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## **THESES ON THE RESTRUCTURING OF KEY BRANCHES OF TRADITIONAL INDUSTRIES**

**Summary.** This paper presents a way to rescue traditional branches of Silesian industry based on the use of restructuring of mining and metallurgy. In recent years crisis has shaken the stability of many industries, including Silesian industry. To improve their condition, they began to use tools to rationalize resources and streamline internal processes more frequently. One example of such actions is restructuring. The fact of undertaking restructuring does not guarantee immediate improvement. Restructuring gives a good chance of achieving the desired objectives, but executed improperly ends in failure.

**Keywords:** restructuring, innovation.

## **TEZY NA TEMAT RESTRUKTURYZACJI KLUCZOWYCH GAŁĘZI PRZEMYSŁÓW TRADYCYJNYCH**

**Streszczenie.** W artykule tym przedstawiona została droga ratowania tradycyjnych gałęzi przemysłu śląskiego na podstawie restrukturyzacji górnictwa i hutnictwa. W ostatnich latach kryzys zachwiał stabilnością wielu gałęzi przemysłu, również przemysłu śląskiego. Aby polepszyć swoją kondycję, z większą częstotliwością zaczęły one stosować narzędzia służące racjonalizacji zasobów oraz usprawnieniu wewnętrznych procesów. Jednym z takich przykładów takich działań jest restrukturyzacja. Fakt przeprowadzenia restrukturyzacji nie gwarantuje jednak natychmiastowej poprawy. Restrukturyzacja daje duże szanse na osiągnięcie zamierzonych celów, jednak przeprowadzona niewłaściwie kończy się niepowodzeniem.

**Słowa kluczowe:** restrukturyzacja, innowacja.

## 1. Introduction

Knowledge of concepts and methods of restructuring is a precondition for the development of practically useful and effective restructuring programmes. The concept of restructuring is often used in modern economic literature and practice. The essence of restructuring is to change the enterprise strategy, which needs to be competitive on the free market. Profit generated through economic efficiency, allows for the growth and development of the enterprise, but primarily allows survival [1]. Restructuring of enterprises is associated mainly with the introduction of more or less radical internal changes, as well as with the intention to merge with another enterprise, or the acquisition of another entity. Confirmation of this view is a significant increase in the number of mergers and acquisitions in the past 10 years, including in particular those most prominent and forming the experience of public opinion [2]. Restructuring and its objectives somehow permanently entered into the functioning of the modern enterprise.

Basic restructuring objectives can be reduced essentially to:

- increasing competitiveness,
- adapting to changes in the environment and the flexibility in the operation,
- ensuring the best possible integration of activities and processes,
- creating of modern organisation culture,
- increasing innovation.

Enterprise restructuring of traditional industries (mining and metallurgy) in Poland has become one of the major problem areas, where effective resolutions verify the reliability and quality of Polish socio-economic transformation. Managing restructuring processes of these enterprises is to lead to their strategic reorientation and adaptation to functioning in the market economy [3].

## 2. Classification of restructuring processes

The most effective and commonly used method allowing to make significant changes in all areas of the enterprise functioning is restructuring. Restructuring processes are classified as having internal or business nature. Internal restructuring is understood as introduction of changes in the enterprise aimed at improving the functioning of its technical and technological spheres, and it relates to: property, employment, financial, technical, technological, and product changes.

In turn, the restructuring of the business nature aims at systemic changes introduced in the legal and organizational and financial and economic sphere. It concerns: ownership, legal and organizational, management and decision-making systems or cultural changes.

Another division used for restructuring is remedial and developmental restructuring. Remedial restructuring is the result of an ongoing crisis in the long term and the bad situation of the enterprise. Its purpose is the elimination of adverse tendencies of economic nature, including liquidity. The most important features of remedial restructuring, aimed at eliminating the risk of liquidation of the company, include:

- concentration on existing production,
- improvement of financial results through the use of simple reserves in the enterprise,
- restructuring measures covering only selected areas of activities of the enterprise, (they relate to the period from 1 to 2 years)
- achievement of quickly noticeable benefits by the enterprise.

Developmental restructuring is based on the enterprise strategic decisions of a long-term nature, and covers the period from 2 to 5 years and is characterized by:

- making broadly understood qualitative and structural changes,
- higher than average risk of ventures being undertaken,
- high technical, production and marketing innovation,
- anticipatory approach to problem solving.

### **3. The reasons for undertaking of restructuring**

The use of a specific range of restructuring tools is depends on the scope of the problems identified in the framework of the diagnostic processes and their impact on the functioning of the enterprise. However, every enterprise that does not have the maximum market value in given situation, should be subjected to restructuring. Such decision should be taken after a prior analysis of the reasons for its low value. There are two types of factors that have an impact on the low value of the company which can be distinguished: internal and external.

Causes of the internal nature are strongly associated with the way the enterprise is structured, management style practiced by the management, as well as the efficiency of use of resources it has.

The following should be included in this category:

- lack of marketing strategy of the enterprise,
- improperly configured product portfolio,
- inefficient strategic management, or lack thereof in the enterprise,
- improper use of debt in the capital structure of the enterprise,

- problems in the field of human resources,
- ineffective management of liquidity and working capital.

The second group of factors that affect the value of the company are external factors:

- changes in purchase prices of goods and companies,
- changes in the banking and financial services,
- changes in economic legislation,
- increase in competition in the domestic and foreign markets and a decline in demand,
- significant technological advances and changes in the cost and methods of manufacturing,
- changes in the approach to personnel management.

Reconstruction of the system of functioning of the Silesian industry including the mining and metallurgy industry meant that enterprises found themselves in new economic realities of the country. The new rules of the economy meant that mining and metallurgy industry had to undergo a thorough restructuring and organization. The main purpose of the changes in enterprises was to adapt them to the requirements of the market environment. These changes mainly focused on: legal form, human resources management, internal structure of an enterprise, technological and production modernisation.

The organisational structure of the enterprise was and still is subject of constant transformation, which involve, among others:

- spinning-off of independent divisions and departments in the form of companies,
- reduction of employment,
- simplification of the organizational structure by eliminating or combining various divisions and departments.

Conducting a complex restructuring process of Silesian industry and most of all its traditional branches, which are mining and metallurgy, was running and still running in two, conventionally separate isolated stages. The first stage is to keep the enterprise from bankruptcy or liquidation. While the aim of the second stage is to build a competitive market position of the enterprise.

In 1994, the general objective of the second stage programme, which was to achieve profitability by the coal companies, had been achieved. Coal companies and independent coal mines generated a total positive gross result, wherein the five coal companies and two coal mines-companies achieved positive net financial results [4].

Intentions of the restructuring carried out in the mining and metallurgy industry had two main objectives:

- the economic objective: achieving profitability and long-term market competitiveness
- the social objective: protection and preservation of workplaces in the face of high unemployment growing in the region.

Acute crisis in the metallurgy and mining sector was due to a decrease in demand for the product of their activities on the domestic market. From year to year the demand for coal as an energy source has been falling. This fact is related to the profitability of the use of the

more caloric energy resources (oil, natural gas). Plants of this type were very expensive, they began to run out of coal deposits and had to reach for deeper deposits what increased the cost of production. Mining ceased to be profitable. Power stations wanted to generate ever greater profits and this was possible using cheaper raw materials, which are the caloric resources. The demand for hard coal is also falling in the municipal services. It has to do with ecology. Increasingly important are the environmental issues. Ecology is therefore also one of the factors driving the restructuring of industry. Smelters were also exposed to losses arising from the need of acceptance of new changes resulting, among other things, from the environmental protection. Adaptation of the Silesian smelters and mines to the EU requirements has become an important economic, technical and social problem. In the process of mines restructuring very important role is played by the reduction of fixed assets, which on one the hand are costs carriers. On the other hand thus, under the technical restructuring it becomes necessary to liquidate shafts. Reduction of the number of shafts in coal mines demonstrates the positive effects of technical restructuring carried out with varying intensity in 1990-2005 [5]. Reorganisation of the Polish mining industry is an ongoing process. The changes taking place in the hard coal sector over the last half a century were not only subject to scientific and technical and organizational progress, but were driven primarily by political and economic situation of the country - under the assumptions of outfits, proponents of the socio-economic reconstruction of the country [3].

The realisation of i.e. the government programme of restructuring of hard coal mining for the period 1998-2002 has brought the expected results and contributed significantly to the improvement of the economic and financial situation of mining. The results obtained during the period of less than four years of this programme are presented in the article [6]. The economic and financial situation of Polish hard coal producers definitely improved in 2004, when an increase in demand for coal in the European market resulted in a significant increase in coal prices [7].

A major problem of traditional branches of Silesian industry was also high employment. A significant reduction in the level of employment was mainly achieved by:

- minimization hiring of new employees,
- spinning-off independent business areas from the enterprise structure
- reduction of employment.

Analysing i.e. the reform of coal mining, it must be noted that one of its characteristic aspects is the process of reorganisation of the sector to adapt it to current economic concept and implemented operation strategy [8]. The limited institutional capacity and weak political will to privatize produce rather flat annual revenue inflows [9].

It is worth remembering that success can be achieved only by enterprises pursuing strategies based on innovation, which is one of the objectives of enterprises restructuring. In the world literature related to the theory and practice of enterprise management there is now a fairly widespread belief that "every enterprise has two - and only two - basic functions: marketing

and innovation." This thesis applies to all enterprises, including mining and metallurgy. The entrepreneur should be "innovative". His characteristic is, therefore, looking for changes, responding to them and taking advantage of them. This should involve, among others:

- opening of new markets,
- introduction of new products and services,
- introduction of new methods of production,
- introduction of new organizational solutions.

Innovations affect the level of income and economic performance of the enterprise. This effect is dependent on the stage of the innovation process: the development, application, start-up, growth, maturity, decline. The goal of innovation is not only meeting the needs of the market, but it seems necessary to initiate them, and to satisfy them at the highest level.

#### **4. The stages of the restructuring process**

There are three stages, without which the restructuring process could not take place. The first is the thawing phase, related to development of the changes strategy. It starts with an analysis and setting targets for the restructuring process. At that time the organizing committee is also formed, it consists of competent employees working at the upper and middle management positions. Its members should be given the decision-making capabilities. The work of the team during the first stage consists mainly in gathering information. At this stage, some of the areas of work of the team should be kept secret from the crew of the enterprise. Otherwise, if the employees became aware of the planned restructuring, inhibition of their activity and downtime in the company may occur. This is the result of fear and resentment, which is a natural response of workers to changes. The task of thawing phase is also resolving conflicts. At the time of creation of the strategy, the company should identify the problems which it meets. One of the most common problems is sometimes the resistance of employees, usually occurring at the time of implementation of changes associated with the restructuring. The behavior of the crew depends primarily on the state of identification with the company, as well as seniority. If the company has for many years been on the market, it is likely that the resistance of its employees will be greater than the reluctance of staff of an enterprise which has been operating for a year. A classic example of this was an enterprise where a dozen operating companies, where there were several presidents, several dozen of assistants and drivers, formed one. As a result of the restructuring the presidents were transferred to managerial positions. They reacted negatively to it, calling for preservation of comforts belonging to a higher position, and inadequate to the newly vested functions.

The second phase of actual restructuring involves the introduction of permanent and temporary changes in the company. Permanent changes support performance of the company

after the completion of the process, and temporary changes (eg. change of working hours of the crew) are needed to carry out the restructuring.

The restructuring process ends up in a freezing phase. It is based on simple mechanisms and seeks to achieve only one objective, namely, to ensure compliance by all employees of the new procedures and rules. This step is crucial for the success of the restructuring because it allows completion and consolidation of the change processes. If it is omitted, or carried out incorrectly, all actions preceding it will be scuppered, and the restructuring process will end up in failure. The strategy of transformation of an enterprise, which consists of a vision of the future restructured enterprise and ways to realize this vision, is the sequence of decisions for the formation of functional strategies, then competitive strategies and direction strategies [3].

## **5. Factors affecting the efficiency of restructuring and thesis resulting from the process**

The effects of restructuring and the resulting thesis can be described as the difference between the state before the introduction of changes and the state after finishing the implementation of the restructuring programme, taking into account the investment.

The key factors affecting the efficiency of the restructuring process include:

- possibility of production capacity utilization,
- possession of equipment and its use,
- methods of production management employed,
- abilities of staff employed in the enterprise,
- technical condition of the machinery owned by the enterprise,
- level of modernity of technologies used.

Failures in restructuring processes arise from an inability to effectively manage the process of change by the management staff.

The positive effects of restructuring are conditioned not only by favorable conditions or the potential possessed by the enterprise, but also the adequate execution of the process itself.

A change the restructuring is a response to some identified, significant change in the existing conditions of operation of the enterprise in its external environment, or change the internal situation in the organization itself. On the basis of the restructuring process it is possible to advance some important theses, which may include, among others:

- restructuring process laid the foundation for development through broad knowledge and the way of innovation,
- processes were taking place in a chaotic manner,
- there were turns (falls),
- restructuring process has met the established requirements,

- streamlining processes in the management and executive sphere of the enterprise,
- improvement of the flexibility of the operation (particularly in the area of core operation)
- improvement of financial performance,
- increase of economic and market value of the company
- increase of the market credibility,
- stabilisation of future enterprise development, etc.

One of the most important elements of the restructuring process is the element of control, involving development and review of protocols and reports of completed tasks. This allows assessment of conformity of tasks carried out with the schedule and verification that the achieved implementation results coincide with expectations.

## 6. Conclusions

In the initial phase of transformation in enterprises predominate adaptation, often life-saving actions. Development actions are limited in scope and apply to the few enterprises with well-developed strategies. The important thing was and still is to develop a clear programme of restructuring and the vision of the company development accepted by the staff and the owner. The restructuring processes bring significant benefits to enterprises, allowing them to operate in the competitive market and to develop, which translates into stable workplaces. Restructuring programs carried out in the mining and metallurgy industry were necessary and economically justified, because without them the enterprises would have no chance of survival in the competitive market. One should remember about the costs and difficulties in carrying out the restructuring process, in particular the maximum mitigation of social effects and continuous implementation of innovative processes. Current knowledge of the conditions that determine the possibility of introducing new technologies is highly advanced, but not always sufficient to conduct i.e. underground exploitation of mining deposits in complex and complicated conditions or the production of high-quality iron ore. Technological changes and their improvement require control data for the evaluation and making rational decisions. Hence, to achieve success in the implementation of technological change, it is very important to recognise the role of cost accounting in the enterprise, which is crucial for the enterprise.

Anticipation and transparency of actions are essential factors for the success of restructuring. These factors should become a part of the daily activities of any organization if it is to effectively and permanently deal with the changes. To build confidence derived from the ability to anticipate and transparency of actions, the structure and mechanisms dedicated to the restructuring objectives should be provided.



Methodology of the restructuring execution and the tools used in it are constantly changing with the advancement in the field of management science and information technology, which often support management processes. This is not from the point of view of consumers comfortable situation, but acceptable [10].

Not without significance here is the role of government and institutions promoting entrepreneurship, which should educate the managers of the role of strategic planning in the enterprise from the point of view of achieving their long-term benefits. The main structural problem lies with the large state sector with the major loss-makers and non-competitive producers [11].

Restructuring can be seen as the totality of changes made in all areas of the enterprise operation in response to changes taking place in its environment. The purpose of these changes is to adjust the principles of operation of the enterprise to rules of the game existing in the environment and creation of conditions to achieve the desired position on the market [12]. The restructuring is aimed primarily at adaptation of the enterprise to the market economy requirements [13].

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## Omówienie

W artykule zajęto się problematyką ratowania tradycyjnych gałęzi przemysłu na Śląsku ze szczególnym uwzględnieniem restrukturyzacji górnictwa i hutnictwa. Wśród wielu narzędzi poprawy kondycji tych dziedzin wyróżnić można dwie – racjonalizację zasobów i usprawnienie procesów wewnętrznych. W pracy sklasyfikowano rodzaje procesów restrukturyzacyjnych z uwzględnieniem ich najważniejszych cech, przedstawiono argumenty za realizacją tych procesów, zwrócono uwagę na możliwe problemy powstające podczas restrukturyzacji. Zidentyfikowano również poszczególne etapy restrukturyzacji oraz czynniki wpływające na wydajność na każdym z etapów. Zwrócono uwagę na fakt, że restrukturyzacja sama w sobie nie gwarantuje natychmiastowej poprawy, a przeprowadzona niewłaściwie kończy się fiaskiem.