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Case Study

A Slovenian company Kolektor: Its development and evolution into a multinational enterprise

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ABSTRACT

Kolektor is a Slovenian company producing commutators, small components of motors. It was established in 1963 and came to cooperate with a West German company in 1968. It endeavored to absorb advanced technology from the partner, concentrate on education of its own employees and improve the quality of its products by investment in R&D, in the early 1980s its technological level finally surpassed that of the 'teacher'. This is a rare case in which a newly established firm has grown into a multinational enterprise within a short period. This paper presents its history and discusses secrets to its success.

KEY WORDS

Kolektor, Slovenia, commutator, market niche, multinational enterprise

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1 INTRODUCTION

As Slovenia was under the rule of Habsburg Empire for about 700 years, still now the country has kept its cultural influences. The country was the richest republic in former Yugoslavia. Slovenia gained independence in 1991, joined the European Union (EU) in 2004 and adopted Euro in 2007 earlier than any other New EU Member States. In this sense the country was the best performer until it was severely damaged by the 2008 global financial crisis. Having inherited the tradition of trade unions' rather strong mobilizing power from self-managed socialism, this country has had a neo-corporatist regime since the system change (see Bohle & Greskovits, 2012:17-18). The privatization of socialist enterprises was implemented here with an emphasis on insiders against advice by the IMF. While other post-socialist countries have been enthusiastic in attracting foreign direct investment (FDI) since the system change, this country has been less enthusiastic and it has been rather active in outward FDI (see Svetlicic, 2008). Also in this regard Slovenia is a unique post-socialist country.

In such a country especially unique is Kolektor, a company producing commutators. The commutator is an essential part of an electromotor that makes the electrical connection to the moving coil of a motor or generator. It allows current to pass in or out of the coil while it rotates (Zagorsek & Marc, 2004:1). The head office and main factories of a multinational enterprise Kolektor are located in Idrija valley in Western Slovenia. Although small with a workforce of about 700, this is a company which shows the best performance in Slovenia. Looking at the ranking of Slovenian companies in terms of export, it was ranked 19th in 2000 and 7th in 2014. It is quite interesting that this small company, located in such an out-of-the-way place, entered in cooperation with a western company during the socialist period, absorbed advanced technology and know-how, raised its technological level and has finally become a world-class company, albeit in a niche market, within a short period. In order to investigate the secret to its success, I visited Kolektor and made an interview with Mr. Stojan Petric, the former President of the company and Chairman of the Advisory Committee, on September 6, 2016. At that time I was

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given a book titled *Kolektor – 50 Years (1963-2013)* (Lazarevic, 2013), which was published in commemoration of its 50th anniversary. In order to clarify its secret to the success and its significance, I will describe the history of Kolektor mainly based on this book *50 Year*.

2 ESTABLISHMENT OF THE FIRM

In Idrija valley 60km west of Ljubljana, the capital city of Slovenia, organic mercury was found in a river in 1490, and a mine was opened in the early 16th century. Many people including engineers, miners, merchants and others gathered here. As of the end of the 19th century, with the population of slightly more than 5,500 Idrija was the second largest town in Karniola region (which corresponded to the western half of present Slovenia) after Ljubljana. As of 2009, the population of Idrija is 5,870. The population of the whole Idrija city as a wider municipality including neighboring villages is 11,930 (Leskovec & Peljhan, 2009). With more than 13% of the world's mercury output, the Idrija Mine became the second largest mercury mine in the world after a Spanish mine. With a decrease in the world consumption of mercury and a decrease in its price in the second half of the 20th century, the extraction and refining of mercury gradually became unprofitable. As the mine was being closed in the first half of the 1960s there were about 400 unemployed. In addition, the mine had potential unemployment. The government of the Republic of Slovenia thought of launching new business in Idrija replacing the extraction and refining of mercury in order to provide this town with employment (Lazarevic, 2013:18-19).

The 1960s was a period in which the Yugoslav economy was being transformed from the central planning model into the model of market socialism. Since 1948 when Yugoslavia came into conflict with the Soviet Union leaders of Yugoslavia were skeptical about the Soviet type of socialism and they embarked on construction of unique self-managed socialism in 1950. Workers' council has become the supreme decision-making body in firms. However, specialists in management were indispensable. A general director of each firm was appointed by its workers' council after an open recruitment and a selection of applicants by the selection committee. Depending on circumstances, general directors could be fired by workers' councils. In external relations directors represented their firms. Directors prepared their firms' development plans, income distribution plans and other agendas and proposed them to workers' councils, which adopted these proposals after discussion. Collective workers at a self-managed firm had the constitutional right to work using means of production in social ownership, and at the same time they were requested to constantly raise their value. Social ownership is a kind of public ownership, but it is quite different from state ownership. In former Yugoslavia, especially after the conflict with the Soviet Union in 1948, state ownership was rejected on the ground that it had become the foundations of gigantic state and party bureaucratic apparatus as was seen in the Soviet style of socialism. It is social ownership that was placed emphasis instead of state ownership. Roughly speaking, means of production belong to nobody but to every member of the society. In this way, this concept has a character of strong anonymity. It was forbidden for the collective workers to dispose the means of production and distribute their sales among them. Self-managed firms were given autonomy to a certain extent, but for a certain period of time there still remained control by state administrative bodies. Owing to the 1965 economic reform, however, the power of state administrative bodies was significantly reduced, and at the same time some of the power on the economic sphere was transferred to self-managed firms and municipalities, expanding elements of a market economy.

In 1965 Yugoslavia joined the GATT (General Agreement on Tariffs and Trade) as the first socialist country. The Yugoslav authorities wanted the country to become part of the international division of labor. They became aware that this also meant opening the country up to foreign investment. In 1967 the law on foreign investment was enacted. At that time in Slovenia there was a huge comprehensive producer of electric machine and appliance called Iskra. It decided to close less significant and small-scale productions including commutators and relocate them to other firms which were interested in them. The municipality of Idrija decided to accept the production of commutators. Workers' training and education for production of commutators was to be conducted by Iskra. It took several months to relocate the production line for commutators from Kranj, where Iskra's main factories were located, to Idrija. It became fully operational in May 1963, at first with 47 workers. This small firm was named *Tovarna kolektorjev Idrija* (Idrija factory workers group) (Lazarevic, 2013:19-26). This name continued to be used for a while, and later the firm was renamed *Kolektor*. As at present the firm name *Kolektor* is very famous let us call it *Kolektor* from now on.

Although *Kolektor* was a distinct firm different from *Iskra*, but it seems that *Kolektor* was under protection by *Iskra* for a certain period of time after its establishment. One of the commitments *Kolektor* made when the production was transferred to Idrija was to guarantee the supply of commutators to *Iskra*. As the technology and knowhow provided by *Iskra* was obsolete, the company keenly needed foreign strategic partner in order to introduce advanced technology. It would take a long time to develop new technology by its own based on the knowhow inherited from *Iskra*, and it would be uncertain. When *Kolektor* searched foreign companies which

might be positive about technological cooperation Iskra together with its representative in West Germany played a big role. On various occasions such as negotiations and the conclusion of contracts the headquarters of Iskra gave Kolektor advices. Finally Kolektor chose a West German company as its partner (Lazarevic, 2013:27-35).

3 PARTNERSHIP WITH A WEST GERMAN COMPANY

A West German Company Kautt & Bux (K&B) was a family company established in Stuttgart in 1923 by Anton Woerner and Max Ersing. This company had its branch offices in the USA, the UK, France and Italy and established its factory in the USA in 1980. In the early 1980s K&B employed about 1,600 people, and it was a major company in this area (Lazarevic, 2013:30-31).

The negotiations on license contract and joint investment agreement with K&B began in February 1967. According to the license contract draft, i) K&B was to deliver machinery equipment and tools as well as all the necessary raw materials with a 5% mark-up on regular prices; ii) K&B would need to transfer to Idrija the production of a classic model of commutators with all the necessary technical documentation, machines and tool. K&B was to also educate the Idrija workers at its own cost and send its own expert to Idrija to take care of the transfer of production; iii) K&B reserved all the rights concerning the sale of commutators. Kolektor was only allowed to sell independently in Yugoslavia; iv) Sales to the Italian market needed to be conducted through the K&B representative in the Italian market. Kolektor was not allowed to sell in the third countries but allowed only exceptionally with the approval of K&B; v) K&B was obliged to repurchase half of Idrija's production; vi) Kolektor would need to pay K&B an 8% license fee for each item produced, in addition to a yearly lump sum. K&B wanted a majority equity stake. However, they had to accept the upper limit allowed by the Yugoslav legislation, i.e. 49% equity stake. According to the contract, Kolektor would invest all its available assets, and the foreign partner would invest cash, machinery and tools, the necessary know-how, experience and goodwill. The negotiations continued for a year and reached an agreement on joint capital investment. It was also agreed that the economic cooperation would be valid for 20 years. Iskra's representatives in West Germany also participated in the negotiations and supported Kolektor's management. The examination of the contract and drafting of positions of Idrija factory took place on the Chamber of Commerce's premises (Lazarevic, 2013:45-46).

Prior to the signing the agreement, on July 9, 1968 draft contract was proposed to the workers' council. After director Ciril Lazar read the draft contract and provided an extensive interpretation of individual provisions, all the hidden fears and distrust, objections and reservations came to the surface. The fears stemmed largely from the difference in the levels of wages in West Germany and Slovenia and the reservations regarding the real prices of supplied raw materials and semi-products. The president of the Idrija municipality assembly was also present at this meeting and stressed several times that the contract was not the type of contract allowing the exploitation of workers. His presence meant the municipality's wide support for the contract. After a lengthy discussion, they reached a decision that Tovarna kolektorjev Idrija [i.e. Kolektor] should sign the contract. On August 28, 1968 the contract was signed (Lazarevic, 2013:47-48).

Incidentally, Iskra's representatives proposed the general director to employ a young engineer who not only was eager to work but also had an excellent command of German and also recommended him to hire a good typist with knowledge of German in order for Kolektor to become more independent in its communication with K&B (Lazarevic, 2013:43). Kolektor continued to supply Iskra's factories with its products, but it seems that Kolektor became out of Iskra's protection by the end of 1969 because in the book *50 Years* (Lazarevic, 2013) the description about Iskra's head office and its representatives in West Germany disappears around this time.

4 FOREIGN PARTNER AS A TEACHER

For several years after the start of partnership Kolektor was doing well, but the impressive growth came to halt in 1974. The first reason was the oil shock that occurred in the previous year. Due to this, the economic standstill spread across the Western world, also affecting Kolektor. The second reason was organizational problem. The book *50 Years* explains the latter point as follows: It was generally observed that the increases in quality and productivity recorded in the past years had halted. The quality of production had gone down, and the control mechanism had failed. The number of customer complaints had started to surge, not only from domestic but also from foreign clients. At first, K&B reactions were mild and limited to mere warnings. As things had not improved, they took measures. A meeting was convened in Idrija on March 6, 1975 where Dieter Ersing, a son of Max Ersing, in the role of a co-director rebuked the heads of technical, quality inspection department and production department. He stressed at

the very beginning that the demand for quality was not his whim, but was something required by their customers, who are renowned world companies. If they could not guarantee the permanent quality of commutators, everything would be put at stake (Lazarevic, 2013:56).

Dieter Ersing admitted that K&B itself also sometimes received customer complaints about commutators produced in Germany, but he said that these problems were always solved smoothly because individuals were held accountable for their actions in accordance with respective responsibilities. He added that production errors were always possible, but it was unacceptable that these problems were not solved along the way. Not only was the number of customer complaints growing, but so too was the share of scrap. He was particularly surprised by the fact that both production department and quality inspection department denied their responsibility for poor quality and occurrence of scraps and blamed others for these problems (Lazarevic, 2013:57).

The foreign partner acted not only as an adviser but also as a supervisor. After this incident, Kolektor established a system of direct responsibility whereby it clearly defined direct individual responsibility for the quality of commutators in all phases of production and control. The concept of direct (workers) and indirect (management) responsibility was introduced. These changes laid down the foundations for a gradual rise in quality and productivity in the subsequent years. Another important approach to solving the organization problem was a new approach to working processes and measuring labor efficiency (Lazarevic, 2013:58).

Till then Kolektor in fact had no sales department of its own. As its only customer was Iskra's factories, it did not have sales department. After 1969 when cooperation with K&B started and the production capacities expanded, the need emerged for a more active commercial department. In particular, the domestic market had to be approached by precise and regular activities to attract new customers. Consequently, a commercial department was established. As for foreign trade, all export and import services were entrusted to Elektronabava under contract. The situation had changed in the mid-1970s. The economic crisis which hit the Western world in the 1970s narrowed the possibilities for exports through K&B, and in turn the importance of the Yugoslav markets grew. K&B requested Kolektor to increase its sales in the domestic market. Kolektor started to pay more systematic attention to the domestic market and strove for better organization of sales (Lazarevic, 2013:59).

In the second half of the 1970s demands from Western Europe became stabilized and demands from the domestic market and East European countries increased. In 1976 demands exceeded the production capacity by one-quarter. The production lines that had been established or modernized with K&B technology were operating at the maximum of their capacity. In this way, there was a need for new technology and the expansion of production. In 1977 Peter Rupnik, who was the first University graduate in Idrija, was appointed as the general director of Kolektor and set about the reorganization of departments in Idrija factory. In addition to the existing technical and commercial departments, Kolektor set up two new departments: development department and later also foreign trade department. This reorganization significantly contributed to the further development of Kolektor (Lazarevic, 2013:59-60).

5 DEVELOPMENT OF ORIGINAL TECHNOLOGY

Kolektor was gradually gaining independence by enhancing its own development activities and market activities. This started in 1978 when Kolektor obtained technology for rolling band and drawing copper profile relevant to commutators. Svetlicic and Padilla (2016) explain the development of original technology in the area of intermediate products as follows: Kolektor exported its products by the brand name of K&B through the channel of K&B, but customers were aware who produced the commutators. It was trade in B to B market (business to business market, i.e. trade among enterprises). Kolektor was producing products for known customers. Different from the case of final products which were produced for unknown customers, here it was not necessary to make a huge amount of investment to establish the brand name. Potential buyers when purchasing commutators from K&B, produced in Idrija by Kolektor, knew that they were produced by Kolektor since before production started they had to negotiate with them how to modify the product and tools for their production to their specific needs. All these induced some local R&D activities (Svetlicic & Padilla, 2016, Part 2).

Kolektor started with its own development of technology and necessary tools. This gave an influence on organizational structure of the firm: the importance of the development department and the tool shop rapidly increased. By the first half of the 1980s, Kolektor had obtained two patents and was slowly turning from a subordinate into an equal partner. This strengthened the self-confidence of its employees. The level of knowledge in the firm has generally risen. The tool shop was given a central role in starting new methods of production in the coming five-year period (Lazarevic, 2013:62).

One of Kolektor's characteristics was a high investment rate. They were aware that investment in technology was a precondition for preserving long-term competitiveness. The production of copper profiles was by far the most important investment as they were the basic material used in the production of commutators. By then, the copper

profiles had to be imported, which restrained the Kolektor's price competitiveness. After having launched their own production of copper profiles, they only needed to import a special copper wire, which they transformed into the required profiles by a process of rolling, drawing and annealing. The capacity of the profile production exceeded its own needs. The part exceeding its own needs was exported through K&B. K&B also provided all of the technical and technological documentation for the investment. At that time 34% of the total investment was financed by K&B, based on its legal obligation, 36% by Kolektor, while 30% was financed by bank loans (Lazarevic, 2013:62-63).

By the 1980 Kolektor became the biggest producer of commutators in Yugoslavia, holding an 85% market share. Exports remained the most important item. In the early 1980s Kolektor was selling one-third of its production abroad, mostly through K&B (Lazarevic, 2013:67). The process of establishing its own foreign trade activities continued. As mentioned in Section 2, Kolektor was not allowed to sell in the third countries but allowed only exceptionally with the approval of K&B. In 1978, however, Kolektor obtained the technology for rolling bands and drawing of copper profiles. In a few years Kolektor obtained some patents and became completely independent from K&B in this segment of production. In 1979 they took a braver step towards the commercialization of their own products. At first this applied to only to the markets where they were allowed to sell, namely in Eastern Europe. In the early 1980s, the exports to foreign markets through K&B still accounted for half of all exports. But at the same time exports to the East European markets through Kolektor's own commercial department were increasing. Direct sales channel were established with East Germany, Czechoslovakia, Romania, Hungary and Turkey. Kolektor also entered the Greek market. By strengthening its own foreign trade activities, Kolektor also took over all of the operations which had for the previous two decades been carried out by Elektronabava (Lazarevic, 2013:60).

By the mid-1980s, the domestic and foreign markets became almost equally important for Kolektor. Exports through K&B and exports to East Germany and other Eastern European countries accounted for almost half of the commutators produced, which indicated the successfully realized plan for the period 1980-1985. The main customers in the domestic market were Iskra Nova Gorica and Iskra Zeleznik. These two factories of Iskra purchased more than three-quarters of the commutators produced for the domestic market. 64% of all exported commutators went abroad through K&B and almost 30% to the East Germany and Czechoslovakia through Kolektor's own foreign trade department. In the mid-1980s, in terms of revenue Kolektor was ranked among the top five of such companies in Europe. Altogether, there were 14 of such companies in Europe. This was really great success for the company which was still not 20 years old. At that time the top position was occupied by K&B, which recorded almost four times higher revenues than Kolektor (Lazarevic, 2013:70).

A very important turning point in the factory's development was its five-year strategy adopted in 1985. It was worked out by Kolektor in cooperation with the Institute for Labor Productivity from Ljubljana. Looking back the firm's history, it recognized its virtues as well as its weaknesses. The firm not only copied others but also developed its own technological solution. As for the firm's production program, its program was limited to the production of commutators (above 90%) and slip rings. The market for these products for these products was huge and constantly expanding with new purposes and methods of using electric motors. Although not realistic at that time, the Strategy took into consideration that there might be technical changes which would gradually reduce the demand for commutators in the long-run. The *Strategy* set out ambitious goals: i) to increase the volume of production; ii) to increase labor productivity both by better organization and investment in modern equipment; iii) to improve the quality of products or to reduce the scrap; 4) to increase the volume of exports to foreign markets. The *Strategy* proved successful. Thanks to the huge investment in technology and production capacities, Kolektor became the largest European producer of commutators in the second half of 1990s. It beat all its competition. In terms of turnover, K&B lagged behind by as much as 20%. However, Kolektor' market shares differed for different commutator types. It covered 12% to 15% of total demand for commutators for the car industry, 40% of demand for commutators for power tools, but it held a mere 5% share in the European market of the production of commutators for household-appliances (Lazarevic, 2013:70-73).

6 HUMAN RESOURCE MANAGEMENT

Kolektor had been a self-managed firm since 1963 when it was established. The firm had been influenced by K&B since it entered into cooperation with K&B. The foreign partner also required additional assurance of the safety of its investment. They therefore negotiated the right to co-sign any contract. Each contract had to be co-signed by a representative of K&B management. The term "co-director" was used in the contract. In line with the existing legislation, the contract laid down that the company would be managed by a joint management committee with full mandate to run and manage the company. Yet the self-management organization of the company had to remain intact. In this respect K&B made a concession. Two parallel mind structures were pragmatically established in Kolektor. One of its employees described this dilemma by an allegory on the split personality of the company: "Half of the time we lived in socialism, and the other half in capitalism". That was a pragmatic solution which was respected

by both sides and thus enabled long-lasting cooperation (Lazarevic, 2013:50). It seems that for a while K&B's involvement was mainly limited to technical guidance with its involvement in other areas being restrained. As mentioned in section 4, however K&B strengthened its involvement in 1975. Since then Kolektor has implemented human resource management suitable for a market economy.

Kolektor was established in Idrija in order to cope with unemployment problem and secure employment, and therefore it was not so difficult to recruit workers. Along with investment, the number of employees was also increasing. Moreover, thanks to its good economic performance, the wages exceeded the average wages in other firms in the municipality and surrounding areas by 15 to 27%; they also exceeded by one-quarter the wages in other firms engaged in this activity. Thus working for Kolektor became prestigious (Lazarevic, 2013:71). Annual growth in employment of 6% was anticipated. In the second half of 1970s the majority of the workforce was women accounting for a solid 60%. Mostly they had no particular technical education; they were usually trained for work in production. As for the qualification structure, it was indeed modest at that time. A quarter of workers had finished vocational school, 8% secondary school, 2.5% had a higher education and a mere 1.5% had a university education. To overcome this situation, they decided to invest a lot of time and funds in education. It was planned to change qualification structure by providing scholarships to students and employing them after finishing a university education, and by encouraging the existing employees to obtain further education. Some of the employees were expected to increase their education through part-time schooling, with the emphasis on secondary school education (Lazarevic, 2013:62).

In the mid-1980s Kolektor was employing 693 workers. Slightly more than half of them were men and the same proportion was 30 years of age or younger. Most employees came to the firm at a young age, and the firm itself was also young. It had a typical Idrija character, with most of its employees coming from its close surroundings (up to 10 km). The firm's employees had no major housing problems since this issue had been continually addressed in the past by purchasing flats and by offering loan schemes to employees for the construction of private houses (Lazarevic, 2013:71).

In the late 1980s, Kolektor faced employment problems for the first time. Given the industrial capacities in Idrija and the declining rates of natural population increase it became obvious that all companies in the municipality would be unable to meet the demand for workers. Kolektor alone planned an 11% rise in employment. The required number of workers could no longer be assured only from the surrounding area of Idrija. As the pool of labor resources in the rural areas of Idrija's surroundings had been drained, there was almost no unemployment and the generations of children in the local area were at a stable level or even on the decline. When addressing this problem, for the first time, Kolektor started to consider the possibility of transferring part of labor-intensive production outside Idrija (Lazarevic, 2013:69). Later, Kolektor indeed transferred part of labor-intensive production to other regions but kept its head office, R&D department and main production department in Idrija.

7 RELATIONSHIP WITH THE FOREIGN PARTNER

The family company K&B had transformed into a limited partnership called Ersing and Woerner KG. There is no explanation in the book *50 Years*, but it seems that this was a holding company because K&B as a producer of commutators continued to exist as will be described later. The book *50 Years* positively evaluates the cooperation with K&B as follows: The 20 years of cooperation had resulted in a constantly high level of investment in technology and development in the Idrija factory. On the one hand, this was thanks to the Yugoslav legislation which obliged the foreign partner to reinvest a certain percentage of its profits. Besides, K&B had managed to include in the contract that Kolektor had to contribute the same proportion to each new investment. On the other hand, the owners of K&B behaved fairly and actually looked ahead to the future. They were aware that in the long-term competitiveness in Western markets could only be preserved by a high level of investment in development. Consequently, they regularly reinvested the generated profits. The repatriation of profits represented a mere 2% of the generated profits. The owners of K&B were well aware of all the circumstances of this joint investment. They accepted the Yugoslav political reality. Although they benefited from the liberal approach of this system, they themselves pragmatically respected the prescribed methods of company management in line with structure of the self-management ideology. They accepted these particularities and built them into the model of joint operation. On numerous occasions the management of Kolektor stressed that decisions of the joint management board and the self-management bodies, in particular the workers' council, had always been unanimous and that there had been no disagreements or conflicts. The pragmatic approach of both sides allowed the realization of both the common and individual interest of both partners (Lazarevic, 2013:74).

However, during 20 years of cooperation the relationship between the partners was gradually changing. In the first half of 1980s Kolektor obtained several patents. Kolektor turned from being a recipient of knowledge, from somebody who was merely consuming and using knowledge, to an innovator, a company which generated its own

knowledge and started to base its further growth on it, thus becoming an equal partner to K&B. Thanks to certain patents some of Kolektor's products even surpassed those of K&B in a technological sense. In the 20-year period, the relationship turned upside down (Lazarevic, 2013:73-74).

The contract with the foreign partner was to expire in 1988. The talks on the future relationship after the expiry of the contract started already in June 1984 (Lazarevic, 2013:77). In the second half of 1980s Kolektor, which had gained power, proposed networking in the hope to establish equal partnership with K&B. This meant that except financial cooperation both parties would align their interests in 4 functions of companies, i.e. i) sales and purchases, ii) development, iii) production, iv) quality control, through the networking. In a turbulent situation in the subsequent period, however, K&B could not afford to accept this proposal (Lazarevic, 2013:90).

8 SYSTEM TRANSFORMATION FROM SELF-MANAGED SOCIALISM TO CAPITALISM

Serious changes have occurred from the end of 1980s through the early 1990s. In Yugoslavia an economic crisis surfaced in the second half of 1979 in the form of an expanding deficit in the balance of payments. The Federal Government of Yugoslavia took measures to restrain all kinds of import, but since then the economy has been stagnating with an inflation escalating year by year. In spite of the long-term program for economic stabilization, which was implemented in 1984, as well as various attempts, the economic crisis was getting worse and worse. In parallel with deterioration the economic situation the League of Communist of Yugoslavia (LCY) was losing its prestige gradually, and conflicts among Republics and Autonomous Provinces grew deeper and deeper. In this way, self-managed socialism in Yugoslavia had practically collapsed. The law on enterprises replacing the Associated Labor Act, which had prescribed organizational structures and relationship among self-managed enterprises and other organizations, was enacted in 1989. Consequently, Kolektor was obliged to transform itself from a self-managed enterprise into a private enterprise with clearly defined property right. The property relationship with the foreign partner was also obliged to be redefined.

The joint investment by Kolektor and K&B was thus transformed into equity-based relations. In the given circumstances, they considered that the "limited liability company" (Ltd.) to be the most appropriate form. Before transforming into a limited liability company, they had to resolve the status of that part of Kolektor's property that was in social ownership. Thus, they established a Company for Financing, Marketing and Development – FMR; first it was a socially-owned enterprise but it was later privatized according to the Act on the Ownership Transformation of Enterprises by an internal buyout. The entire socially-owned property of Kolektor was transferred to FMR, which on the same day reinvested it back in Kolektor as an equity contribution. The foreign partner's investment was transformed into an equity stake. The company Kolektor, Ltd. was entered in the register on October 24, 1990 after obtaining permission from the federal authorities (Lazarevic, 2013:81-82).

This transformation into a company with share capital was welcomed by the representatives of K&B because at that time it was in great financial difficulties. During the 1980s the company was gradually losing competitiveness. Some bad business decisions, rising labour costs in West Germany and falling profitability slowly cut the ground from under K&B's feet. For some time they were solving the excessive deficit problem by borrowing (Lazarevic, 2013, p. 89). K&B hoped to include Kolektor into its own consolidated financial statements in order to improve their financial position and strengthen their creditworthiness toward banks. In order to do so, K&B had to become Kolektor's majority shareholder. The book *50 Years* describes that it was very difficult decision for Kolektor's management to accept a change in the proportion of ownership. They had to protect the interests of FMR. It could be a risky decision to concede majority ownership by a foreign partner because the partner could take advantage of its predominant position. This time, the decision was more difficult by far than the decision by the first director of Tovarna Kolektorjev Idrija (the previous name of Kolektor) Ciril Larzar who arranged the partnership with K&B. He was still able to rely on the state when the protection of Idrija's interest was at stake, but in the new situation this support no longer existed. Kolektor's management had to overcome psychological barriers and fear to be able to concede to a change in the equity ratios. Finally, Kolektor hesitantly agreed to reduce their equity stake in the new limited liability company to below 50% because they had confidence in the partner as well as the expected benefits from the market (Lazarevic, 2013:82-83).

Any outsider would be impressed very much by a very clever device which Kolektor management thought out at that time. As a precondition for majority equity to be allowed to K&B, Kolektor management proposed a new partnership agreement, thereby all main decisions require 75% consensus. It meant that if a 75% consensus could not be attained, the final decision was to be made by Kolektor's management board. It was only in distribution of profit that majority ownership in the new partnership agreement would become important. K&B accepted that it would be transformed from a strategic investor into a portfolio investor, but this decision could not rescue K&B (Lazarevic, 2013:83-84).

9 K&B'S INSOLVENCY

At the beginning of 1993 Ersing & Woerner KG was dissolved due to huge losses and its proprietary rights in Kolektor were transferred back to K&B. In the summer of 1993 the situation worsened further and K&B filed for insolvency proceedings. Kolektor's management had to consider how to separate Kolektor from K&B and thus prevent Kolektor from suffering the damage incurred to its parent company. Kolektor took the initiative. This was also an opportunity to overcome their subordinate position and establish an equal partnership with K&B. The summer and autumn of 1993 were very hectic. The insolvency procedure of K&B fundamentally changed the relationship with Kolektor. As Kolektor was a limited liability company, only K&B's equity share would form part of the insolvent company's assets. But this meant that Kolektor had to face a new interlocutor on the other side – K&B's administrator. If Kolektor had not been transformed into a limited liability company, the situation would have been much worse; the administrator would simply have recovered the value of the foreign partner's investment on the basis of the joint investment contract. However, as Kolektor was a limited liability company, K&B's administrator was only able to obtain the equity share, which it then had to sell. Kolektor had no obligation with regard to K&B's insolvency procedure. But the question was who would purchase K&B's share in Kolektor (Lazarevic, 2013:89-91).

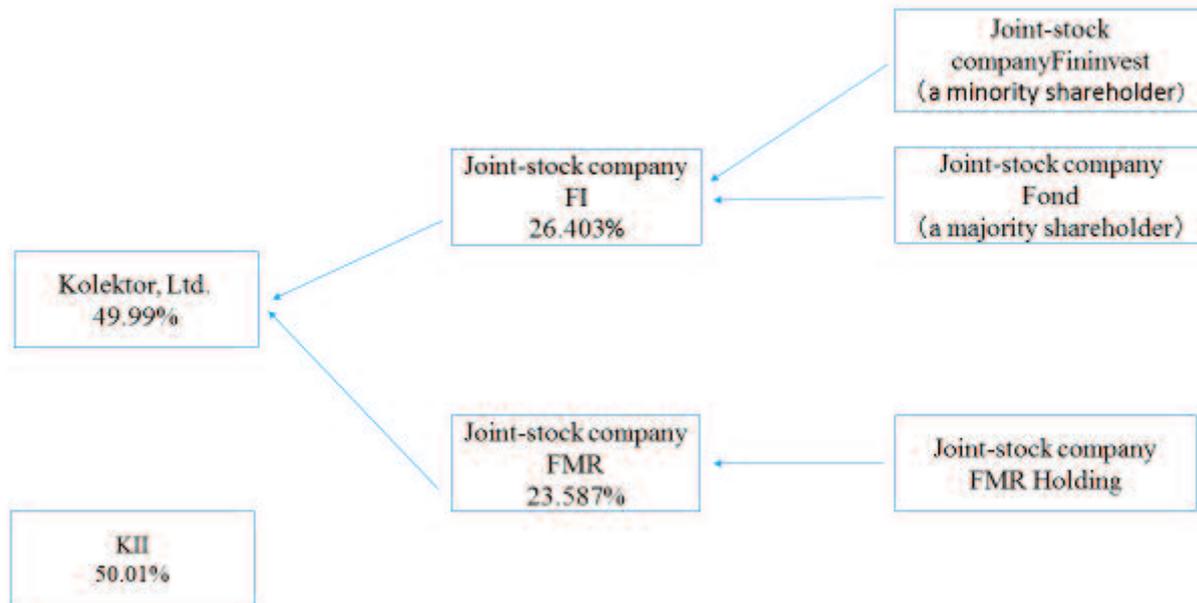
On September 1, 1993, Kolektor's director Peter Rupnik sent a letter to K&B's management, informing them that Kolektor would withdraw from the contract. K&B filed for compulsory composition proceedings, which was eventually carried out on September 14. Kolektor's management was very much surprised at this news. They immediately entered into negotiations with the manager of the compulsory composition who in his initial contacts showed little understanding of the Slovenian company. It took them several meetings to explain to him that he could not sell the 51% equity share in Kolektor without the consent of the Slovenian side and that the value of K&B was (due to its over-indebtedness) in fact negligible; only then did he start to cooperate with Kolektor's management. Thanks to a protocol signed on October 18, 1993, Kolektor became able to start settling the issues related to intellectual property and gained the right to independently perform in all markets of the world. Kolektor was finally allowed to independently engage in all of its sales activities without intermediary, and it became able to directly communicate with them. Moreover, the new partnership agreement between K&B, FMR and FI signed in November 1992 assured Kolektor stability and continuity. The development together with the decision-making mechanisms in place in Kolektor upset the compulsory composition (and from December 1993 also the insolvency) manager because they narrowed his room for maneuver for selling K&B (Lazarevic, 2013:91-92).

At the news about K&B's insolvency the main European customers also feared that their supply of commutators would stop. At this moment the management of Kolektor exhibited great determination and made efforts to establish direct contacts with these customers. By providing a reliable supply and quality of products, Kolektor eventually won recognition with the largest and most demanding clients. These efforts were crowned with success and Kolektor gained market independence, established its own sales network and started to promote its own trademark. The market independence also provided Kolektor with direct access to the relevant market and development information from their clients without an intermediary and Kolektor could quickly adapt its technological and business process. After October 1993 Kolektor gradually changed its approach to the market and moved from being a mere producer to a partner whose relations with key customers went beyond mere sales and purchases. Kolektor adapted its business processes and added global marketing to the existing production and development functions and became a company providing comprehensive business services. Thus Kolektor became the second largest producer of commutators in the world (Lazarevic, 2013:93).

10 APPEARANCE OF AN AMERICAN COMPANY KIRKWOOD

K&B was taken over by an American commutator manufacturer Kirkwood Industries in February 1994. The German company continued its operation under the name KII K&B. In addition to K&B's total assets, Kirkwood also took over slightly more than 50% share in Kolektor. Cooperation with the new owner was quite problematic. Kirkwood entered completely unprepared the takeover procedure of K&B and Kolektor. Kirkwood's management expected to have gained total control of the company, but they were soon faced with the reality. They found out the contractual provision on the three-quarters majority of shareholders required for the adoption and enforcement of decisions. The book *50 Years* says that although Kolektor's management correctly informed the potential buyers of K&B's share about the conditions and contractual provisions, the administrator more than obviously withheld this important information from Kirkwood (Lazarevic, 2013:95).

Figure 1: Kolektor's Ownership Structure as of 1999



Source: Lazarevic (2013:83)

This resulted in a clash of interests, two different perceptions of reality, two visions and two business cultures. In this way began 'eight years of their unpleasant co-existence' (Lazarevic, 2013:101). Kolektor's management proposed to Kirkwood to establish a partnership on an equal footing, and further they also proposed a modified concept of networking, similar to what they had proposed to K&B previously (see Section 7), but they failed to convince Kirkwood. Reasons for the failure could be ascribed to differences in their policies: Kolektor was a company in expansion, with a high level of investment in development, technology and production while Kirkwood was in a defensive position, merely striving to preserve the status quo (Lazarevic, 2013:96-101).

The book *50 Years* summarizes the reasons for why its proposal for networking had failed in the following six points: i) Both partners are direct competitors in all markets. Despite the majority equity share, the foreign partner does not have a controlling share; ii) Strategic goals are the same, but they are mutually exclusive; iii) Wrong or different expectations by the foreign partner upon taking over the share in Kolektor; iv) In spite of equal competencies of management and equal level of development of key functions of the company (development, marketing functions), Kirkwood wished to subordinate Kolektor to itself; v) Different approach to solving common problems (development: Kolektor – own development, Kirkwood – purchase of licenses); vi) On one side there is a wish for predominance and takeover by the foreign partner (Kirkwood) and, on the other, a wish to pay out the foreign partner. Both partners are too strong in all functions of the company (Lazarevic, 2013:102).

Kolektor's ownership structure as of 1999 is shown in Figure 1. For its ownership structure some explanation would be necessary: In the early 1992 a joint-stock company 'Fond' was established in the following way: Due to the economic and political crisis in 1990, a restriction on wages was imposed on all companies in Slovenia. Kolektor decided to issue its employees commercial paper which were to serve as compensation for the parts of wages that could not be paid out in cash. They were a type of security which the company promised to cash in when it was again allowed by the government. Each employee owned a security in the amount of at least one average salary in the company. In this situation an idea emerged to use these funds for more long-term purposes and not just for personal use. They started to think about the concept of broad employee co-ownership of the Slovenian part of Kolektor. In autumn 1991 a project was initiated to establish a new joint-stock company. At talks with the employees the management presented to them the project and above all the purpose of establishing the new joint-stock company 'Fond'. Around 800 employees accepted their persuasion. The employees transferred their outstanding claims stemming from the unpaid wages to 'Fond' and Kolektor then allocated the due amount to 'Fond'. 'Fond' was anticipated to enter the ownership structure of Kolektor. In order to make the assessment to be completely impartial, they engaged independent American experts. It was proved that 'Fond' would be unable to purchase the Slovenian part of Kolektor on its own. Therefore, they established a new company called Financial Engineering – FI, in which 'Fond' held the majority share and Fininvest, a subsidiary of the former Komercialna banka Nova Gorica (today's NKBM bank) held the minority share. In February 1992, FI, which had by then been financially strengthened, entered the ownership structure of Kolektor by purchasing 26% of the equity stake of Kolektor from FMR. FMR retained a 23% share of Kolektor (Lazarevic, 2013:85).

11 FULL INDEPENDENCE AND ITS WAY TO A MULTINATIONAL ENTERPRISE

The only possible way out of this situation was the withdrawal of one of the partners. In 2002 director of Kolektor Stojan Petric sent a letter to the director of Kirkwood, proposing the purchase of 51% of KII-K&B. There was no reply for a while, but in August 2002 after a change in the management, Kirkwood finally agreed to accept Kolektor's offer and sell its share in Kolektor. At the same time, Kolektor also purchased the German company K&B from Kirkwood and thus came to completely dominate the European market (Lazarevic, 2013:103-104). The book *50 Years* proudly describes "The student had overtaken the teacher! After 40 years of its existence, Kolektor became an independent company" (Lazarevic, 2013:104).

Kolektor came to have its production sites and affiliates abroad: It established Greenville factory in the USA (North Carolina) and acquired K&B in Germany (Stuttgart) in 2002 and a commutator producer Sinyung in South Korea (Gumi) in June 2000, etc. Andrea Jaklic and Marjan Svetlicic (2003) explain that the most important motive of Kolektor in investing abroad is market seeking one and that labor costs, other costs and asset considerations are less important. According to them, there were three reasons for establishing production to the new foreign locations: i) protectionism, meaning that in some countries a company must get the status of 'domestic producer' to be able to successfully penetrate the market there; ii) requests of the main customers which support the strategy of 'local production for the local market'. In the case of Kolektor, following its main customer Bosch (a German producer of electric tool), Siemens (a German producer of telecom, electric train and electronic apparatus), Valeo (a French producer of automobile parts), Black & Decker (an American producer of electric tool), etc., it goes to their production sites abroad; and iii) response to the global competition and behavior of the key competitors (Jaklic & Svetlicic, 2003:257; Lazarevic, 2013:115-116).

Obsolescence of the product by declining product life cycle and fast technological developments started to threaten the existing development strategy. For example, electronic ones can replace the mechanical ones, and during the last 15 years the earning on one commutator built in washing machine has fallen from 1.3 € to 0.9 € (Svetlicic & Padilla, 2016, Part 5). The response to this tendency was diversification of production. With production and sale of commutators as its core, Kolektor advanced to related areas. As a result of their own development and takeovers at home and abroad, the product portfolio of Kolektor has expanded. Its activities now focus on three areas based on the three-pillar business model: i) automotive technology; ii) building technology and home products; and iii) energy and industrial technology (Lazarevic, 2013:128-129).

Kolektor has become a group consisting of 30 companies. In 2011 Kolektor group as a whole employed 3,076. Its turnover is 450 million Euro. In the area of commutator this group has 80% share in the European market and 20% share in the global market. Many of Slovenian companies, which evolved into multinational enterprises around the turn of century, borrowed a lot of money from financial institutions and were severely damaged by the 2008-09 global financial crisis. In contrast to them, Kolektor was a company least affected by the global financial crisis. The reason is that it acquired companies mainly by its own funds, therefore its borrowing from financial institutions was very small (loans represented only about 25% of total capital) (Svetlicic & Padilla, 2016, Part 10).

Kolektor has always put emphasis on technological development. The funds earmarked for research and development account for about 5% of its total annual turnover. It holds more than 50 patents which were developed within the company. According to Jaklic and Svetlicic (2003), Kolektor's most important competitive advantage is technological, closely followed by organizational and marketing knowledge. In addition, they add some other competitive advantages which assist in Kolektor's internationalization: employment policy and training, customer service and a set of home-country-specific and micro-location-specific advantages. These are enhanced by the coherence of management and employees' long-term commitment to the company and the local community. The probability of leaving Kolektor for being employed by the competitors, and in such a way to transfer the specific knowledge, is very low. It is particularly successful in the development and creation of machinery and tools. The core abilities of Kolektor are to a large extent based on craft skills of the employees rather than on patents. Such competitive advantages are difficult to imitate (pp. 257-258).

12 CONCLUSION

Slovenia's experience is quite interesting because while other post-socialist countries were eager to attract inward FDI Slovenia was active in outward FDI with Kolektor being an example. From 1989 through 1991 system changes occurred in Central and East European countries. These countries were struggling for transition to a market economy as well as restructuring of enterprises, and therefore they experienced serious transformational recession in the first half of 1990s. As for Slovenia, during the period from the mid-1980s through the early 1990s when Slovenia was part of the former Yugoslavia it experienced turbulence such as the economic crisis, conflicts among Republics, collapse of socialism, secession from the Federation and independence. In the case of Slovenia, it did not suffer from the transformation recession as it had a pseudo market economy already before the system change. Rather, its production

declined in the early 1990s due to a loss of the former Yugoslav market. In order to cover the loss, many Slovenian companies including Kolektor actively advanced to Western markets. Among them, Kolektor's experience is a rare and interesting case. This small Slovenian firm concluded a joint investment agreement with a foreign partner in 1968, and it was even a subsidiary of foreign company during the period 1992 through 2004, and finally in 2004 it gained full independence from a foreign partner and became again a Slovenian but at the same time multinational company.

A German company K&B has played a role of good teacher. It was not only in terms of transfer of technology and knowhow. Especially in the mid-1970s when in spite of a decrease in products quality at Kolektor no adequate countermeasures were taken in Idrija factory, a representative from K&B came to Idrija and reprimanded leaders of the production site. He taught the Slovenian people what should be a market economy and established the principle of direct responsibility in the production process. Kolektor has not only absorbed advanced technology and managerial skill from K&B but also developed its original technology in the course of responding to requests by foreign customers. In Svetlicic's opinion, the reason for Kolektor's success is a combination of its aggressive strategy of own R&D development – which was induced partly by the foreign partner and partly by deliberate strategy – with FDI. Inward FDI was instrumental for learning by doing, but without deliberate strategy of own development it would not produce the same results. Kolektor was able to »milk the cow« (i.e. foreign partner) when it was weak, and in parallel to this it embarked on own R&D aiming at becoming better than the foreign partner. Without FDI Kolektor could not be what it is now. FDI speeded up learning by doing and acquiring missing knowledge. In addition, Kolektor has tackled technological development in collaboration with Faculty of Engineering at the University of Ljubljana and worked out its development strategy taking into consideration advices by individual economists at the University of Ljubljana. It has continually endeavored to raise its technological capability. In the early 2000s it made outward FDI, evolving to a multinational enterprise.

We can grasp Kolektor's development from the perspective of internationalization. Marko Jaklic advocates the model of three-stage internationalization (see Jaklic, 1998). In the context of the three-stage internationalization, Kolektor's development path started in 1968 by concluding a contract with K&B. The first stage (1968-1993) was ranked in the category of dependent internationalization as the company's marketing functions were limited. The second stage, independent internationalization, consisted of various periods and lasted from 1993 to 2000; it started with the acquisition of the right to independent marketing and ended with reorganization into a group. During this period Kolektor started to sell its products in foreign markets under its own trademark and the global trademark Kolektor first started to gain recognition; it formed its own sales network and made its first direct investments abroad (USA, South Korea). The third stage started in 2000; it was defined as interdependent internationalization (Lazarevic, 2013:114-115). According to Svetlicic's view, internationalization and local acquisition was not only market seeking but also part of diversification strategy because commutator was becoming an old product. Now commutators are less than 50 % of Kolektor group production portfolio. In parallel to internationalization, organization of the company had to be changed to Kolektor Group in 2003.

There have always been capable entrepreneurs at Kolektor. In contrast to central planning economies, self-managed socialism in the former Yugoslavia had a pseudo market economy. There was almost no instruction and intervention by the Republican government. The city authorities of Idrija acted in place of the Republican government and decided to accept the transfer of part of Iskra's production lines in this municipality and provided the new firm with premises. Also in the later period it continued to play a role of guardian. It can be said therefore that there has been larger room for entrepreneurs to display their managerial ability. Since the mid-1960s managers at Kolektor have learned how to do business in a market economy and with Western companies, accumulated experiences and become shrewd managers. Their judgement was crucial especially in the end of the 1980s when K&B, which fell into financial difficulties, proposed to include Kolektor into its own consolidated financial statements in order to improve its financial position and strengthen its creditworthiness toward banks. In exchange for a change in equity ratio in favor of K&B, more specifically 50.01% : 49.99%, Kolektor management forced K&B to accept a new partnership agreement, thereby all main decisions would require 75% consensus. This clause became important later as exemplified by the relationship with a new partner Kirkwood. Kolektor's management has been very cautious toward dispersed ownership structure. In the course of the system change Kolektor was transformed into a company based on equity capital. It adopted the form of limited liability company, and in cooperation with FMR, FI and local banks it strengthened the unity against possible acquisition by a foreign company. If it aimed at more rapid development, it could list its shares on the stock market, but it would have dispersed ownership. If it aimed at steady growth in the niche market, a limited liability company would be sufficient. The unity of Kolektor's management and its employees' long-term commitment to the company and the community has contributed to Kolektor's competitive advantage.

Idrija valley is an out-of-the-way place in Slovenia. According to Jaklic et al. (2009), Idrija valley has been different from other parts of the country in the following points: First, Idrija's key businesses (digging, refining and sale of mercury) have always competed in the international market. This has been so since the 15th century as the price of

mercury was set on the international market and the Idrija mine had to adjust to it. Second, for centuries the people of Idrija have been workers rather than peasants. The local inhabitants have based their living on industrial work instead of agriculture for which their valley with its steep walls and cold climate was in any case ill-suited. Third, a considerable pool of engineering knowledge has been created and a culture of engineering achievements has been established. This has brought a technical and geodetic school, which was opened to train miners and engineers in 1772. Such a strong linkage between education and industry has continued until today as both multinational enterprises (Kolektor and Hidrija) have been actively investing in their employees. It is difficult to verify, but it might be said that the engineering and cultural tradition has positively influenced Kolektor's development.

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