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HOW ORGANIZATIONAL DESIGN AND ERP IMPLEMENTATION HAVE BECOME INVESTMENT IN COMPETITIVENESS: THE CASE OF "SINTELON"*

Kako su dizajniranje organizacije i implementacija ERP softvera postali investicija u konkurentnost – slučaj „Sintelon“

Abstract

At the end of 2002, Sintelon entered in strategic partnership with Tarkett, as a privatized, well-organized and restructured company with implemented ERP software as well as with the potential for investment and growth in the broad area of Europe and Asia. The direction of restructuring of Sintelon was defined and elaborated primarily in three documents – studies: Revision assessment of the proposed new organization of Sintelon, The functioning of Sintelon after restructuring and Sintelon strategic planning methodology. The new organizational solution implied formation of divisions based on criteria of business areas (business lines) while maintaining strategic support functions at the company level. The improvements in the information system made possible for hundreds of people within the company to have better understanding of the links between financial and non-financial elements of the business, to develop more precise and detailed plans and to better understand the overall business process.

Keywords: *restructuring, organizational design, information system, privatization*

Sažetak

U strateško partnerstvo sa Tarket-om Sintelon je, krajem 2002. godine, ušao kao privatizovana, odlično organizovana i restrukturirana kompanija sa implementiranim ERP softverom kao i sa potencijalom za investiranje i rast na širokom prostoru Evrope i Azije. Pravac restrukturiranja Sintelona definisan je i razrađen, pre svega, u tri dokumenta – studije: „Reviziona ocena predloga nove organizacije Sintelona, Funkcionisanje Sintelona posle restrukturiranja i Sintelon metodologija strategijskog planiranja. Novo organizaciono rešenje podrazumevalo je formiranje divizija na bazi kriterijuma poslovnog područja (biznis linije) uz zadržavanje strategijskih funkcija za podršku na nivou preduzeća. Unapređenja u informacionom sistemu omogućila su da na mnogo mesta u kompaniji stotine ljudi bolje sagleda veze između finansijskih i nefinansijskih elemenata poslovanja, preciznije i detaljnije planira i bolje razume ukupan proces poslovanja.

Ključne reči: *restrukturiranje, dizajniranje organizacije, informacioni sistem, privatizacija*

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Introduction

Today everyone knows that the former company Sintelon from Bačka Palanka successfully operates as Tarkett Eastern Europe, not only according to the national standards but according to the international ones as well. Also, many would cite Sintelon as an example of successful privatization, although it would be more accurate to say that it is a case of successful restructuring. At the annual SAP conference in Belgrade, which was held on October 11, 2011, Nikola Pavičić, Sintelon's CEO and key person since the 1970s, named three big events – privatization, introduction of SAP and strategic partnership with Tarkett in response to a question as to how he would explain the success of Sintelon. On that occasion he said that in 1997 Sintelon hired professor Dragan Đuričin to develop the company's restructuring plan with a view to turning it into a successful and competitive entity, comparable with the best companies in the world.¹ This paper is about a success story in the area of privatization and other forms of restructuring, particularly the organizational design. Joining efforts with Dragan Đuričin on that assignment, we formed the basis of very productive work on transformation of Sintelon in the period 1997-2002.

At the end of 2002, Sintelon entered in partnership with Tarkett, as a privatized, well-organized and restructured company. At that time, the bigger part of the SAP information system had already been installed and started to function. Since 2003, many business successes have been achieved, but their basis was set earlier. Many local companies have entered into strategic partnerships with the world's leading companies, but they have not achieved similar results, because those were acquisitions and integrations of local companies into larger multinational organizational units. The strategic partnership with Tarkett is a big event in Sintelon's history, however, it is important to emphasize that Sintelon was extremely prepared for future market success. There is no doubt that some form of strategic partnership between Sintelon and a multinational company in the field of floor coverings would have been realized, even if the restructuring had not been undertaken in the period

1997-2002. But, without the restructuring, the effects on shareholders (employees and former employees) of Sintelon would have been different and probably significantly reduced. Undeniably, we could say that great successes in the period of strategic partnership with Tarkett will not be diminished by emphasizing the significance of the previous period in which Sintelon prepared the groundwork for it.

The introduction of SAP in Sintelon is a big achievement, but it can be said that it was a necessary, and even coercive move during negotiations with potential strategic partner. Information system based on SAP solutions, which replaced the previous information system introduced in the 1980s, was needed to allow quick and efficient integration of operations with the selected strategic partner. Almost all the major world's players in the business of floor coverings were using SAP, and that was a logical solution for Sintelon. It was not realistic to expect that Tarkett or other companies would begin to use IT solutions developed in Sintelon. The introduction of SAP was an expensive and a complex job that had to be done, but it should be said that this is not about activities that create value, but infrastructure that provides information to decision-makers at different levels. This should be emphasized, because Sintelon is not the only, although it was the first domestic company to introduce SAP. Regarding the use of SAP, Sintelon is no different in relation to dozens of local companies which, for various reasons, have not been so successful.

The third factor mentioned by Sintelon's CEO was privatization. As with the first two, Sintelon had been addressing the issue of privatization for many years. What was supposed to be a one-time act in an environment in which the issue of transformation of the social capital into a private one was being decided by acclamation, turned into a ten-year process with an uncertain outcome. It is undisputed that it was necessary to start and finish the privatization due to inability of socially-owned enterprises to successfully operate in conditions of open market economy, but the whole process was primarily a process of social wealth redistribution [10, p. 70]. In addition, some potential problems that were identified in 1994, such as the lack of investors, obstruction of state bureaucracy, the question of gradualism/radicalism in the implementation, are still the same as the actual questions

¹ <http://www.livetv.rs/Video/8187/SAP-World-Tour-2011-Deset-godina-od-kada-je-prva.shtml>

in terms of which privatization model should be applied to the remaining non-privatized businesses and which model of capitalism should be chosen [4, p. 225]. Different laws and by-laws were brought in altering the existing laws and by-laws, numerous steps and phases of privatization enforced, there was mistrust, conflicts and litigations in the triangle between the state, workers and managers of the companies. Similarly, like in case of SAP, Sintelon did nothing specific in the area of privatization that has not been done in other several hundred cases. It was a time-consuming, complex, uncertain and painful process, and it needed to be done, but it did not create value.

Tools and methods

The direction of Sintelon's restructuring was defined and elaborated primarily in three documents. The first document, Revision assessment of the proposed new organization of Sintelon, was presented to the managers of the company in June 1997, the second, Functioning of Sintelon after restructuring, in June 1998, and the third, Sintelon strategic planning methodology, in July 1999. For the purpose of application of certain relevant aspects of restructuring, the advisors for specific areas were hired and they formulated solutions for key issues, wrote instructions, assisted in the implementation of the proposed solutions, solved problems and dealt with the harmonization and cooperation of teams responsible for certain aspects of the restructuring (e.g. teams for measuring the rate of return, information system, compensation system, etc.). As for the important aspects of the restructuring which required finding of quality and innovative solutions, the following should be singled out:

1. solution of organizational design and concept of functioning of the company
2. business plan methodology and methodology for profitability measurement based on value-added criteria
3. methodology for financial evaluation of investments and strategic plans
4. compensation scheme for managers
5. human capital development
6. information system

New organizational design of Sintelon

The company management had an idea about the new organizational design and engaged external consultants to test its feasibility, which led to a consistent proposal for a new organizational design. Consultants reviewed a number of documents, including the Initial ideas for a new organization, the Rule book on internal organization of jobs, the Statute of the joint stock company, the Rule book on quality control, Preliminary study for development of the information system, financial statements for the period 1990-96, and have gathered the necessary information by means of questionnaires filled out by the Department for planning and analysis, and through direct interviews with managers of all organizational units.

The assessment of proposals for the new organization of Sintelon contained the following parts:

1. basic information about the company
2. assessment of financial health
3. possible models of organization, including organizational charts
4. assessment of the current organization, based on insight into the legal form, size, and degree of diversification, technology, environment, strategy and management style
5. the main principles of renovation of the existing organizational model – system of operational planning decentralization, industrialization of supporting activities and virtual integration
6. proposal of new macro-organization (text and graphics), in which they identified the main strategic business units (SBU) and strategic functional units (SFU)
7. proposal of micro-organization for all organizational units
8. hierarchy and span of control
9. business relations inside the company

Before restructuring Sintelon was organized as functional hierarchy, and the most important result of the study [5, p. 29] was the proposal of a new macro-organization. Based on the analysis of the legal form, size, and degree of diversification, technology, environment, strategy, management style and lack of transfer pricing

problems, the consultants came to the conclusion that the proposed solution should include the strategic business units and strategic functional units. In order to ensure a sustainable solution, it was necessary to form a division based on the criteria of business areas (business lines) while maintaining strategic supporting functions at the company level. Figures 1 and 2 contain the organizational scheme before restructuring and the proposal of a new macro-organizational scheme identifying SBU and SFU, respectively.

In the document, the macro-organizational schemes are followed by micro-organization proposal relating to the functioning of certain SFUs and SBUs. At the end of the document [5, p. 44], the powers of the corporate governance bodies such as Management Board and Executive Board are described, together with the proposed ways of functioning in internal market. This rounded the description of the proposed economic organism in which the organizational structure, the management and the business model represent the anatomy, nervous system and physiology of the system respectively [5, p. 48].

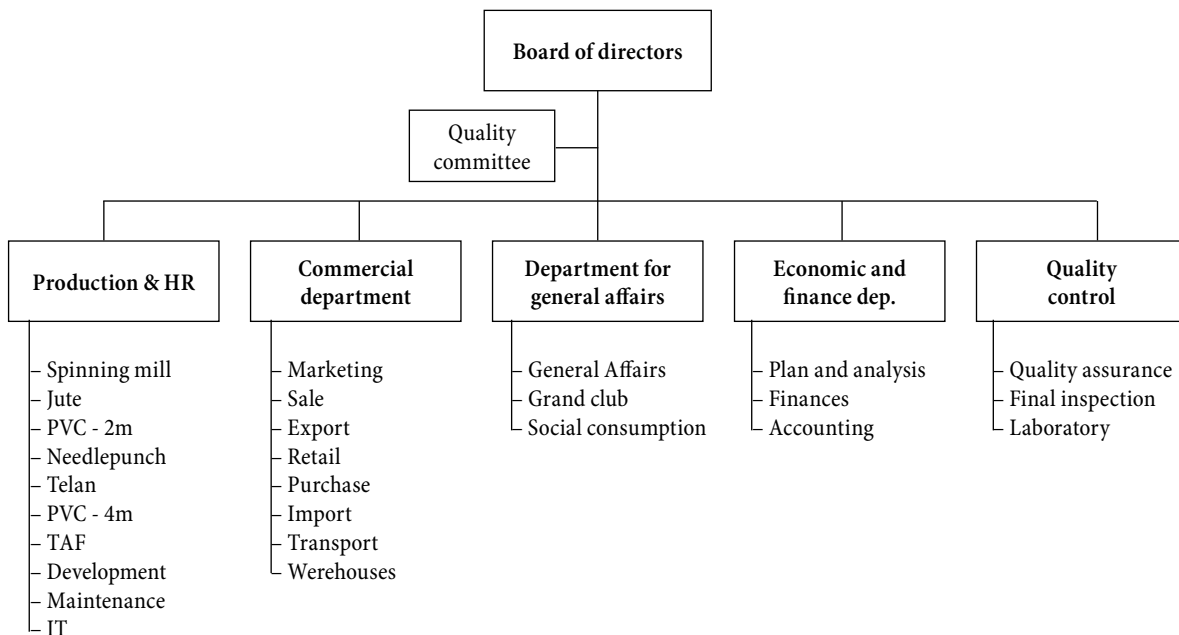
Business planning

Restructuring of Sintelon on the basis of the newly proposed organizational design started without delay,

and the consultants prepared a document The functioning of Sintelon after restructuring [6] for the managers at all levels of governance (for better understanding of the entire process), in which they elaborated the earlier decision and gave the relevant descriptions. The study contained the following chapters:

- impact of organizational transformation in the management process
- role of planning (the fundamental importance of planning, additional factors affecting the importance of planning, levels of planning)
- role of control
- formulation of objectives (and planned tasks)
- harmonization of goals
 - the relationship between cash flow and growth rates at company level
 - the relationship between capacity and market potentials
 - the relationship between cash flow and growth at the level of SBU
 - the relationship between cash flow and growth at the level of products
- miscellaneous
 - concept of governance
 - financial statements
 - key performance indicators

Figure 1: Macro-organization chart of Sintelon before restructuring

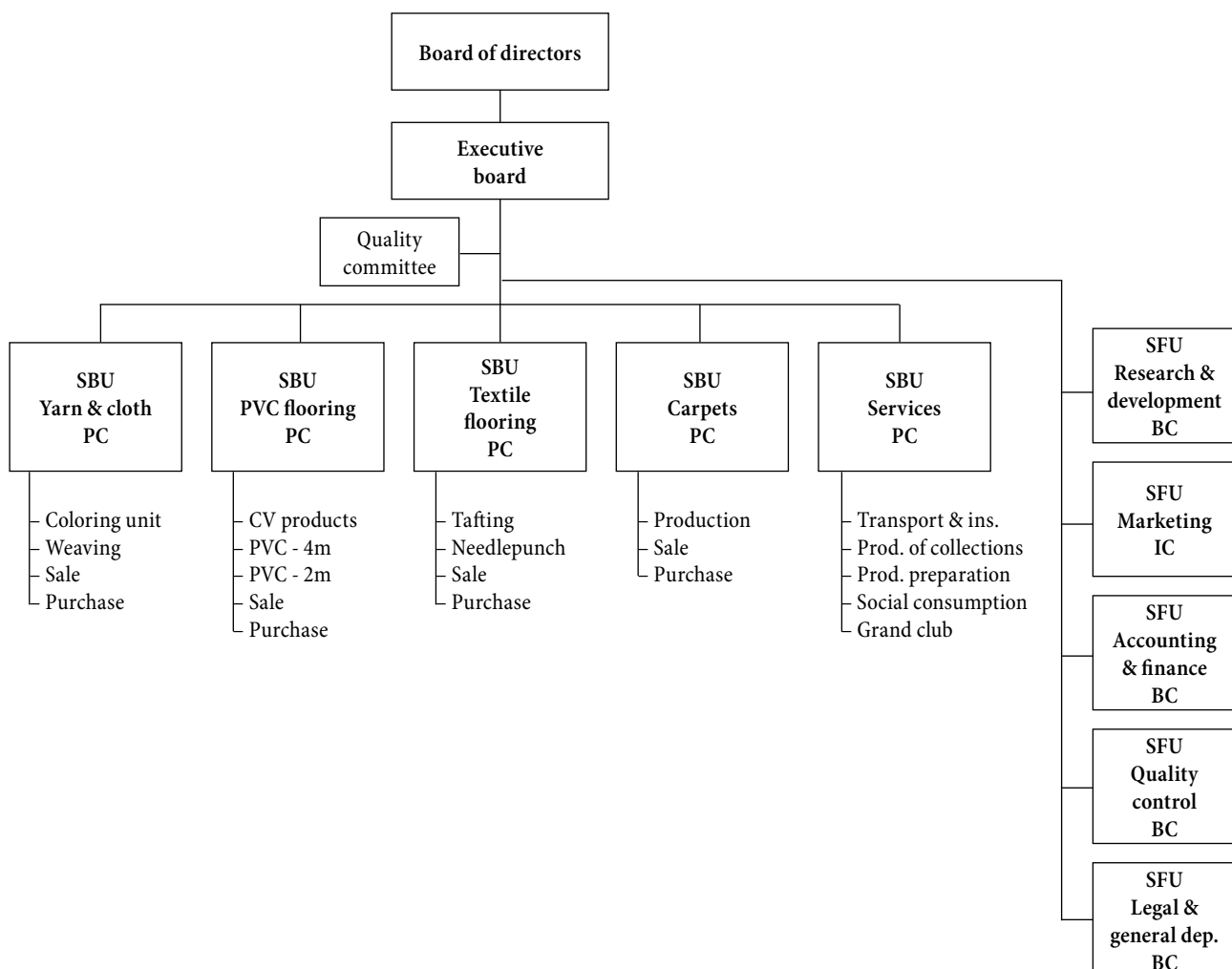


In short, thoughtful manner of functioning of Sintelon can be described as follows [6, p. 8]. Firstly, business lines are strategic, operational and accounting units, and top management of the company is engaged in development of business, finance, infrastructure works (IT, quality control, accounting, legal affairs, human resources) and external communication. Secondly, SBUs are the smallest organizational parts of the company which are meaningful for strategy formulation. Characteristics of SBUs are: autonomy in supply and sales, technological completeness, ability of allocation of administrative costs and responsibility for financial results. The financial result of SBU is free cash flow available for investment at a company level. SBUs apply for funds through investment projects. The mechanism of decision-making for allocation of funds is such that the proposals are created “top-down”, while the decisions are made “bottom-up” through hierarchical structures. Thirdly, in everyday business activities, SBUs have a high

degree of autonomy. Independence is reflected in the field of procurement and sales, production and planning. Being an investment center in the accounting/reporting terms, SBUs have the greatest degree of independence, although they do not have the character of a legal entity. At the SBU level, the accounting department is producing the statutory financial reports (balance sheet, income statement and cash flow statement). Fourthly, management of the business units is performed via control of the planned rate of return on assets employed. There was also the possibility of monitoring the contribution of the free cash flow, and the increment of their own capital and economic value added.

In fact, an essential part of the concept of functioning of complex and decentralized companies, such as Sintelon, is the planning system which consists of two components – business planning (for fiscal year, quarterly, and monthly) and strategic planning for the three-year period [6, p. 9].

Figure 2: Proposal of a new macro-organizational scheme



Strategic planning

The Document on strategic planning methodology was presented in July 1999 as a further elaboration of the matter from the two previous documents and did not treat just strategic planning. At that time, the application of some aspects of a very complex restructuring involving, for example, business plans, had already been advanced. The document processed the following materials [7]:

- organization and functioning of Sintelon
- strategic planning
- value in the concept of strategic planning
- the value imperative
- performance measurement system
- financial determinants of value
- strategic determinants of value
- organizational determinants of value
- selection of investment projects
- maximization of value

One of the goals of the document was the demystification of strategic planning model, which is based on the concept of value-based management [8]. The document was supposed to enable Sintelon managers to master the details of the concept in order to apply it, and actually, it contained detailed instructions as to what the managers of individual SFUs and SBUs should do. Next to the names of SFU and SBU, there stands the adjective 'strategic', and each one of them should formulate and implement their own strategy. Today, much more is known about the strategic management than in 1999, and the document contained "up-to-date" knowledge available at that time. Basically, it was about value-based management.

Financial aspects of restructuring and the information system

A significant part of the document on strategic planning is related to the financial aspects of the business. In order to implement value-based management in Sintelon, it was necessary to design, develop and implement procedures related to business plans and profitability measurement for business units and the whole company, as well as procedures related to the analysis and selection of potential

investment decisions and financial projections of strategic plans.² By the end of 1999, Sintelon had completed a business plan for about 25 parts and the whole company in accordance with unique business plan methodology. The whole process was integrated into the Sintelon's information system, making it possible, based on new information and analysis, to innovate monthly business plans for the next three months.

Like any other company management system, this one is also based on the use of feedback, and linking the output information from the system to the input information. One of the examples for the use of feedback that university teachers often resort to is to ask the students to stretch their hand, and then hit their nose. When they do this, students often do not understand what is going on, but when they are asked to close their eyes and do the same thing, then they realize that the finger misses the target. The secret is to make it possible to open the eyes during the movement of the finger to determine its position, as the new information affects its movement toward the target. If the eyes are closed, then there is no guidance. This analogy can be used to describe a situation in which at the end of each month managers analyze the achievement of the business plan and then update the plan for the next three months, as opposed to a situation in which there is only an annual business plan whose realization is analyzed at the end of the fiscal year.

By the spring of 2000, Sintelon had a fully functional system for measuring the rate of return which, in a very unstable environment, made it possible for each SFU and SBU to determine the profitability achieved in the previous month and from the beginning of the year, and how much capital each organizational unit engaged. For the process of analysis and selection of investment projects, Sintelon adopted a solution that is based on the well-known theory and practice of evaluation of projects, and that solution was fully compatible with the previously adopted business

2 In the domain of the business plan methodology, for measuring the rates of return and financial assessment of investments projects and strategic plans, Sintelon adopted and implemented original solutions. These solutions have been described in several articles [9], [11], [12], [13], [14,] and most concise and complete overview is given in the book "Financial projections and business management" (available at: www.nebojsamrdja.com) [17].

plan methodology. This solution was used in 2000 and 2001 in the evaluation of dozens of investment decisions and the financial projections of strategic plans for the parts and the whole company.

At the end of the '90s, Sintelon used information system that was basically set back in the '80s. This system was maintained and renewed and it was fully able to meet the information requirements of the company's management which, during the restructuring project, increased exponentially. IT sector of the company enabled decentralized considering, at dozens of points, of all financial and non-financial aspects of the business in order to make detailed business plans by month for each organizational unit; and then, only few days following the end of the month, data about achievements can be considered and compared with the planned ones. At many places in the company, hundreds of people were in a position, through the process of business planning, to examine the links between financial and non-financial elements of the business and compare them, in short time, with the realization of the plan. This has led to a better understanding of the process operations and more accurate and detailed planning.

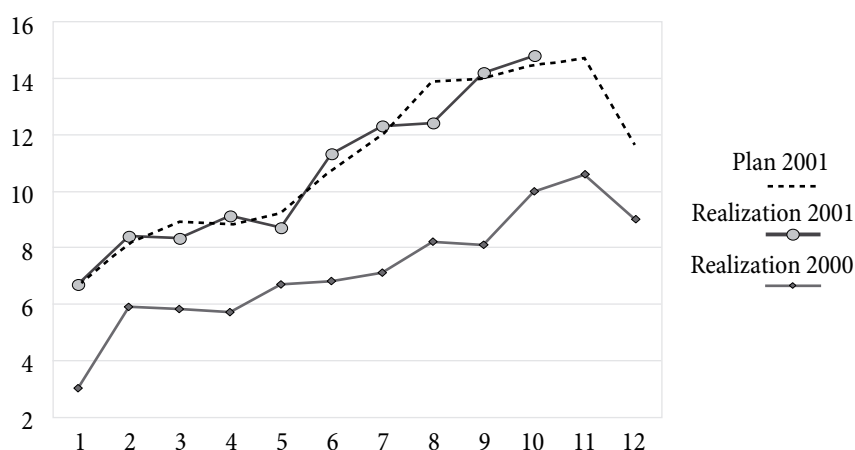
The information system allowed holding of a quarterly conference by the 15th of the current month, where all SFU and SBU managers would present to the Executive Board the achievements from the previous quarter and from the beginning of the year, and for that occasion, all necessary information about all planned and achieved results were provided in electronic form. The following image, which was part of an internal conference held in Sintelon in mid-

November 2001, could be used for illustration purposes. It shows almost unbelievable coincidence of the planned and realized income during the first ten months of 2001, and all that with an increase in revenues of about 60% compared to the previous year, which was mainly the result of the activation of investments [16, p. 4].

Results and discussion

It is indisputable that the restructuring was successful. Sintelon entered into strategic partnership with Tarkett, one of the world's leading companies in the field of floor coverings. Although these two companies are hardly compatible by size, the strategic partnership was more of a merger than an acquisition. This is one of the few such examples in Serbia. Even today, managers in Tarkett make decisions that affect the creation of value, and company is not turned into a manufacturing plant that receives orders for production by e-mail. A proverb which says that "every success has a thousand fathers" is generally known, but in this case there was much more. In one unusual period, large-scale resistance to restructuring was not organized and the vast majority of workers accepted to work under the "new" rules set by the company's top management. For entering into the project of restructuring and its success, the most deserving is Nikola Pavičić, who has managed the company since the 1970s as the CEO, while the greatest burden of restructuring implementation was borne by the executive and expert staff led by Dragan Žarković who, without compromise, implemented suggested solutions parallel with the everyday market struggle to survive in

Figure 3: Sales by months (million DEM)



a very unfavorable business climate. The catalyst role in every process of restructuring belonged to Dragan Đuričin, Chairman of the Supervisory Board.

Today we know, for example, that the three key elements of the new business models which were chosen by Jorma Olila in 1992, the newly appointed CEO of Nokia, were:

- a. new products (mobile phones) and the industrial structure of the company
- b. fundamental changes in the financial structure (release from dependency of bank financing in order to effectively respond to new market situations)
- c. introduction of innovative model of network company that required a new company culture (Nokia values): the will to work together for the benefit of the customer; giving people responsibility and encouragement to take risks with confidence and sincerity where mistakes are permitted; the desire to achieve the goal of 120% and to not give up before the difficulties and willingness to test and change their own opinion [2, pp. 31-38]

On the other hand, the general public is not familiar with the key elements of successful restructuring of Sintelon. The authors of those studies discussed, of course, the well-known theoretical and practical solutions in the field of restructuring, such as the case of ABB [1, pp. 199-200], which created ABACUS reporting system that allowed the responsibility for such operations to slip deeper into the organization in 1988, or the relevant literature on the development of business plans [3]. However, the manner in which the companies operated in previous decades was specific, and foreign experience, regardless of whether it was the “best practice”, could not be directly applied. Target may be the same, but not the manner of its fulfillment. Local consultants were forced to find innovative solutions based on the knowledge of local specifics and best practices developed in the market economies.

The privatization process in Serbia began shyly in 1990 and accelerated in 1993, when significant number of employees became owners of a significant part of the share capital in the companies where they worked. It was the well-known privatization model of “takeover from inside”.

Precisely, the model of privatization was a combination of “give away” and sale of shares to insiders under privileged conditions for majority of equity capital of the company being privatized (60%), and transfer of minority part of equity (40%) to state funds. Privatizations completed by 1993 were virtually canceled in 1994 and 1995, and a new wave of privatization began in 1997 under the new law, which actually retrieved previous condition. Although the privatization law privileged employees, which was an important stimulus for entering in the privatization, most of the socially-owned companies did not enter the process until the end of 2000. Privatization was supposed to be only the first step in restructuring while the ultimate goal was increase in competitiveness. It was not possible to implement a successful restructuring of the company without the formation of organizational structure and corporate governance that exist in joint stock companies in market economies. The management of numerous companies have failed to enter the privatization process under the law from 1997, and a few years later, these companies became “objects” of privatization under the new law. On the other hand, among the companies which have been privatized in 1997, there were not many of those which underwent complex restructuring.

Sintelon belongs to a small group of companies that have engaged in activities which increase their value. As an illustration, one can use the fact that the total income of Sintelon at the end of 2002 was 165 million DEM which is more than at the end of 1996, when total income amounted to 57 million DEM.³ Tarkett Eastern Europe, as a successor of Sintelon, in year 2015⁴ generated revenues of 503 million EUR and the number of employees at the company level increased from 1.805 to 3.319.

Conclusion

The purpose of this paper is to draw attention of business practitioners, advisers and academicians to the unknown aspects of successful local restructuring project. After 15-20 years, the issue of business secret is no longer relevant, and in the meantime, the new changes in the strategy and

³ Data from public financial reports.

⁴ Data from Consolidated financial reports Tarkett, Backa Palanka for 2015.

functioning of the company have occurred. Unfortunately, there are not many examples of successful restructuring in Serbia, and it would be good to have more of them, and to speak and write about them. Today, privatization is generally mentioned in a negative context, as it is the very concept that took on such a connotation. The social experiment of self-management and social ownership on the basis of economic activity ended in the early 1990s with a broad consensus that it should be abandoned. On the other hand, there was no consensus on the method and pace of transforming social capital into private equity. Instead of a single act, the privatization took place mainly as a ten-year (or longer) process of wrangling between the state, workers and company managers. Many companies have failed not because they were privatized, but because of absence of restructuring. It is possible to find examples of companies that were comparable to Sintelon in 1997 by size and other characteristics, which few years later went bankrupt, although privatized in a similar manner. Example of Sintelon's restructuring shows that it was not forbidden to be engaged in activities which lead to the creation of value. This paper is a call to reveal, discuss and share knowledge about domestic successful stories of multi-pronged restructuring, but it does not offer an answer as to why there were few such examples.

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