

RESTRUCTURING OF STEEL INDUSTRY COMPANIES IN HUNGARY (2008-2010)

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Abstract

The aim of the paper was to survey the negative effects of economic crisis to reorganization and renovation moves of the steel companies. The theoretical background of the research are bibliographic and electronical sources. The paper is dealing with maintaining liquidity, financial analysis, reorganizational plan, restructuralization and its possible innovative solutions. The base of the practical research are the sales statistics of the steel industrial company Tom-ferr Ltd. and its partner companies: the direct information derive from the 32 selected partner steel companies, and from the official state database. The analysis collected information from direct survey research method and indirect method of filtering databases. The results of the research showed that automatic renovation processes were launched due to negative effects and forces of the economic crisis, however, bringing off these processes doesn't mean recovery from the economic crisis. Fifty-two percent of the examined companies said that without the innovative steps of the restructuralization their company would not have survived the most difficult periods of the economic crisis. The study provides a practical guide to perform those measures, which should help to survive and to stabilize the company in crisis periods.

Keywords: Crisis, Respectively, Company, Steel industry, Economy

JEL Code: L23, M21

Introduction

Among the approaches of crisis, one criterion is often shared, and that is cyclicity said Farkas (2012) . Since crises cannot be avoided because of their cyclic nature, it is important to learn how to be prepared for and handle them. In general, it can be said that crises originate as a set of outer, inner, or possibly a combination of both causes. To be able to inspect the companies' behaviour in a crisis situation, it is important to understand its influence on them. "Crisis brings instability in the company's life. Crisis is the state in which there is a deciding and

inevitable change in process. Crisis could be unavoidable, coincidental, even purposeful, but has a serious impact on market players, on owners and therefore on the environment." Katits (2010, 63). So to say, the company crisis is a sort of stressful state for the company, in the course of which its effectiveness worsens and finds itself in a "feverish" state. The company crisis is followed in each of its phases by diverse indicators which are identical to the company's weaknesses. The role of the management is to identify these weaknesses, to diagnose them, so that later they can prepare the problem-solving strategy based on these pieces of information. According to Hammer Champy (1996) this process is followed by the reorganization of the company. Its legal procedure is analyzed in details by Saxunova and Novackova (2014) in their study¹. The impact of the Economic Crisis in 2008 on the Rumanian Steel Industry was also analyzed by Bors, Dimitriu and Budur (2013) and they ascertained that the local steel industry never reached the level that they had before the crisis. Ilie and Colibasanu (2009) had similar conclusions in their study about the impact of the crisis on the European steel market.

1 Crisis Indicators

Katits (2010) has summarized the company crisis indicators as follows:

I. Early phase (evitable crisis): Isolated deterioration in effectiveness, Healthy speed of goods supply is slowing down and is being interrupted, The volume of sales stagnates > effectiveness of current assets management deteriorates> speed of rotation decreases and time of rotation increases, Problems appear in meeting delivery deadlines, Late payment charges increase, Coverage of products/goods decreases and Financial expenses increase.

II. Intermediary phase (structural crisis): *Shortage of raw material in the production, Payments for transport services are discontinuous, Objections to quality, **The company is ripe for bankruptcy proceedings**, The level of company's coverage definitely decreases, The financial balance is disrupted, Negotiations on rescheduling debts, Working morals deteriorate.*

III. Late phase (acute crisis): *„Chaos, Sales plans can not be met, Danger of company's liquidation, Negative CASH-FLOW, Lack of funds on the bank account, Exponential increase of bank debts" Katits (2010, 71)*

¹ Kintler (2010) emphasizes the importance of the information flow of the restructuring process

Incoming indicators do not have identical intensity. We can distinguish between badly structured and diversely interpretable "weak" indicators, and those which carry concrete information with "strong" indicators. Prudent assesment of weak indicators is very important, because from the point of view of the future strategy, they can contain information that has key importance. The later respective indicators are noticed by the management, the more difficult will the elimination of the problems be, and will indicate more effort.

The company's restructuring process comprises five well separated steps Katits (2010): *Conservation of liquidity, Market and financial analysis, Working out the reorganisational plan, Working out the marketing plan, Realisation and monitoring*

The process of company restructuring is a complex activity whose fundamental element is reconstruction and assurance of the company's finances and effectiveness. The five-step process starts with a strictly effectuated improvement of liquidity by which the company, having fallen into crisis, could "catch a breath". This breathing in assures an opportunity for the company to maintain a sort of financial "self-assesment" and uncover the potential inner resources which are important for its continuance. Having uncovered the inner resources, the company then prepares two plans. One reorganisational, restructuralisational plan for itself, upon which accomplishes the process, and at the same time prepares a marketing plan that will serve the purpose of persuading outer financing partners, as they are not interested in the process of company's restructuring, but the development of the investment's expected benefit and its safety. The last phase of the process of restructuralisation is the implementation that can be accomplished by use of external help or simply by an authorized group of company's own sources.

2 Materials and Methods

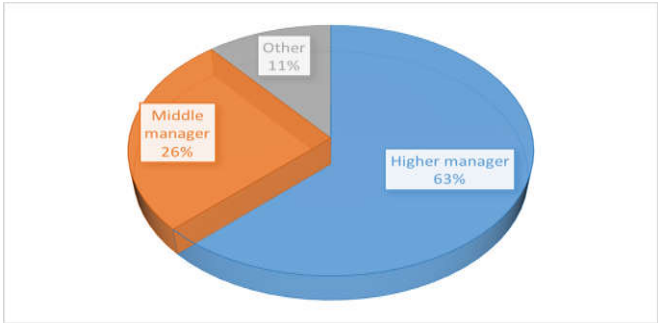
The base of the practical research are the sales statistics of the steel industrial company Tomferr Ltd and its partner companies: the direct information derive from the 32 selected partner steel companies, and from the official state database. The analysis collected information from direct survey research method and indirect method of filtering databases. The interpretation is detailed in spreadsheets and in EXCELL diagrams . The questionnaire has been sent to the responsible person (managers and directors) of the 32 Hungarian steel industrial companies. 27 of the received questionnaires could have been analyzed. These companies have the key-role in the Hungarian steel industry.

To be able to deal with more aspects, this research needs such other relevant information source that provides opportunity to be compared with and to be affirmed by results of research. Such independent source of information is an annual report, regulated by a the *Hungarian Accounting Act* (2000) that has three main parts: the balance sheet, profit and loss statement and a complementary supplement. The balance sheet is a "snapshot", providing picture of the company's actual instruments and sources, the profit and loss statement reflects the balance of incomes and expences for the given period, while the complementary supplement is a sort of more explicit explanation of the information found in the balance sheet and profit and loss statement. The Ministry of public administration and justice runs a website on which all the companies registered at the registry court are obliged to upload their annual reports which are accessible for users for free.

3 Restructuralisation processes of Hungarian steel industry

In the first phase of the research we rewieved the scope of activities of the companies and the roles of the individuals that were filling in the questionnaire. 63% of the people were higher managers, 26% middle managers and 14% were working in different positions.

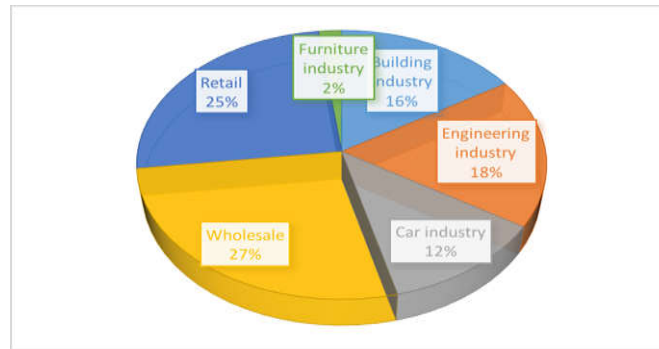
Fig. 1: The position of the members who take part in the research



Source: own research- own processing in EXCELL

The participants could fill in more than one field of activity, therefore, apart from the furniture industry, the six fields of economy were represented by 20 % ratio in average.

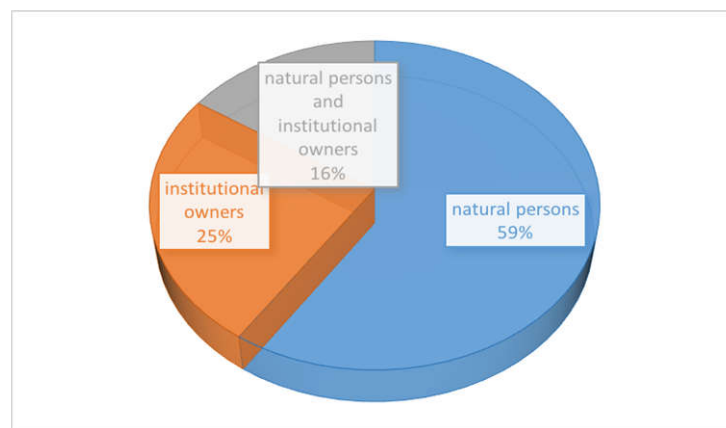
Fig. 2: Field of aktivty of the members who take part in the research



Source: own research- own processing in EXCELL

Data regarding proprietary circle were taken from annual reports and their addendas or provided by certificates of incorporation. On their basis we could determine that 59 % of the companies had natural persons as owners, 25 % institutional owners and 16 % of the companies had both natural and institutional ownership.

Fig. 3: Proprietary circle of the members who take part in the research



Source: own research- own processing in EXCELL

The next phase of the research analysed the way how the factors indicating crisis appeared in the company's life between 2008 and 2010.

Tab. 4: Factors indicating company crisis

	Percentage of companies experiencing indicators
Isolated deterioration ineffectiveness among company's respective units	33%
Pace of transport of outgoing goods is discontinuous	41%
Decrease in quantity of sold goods	93%
Problems in keeping delivery deadlines	44%
Increase of late payment charges due to transport disruption	30%

Increase in financial expenses	74%
Shortage of raw material in the production	15%
Payment of transport debts is discontinuous	59%
Decrease in quality	37%
Disruption of company's financial balance	4%
Negotiations on rescheduling debts	11%
Deteriorating of working morals	33%
Chaos in the company	4%
Unfeasible sales plans	22%
Negative CASH-FLOW	19%
Exponential increase of bank debts	4%

Source: own research- own processing in EXCELL

We have inspected three phases of company crisis with different phases of seriousness and have found that:

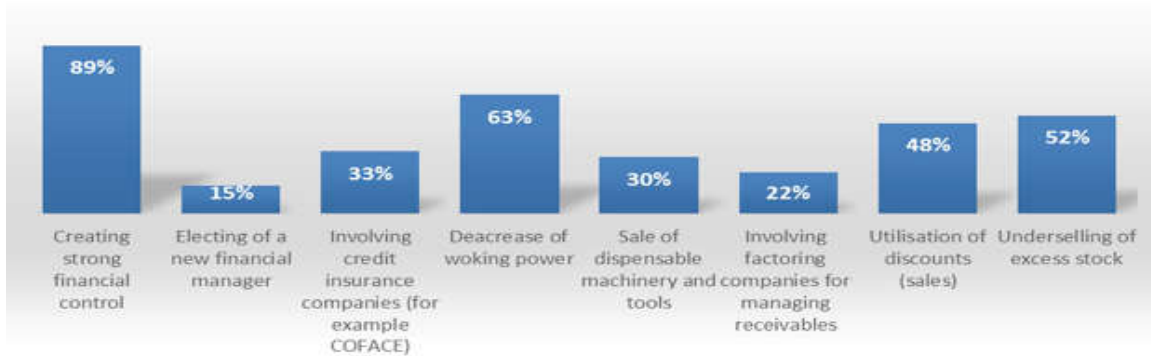
- 1, The signs of avoidable crisis were detected by 52 % of the companies.
- 2, The second level, it means the phase of the structural crisis was detected by 27 % of the companies.
- 3, 12 % of the companies felt the signs of acute crisis.

We came to a conclusion that unlike the theory, the "unsustainable sales plans" do not inevitably belong to factors indicating acute crisis, as numerous companies indicated that they did not notice them.

The following important field of our questionnaire research comprised survey on companies' respective steps on restructuring and statement on innovative implementation of these steps. The survey conducted analysis of the five steps of the process of restructuring and we concluded these statements:

1. For the sake of *maintaining liquidity*, strong financial control was represented by 89 % of companies, being its most used form, 63 % of companies chose decrease of working power and 52 % decided to undersell the stock supply surplus. In contrast to our expectations, only 33 % of the companies utilized credit insurance companies.

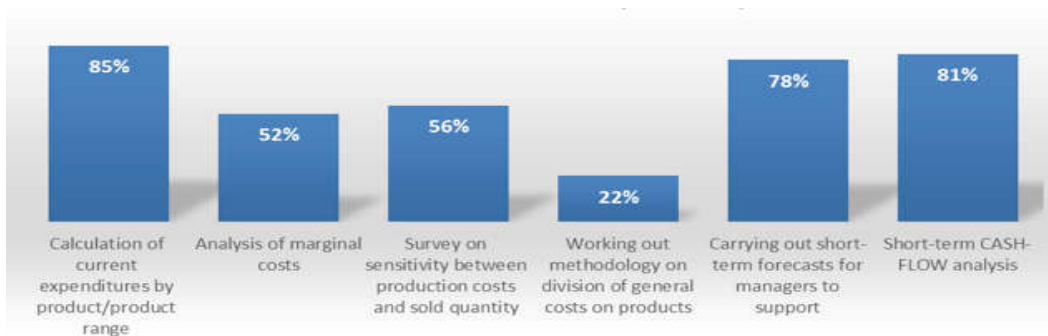
Fig. 4: Fields affected by restructuralization



Source: own research- own processing in EXCELL

2. After having reconstructed the liquidity, the companies must assess their own potential and reserves before they start up the next tasks. The research showed a high level of activity that concerned application of *market and financial analysis methods*. Calculation of current expenditures was carried out by 85 % of the companies, forecasts for supporting the balance sheet was performed by 78 %, and short-term CASH-FLOW analyses were effected by 81 % of the companies. Results reflect that the inspected companies consciously prepared to decide whether company's restructuring would be necessary or not.

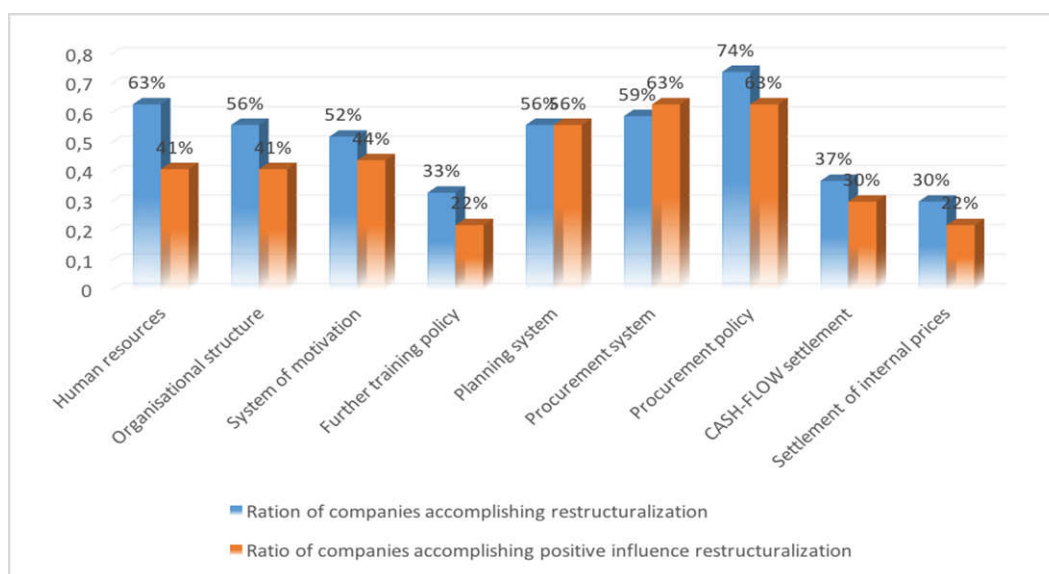
Fig. 5: Market and financial analyses in practice



Source: own research- own processing in EXCELL

3. In the course of the restructuring plan and influences sensed during its implementation in practice, the questionnaire research examined human resources, organisational structure, company's system of motivation, further training policy, planning system, procurement system, procurement policy, CASH-FLOW settlement and settlement of internal prices. After having summarized the results of the research we concluded that on average about 51 % of the companies accomplished restructuring. Having examined the success rate of the restructuring, we found out that at 82 % it exercised positive influence on the companies accomplishing restructuring.

Fig. 6: Fields affected by restructuring



Source: own research- own processing in EXCELL

4. Restructuring plan is primarily meant for the needs of the company itself, though it is essential to consult it towards the financial institutions that finance them. A marketing plan is important for this - we have assessed six important fields. Out of these six fields, 96 % of the companies have prepared prognoses regarding the balance sheet. 85 % of the companies accomplished analyses on expenses on product coverage and 78 % of them provided marketing and industry analyses. As it arose from the questionnaire, 74 % of the companies had external financial source, therefore, it was understandable that they had a strong intention to convince their financing partners.

5. From the point of view of practical accomplishment of the restructuring, our research analysed if any external experts took part in the process of accomplishment. 26 % of the companies used external experts. The research also examined the necessity of the accomplishment of restructuring and a thought-evoking result was born. **52 % of the questioned companies claimed that without restructuring they would not have survived the period of crisis between 2008 and 2010.**

In the next part of the research we examined opportunities and limits contained in the annual reports that dealt with restructuring processes. With regard to the limits of annual reports and questionnaires, we could gather the following data:

Tab. 8: Comparasion of data taken from annual reports/ questionnaire

	Data taken from annual reports		Data taken from questionnaire
1	Personal input	→	Decrease in working power
2	Financial operations input	→	Decrease in financial expenses
3	Sales netto income	→	Deteriorating of market environment

Source: own research- own processing in EXCELL

In the first case that concerned personal input, in 76 % of companies there was a decrease in number of working power in the examined period, and in the course of restructalisation the decrease in number of working power concerned 63 % of the companies. It is visible that there is a significant difference between the two values. In the other case, according to the annual reports, increase in financial operations had impact on 45 % of the companies, however, according to the questionnaire research, 74 % of them had increase in financial expenses. We only can guess the reason for having such a difference. It is probable that increase of expenses concerned also transactions that were, in the end, not affected, for example, an unfavourable bank credit. In the third case - in the 10-30 % range in the relation between deterioration of the market environment and decrease in sales - we could find quite similar figures (48 % and 44 %). We could see bigger differences, coming closer to limit values. In summary, having examined the three pairs of data, we can claim that using annual reports for the sake of diagnosing the company has limited possibilities. It is useful in cases where we are forced to quick decision-making which does not require precise information.

Conclusion

- ✓ We can claim upon the results of the survey that "Decline evoked by crisis is automatically followed by the process of rationalisation". All the companies that were part of our research and filled in the questionnaire suffered decrease in income in the period between 2008-2010 and without exception all of them went through the five-step process of restructalisation that, depending on the company's expectations, either accomplished or interrupted.
- ✓ 52 % of the questioned companies claimed that without restructuring they would not have survived the period of crisis between 2008 and 2010, so the restructurizing process of the company is the integral part of the crisis management.

- ✓ Use of annual reports in order to find innovative approaches when diagnosing the company is possible with constraints only. It makes sense only if the managements has to decide quickly and the decision-making process does not need precise information.
- ✓ The corporate restructuring measures identified and applied in the crisis period after year 2008, which are presented in this study, may serve as a guide also for other actors of the business life in similar periods.

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