

Third International Conference on

ENTERPRISE IN TRANSITION



UNIVERSITY OF SPLIT
FACULTY OF ECONOMICS

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RESTRUCTURING OF A POSTSOCIALIST ENTERPRISE (CASE STUDY - GAZOMET LTD)

- EXTENDED ABSTRACT -

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KEY WORDS: *adjustment problem, transition, adjustment programme, restructuring programme, market economy, market position, competitiveness*

The aim of the paper is:

- presentation and evaluation of adjustment activities taken up and carried out by "GAZOMET" in the so-called period of market reforms in Poland, i.e., in the years 1990-1998,
- outlining the plan for further activities oriented towards a more complete adjustment of the Firm to the conditions of market economy which would guarantee the Company's survival and development.

The paper consists of five parts:

- brief characteristics of the adjustment problem,
- starting point for the market reforms – the legacy of socialism,
- adjustment activities taken up and implemented,
- further adjustment activities to be carried out,
- conclusions.

The problem of adjustment, defined also as the problem of transition, appeared as soon as a radical, revolutionary change in the system of regulating corporate behaviour took place. This change was an effect of transition from the command economy to the market economy. The range of freedom in enterprise activities changed, the centres influencing their behaviour changed as well and the tools by means of which this behaviour is regulated were profoundly restructured /Otta 1994/.

Briefly speaking, one can assume that the adjustment problem referred to the enterprise level consisting of the firm's ability to behave under the new economic conditions, i.e. in the environment which influences the firm's functioning, mainly using the instruments which belong to the market way of regulation /Gorynia, Otta 1997/.

One can distinguish many symptoms and consequences of maladjustment of a post-communist enterprise to the conditions of the market economy.

These can be classified in three groups:

- unfavourable market position,
- improper allocation of resources,
- institutional solutions which do not favour obtaining and maintaining competitiveness.

In 1990, when the market reforms started in Poland, "GAZOMET" had a leading and monopolistic position on the Polish market of gas fittings. The monopolistic position was connected with the fact that production lagged behind the customers' needs; the enterprise was not interested in modernising its products and dominated over customers. The year 1990 witnessed some changes in the structure of the gas fittings industry – "GAZOMET'S" monopoly was abolished and new aggressive manufacturers appeared. "GAZOMET" experienced a decline in production and sales in real terms, its share in the market decreased rapidly and from 1994, the enterprise had negative financial results. If "GAZOMET" was to survive, the adjustment programme had to be prepared and implemented.

A starting point for the preparation of adjustment programme was a diagnosis of the situation which included: market position, organisation, resources, management and financial results. On the basis of this diagnosis, it was possible to identify the main problems in "GAZOMET":

- ineffectiveness of marketing,
- inefficiency of production,
- ineffectiveness of management,
- unused assets.

The following methodological assumptions were accepted in the elaboration of the adjustment programme: internal character of the programme, common character of the programme, relying on the enterprise's own strengths, employing external consultants to inspire ideas, to analyse and evaluate the concepts presented, to give advice in the initial phase of implementation.

Problem teams of five to seven people should be responsible for identifying the problems, suggesting the solutions and putting these solutions into practice.

The following problem teams were appointed: Team for Corporate Strategy, Team for Operational Management, Team for Evaluation and Motivation, Team for the Management of Assets and Team for Quality Assurance.

After the detailed solutions were worked out, their implementation started. The adjustment activities undertaken yielded the following results:

- restructuring the range of activities – transference of the Boiler House and separation of the Foundry,
- restoration of the market position – offensive marketing activities, widening of the product range, modernisation of the existing products. However, the results obtained are not fully satisfying. Therefore, further changes in the functioning of sales and marketing are planned,
- financial restructuring – success in a considerable reduction of the losses for three years running,
- ownership restructuring – "GAZOMET" was transformed from a plant with its internal economic settlement of accounts within the frameworks of a large enterprise into a limited liability company,
- organisational restructuring – introduction of a new organisational structure including three vertical structures: technology-production, sales and economic-financial,
- restructuring of management – the following procedures were elaborated and implemented: accepting, processing and executing of orders, preparation of offers, operational planning, recovering of overdue payments; a subsystem of supervision, analysis and evaluation was worked out and implemented and the Operational Committee was established to co-ordinate operational activities,
- restructuring of resources – a considerable part of unnecessary resources was liquidated.

A continuation of adjustment activities is planned to include:

- search for the proper range of activities in the future,
- strengthening and development of market position,
- reaching a long-term financial balance,
- ownership structure typical of the market economy – privatisation,
- further organisational restructuring,
- further restructuring of management.

The adjustment activities carried out in "GAZOMET" justify the formulation of the following conclusions:

- An ambitious adjustment programme was taken up in ZUG "GAZOMET" in 1995. This programme was of complex character. A major part of the crew became involved in its preparation and implementation.
- A considerable part of those activities have been successful. The most important symptoms of success in the restructuring are as follows: partial regaining of the market position, introduction of the new products and modernisation of the existing ones, obtaining quality certificates, measurable increase in the qualifications of the crew and improvement of the financial results.
- However, not all adjustment activities were fully successful. There still exist problems with following the procedures of operational management. This affects delays in the execution of contracts. There happen pitfalls regarding quality. The budgeting system binding in the centres of cost requires improvement. Further changes in the system of motivation are necessary. The system of strategic management should be fully implemented.
- Restructuring or improvement of the company should not take place by fits and starts. It is a continuous process lasting as long as the company itself.

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