

## MANAGERIAL ASPECTS OF PUBLIC SECTOR ORGANIZATION IN SERBIA

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Received: 16.01.2024; Prihvaćeno: 10.04.2024

Review Article

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**Abstracts:** Management in the public sector represents the basic function of positioning and directing the economic and financial activities of state collectivities, that is, the public sector towards the execution of the set goals and tasks for which they were formed. According to classical understandings, the state should intervene in the economy only when the market mechanism does not contribute to optimally efficient solutions, and limit its interference in the economy to the following areas: preventing monopolistic behavior, neutralizing negative external effects and providing public goods. The functions of state bodies and organizations have a fiscal character. The fiscal character observed in this way primarily refers to the general state sector, and only in part of its competences and through agencies and commercial parts, so that these activities are marked as quasi-fiscal in order to emphasize that the primary activity of these agencies does not have fiscal features.

**Keywords:** organization, management, public sector

## **1. Introduction**

The public sector represents a part of the economic system owned by the state, which consists of state bodies and public enterprises. The public sector consists of: the state (central state, regional and local levels of government, public enterprises and public financial institutions, such as Central Banks). The public sector means various forms of organization of economic entities through which the state, that is, its organs, ensure the realization of certain interests. The main feature of the public sector activity is that the market laws are limited in the public sector. As a rule, it is an unprofitable business, although there are great exceptions. Also, there is no competition in the business of the public sector. Most of them are large ensembles financed through the state budget (Đukić, Kojić, 2023). The basic goals of the public sector are planned and tied to a certain time and must always bring about positive changes. These goals have a developmental function and are not free, but limited by the public interest. There are different opinions about what the public sector economy should primarily deal with. Primarily, it must deal with public finances, where it will consider the

issue between public revenues and public expenditures, it should be reduced to the state level in the economy and the specifics of the functioning of state enterprises, it should lead the economic policy of the country and ensure such a legal order in which the basic economic institutions will be protected and rules of conduct in a market economy. As an integral part of the public sector, we also include public services and public enterprises.

## **2. The concept of emergence and development of the public sector**

The public sector means various forms of organization of economic entities through which the state, that is, its organs, ensure the realization of certain interests. In market economies, the term "Public sector" refers to the part of the national economy for which the state has some direct responsibility. The concept of the public sector first appeared at the end of the 19th century in France and was presented through two schools whose founders were Leon Dighi and Maurice Oriu. According to Digi's understanding, public service is "any activity whose performance must be ensured, regulated

and controlled by those they rule. Leon Digi considered public services to be all activities whose fulfillment must be ensured, regulated and controlled by the state. The development of the public sector in our country is characterized by two phases. The first phase began with the adoption of the Law on Joint Work, according to which all economic entities have the status of joint work organizations with increased influence of the state. Those business entities perform activities that are an irreplaceable condition for the life and work of citizens, that is, of the socio-political community. By adopting the Law on Enterprises, the principle of market economy was adopted. The main characteristic of this phase is that public companies began to be established that operated with socially owned funds and were organized in the then only form of "association of work and funds." The second phase represents the status organization of public companies that begins with the adoption of the Law on Companies. For the first time, a legal basis was created in our country for distinguishing the ownership function from the public/legal function. In 1990, the Law on Public Enterprises was passed, which precisely defined entities that perform activities of public interest. The public sector is a common name

for the sector of the general government and public enterprises and agencies owned by it. The public sector includes institutions that are owned by the state and that produce public goods and services. The public sector includes the state at all levels of government, the central bank, various state funds and agencies, and state-owned enterprises. The basic task of the public sector is to ensure the satisfaction of a number of needs and interests of citizens. In the public sector, there are a number of activities that the state defines by laws, which elaborate the constitutional freedoms and rights of citizens and their interests. The area in which public sector activities occur are social, infrastructural and communal activities and special administrative bodies (Dašić, 2021). The public sector is characterized by four levels of value:

- a) Democratic - political: implies legitimacy, political responsibility towards the public, the public itself, accessibility, transparency and openness.
- b) legal: includes legality, protection of human rights, various types of responsibility, legal certainty, equality and impartiality.
- c) economic: considers economy, efficiency, reliability and competitiveness.

d) social: this includes social justice, care for vulnerable groups of citizens and solidarity.

States often do not raise enough funds through taxes, contributions, fees and similar types of revenue to meet all public needs. Then, if they don't want to sell their own property, they have no choice but to raise the shortfall by borrowing. In the public sector, there is a large number of workers who have various tasks with the administration in various circumstances and domains.

### **3. Public sector hallmark**

The main feature of the public sector activity is that the market laws are limited in the public sector. As a rule, it is an unprofitable business, although there are great exceptions. Also, there is no competition in the business of the public sector. Most of them are large compositions financed through the state budget, so when we talk about the state budget, we mean a one-year document prepared by the Ministry of Finance in cooperation with other ministries and proposed by the Government. The budget is actually the state's financial plan for one year. It is binding on the expenditure side because the planned expenditures must

not be exceeded without a rebalanced budget. Its content consists of a list of public revenues and expenditures, whereby public revenues include all state revenues prescribed by law (taxes, fees, fines, proceeds from the sale of state property, etc.) that have a public legal character and serve to cover public expenditures, i.e., finance public need. An important characteristic of public revenues is their obligation according to the law and their non-market characteristics (state funds for financing general needs). Public expenditures are used to finance public needs and their main feature is that they have the main goal of satisfying them. The issue of public finances is a key function of the role of the economy of the public sector, within which the issues between public revenues and public expenditures will be considered (Ristić, 2014).

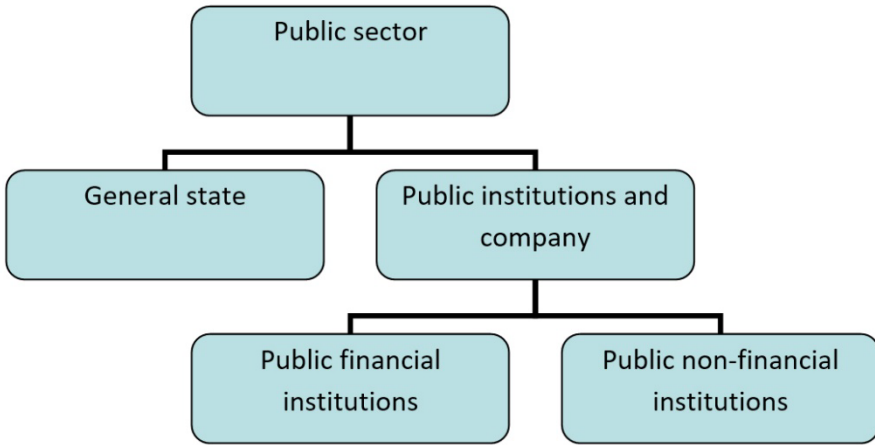
### **4. Organization and management of the public sector**

The basic goals of the public sector are planned and tied to a certain time and must always bring about positive changes. These goals have a developmental function and are not free, but limited by the public interest. The classification of public sec-

tor goals is based on certain criteria: according to the level of the organization, according to the possibilities of quantification, according to the hierarchical level, according to the planning horizon, according to the holders and according to the level of social responsibility. The management of the public sector is carried out through the New Public Management, which determines strategic planning and directs, coordinates,

tional economy, primarily includes 2 parts: the general level of the state (state entities at the local and regional level) and public institutions and companies, which are further divided into public financial institutions (monetary and non-monetary financial entities). and public non-financial institutions. A graphic representation of the mentioned organization is given in Figure 1.

**Picture 1.** Public sector organization



*Source: Authors*

monitors and controls the activities of the state administration and the public sector. Managers in the public sector perform their work under specific conditions. They are accountable to both the legislature and the executive. The public sector of a country, as an integral part of the na-

The general government sector is composed of institutional units that play a role in the economic regulation of non-market services. The general government sector is composed of three entities: the central government, regional government and local government. The central govern-

ment includes budgetary beneficiaries and extra-budgetary funds, i.e. Legal entities financed from earmarked contributions and other types of income. Budget funds primarily include ministries that are subordinated to the law on ministries, institutes, institutes and various state commissions. Therefore, the general government sector is an integral part of the public sector (Bratić, 2008).

In addition to public government, we also include local government, i.e. the government of local self-government, which primarily includes municipalities and cities (the City of Belgrade is also included in the RS). As a rule, municipalities are established for areas of several inhabited places that form a natural, private and social entity and are connected by common interests and viewpoints. The city is a populated place with over 10,000 inhabitants. They also include trading companies owned by them, which can be communal or non-communal. In the Republic of Serbia, the city of Belgrade has over 2,500,000 inhabitants. Given that the democratization of the state is directly conditioned by the need for greater participation of citizens in the affairs of the state, the concept of vertical division of power, i.e. division of power into central and local,

i.e. central, federal (in complex states) and local, was also introduced. Insisting on such a division is a consequence of the historical maturation of the fact that there are certain tasks under the jurisdiction of the state that are best carried out in a narrower territory, without any or minimal participation of the central government, and for the realization of which the competent authorities would be the ones chosen by the citizens of that narrower territory. This is how we arrive at the notion of local self-government (Dašić, B., 2023)..

Public service is considered to be institutions, companies and other forms of organization established by law, which perform activities, i.e. jobs that ensure the realization of citizens' rights, i.e. satisfaction of the needs of citizens and organizations, as well as the realization of other law determined interests in certain areas (Law on Public Services).

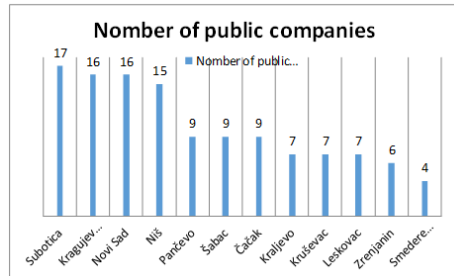
A public enterprise is an enterprise that performs activities of general interest, and which is founded by the Republic of Serbia, an autonomous province or a local self-government unit. The government prescribed a list of public companies and capital companies that perform activities of general interest, to which it applies (Law on Public Companies):

- JP „Elektroprivreda Srbije“
- JP „Elektromreža Srbije“
- JP „Srbijagas“
- JP PEU „Resavica“
- JVP „Srbijavode“
- JP „Nuklearni objekti Srbije“
- JP „Transnafta“
- JP „Pošta Srbije“
- JP „Srbijašume“
- JP „Putevi Srbije“
- JP „Službeni glasnik“

Regardless of the type of ownership or form of organization, the state participates in the management of public enterprises through its representatives. The goal of state participation is the protection of social interests. It can often happen that the interests of the company and society do not coincide. For example, it may be in the interest of the electricity industry to raise the prices of electricity, but at the same time this threatens the standard of the population. The task of the state representative in that case would be to assess the justification of the request and protect the population from unrealistic prices (Radaković, et al., 2023). In addition to concern about prices, there is also concern about the quality and volume of products and services provided to the population, which are in the domain of public companies. As public companies perform activities of special

social interest, the state also prescribes the conditions that must be met by companies in order to engage in these activities.

**Picture 2.** Number of public companies in Serbian cities



*Source: Authors*

## 5. Economic system

According to the general theory, each system consists of parts that form a functional whole, the way individual parts are connected and the rules based on which those parts are connected into one whole. On the other hand, the economic system is an integral part of the social system, which includes legal, political and other subsystems on which it is dominant. The key characteristic of economic systems is its multidimensionality, which means that it cannot be defined by means of a single determinant, but through multiple understandings. Based on that, we can define an economic system as a set of

institutions and mechanisms for making decisions regarding production, distribution, exchange and consumption in a country during a certain period of time, acting as one permanent socio-economic entity in which all these issues are regulated. The economic system regulates who and in what way has the right to conduct economic activity in the country. Economic systems are operationalized using four components:

1) Decision-making system: it implies that decision-making authority is distributed to the decision-makers themselves, and within it we distinguish four components of centralization or decentralization, namely complete centralization (in practice it does not exist because it implies that only one person makes decisions), administrative decentralization (the central authority makes basic decisions and transfers less important decisions to lower decision-making levels), manipulative decentralization (the central authority does not explicitly limit the decision-making freedom of lower levels) and complete decentralization (decision-making power is divided into a number of independent units).

2) Motivational system: its essence concerns how an economic participant can motivate another to behave in accordance with his wishes.

3) Information system: provides decision makers with all the necessary information about the environment and actions of other participants.

4) Coordination system: it serves to coordinate the decisions made by the decision-makers according to the plan, tradition or the market.

Economic systems can be divided according to different criteria. According to the nature of the ownership of the means of production, we distinguish between private, state and social property, on the basis of which economic systems can be divided into capitalist (private ownership of the factors of production), socialist central-planning (based on state ownership) and socialist self-governing economic systems (social ownership of with the means of production. According to the decision-making system, we distinguish between predominantly centralized economic systems in which the rights of lower levels can be taken away and predominantly decentralized ones in which lower levels have greater decision-making



power. The division according to the motivational system is conditioned by a series of economic, political and social. According to the method of allocation to production resources, we can see the market as the basic mechanism of connecting economic participants or that economic activity is connected and coordinated directly through the market itself (Bajec, 1997).

## **6. Economic policy**

Economic policy can be defined as the activity of the state to influence the change in the behavior of economic participants in accordance with the set goals and direct them in a direction chosen by it. All economic policies are divided into systemic and ongoing. Systemic economic policies contain rules of conduct in the form of binding legal norms that must be adhered to by all economic participants and holders of economic policy. The current economic policy implies the direct influence of the state, which, by means of measurable quantities, affects the change in the behavior of economic participants and directs them in a direction chosen by it. Systemic economic policy is operationalized with the help of qualitative instruments as legal and institutional frameworks that more

deeply change the functioning of the economic system, while current economic policy is operationalized with the help of quantitative instruments in the form of a variable whose change the state affects the achievement of short-term goals of full employment. When choosing the basic concept of economic policy, each country tends to harmonize its political offer with political demand, so a difference can be made between the economic policy of market systems where the holders are under constant pressure to adapt and, if necessary, change their political offer, and parliamentary democracies where the state harmonizes supply with demand through the demands of voters, interest groups, political parties and the like. We can make a difference between the economic policy of one-party systems and that of command economies, but there is no real control of economic policy because it is implemented by directives and procedures with the argumentation of selected goals. Every country strives to achieve both long-term (increasing the efficiency of production processes, allocation of resources...) and short-term (full employment, price stability...) goals of economic policy (Dašić, 2022).

## **7. Economy of the public sector**

The term "public sector" or "public sector economy" has the function of simultaneously explaining the economic and financial activity of state collectivities, that is, the public sector. In terms of content, this term is very close to "public economy", i.e. the concept of the economy of public financing. All modern market economies are "mixed" economies, which means that economic activity in those countries is directed by various coordination and allocative mechanisms. In addition to the market, which, through competition and freely formed prices of goods and factors of production, regulates economic activity and relationships between economic factors, there is another mechanism at work. It is a state that performs its allocative, distributive, stabilization and development functions using non-market rules and principles. According to classical understandings, the state should intervene in the economy only when the market mechanism does not contribute to optimally efficient solutions, and limit its interference in the economy to the following areas: preventing monopolistic behavior, neutralizing negative external effects and providing public goods. There are different opinions

about what the public sector economy should primarily deal with. Primarily, it must deal with public finances, where it will consider the issue between public revenues and public expenditures, it should be reduced to the state level in the economy and the specifics of the functioning of state enterprises, it should lead the economic policy of the country and ensure such a legal order in which the basic economic institutions will be protected and rules of conduct in a market economy. The public sector economy achieves all this in a different way than individual participants who make decisions about what to produce, buy, consume, sell, etc. based on their own and private choice, while the public sector economy makes such decisions through majority decision-making and public choice. In parliamentary democracies, the persons responsible for such affairs are elected by the citizens or voters, so they bear responsibility towards their electorate, while individual participants themselves bear responsibility for their decisions. Also, the state, unlike individual participants, has the right to forcibly implement its decisions.

The state must anticipate the consequences and effects of its activities as best as possible, because if the public sector economy incorrectly antici-

pates the effects, the negative consequences will be felt by all economic participants, unlike individual participants who bear responsibility and negative consequences for their decisions. By evaluating the state's alternative activities in the economy, it is necessary to determine which social and economic goals the state has established (Vuković, et al., 2023). Based on this, a difference can be made between positive analysis, which deals with looking at the existing situation and the ways that led to certain state activities, and normative analysis, which deals with evaluating how well the state carries out its economic functions (Vukićević Petković, 2022).

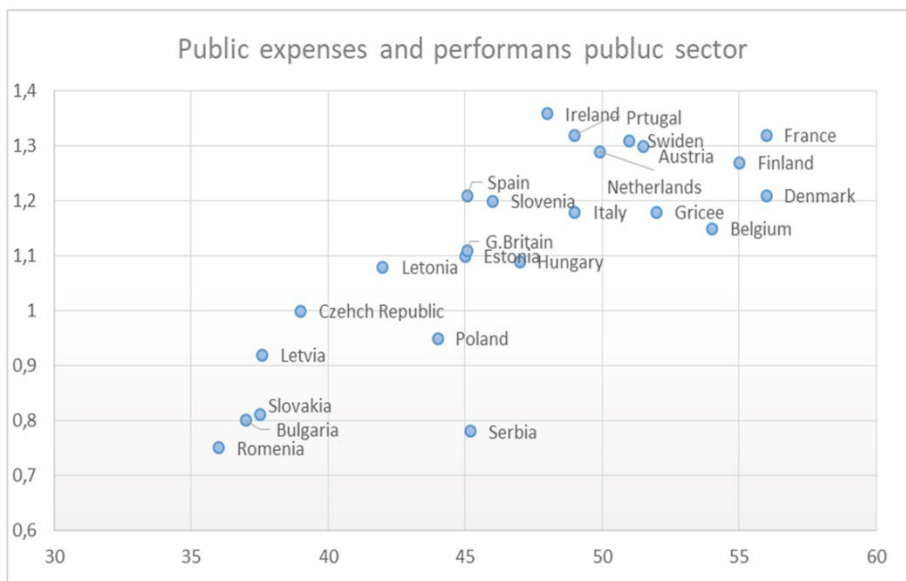
## **8. Analysis of the efficiency of the public sector of the Republic of Serbia, in comparison with the countries of the European Union**

Accession to the European Union is the ultimate goal of the integration processes of Serbia, which signed the SAA in 2007 and submitted a candidacy for EU membership in 2009 in order to become a full member in one of the next waves of admission to the EU. The strategic commitment of the Republic of Serbia is membership in the European Union, within which the fundamental reform of the public

sector is needed to achieve greater efficiency. By analyzing the performance of the public sectors of different European Union countries, we can conclude that countries with a larger public sector achieve better public sector performance. The old industrialized members of the European Union have the best performances, but some new members have come close (Poland, Slovenia, Hungary, Croatia). The public consumption of the Republic of Serbia is at the level of the countries of the European Union. If we compare the size of the public sector, we can conclude that the newly admitted members generally have a smaller public sector than the countries of the European Union (with the exception of Hungary, Croatia and Slovenia), which indicates the thriftiness of these countries (Kolarić, 2022).

Indicators in which Serbia achieved average results are education and healthcare (Velojić, 2016; Dašić, B. et al., 2021). Since the public spending of the Republic of Serbia is high, we can conclude that the quality of public services is low, and that it is possible to increase the quality of public services with the given amount of public spending.

**Picture 3.** Overall performance and size of the public sector of EU member states and Serbia

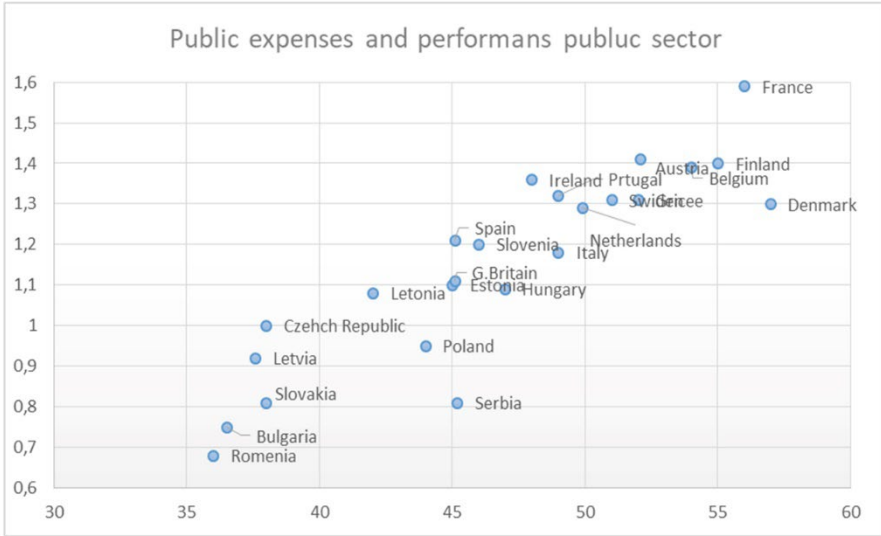


*Source: Authors*

It is evident that the Republic of Serbia and the new members of the European Union can significantly improve the performance of the public sector and limit the use of public expenditures if we compare them with the achieved performance in the countries of the European Union. By analyzing the size of the public sector of the European Union countries, we can conclude that they have a larger public sector compared to the new members. Large public sectors of European Union countries have also achieved greater

efficiency in comparison with countries that have a small public sector (Grbić, 2005). The Scandinavian countries and France have the largest public sector, which traditionally has a large public sector and achieved the highest overall efficiency of the public sector. The member states of the European Union achieved double the efficiency of the public sector compared to the newly admitted states.

**Picture 4.** Efficiency and size of the public sector of EU member states and the Republic of Serbia



*Source: Authors*

By analyzing efficiency, we can conclude that the Republic of Serbia has an inefficient public sector and that savings are possible. In other indicators, the Republic of Serbia is twice as ineffective as the countries of the European Union. The Republic of Serbia achieved the worst results in the indicators of public investments, which speaks of low investments and the neglect of the infrastructure of the Republic of Serbia, the indicator of distribution, which indicates a bad and indiscriminate social policy, and the indicator of stability as a consequence of high inflation rates and instability of GDP growth in the observed period. (Lovre, 2017).

## 9. Conclusion

The public sector includes various forms of organization of economic entities through which the state, that is, its organs, ensure the realization of certain interests. Public sector outputs do not necessarily overlap with public sector output. Outcomes in education and health services are the level of students' knowledge (usually measured by their performance on standardized international tests), the number of patients cured, while the output is the number of students enrolled in school, the number of operations performed or the number of patients

cared for. The results of the public sector are of qualitative expression, while the product of the public sector is of quantitative expression. The basic goals of the public sector are planned and tied to a certain time and must always bring about positive changes. These goals have a developmental function and are not free, but limited by the public interest. The public sector of a country, as an integral part of the national economy, primarily includes two parts: the general level of the state (state entities at the local and regional level) and public institutions and enterprises, which are further divided into public financial institutions (monetary and non-monetary financial entities). and public non-financial institutions.

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## **MENADŽERSKI ASPEKTI ORGANIZACIJE JAVNOG SEKTORA U SRBIJI**

**Sažetak:** Menadžment u javnom sektoru predstavlja osnovnu funkciju pozicioniranja i usmeravanja ekonomske i finansijske delatnosti državnih kolektiviteta, odnosno javnog sektora ka izvršavanju postavljenih ciljeva i zadataka radi kojih su i formirani. Prema klasičnim shvatanjima država treba da interveniše u privredi samo kada tržišni mehanizam ne doprinosi optimalno efikasnim rešinjima, s tim da svoje uplitanje u privredi ograniči na sleće oblasti: sprečavanje monopolskih ponašanja, neutralisanje negativnih eksternih efekata i obezbeđivanje javnih dobara.

Funkcije državnih organa i organizacija imaju fiskalni karakter. Ovako posmatran fiskalni karakter se prvenstveno odnosi na opšte državni sektor, a samo u delu svojih nadležnosti i kroz agencije i komercijalne delove tako da se te aktivnosti označavaju kao kvazifiskalne kako bi se naglasilo da primarna aktivnost tih agencija nema fiskalna obeležja.

**Ključne reči:** organizacija, menadžmet, javni sektor