in which the framework agreements are used for a longer time has shown certain risks associated with this type of procurement procedure. Namely, in many cases, framework agreements have been concluded for a period of 2 to 4 years, which brings the risk of insufficient flexibility of the agreement, that can cover very difficult all the changes in the market or in technology that may arise during that period. As a tool for reducing this risk, concluding the framework agreements with multiple suppliers has appeared, where mini tender is organized only for the previously qualified bidders.

Also, during the public procurements centralization the risk of hidden corruption at the high levels increases. Decision about what will be the subject of centralized public procurement can favour a particular bidder or exclude its competitors.

One of the risks of public procurements centralization is increase in the costs of delivery, which affect the fact that the purchasers individually, locally can achieve lower prices outside the centralized public procurement. Therefore, the public procurements centralization at the local level imposes as an optimal solution for

reducing these types of risks, because location of purchasers within one local government cannot play a crucial role in the pricing of goods or services.

Specialists are needed for centralized public procurements. They will not only be familiar with a legal procedure, but also with the economy (market), and they should have a solid knowledge relevant for procurement subjects (Jovanović, 2015). Due to this, major risks arise in the case of centralized public procurements without previous education for staff.

4. MODEL FOR PUBLIC PROCUREMENTS CENTRALIZATION

An analysis of the situation in the member states of the European Union was conducted in order to define the optimal organizational model for the public procurements centralization at the local level. Activities the newly formed entity should deal with are also defined. One of the most important conclusions from the analysis of the situation in a part of the member states is that there is no standard organizational form of institutions (agencies) for the centralized public procurements (SIGMA/OECD, 2000), regardless of the level (national, regional, local). However, it is clear that the different forms and techniques of public procurements centralization are increasingly used in the European Union countries.

Definition in the Directive 2014/24/EU states: "The central purchasing authorities, with or without payment are responsible for, acquisition, dynamic purchasing systems management or public procurement awarding/conclusion of framework agreements for other public clients. From the very definition of the central procurement entity derives several possible models of public procurements centralization.

One of the models of centralization is the so-called "monopoly" model, in which the body for centralized procurements conducts public procurement procedures, purchases goods or services, and later sells them to institutions. In fact the body for central procurements acts as a wholesaler, with developed activities of purchasing, storage and eventual sale. This model of centralization involves great risks, particularly regarding the procurement of products which do not meet the needs of purchasers, and is rarely used in the member states of the European Union.

Essentially a different approach to centralization implies that the central bodies for public procurements act as intermediaries by awarding public procurements contracts to the bidders, also by management of dynamic purchasing systems, or by conclusion of the framework agreements used by public purchasers. In some cases this intermediary role can be carried out independently, by performing the appropriate procedures, without detailed instructions by the public purchasers, and in other cases by performing the corresponding public procurement procedures in accordance with the instructions of public purchasers, in their name and on their behalf.

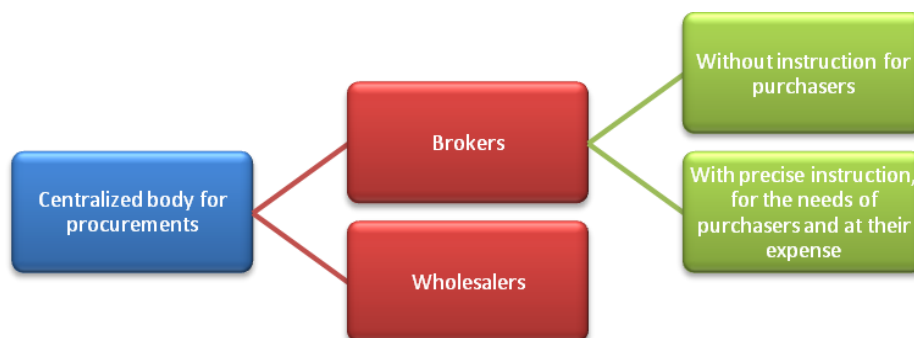


Figure 4: Organizational models for centralized procurements

The model for centralization can be recommended, based, on the one hand, on reviewing the advantages of public procurements centralization and identified risks, and on the other hand on experience of the European Union. Centralization of public procurement at local level should be based on the model of organization in which the central body for procurements serves as a mediator.

Also, in order to maximize utilization of advantages offered by public procurements centralization, and eliminate identified risks, it is proposed the wider use of framework agreements with suppliers. This model can significantly reduce the risk of: buying inadequate products/services, lack of access to small and medium-sized enterprises on the centralized procurements market, inflexibility of public procurements and others. And Directive 2014/24/EU recognizes the framework agreement as an effective technique for conducting public procurements and recommends its wider use in Europe.

Introduction of new forms of centralized public procurements includes the following two things: firstly, institutional relations between organizations within the public sector, and secondly, establishment of appropriate organizational forms within the administrative departments of the state and local communities and outside that frame, or even outside the public sector with the aim of more efficient public procurements execution.

5. FUNCTIONS OF THE CENTRAL BODY FOR PUBLIC PROCUREMENTS

Once the basic modality of the body for central procurement functioning is determined, it is necessary to clearly define the functions that body is supposed to perform. The functions will clearly identify activities that should be performed within the body for central procurements. That will be set up the basis for designing optimal organizational structure.

Of course, achieving the basic purpose of the centralized public procurements, regarding reduction of public procurements cost through achievement of the economies of scale but also through reduction of transaction costs by replacing multiple processes with a unique procedure, the body for central procurements at the local level must implement public procurement procedures for the needs of as many purchasers. Purchasers' their procurement quantities should be sufficient to justify their inclusion in the process for central procurements. Procurement procedures should be completed by conclusion of the contracts with suppliers, or conclusion of the framework agreements with them.

On the other hand, to fully benefit clearly highlighted advantages that bring the concentration of knowledge and skills within one body at the local government level, the body for central procurement at the level of local government should have a clearly defined advisory function. Advisory function should be developed in several directions. First, communication channels must be developed which will provide that the employees experience and the knowledge base that is formed over time will always be available to all clients from the centralized system, in order to increase their ability of carrying out procedures that are not centralized. Secondly, the trainings held by employees of the central procurement body to the employees who are engaged in public procurements at the purchasers, should be formalized. And lastly, concentrated knowledge in the body of central procurements should be available to all direct and indirect budget users at the local level, thus strengthening the capacity for the public procurements implementation at the whole local government level.

Although it was said that the level of control in the public procurement system will increase by the centralization itself, because procurement enlargement facilitates control and increases transparency of procedures, one of the body basic functions at the local level should be public procurements control. However, the scope of public procurements control which should be implemented by the central body for procurements at the local level, cannot be defined a priori, but depends on the human and technical capacities of the body, number of budget users, number and value of procurements. Control function should be developed with the strengthening and development of the body for central procurements. Developing of the control function within the central procurement body of local governments should create the capacity for control of individual public procurements of direct and indirect budget users on the territory of a certain local government.

Taking all this into account, the basic functions of the body for central procurements of the local government are shown in the following figure.

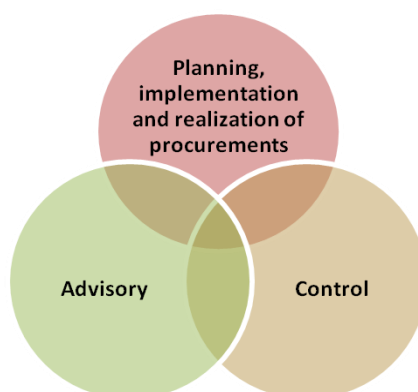


Figure 5: Main functions of body for centralized procurements

6. CONCLUSION

Based on the all written above it is clear that centralization of public procurement at the local level brings many advantages. However, any centralization carries with it certain risks. The paper noted that the risks of public procurement centralization slightest if it is implemented at the local level, but they cannot be ignored. Therefore, this paper proposed that the body functions of centralized procurement should be done in such a way to take advantages that centralization provides, but at the same time to minimize identified risks. It was suggested that the central procurement bodies at the local level should act as brokers and that should carry out public procurements in order to conclude framework agreements. Also, there is a need for development of advisory function in order to strengthen the whole system of public procurement. Over time, the bodies should strengthen the supervisory role in terms of the number of contracting entities which are controlled, but also in terms of the nature of checks they perform.

Further research should be focused on establishing the human, technical and organizational capacities of local governments in Serbia for the centralization of public procurement. Also, by highlighting functions of the central public procurement body should perform, the basis for the definition of potential organizational structure models has been created.

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