

THE POSSIBILITY OF TOBACCO CLUSTER FORMING IN THE REPUBLIC OF SRPSKA

Zoran Kalamanda

Tobacco Factory, Banja Luka¹
obrenija2009@hotmail.com

ABSTRACT

The goals of clustering in the tobacco industry in the Republic of Srpska and Bosnia and Herzegovina are the creation of a modern and developed industrial structure, which will gradually fit into the economies of the integrated market and thereby contribute to the development of a more favorable economic environment. The necessity of such a development orientation stems from the facts that the economy of the region is based on the production of primary products of lower processing stages and that long-term economic growth is not possible on this basis. Therefore, the establishment and development of clusters of the tobacco industry in The Republic of Srpska and Bosnia and Herzegovina would represent a major development strategy whose positive effects would be felt in the entire underdeveloped region.

Keywords: cluster, manufacturer, survey.

МОЖНОСТ ЗА ФОРМИРАЊЕ НА ТУТУНСКИ КЛАСТЕРИ ВО РЕПУБЛИКА СРПСКА

Целите на кластеризација во тутунската индустрија на Република Српска и Босна и Херцеговина се создавање на модерна и развиена индустриска структура која постепено ќе се вклопува во стопанските текови на интегралниот пазар и со тоа ќе придонесува за развојот на поповолен стопански амбиент. Неопходноста од таквата развојна ориентација произлегува од фактот дека стопанството на овој регион е засновано на производство на примарни производи во пониска фаза на обработка и дека врз таа основа не може да се обезбеди долгорочен економски раст.

Поради тоа, воспоставувањето и развојот на кластери на тутун во Република Српска и Босна и Херцеговина претставува исклучително важна развојна стратегија чии позитивни ефекти ќе се рефлектираат на целиот регион, за кој со право може да се каже дека има карактеристики на неразвиеност.

Клучни зборови: кластер, производител, анкети.

INTRODUCTION

The experience of the Republic of Srpska and Western Balkan countries in the field of the clusters are more than modest. Specific examples of clusters that exist or are under development are mainly experimental trials that were mostly developed without clearly

defined rules, organization, mission and vision. One of the main reasons for this is the lack of knowledge and lack of understanding of the term “cluster” and the importance of their institution for the development of the region. In the RS and the Western Balkans

in general business conditions are extremely unstable. Not the end of the constructed system at the state level will encourage and facilitate development of small and medium enterprises (SMEs) and their clustering.

In this regard, the question arises: if and how capable SMEs are to continually invest in product development, technology, knowledge, and thus form the basis of development of the country or region? How realistic is it to expect that SMEs will invest some funds in a research project? Is tobacco manufacturer capable of coming independently to the European market and survive in this market without connecting with other manufacturers, carriers, etc.? Could SMEe alone meet the

demands of the global market both in terms of quality and quantity and in terms of sustainable development and adaptation to the new, growing, market requirements?

The answers and solutions to all of these questions can be found by linking SMEs and creation of clusters depending on the characteristics and economic opportunities in the region. In this way, more SMEs make a large system that is able to fulfill most of the requirements of the market and still remain flexible. Companies that are included into functional or regional group or network will be more efficient than the companies which are not¹.

CLUSTER APPROACH TO THE PROBLEM OF TOBACCO

The use of cluster yields is quite clear. However, to be serious in the approach to the cluster development in our region it is necessary to explore the reasons that led to a very poorly developed network of clusters. First of all it is necessary to conduct research in small and medium-size enterprises (SMEs) and based on that form some conclusions

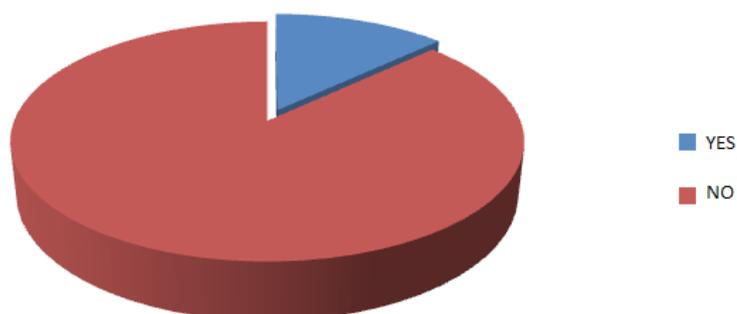
which would be useful in the realization of this project. This primarily refers to the level of awareness and knowledge about the clusters that exist among small and medium-sized enterprises. Therefore, in the next section we will present the results of surveys conducted among small and medium enterprises in the Republic of Srpska.

PRELIMINARY QUESTIONNAIRE

The following section will show the results of research that have been conducted on the basis of the survey of 14 companies and 15 entrepreneurs from the RS, which are associated with agricultural production, i.e. the production of tobacco. This part of the study represents preliminary questionnaire on the basis of which we had intended to present problems faced by small and

medium-size enterprises in the field of the present business conditions, and based on that, we come to the basic conclusion - that by the process of clustering large part of these problems can be overcome. In Appendix 1 preliminary questionnaire is shown, and the questions were mainly related to exports, the cost of raw materials, organized education, collaboration, sales, etc.

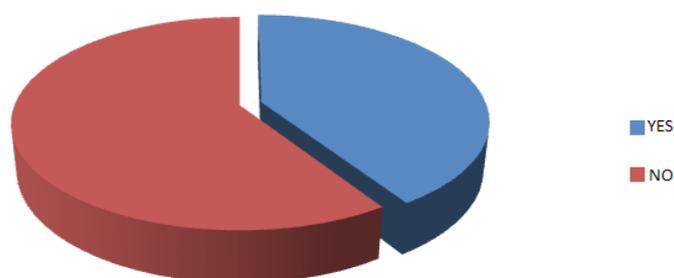
Fig. 1. Cooperation with the collection stations



To the question “How satisfied are you with the collaboration with collection stations” majority of respondents gave an answer that generally they were not satisfied or that such cooperation was at a very low level. The reason for such a high percentage of negative responses should be sought in the low prices of products, the criteria determining class quality products and quality group of tobacco, as well as low and irregular premiums for products, for which it can be said that they are not in the domain of buyers, but it is up to the relevant ministry. To the next question, related to the

competition and its effect on the volume and quality of tobacco production, 45 % of respondents said that competition affects the production and sale of tobacco and tobacco products. It is reasonable that the reason for this is the import of tobacco into the Republic of Srpska and Bosnia and Herzegovina. The local market for agricultural products and tobacco as raw materials and finished products is filled with goods of questionable quality and questionable origin, which greatly narrows the scope for domestic producers for serious and quality production.

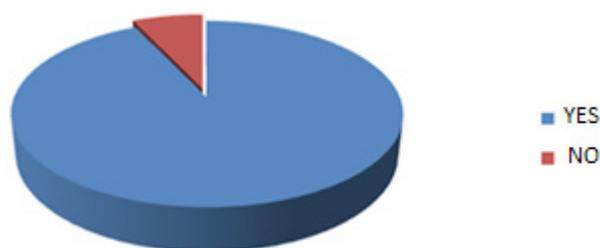
Fig. 2. Influence of competition on the scope and quality of tobacco production



Purchase price of agricultural products and tobacco is an extremely important and almost essential factor which influences the manufacturers’ decision to deal with this production. That is confirmed by the fact that 93% of respondents gave a positive

answer to this question. The reason for this should be sought in the fact that tobacco is commodity that is in demand and that it is less and less to offer, as well as the fact that his collection is relatively good

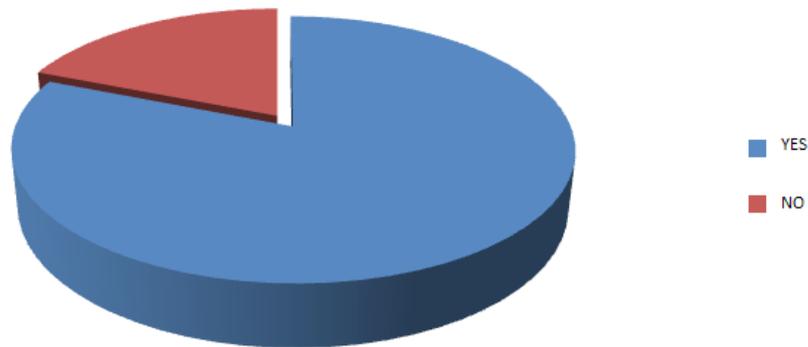
Fig 3. Satisfaction with the sale price



Asked whether the producers are interested to expand production, 81 % of respondents said yes. This is a very high percentage, considering that the production of agricultural products, and tobacco is associated with a lower degree of uncertainty

(climate, set production, marketing) and the fact that the size of arable land for growing tobacco is usually limited. This is surely influenced by the fact that producers are thinking economically - higher production, higher yields and higher profits.

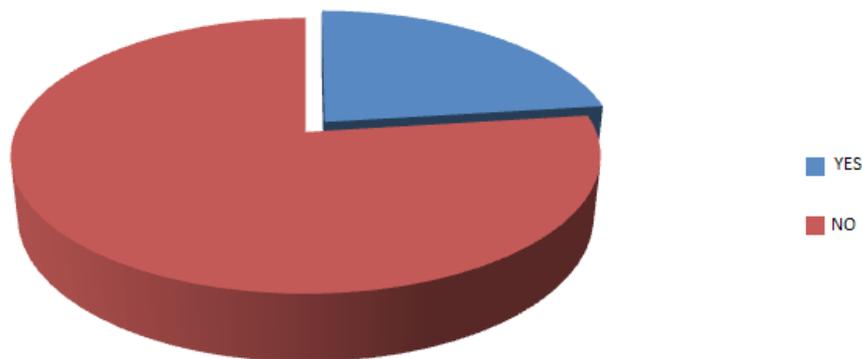
Fig 4. The interest of producers to expand production



Cluster, as a new form of business association, is apparently a new term and not many are familiar with its meaning. Therefore, the question of how the clusters contributed to the increase of production and marketing of tobacco in the region, was positively responded only by 23 % of

the respondents. This is certainly due to the insufficient knowledge of the modes in which the clusters operate, the benefits of clustering through reducing operating costs and increasing revenues from operations, and the fact that human mentality is such that hardly accepts innovations or changes.

Fig 5. Contribution to the business through clusters



The general estimate based on the survey is that farmers and producers of tobacco in the Republic of Srpska and Bosnia and Herzegovina are not satisfied with the current situation and believe that the

situation in this region can lead to a much higher level, where the role of the state, or the line ministry is very important, if not crucial.

ANALYTICAL SURVEY

To closer perceive and analyze the problems in tobacco industry, we made a more detailed survey, primarily of the small and medium-size enterprises. During our research conducted in the region of Posavina and Semberije, where traditionally grown tobacco types are Virginia and Burley, we performed a study in three economic

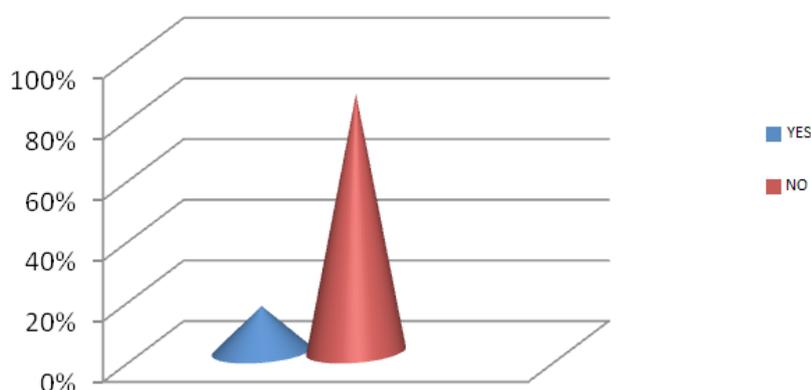
entities engaged in the production, purchase and sale of tobacco, as well as their subcontractors. The survey included AD "Tobacco" Bijeljina, ZZ "Obudovac", and ZZ "Agreks" Donji Zabar and their subcontractors.

Unlike the first part of the questionnaire related to general data, the second part was

more focused on marketing and sales. For example, only 15 % of the total number of respondents were producing tobacco for exports and the remaining 85 % mainly formed their market sales in the area Republic

of Srpska - Bosnia and Herzegovina. Such results indicate the current deficit problem, the import - export route, which is typical for developing countries.

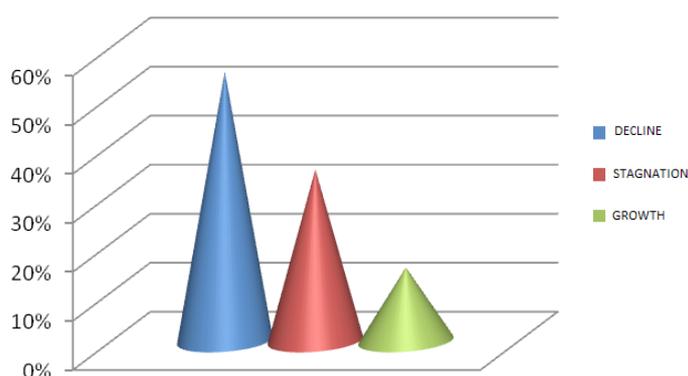
Fig 6. Tobacco exports



In terms of expected earnings, results speak in favor of negative growth (55 %) and stagnation (35 %), and only a small proportion of companies (15 %) expected earnings growth in the future. The most common reason for this devastating condition, despite the economic crisis, is the very low level of competitiveness of

the enterprises. In today's "harsh" business conditions, companies lose the existing market and it is very difficult for them to find new markets, because they are too small and weak in comparison to the large corporations that dominate and play a major role in today's business environment.

Fig. 7. Projecting future earnings



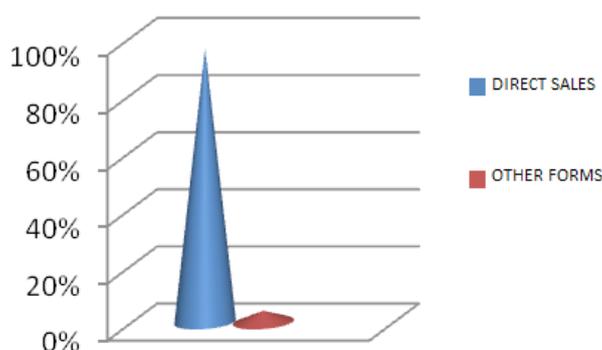
Research results on the development of sales channel go more in favor of its negative side, or underdevelopment of sales channels. The sales are mostly direct (96 %), while other types of sales (through trade fairs and the like) are used by 4 % of

the respondents. These results, however, should be viewed in light of the specific characteristics of the products (mainly agricultural products), because not all of them are suitable for sale through alternative channels. On the

other hand, the analysis showed that a large part of the impossibility of developing alternative distribution channels and access to the market lies in the fact that these small

financial companies are usually faced with liquidity problems, the inability to obtain quality information and a lack of skilled workers.

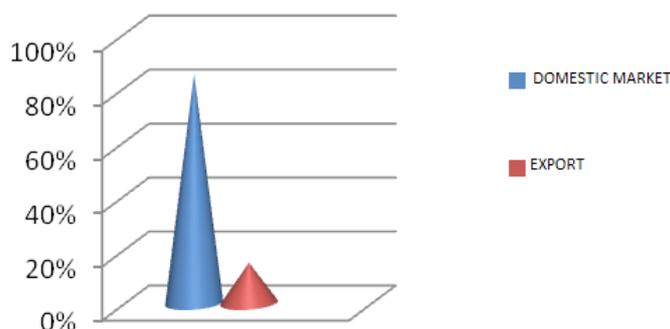
Fig 8. The development of sales channels



The main buyers of products of the enterprises surveyed are local agricultural cooperatives and local tobacco factory (85 %), while the rest 15 % refers to tobacco factories in the region (Macedonia, Serbia, Croatia...). With regard to products and

services, however, the existing customers complaints address the inability of production and delivery of large amounts (62 %), quality (20 %), price (16 %) and other similar reasons (2 %).

Fig 9. The main customers of the enterprises surveyed



From all previously mentioned, it can be concluded that the respondent companies generally have developed marketing and sales elements of the business, or they are not sufficiently developed to be able to seriously compete in the larger markets, where they encounter businesses that take a large portion of the budget allocated for marketing activities.

Basically, the most important problem for

the analyzed companies is the financial capacity and inability to seriously devote themselves and take advantage of the sales promotion.

It can be concluded that these problems can be overcome by effective cooperation and merging between the clusters. It is time to join the forces and to develop the sectors that are not able for independent promotion and implementation. On the other hand,

the transfer of these functions to the cluster would give more time to pay more attention to the field that they are most capable of performing, and that is usually the

production. This will increase productivity and avoid unnecessary costs in cases where they have to take care about them, but they do not have funds or qualified personnel.

GENERAL MODEL FOR THE ESTABLISHMENT OF TOBACCO CLUSTER IN THE REPUBLIC OF SRPSKA

One of the most widely accepted model of the cluster is Porter's model of competition, where the competitive advantage of a nation determines its competitive positioning. To be successful, the industry has to offer to the market a higher value than its rivals, or the same value for less effort (value for efforts). According to Porter's approach, clusters represent a group of companies and other elements that make the industry competitive, including natural resources, infrastructure, equipment, service providers, other utility sectors, educational facilities and the capacity of training institutions, whose integrated and coordinated activities contribute to the improvement of business. "Porter's diamond" includes four groups of forces, which in their relations determine the competition: terms of demand, the

companies and their rivals, the inputs and sector support. Most competitive is the cluster that has the best conditions for the implementation of these elements. This is in line with Porter's representation of specialization, contrary to the traditional view of the economy where many planners promoted the strategy of a diversified economy.

With regard to the role of clusters in the "diamond" of competitiveness seen in the context of "value chain" in the tobacco sector, the tobacco cluster of Republic of Srpska can provide a focus that is required to enterprises, governments and institutions to align their efforts with specific competitiveness, value added and its preservation, as well as targeted export performances.

CONCLUSION

The main goal of the tobacco cluster is to create a modern, developed, competitive industrial structure that will gradually fit into the economy of the global market. Such a development orientation is necessary since the economy of our region is based on the production of primary products and lower levels of processing, and that on these bases it cannot provide long-term growth of exports and overall economic development. It is necessary to reduce import dependence of the region and increase the export capacity of domestic industries with higher quality products and services.

Looking at the national level, through tobacco clusters the state can have a positive impact on building competitive export economy through its direct effect on the acquisition

of new skills, create employment, regional development, increase living standards and other goals related to economic and social development.

Such arranged clusters could have promising initiatives for international networking on a global level. The international competitiveness of local enterprises in the global business environment is becoming increasingly dependent on the ability of mutual cooperation at the local level. Therefore, the competitiveness of a tobacco industry in future will be increasingly dependent on the efficiency of its clusters.

The Republic of Srpska Government, through the Ministry of Agriculture of the Republic of Srpska, other ministries and development agencies provide support to clusters of

tobacco in the country, through promotion and creation of business environment and

adoption of modern legislation that supports and facilitates the work of the cluster.

REFERENCES

1. Cluster Management, 2008. GTZ - Ministry of Economy and Regional Development of the Republic of Serbia, Belgrade.
2. Cypher Z., 2002. Entrepreneurial Management, Textbook, Belgrade
3. Ketels Ch., 2004. European Clusters, in the City and Business Innovative Regions, Vol. 3 Structural Change in Europe, Harvard Business School, Hagbarth Publications, Boston.
4. Ketels Ch., & Solvell, O., 2006. Clusters in the EU -10 New Member Countries, Europe Innova, Report, European Commission, Brussels.
5. Kovac B., 1989. The role of entrepreneurship in the restructuring and development of a modern economy, Our topics, Zagreb.
6. Martin R., and Sunley P., 2003. ‘‘ Deconstructing Clusters: Chaotic Concept or Policy Panacea?’’ Journal of Economic Geography 3.
7. Maskell P., and Kébir L., 2005. ‘‘What Qualifies as a Cluster Theory?’’ Copenhagen: Danish Research Unit for Industrial Dynamics.
8. Porter M., 2003. Clusters versus industrial policy. On Competition. New York: The Free Press.
9. Smarzik K., 2007. Competitiveness and value chains USAID - the center of Banja Luka.
10. Storper M., Venables A. J., 2003. ‘‘ Buzz: Face - to- Face Contact and the Urban Economy.’’ London: Centre for Economic Performance, London School of Economics and Political Science.
11. Zakić Z., Stojanović Ž., 2008. Agricultural economics, Faculty of Economics, Belgrade.