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Article — Digitized Version

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Intereconomics

Suggested Citation: Plötz, Peter (1975) : Experience with joint-ventures in Yugoslavia, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 10, Iss. 2, pp. 60-62, <https://doi.org/10.1007/BF02929557>

This Version is available at:

<https://hdl.handle.net/10419/139154>

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Experience with Joint-Ventures in Yugoslavia

by Dr Peter Plötz, Hamburg *

Yugoslavia laid the legal foundations for capital investments by foreign firms in 1967. It was the first socialist country to permit foreign investments and apart from Roumania and Hungary is still the only one which has done so. Prerequisites have thereby been provided for very close relations between enterprises belonging to different economic systems. The foreign capital participation must as a rule not exceed 49 p.c. of the total capital.

The completion of a comprehensive enquiry among German firms¹ makes it now possible to provide detailed information about the state and experience of German-Yugoslav joint-venture enterprises.² German firms have concluded 21 — still running — joint-venture contracts with Yugoslav enterprises which involve capital participations totalling about US \$ 33.6 mn. The Yugoslav Workers' Self-Administration system³ and its working in mixed enterprises are of special interest in this context.

Workers' Self-Administration Organs

The *de jure* basis for the decision-making process in Yugoslav enterprises and thus for the structure of the Workers' Self-Administration is the constitution with the laws derived from it. The supreme decision-making organ in the enterprise is its Workers' Council (or the Workers' Council of the basic United Labour unit). At least in outward form it is the Workers' Council which each year lays down principal guidelines for the business policy to be pursued and calls on the management to account for their implementation.⁴ The executive organ of the Workers' Council is the Administrative Committee which it elects (or if it so chooses, a Management Committee) which may, varying according to the size of the enterprise, consist of three to eleven members. Management Committees are playing an important role in joint ventures with foreign investors. Here they are a joint organ formed by representatives of the partners. Both have an equal number of representatives in it even if they do not provide equal amounts of capital. The functions of the Committee are laid down by the articles of association of the enterprise.

The Director — who is elected and supervised by the Workers' Council in consultation with the local authorities concerned — is formally independent in his activities. He is personally responsible for

his work to the collective organs of administration. He directs the day-to-day affairs of the enterprise, represents it vis-à-vis third parties and concludes transactions with them. The Director possesses unrestricted powers to enter into contracts with outside parties though his internal powers may be restricted. The Director has, besides, the duty to ensure fulfilment of all legal requirements. He is *ex officio* under an obligation to see that the statute of the enterprise and the self-administration agreement are observed. The Workers' Council may impose substantive or quantitative limits on the Director's right to conclude certain transactions with third parties and oblige him to seek prior approval by the Workers' Council. This restriction however only applies to the internal relations and has no effect on third parties. It

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¹ cf. Peter Plötz, *Kooperationserfahrungen der Bundesrepublik Deutschland mit Jugoslawien — Unter besonderer Berücksichtigung deutscher Kapitalbeteiligungen* (The Experience of the Federal Republic of Germany in Cooperation with Yugoslavia — with Special Reference to German Capital Participations), Hamburg 1974.

² Firms in the following countries are partners in joint-venture enterprises: Italy (21), USA (11), Switzerland (9), France (6), Austria (5), Great Britain (4), Liechtenstein (4), Belgium (3), Sweden (2), Denmark (1), East Germany (1), CSSR (1), Netherlands (1), Canada (1), San Marino (1). The foreign participation in joint projects by Yugoslav and foreign interests amounts at present to 18.5 p.c. of the total investment. The German share of joint German-Yugoslav projects — 10.7 p.c. — is substantially lower.

³ The means of production are publicly owned in Yugoslavia. The enterprises hold the right to their administration and utilisation while the state supervises the use made of them. The employees of an enterprise are thus administrators of the means of production: Workers' Self-Administration is the principle according to established law.

⁴ Article 48 of the Basic Law governing the enterprises circumscribes the functions of the Workers' Council as follows: "The Workers' Council promulgates the statutes and other general legal acts and the work and development plans and programmes; takes measures to implement these plans and programmes; decides on fundamental issues of business policy and the use and application of the communal assets of the enterprise; draws up the balance-sheet of the enterprise; determines institutional questions in so far as they are not in individual instances decided by a referendum of the labour force, and other issues; and also performs other functions assigned to it by law, the statute of the enterprise or other general legal act. The Workers' Council furthermore drafts legal acts on institutional questions (merger, affiliation and partition of the enterprise, change of domicile of the enterprise, segregation of part of the structure of the enterprise, etc.) which are decided by the labour force through a referendum. The Workers' Council may decide in regard to the questions mentioned in paragraph 2 of this Article that the question concerned may be decided directly by referendum."

merely concerns the Director's responsibility to the Workers' Council, so that if, for instance, a contract is concluded without the approval or against the wishes of the Workers' Council, it nevertheless remains valid except in specific cases where the law provides otherwise.

Management in a Strong Position

All the experience of the German investment partners to date suggests that in actual fact the Workers' Self-Administration has no great power or influence on business policy. The unanimous view of those consulted by the Hamburg Institute for International Economics about their (indirect) cooperation with Workers' Councils is that their influence is slight and that they have had no problems so far with the Councils. Why is there this striking disparity between the formal and actual power of the Workers' Council?

The major business decisions are mostly made by the Director in an authoritarian manner with more or less consideration for the interests of the labour force. It is by no means exceptional for the Director of a joint German-Yugoslav enterprise to neglect even his constitutional duty of keeping the Workers' Council informed. This has caused the Yugoslav trade unions to draw attention to what they consider to be a negative influence of foreign investments on the Yugoslav self-administration practice although the rigid lines of command and the strictly hierarchical structure of the workers' collectives show that the reality of management and constitutional practice is now almost everywhere different. The situation in the mixed enterprises is in no way special.

Influence of State Agencies

The position of the Director depends of course greatly upon his political standing. The practice of self-administration and self-administration acts is such that political qualifications are generally insisted upon when the Director's terms of appointment are defined. Far less emphasis has in practice been laid — at least in the past — on professional qualifications than on political aspects. The Self-Administration organs have in actual fact little influence on the election of the Director. The decisive influence on election and termination of a Director rests with the local and district committees of the League of Communists, the local representative bodies and individual political functionaries.

While the management is thus relatively independent from the labour force, it is by no means independent from the state and political authorities. The party leadership exerts considerable influence on appointments to senior

positions, at least in big enterprises: 97 p.c. of the directors in Yugoslav enterprises are members of the League of Communists.

The German firms whom we consulted believe that the Director is in most cases using his strong position for a beneficial business policy. As a rule his work is giving satisfaction to the German investment partners. They are however well aware of the fact that the personal qualities of the Yugoslav Director (his readiness to make decisions, his ability to carry others with him, etc.) are crucial for the cooperation with him. This cooperation will be without any problems if the Yugoslav partner is acquainted with traditional western thought patterns and his approach to problems is "pragmatic and market-oriented" rather than political.

When differences arise in the Management Committee between the Yugoslav Director and the German partners, the Director may sometimes argue in support of his case that the Workers' Council would not give its blessing to any but his decision. Some German firms feel that the Directors are in this case making use of uncertainties created by inadequate delineation of functions (between Management Committee, Workers' Council, central party authorities and Director) to strengthen their argument and carry their own interests against those of the German partners. This does not however happen often.

Insignificance of the Workers' Council

The altogether relatively low level of education of the Yugoslav workers tends to weaken their place in the Workers' Self-Administration even though it is formally strong. They can hardly be expected to have well-founded views on economic or technical aspects of the production process. The vast majority must rely on a few qualified colleagues who in actual fact perform the management function together with the individual executives (the Director, departmental heads). Owing to his training and expert knowledge, together with the thorough understanding of the whole subject which his work at the apex of the management hierarchy gives him, the Director is able to influence others who are working in the enterprise. The less well trained employees in the Workers' Council, on the other hand, lack the objective qualifications for a critical assessment of the proposals of the Director and other experts. With progressive division of labour and specialisation the position of the experts has become increasingly important.

The inertia of Yugoslav workers under the Workers' Self-Administration system noted by the consulted German firms is in fact due to the low

educational standards and to differentials among the workers. Besides, most workers move with such frequency from enterprise to enterprise that they do not feel committed to "their enterprise" by any deeply rooted sense of responsibility. The workers' representatives, moreover, until recently laboured under an immense handicap in that their term of office was subject to a rigidly enforced principle of rotation. All this not surprisingly puts the management in a position of substantial independence from the Workers' Self-Administration. It is difficult for workers with low qualifications to exercise control over executive organs in possession of expert knowledge. Besides, party and trade union affiliations are causing the better qualified employees in the Workers' Councils frequently to act as instruments of the management which is to be controlled rather than of the organ which is doing the controlling.

Earnings the Major Consideration

One of the most important rights of the Workers' Council in the Yugoslav Self-Administration system concerns the distribution of the earnings. As the Yugoslav standard of living is low, there is at least in the short term a divergence between the individual's desire for high earnings and the interests of the enterprise. With the Workers' Council rests the decision about both the level of the personal earnings and the amount of profit to be transferred to the funds for investment, reserves, etc. There is a tendency in individual Yugoslav enterprises to raise the proportion of the surplus to be disbursed in wages rather than to make large allocations for investment. The necessary investments must consequently for the most part be financed from outside, which causes the liquidity situation, unsatisfactory as it usually is in any case, to deteriorate further and imposes excessive demands on the production potential of the whole economy.

These difficulties can also occur in joint German-Yugoslav enterprises when the wages which are not a cost factor but form part of the profit are fixed. The determination of the wages and their level will usually give rise to controversies in the enterprises as the workers' personal incomes are of direct relevance to their living conditions. About 80 p.c. of the time at sessions of Workers' Self-Administration organs are according to available estimates spent on wage questions. Decisions on topical management issues (such as investments, borrowings, price policy, etc.) which are of considerable interest to the German cooperation partner and determine the scope for wage increases in the long term, on the other hand, recede into the background.

Pessimism about the Future

Several German firms have entered into firm contractual arrangements about maximum wage increases allowed each year. Faced with the current inordinate inflation rates in Yugoslavia, their problem is not so much one of absorbing these maximum annual increases in wages as of having to concede even larger wage increases as necessitated by the prevailing conditions. This whole matter to which the Self-Administration apparatus devotes a great deal of attention is no problem. The important business decisions referred to in the foregoing are made without exception by the management. The Workers' Councils accept them mostly without discussion. It must be borne in mind that the workers in joint German-Yugoslav enterprises are better off than their colleagues in wholly Yugoslav enterprises because working conditions and social amenities (sanitary installations, good meals at low prices, modern work-place equipment) are very good for Yugoslav conditions.

In the light of the experience gained by German firms in their cooperation with Workers' Self-Administration organs in mixed German-Yugoslav enterprises it may be stated that the Director (and not the members of the Workers' Council who participate only sporadically in management affairs) has the greatest influence because he engages continuously in the business of management, stands at the head of the traditional management hierarchy, possesses expert knowledge and is well informed and therefore in a position to manipulate matters. The consulted German firms generally describe the cooperation with the Yugoslav Director and the available opportunities for exerting an influence on Management Committee decisions as good or adequate.

While the cooperation with the Workers' Council as practised hitherto is thus seen to leave no cause for complaints, almost all German cooperation firms fear that the conditions for cooperation with the Workers' Self-Administration organs may deteriorate in the future because of the new efforts to decentralise the system which aim at reversing the trend towards an increasingly independent technocracy and reducing the power of the managerial set.

Workers' Councils and Administrative Committees are to be formed as far down the scale of economic and technical units as possible, i.e. in the basic United Labour units, with the aim of extending the sphere of competence at lower levels in the enterprises while reducing that of the central management. It is the unanimous view of the consulted German investment partners that this will harm the cooperation with their Yugoslav partners in future.