



CRACOW
UNIVERSITY
OF ECONOMICS



DILEMMAS OF RESTRUCTURING OF MODERN ECONOMY AND ENTERPRISES

THEORY – METHODS – PRACTICE

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EDITED BY

RYSZARD BOROWIECKI, MAREK DZIURA

DILEMMAS OF RESTRUCTURING OF MODERN ECONOMY AND ENTERPRISES

Theory – Methods – Practice

CRACOW UNIVERSITY OF ECONOMICS
Department of Economics and Organization of Enterprises
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**DILEMMAS OF RESTRUCTURING
OF MODERN ECONOMY
AND ENTERPRISES**

Theory – Methods – Practice

Edited by
Ryszard Borowiecki, Marek Dziura

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Reviewer

Barbara Piontek

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INTRODUCTION

In relation to dynamically changing economic surroundings, enterprises are being put before a wide range of needs, purposes and challenges behind itself a conduct of business is bringing which in the current market reality. Therefore they are taking decision on the restructuring of conducted activity, being aimed at a height, expansion, desire for preserving the already possessed market position repeatedly, or many times as the possibility safeguards against the bankruptcy treat the restructuring process enterprises.

Changes of needs of customers, competitiveness of other operators, expectations of contracting parties (e.g. of banks), changes of regulations, it only some of factors having a direct effect for starting a business activity by the enterprise of the decision on the owned restructuring. Reorganizing activity can be held for example through the merger with other enterprises or allocating the chosen area of activity or the consolidation. And so we will understand by the restructuring the process of paradigm shifts of the concept and of functional practical arrangements of the enterprise, this way so that it gets the competitive position both on the domestic market, as well as international. Above all an increase in the goodwill is an objective of restructuring.

Dynamic and profound changes became a long-lasting element of the current global economy. In the economic situation so radical changes are becoming a crucial indicator of the process of planning, including procedures of the decision making in the enterprise. However easiness of the decision making of periods of economic boom, being characteristic of an outgrown optimism of managers, is ending in the recessionary period or of crisis, when an implementation of the actions is becoming a need restructuring.

Universally the restructuring is forming a relationship with a short stretch, and construction of strong foundations of surviving the enterprise and the adaptation to the current situation are a purpose in surroundings. Restructuring measures, limited exclusively for lasting the crisis, one should regard wrong in current conditioning. So choice of the accurate scope of the restructuring is picking the key importance up not only for existence of the enterprise, but also for his development in the future.

Rich academic achievements of the literature on the subject, both about the theoretical, as well as practical profile, in harmony comprehending the restructuring of a company is identifying the process about evolutionary character, and therefore universal determining this notion in the course of a long stretch peculiarly is hampered.

Amongst the richness of the definition one should distinguish both spreading through the ones which are describing the restructuring in the sweep as the long-term action plan, with one's scope every system components in the enterprise, and in the narrower presentation, confining itself to the financial restructuring of the enterprise in a short stretch. The sweep of the definition of the restructuring is indicating proceedings to the scheme in the following spheres of functioning of the enterprise: cells, functions

and processes, organizations, resources, properties, aiming holding and/or improving the competitive position (in the long or short horizon of the planning) enterprises in twenty-four hours or the internal, nearer or more distant run-up of the change in the environment.

The restructuring in a solitary case has individual character. However analysis of restructuring processes is pointing at the fact that tools and used procedures in the restructuring process are already more universal. The acquaintance of these tools and procedures lets formulate rehabilitation programmes appropriate to assessed contingencies.

Not-noticing the need of changes is the source of the crisis threatening functioning of enterprises, lack of the ability for fast reacting to changing environmental conditions. Implementing restructuring processes in the enterprise is necessary, carried out in the constant way. These processes are occurring on many plains, at the different pace, with exploiting diversified management methods. Creating the competitive position constitute the material condition. The key importance has also a forming of the relation between the technology and restructuring processes, taking the social aspects of changes into account and carrying the responsible restructuring out socially. Changes require the active involvement on the part of all employees of the enterprise. So that they succeed, employees must join in and into the right way participate in the process creating them and leading.

This publication is divided into three parts: theoretical, methodological and practical. First part "*Restructuring of modern economy and enterprises – theoretical approach*", where authors presented some concepts of restructuring processes in macro and micro scale. Among the most important issues they pointed out the challenges of modern economy, strategic planning of restructured companies, their competitiveness, efficiency and quality, as well as new design of organization and its organizational culture.

Second part "*Methods and tools of successful restructuring process*" paid the attention on methods and tools of restructuring processes as an answer and reaction to changes in the political, economic and legal environment also in international scale.

Third part of the publication "*Effects of using methods and tools of restructuring*" is composed of usually successful examples of restructuring processes adopted in different companies and institutions.

In the publication crucial issues of the restructuring of enterprises were presented in the horizon of the contemporary environment. Authors paid attention to critical phenomena and prospects of the innovative look at the crisis, they effected the in depth analysis of the specificity of the business administration in the face of changes. They pointed also at international experiences in processes of adapting enterprises to economic, social and political new conditions in order to create the global competitive edge. The particular attention was devoted to issues:

- of business administration in the process of changes,
- of the restructuring as the adaptation continuous process,
- of financial instrumentation in the process of the restructuring.

Model restructuring processes of Polish enterprises were described in the form of case studies.

Enterprises operating in the changeable environment should in the comprehensive way read all signals about changes in it occurring. Connections with surroundings and internal processes of activity are a primary source of happening changes in the enterprise. Keeping up behind happening changes in the environment and absorbing internal changes, every organization is trying to keep the continuity and the stability. Observation of surroundings, in which the enterprise operates allows with the appropriate advance to react to all turbulences in it occurring in order in the constant way to keep the competitive edge.

Company, in order to survive and to be held in market, must predict and accurately estimate situation, i.e. the ability of a effective activity and the ability of development in the constantly changing surroundings. Thus development of company does result both from conditioning of outer connected with the necessity managing repeatedly the new challenges of the surroundings, how also from natural, internal needs of company. The accumulation of changes in each from the elements of the surroundings cause, that company is not adjusted to registered expectations by the customers and growing demands

of rivalry. Such behavior at a certain moment causes the necessity of the execution of a radical improvement of activities in order to return to the state organizational equilibrium. In case of the considerable increase oneself of outside and internal adverse impacts, typical undertakings so far applied streamlining, having a form of gradual changes, turn out to be insufficient. Then an emergency of conducting by the executive committee the entire package of decided changes, determined as the restructuring of a company is emerging.

The methodology of conducting the restructuring and tools in it used are subject to constant changes along with progress in the field of management studies and computer techniques which very often processes are assisting of management. One should notice that the role of the restructuring will be more and more significant from a point of view of the economy, in particular in the situation of the breakdown noticed at present on world marts. From here not only repair of enterprises which constitutes the crucial function of the repair restructuring, but also using and promoting the developmental restructuring, is also significant of competitive edge allowing for achieving and strengthening, constituting the security against contingencies in the economy. There is a role of the state and institutions promoting the entrepreneurship of which they should make aware the staff ordering the role of the strategic planning in the enterprise immediately of visions not without meaning here of achieving long-term benefits by them.

This book is one of the results of many years' cooperation of the Department of Economics and Organization of Enterprises of the Cracow University of Economics with the representatives of various Polish and foreign scientific centres and persons representing the economic practice.

Ryszard Borowiecki, Marek Dziura

PART I

RESTRUCTURING OF MODERN ECONOMY AND ENTERPRISES – THEORETICAL APPROACH

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ORGANISATION ON THE MOVE AND THE CHALLENGES OF MODERN ECONOMY

Summary

The notion of organisation on the move is defined, together with major determinants and characteristics of the construct. Methods used by organisations on the move are discussed, as employed in their strife to cope with challenges posed by the modern economy, such as economic crises, variance and fluctuations of customer needs, and the growing cost of company operation.

* * *

Introduction

The increasingly turbulent economic environment forces enterprises to continuously adjust to the changes on the market. It seems that the most important challenges faced by modern markets are those associated with economic crises, variance and fluctuation of consumer needs, and the growing cost of operation. In their strife to combat the negative influences posed by modern markets, companies adjust their strategies and employ modern management methods. Organization on the move is a good example of a management model that can be used in this process.

Organisations on the move

The ‘organisation on the move’ is a term describing a modern approach to company management, defined in 2003 by E.Maslyk-Musiał as a strategy of continuous adaptation to turbulent economic environment and prompt responses – or even anticipation – of changes on the markets. The organisation on the move is a construct characterised by the following:

- “the ability to recognize and diagnose the market situation, with potential to change in response to external impulses and to stimulate internal development and transformation in a planned and continuous manner;
- the ability to cope with considerable uncertainty related to change introduction, as manifested by positive attitudes to change among the majority of the stakeholders;

- the protraction of the entrepreneurial phase in the organisation development cycle, with such characteristics as: energy, vigour, resolution and courage, fresh approach to problems, and inventiveness”.¹

R.Krupski (2005) offers a broader modification of the above definition of an organisation on the move. In the author’s view, the “concept describes an entity which oscillates to the amplitude of the surrounding environment”², and utilises the resulting interference to strengthen its market position. The influence is reciprocal, meaning that the amplitude of change oscillations within the company does have a similar effect of generating changes within the environment as such. In line with the above definition, the enterprise is able to not only adjust to the changing conditions of the market environment in a prompt and effective manner, but also to effect similar changes upon the environment to ensure its adjustment to the needs of the enterprise and to facilitate its operating demands. In view of the above, it seems that the most important elements describing the organisation on the move include the following:

- “redundancy of resources (mostly immaterial),
- strengthening the cooperation with market environment,
- innovation,
- increased flexibility,
- broad market research,
- the ability to exploit market opportunities”.³

In this approach, the resource redundancy refers not only to the straightforward stocking of resources, but also, and most importantly, to ensuring a wide diversity of resources kept by the company. There are times when companies are expected to amass resources which are not directly and immediately required for current operating purposes, but may become useful in the foreseeable future by facilitating the modification of products or company structures. This type of resource stock helps the organisation to respond promptly and effectively to the changes in the environment, and to adjust its products and structures to the new requirements of the markets and the customers.

Strengthening the cooperation with market environment may also offer tangible benefits in the process of adjusting to the changing market conditions and its negative effects. A wide network of formal and informal contacts offers potential for rapid and relatively effortless transformation of products and services. By nurturing their contacts with the environment, modern organisations are better equipped to face and withstand the occasional hardship periods.

The organisation on the move is also one characterised by innovation. The innovative approach may be manifested with respect to the whole organisation, its segments, and individual products. Innovations should be introduced in a continuous manner. The organisation should also have elaborate scenarios for future innovations, designed in response to various market situations. This helps the company keep up the pace of changes and to promptly adapt to any future market occurrences, regardless of their nature.

In a turbulent environment, only the most flexible organisations have a chance to survive and flourish. Company flexibility is generally regarded as the best response to changes in the environment. J.Bilman provides the following set of characteristics to define a flexible organisation:

- “the ability to keep the pace of changes of the market environment and to adapt to them in a competitive manner,
- having an efficient system ensuring fast recognition of customer opinions and prompt adjustment to their expectations,

¹ Masłyk-Musiał E., *Organizacja w ruchu*, Oficyna Ekonomiczna, Kraków 2003, p. 15-16.

² Krupski R., *Elastyczność organizacji*, [in:] *Zarządzania przedsiębiorstwem w turbulentnym otoczeniu*, pod red. R. Krupskiego, PWE, Warszawa 2005, p.234.

³ Olejczyk-Kita K., *Czy każde przedsiębiorstwo powinno przekształcać się w organizację w ruchu?*, [in:] A. Potocki (red.), *Mechanizmy i obszary przeobrażeń w organizacjach*, Difin, Warszawa 2007, p.227.

- short decision-making processes based on flat structures and empowerment of production-level employees,
- the personnel adapted to changes (this particular requirement is, by far, the most difficult to achieve)”⁴

The breadth and depth of market research is another important determinant of organisations on the move. Market research is the best way to analyse the market environment, with large potential for identifying the most significant changes on the market. To fully serve its purpose, market research should address the following areas:

- the present and future customers,
- the present and future competitors,
- the present and future market segments served by the organisation,
- the stakeholders,
- other entities of impact upon company operation.

Market opportunities offer the best chance for organisations to expand and build their competitive advantage. To meet this requirement, organisations on the move should incorporate two lines of approach. The first of such challenges is the construction of an effective system for identifying market opportunities – this helps the entity recognise opportunities more effectively than the competitors and utilise them to best effect. The other line of approach is the active creation of market opportunities – if the company is able to stimulate the emergence of market opportunities in line with their anticipated strategy, it will be better equipped to utilise them, since it will be fully prepared for them.

Organisations on the move and the economic crisis

The economic crisis is, at present, the most important external factor to influence the operation of modern companies. It may seem that crises generate nothing but problems for the organisations on the market. However, some companies seem to be capable of utilising the crisis situation to their benefit, as basis for further expansion.

Through their flexibility, extensive market research, and their ability to identify and exploit market opportunities, organisations on the move seem to be better equipped to operate – or even flourish and expand – under crisis conditions. Constant change and flexibility of operation are the best response to crisis situation. According to G. Osbert-Pociecha, the flexibilisation activities addressed to “individual dimensions/constituents of the organisation, have the effect of transforming the organisation as such. Those activities may be designed in a number of ways and focus on:

- change direction – such as development (growth) vs. reduction (constriction),
- qualitative vs. quantitative changes,
- pace of transformation – gradual (evolutionary) vs. rapid (radical),
- formal vs. informal character of the transformation,
- a combination of any of the above”⁵.

Deep and structured market research gives companies the power to identify the early warnings of potential market risks. Organisations on the move are therefore better equipped to respond to such risks in a prompt manner and, consequently, to alleviate their effects. In addition, market research helps them identify market opportunities. In effect, organisations on the move are more capable of utilising those opportunities, which makes them more resilient to economic crises.

⁴ Bilman J., *Nowoczesne koncepcje i metody zarządzania*, POLSKIE Wydawnictwo Ekonomiczne, Warszawa 2002, s. 391.

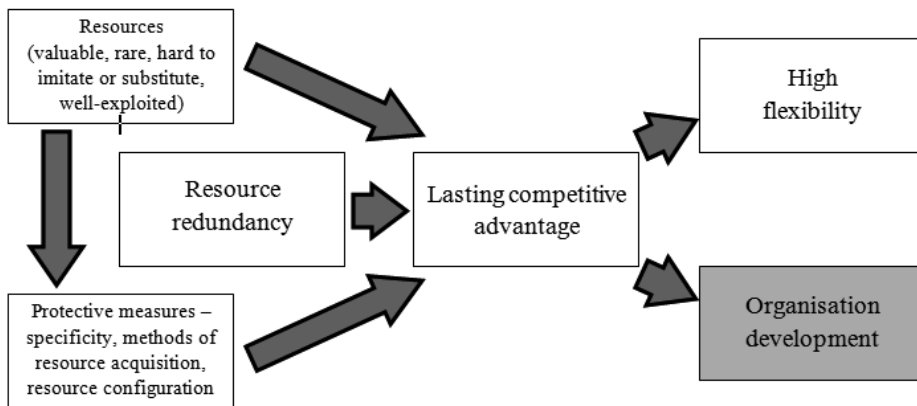
⁵ Osbert-Pociecha G., *Elementy teorii elastyczności organizacji – określenia, definicje, problemy*, [in:] R. Krupski (red.), *Elastyczność organizacji*, Wydawnictwo Uniwersytetu Ekonomicznego we Wrocławiu, Wrocław 2008, p.25.

Organisation on the move and the variability/fluctuation of customer needs

Organisations are not the only ones to change – customers are also subject to this process. The present trend is to increase the diversity of needs. Customers are increasingly more aware of their needs and of their bargaining power. They are no longer willing to accept the limitation of their needs in the form of products incongruent with their expectations. To meet this demand, companies must keep track of the changing needs of their customer base.

Organisations on the move are also prominent in this area. Their characteristics (mostly – the redundancy of resources) make them more flexible and adjustable to the changing demands of the market environment (Fig. 1). In accordance with the resource dependence theory, companies should amass resources and introduce protective measures to safeguard their resource stock, as a method of building the competitive advantage and flexibility of operation. However, modern consumers demand product diversity, and this requires companies to ensure similar diversity of their resource stock. Organisations on the move, by placing emphasis on resource redundancy, seem to fulfil also this requirement, since they are better equipped to deal with changing needs, with no detriment to the proper balance between the profit and the cost of operation.

Figure 1: Base model of the resource dependence theory in strategic management, modified to include resource redundancy



Source: Olejczyk-Kita K., *Redundancja zasobów jako narzędzie rozwoju przedsiębiorstwa*, [in:] *Zmiana warunkiem sukcesu. Przelamywanie barier rozwoju i wzrostu przedsiębiorstw*, Skalik J., (red.), PN UE we Wrocławiu, nr 219, Wydawnictwo Uniwersytetu Ekonomicznego we Wrocławiu, Wrocław 2011, p. 192.

Organisations on the move and the growing cost of operation

Dynamic changes of market environment and the varied expectations of customers put pressure on companies to increase their resource stock and to increase their spending on promotion of their products and services. To achieve and maintain their competitive advantage, companies must adjust their approach to resources. J.Rokita identifies the following factors that impact company competitive advantage:

- “human (personnel, qualifications),
- physical (production facilities, equipment, stock),

- financial (receivables, capital, liquidity)
- perceptual (customers, suppliers, competitors),
- political (the government and its agencies),
- organisational (culture, system, structure, decision-making processes,
- knowledge-related (trends in sector evolution, macroeconomic changes, technologies)”⁶

The analysis of the above classification suggests that all of the resource segments contribute to the increase of company operating cost. Once again, the organisation on the move seems best suited for the task at hand. Although resource redundancy is at the core of the concept, it must be noted that the ‘company on the move’ concept recommends redundancy only with respect to certain types of resources, namely: rare, difficult to attain, or those that offer competitive advantage. These types of resources are largely immaterial, and therefore fairly costly in acquisition, but their storage is, for the most part, cost-effective. In effect, keeping stock of such resources can be seen as a way of reducing the company operating cost, at least to some extent. Material resources, on the other hand, require no redundancy, since they are fairly easy to obtain from company suppliers. And, since the organisation on the move is characterised by a wide network of formal and informal relations with the environment, it is able to acquire this type of resources fairly easily.

Conclusion

The modern market poses an abundance of problems for companies. The need to survive and cope with a volatile environment forces them to undertake specific measures. It seems that the most advisable strategy in this context is the adoption of a ‘company on the move’ approach to enterprise management, as the best available response to the rapidly changing environment.

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⁶ Rokita J., *Zarządzania strategiczne. Tworzenie i utrzymanie przewagi konkurencyjnej*, PWE, Warszawa 2005, p.140

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THE RESTRUCTURING OF ENTERPRISES. STRATEGIC PLANNING OF THE RESTRUCTURED ENTERPRISES

Summary

Dynamic changes become the determinant of directions of the strategic planning process; this process should also be subjected to transformations while adapting to the conditions of functioning of the restructured enterprises in the turbulent environment. In the paper, there have been characterized the factors determining the development of the strategic planning process of enterprises operating in the area of the Silesian Voivodeship. The attention has been drawn to the barriers to the development of strategic planning among the surveyed enterprises whose application in strategic planning will enable an increase in the effectiveness of actions.

* * *

Introduction

Strategic planning has the dimension of improvement and development; it is assumed to be a stimulator of organizational, personal and technical and economic progress in the enterprise. Its task is to eliminate different gaps, e.g. qualitative and technological, information and administration gaps¹. The phase system of strategic planning is presented by R.A. Weber and there are four stages of planning:

- the stage of entrepreneurship,
- the stage of administration gap,
- the stage of expectations gap,
- the stage of strategic development².

In the subject literature, it is underlined that strategic development expresses not only the dynamics of the material success of the activity of enterprises but it is also the property of the modern planning approach. This approach must be directed in a long-term manner taking into account a wide range

¹ Stabryła A., *Zarządzanie strategiczne w teorii i praktyce firmy*, Wydawnictwo Naukowe PWN, Warszawa 2007, p.221.

² Webber R. A., *Zasady zarządzania organizacjami*, PWE, Warszawa 1996, pp. 277-287, [after:] A. Stabryła, *Zarządzanie strategiczne w teorii i praktyce firmy*, Wydawnictwo Naukowe PWN, Warszawa 2007, p.222.

of problems of enterprise development: its organization, economics, technology and necessity for restructuring, to adjust to changes of the external environment³.

The expert of Roland Berger Strategy Consultants (RBSC), on the basis of 1500 examined cases, presented the scope of procedures in the restructuring process. The approach of RBSC to the restructuring process in western enterprises indicates that it is the mixture of activities, operational, financial and strategic in nature, commonly creating foundations for the success of this process. It consists of: restructuring of operational activities, financial restructuring and strategic restructuring; strategic reorientation enables the elimination of existential mid and long-term problems of the enterprise⁴.

Strategic planning in the development of the restructured enterprises

R. Krupski underlined that classical methods of strategic planning decline in importance and become useless in many industries. Moreover, R. Krupski strongly emphasized that, taking into account an increase in turbulence of the environment, the situation of strategic management in enterprises is not to be envied. Epistemological and methodological assumptions should be subjected to changes since, without, appropriate to the situation, penetrating or assumptions of the future, it is hard to imagine any development of enterprises.

On the basis of foreign and Polish research, R. Krupski paid attention to three trends of development of strategic planning⁵:

- to plan in accordance with the canons of classical approaches to achievements of strategic planning, taking into account long-term forecasting, from time to time correcting the adopted strategy,
- not to plan strategically (in a long-term manner) at all and to limit strategies e.g. to planning redundancy of selected resources while creating the potential to use opportunities,
- to plan using opportunities in a long time perspective i.e. incorporate the issues of identifying and using opportunities into the strategy of the enterprise.

The strategic planning approach conceives strategic decision making processes as logically sequenced activities that allow management to analytically determine an appropriate strategic path for the whole organization. Strategy has been defined as the determination of long-term goals and objectives by the corporate leadership, and conceived as a pattern of policies and plans developed by top management to achieve predetermined goals. The strategic planning process has been depicted as the development of decision-making rules that guide future organizational actions. Centralized strategic planning systems are developed to integrate functional activities and co-ordinate long-term organizational actions that arguably should facilitate corporate adaptation. Many of these aspects are incorporated in the

³ Platonoff A. L., *Zarządzanie dynamiczne. Nowe podejście do zarządzania przedsiębiorstwem*, Difin, Warszawa 2009, pp.23-35; Kaleta A. L., *Realizacja strategii*, Polskie Wydawnictwo Ekonomiczne, Warszawa 2013, pp. 71-79; Wells J. R., *Inteligencja strategiczna*, Dom Wydawniczy Rebis, Poznań 2014, p. 23; Nowodziński P., *Zarządzanie strategiczne współczesnym przedsiębiorstwem. Otoczenie a strategia*, Sekcja Wydawnictw Wydziału Zarządzania Politechniki Częstochowskiej, Częstochowa 2013, pp.105-153; Teece D, Pisano G, A. Shuen, *Dynamic Capabilities and Strategic Maagement*, Strategic Management Journal, 18 (7) 1997, pp. 509-530; Porter M.E., *The Five Competitive Forces that Shape Strategy ?* Harvard Business Review, 1 January 2006.

⁴ Błat M., Kraus K. J., Haghani S., *Corporate restructuring. Finance in times of crisis*, Springer, Berlin 2006, p. 32, [after:] A. Kałowski, *Kierunki procesów restrukturyzacji przedsiębiorstw w kryzysie*, Kwartalnik Nauk o Przedsiębiorstwie, No 3/2012, pp. 42-47; Gulami R, Noria N, Wohlgezogen F, *Kto i jak wygrywa w trudnych czasach*, Harvard Business Review Polska, czerwiec 2010, pp. 62-63.

⁵ Krupski R., *Jak radzić sobie z niepewnością w planowaniu strategicznym?*, [in:] *Planowanie strategiczne w warunkach niepewności*, R. Krupski (ed.), Copyright by Wałbrzyska Szkoła Zarządzania i Przedsiębiorczości, Wałbrzych 2007, pp. 95-105. R. Krupski, *Redundancje zasobów i procedur jako panaceum na niepewność otoczenia*, Organizacja i Kierowanie, No 151/2012, pp. 11-12.

conventional strategic management paradigm, which emphasizes a need for a systematic approach to strategy development. The strategic management paradigm builds on a number of sequential steps in the strategy development process, such as goal formulation, environmental analyses, strategy formulation, implementation and control.

Table 1: Classifications of antecedents of the strategic planning process in the literature (in chronological order)

| Source | Range of control of the firm | | | Antecedents of the environment and the strategic problem |
|--------------------------------|---|--|--|---|
| | Organizational properties (Where is the planning done?) | Strategist's properties (Who does the planning?) | Planning method's properties (How is the planning done?) | |
| Ginsberg and Venkatraman | Corporate organization | | | Corporate environment Development of firm value Strategy content |
| Tochtermann | Planning bodies | Planning team | Planning system Planning tasks Planning technology Planning process Degree of formalization | Not considered |
| Müller-Stewens and Lechner | Location | Participants Teamwork | Timing Resources Procedures | Not considered |
| Hutschenreuter and Kleindienst | Static characteristics of the organization | Dynamic characteristics of the organization Static characteristics of the strategist Context of the strategist | Process characteristics Process-outcome characteristics | Environmental context Strategic context Organizational performance Issue characteristics |
| Kranz | Organizational conditions | Characteristics of decision makers | Characteristics of the decision | Environmental conditions Content of business strategy |
| Weißberger and Löhr | Planning integration Slope in competence | Planning openness Opportunism | Planning intensity Planning rationality Planning duration | Not considered |
| Hamann and Günther | Planning and control bodies | Planning and control bodies | Planning and reporting system Planning and control instruments Planning and control activities Formalization system | Not considered |

Source: Kürschner S, Günter T, *Design parameters of the strategic planning process and organizational performance - a quantitative analysis of empirical research*, Betriebswirtsch (2012) 62:5-44, Published online: 18 April 2012, Wirtschaftsuniversität Wien, Austria 2012.

Strategic planning is a complex process whose development is connected with overcoming external and internal barriers; they take the form of:⁶

- turbulent changes in the environment,
- difficulties in reconciliation of contradictory expectations of stakeholders,
- difficulties in specifying hierarchy and the way of achievement of strategic goals,
- limited financial resources,
- limited competencies of participants of the planning process,
- limited information resources,
- limiting efforts only to creating the strategic plan and lack of interest in its implementation; many strategies have come into being but never been implemented,
- lack of interest in changes taking place in the enterprise and, most of all, focusing on the environment (the market and competitors),
- lack of constant control and not keeping up with changes in the environment or introducing changes too rapidly in response to changes in the environment,
- attaching excessive importance to quantitative variables (e.g. market share).

The strategic planning process in the enterprise the most frequently refers to activities implemented in the framework of three basic stages, namely: designing the strategy, its implementation and strategic control. This process may be presented in detail in the form of five stages:

- identification of fundamental assumptions of the activity of the enterprise (the mission and domain of its activity),
- strategic analysis of external and internal conditions of its activity (using effective methods),
- strategic choice (specifying realistic goals and the ways to achieve them and recording them in the form of a plan),
- effective implementation (consistent but flexible implementation of the strategy),
- strategic control (comparing what has been achieved to what was planned before, flexible response to changes in conditions).

The activities in the field of strategic planning of the restructured enterprise are within the first three stages; they concentrate on the identification of the mission and domain of its activity in conditions of uncertainty, strategic analysis of its (micro- and macro-) environment, identification of strategic competencies and the level of its competitiveness, summary of strategic analyses and specifying the preferable options of enterprise development, planning activities in the framework of the strategy of marketing competition and other functional operational programs of the enterprise⁷.

Strategic planning in the enterprises of the Silesian Voivodeship

The basis for the conclusions in this part of the paper is the questionnaire on strategic planning processes in the Silesian enterprises, conducted in the Institute of Enterprise Management of Czestochowa University of Technology, including more than 40 enterprises from different industries, employing more than 50 workers (61 % employing 50-249 people and 39 % employing more than 249 people). There are also used the observations made in the course of direct cooperation with a range of enterprises and business meetings.

⁶ Romanowska M., *Planowanie strategiczne w przedsiębiorstwie*, PWE, Warszawa, 2004.

⁷ Romanowska M., *Analiza i planowanie strategiczne w małej firmie* [in:] *Zarządzanie strategiczne. Strategie małych firm*, praca zbiorowa pod red. R. Krupskiego, Wałbrzyska Wyższa Szkoła Zarządzania i Przedsiębiorczości, Wałbrzych 2005, pp. 95-103; Nogalski B., Szpitter A., *Dylemat niepewności versus planowanie strategiczne w rozwoju przedsiębiorstwa*, *Planowanie strategiczne w warunkach niepewności*, R. Krupski (ed.), Copyright by Wałbrzyska Szkoła Zarządzania i Przedsiębiorczości, Wałbrzych 2007, pp.41-56.

Table 2: The period of strategic plans in force of the surveyed enterprises of the Silesian Voivodeship (the research covering IV-VI 2015)

| The period of strategic plans | % of indications |
|--------------------------------------|-------------------------|
| 1 - 2 years | 11 |
| 2 - 5 years | 67 |
| more than 5 years | 22 |

Source: Own research 2015, Institute of Enterprise Management, Czestochowa University of Technology, N=40.

The conducted research of Polish enterprises indicates that the most frequently applied planning horizon is the period of less than five years. Managers indicated the revision of strategic plans every year. The correction of plans, as the respondents pinpointed, is mainly (72% of those questioned) the result of the necessity for adaptation to market changes and forecasting changes in the environment (28%). Among the surveyed enterprises, a vast majority, about 80 %, indicated the fact that only managers directly participated in strategic planning of the enterprise; only in 20 % of the surveyed enterprises, mid-level staff were involved in strategic planning.

The assessment of impact of using strategic planning on the market position of the enterprise deserves a special attention. As much as 70% of the surveyed managers answered that they benefited from the application of strategic planning and maintained market position on so dynamic competitive market. Moreover, the planning process brought about more sales (70% of indications) and the improvement in economic and financial results (75% of indications). The obtained results allow for the conclusion that strategic planning in the present economic conditions contributes to development of enterprises perfectly.

Among the factors determining the implementation of strategic planning the respondents indicated: limited financial resources and attaching importance to quantitative variables (verifiers of economic activity) (39%). A big problem in strategic planning is poor communication inside the enterprise (35% of indications) and understanding the significance of formal planning (33% of indications). Another problem in strategic planning is limited information resources; therefore, building the strategy is based on incomplete knowledge of the environment (31%). See: Table 3.

Table 3: What factors influence the implementation of strategic planning?

| No | Factors influencing the implementation of strategic planning | % of responses |
|-----------|---|-----------------------|
| 1 | Complexity of the environment and the power of competitors | 25 |
| 2 | Style of management and knowledge and skills of the person managing the company | 17 |
| 3 | Organizational cohesion of the company | 30 |
| 4 | Communication of guidelines inside the company | 35 |
| 5 | Building the strategy based on incomplete knowledge of the environment | 21 |
| 6 | Understanding the significance of formal planning | 33 |
| 7 | Limited financial resources | 39 |
| 8 | Attaching importance to quantitative variables | 39 |
| 9 | Limited information resources | 31 |
| 10 | Lack of constant control of the strategy development | 15 |

Source: Own research 2015, Institute of Enterprise Management, Czestochowa University of Technology, N=40.

The respondents also indicated organizational cohesion of the company that impedes the development of strategic planning (30%); this problem is connected with the style of management and skills of the person managing the company (17%). The whole of problems referring to the implementation of strategic planning significantly implies the complexity of the environment and the power of competitors (25%).

Conclusion

The attempt to assess the trends in adaptation and adjustment of strategic planning processes of the restructured enterprises is both intentional and relevant activity aimed at presentation of the directions of strategic planning after the analysis of barriers to its implementation in the restructured enterprises. The modified strategic planning process has essential impact on the efficiency, long-term development and value of the enterprise. The surveyed enterprises recognize the problem and are making an attempt to improve strategic planning. However, further efforts on the side of the restructured enterprises are necessary to improve and implement constant strategic planning⁸.

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⁸ Kałowski A., *Nowe paradygmaty planowania strategicznego w przedsiębiorstwach*, Kwartalnik Nauk o Przedsiębiorstwie, No 1 (34), January – March 2015, p.57.

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RESTRUCTURING THE CONCEPT OF ENTERPRISE COMPETITIVENESS

Summary

This paper is intended as a review of successive stages of restructuring of models of enterprise competitiveness in the second half of the 20th century and selection of an effective theory of enterprise competitiveness with a view to contemporary conditions of its functioning. Concepts of competitive advantage distinguished by K. R. Conner in 1991 are discussed. The present-day, resource-based theory of competitive advantage is described and a corresponding model of enterprise management is selected. Fundamental strengths of the resource-based approach to strategic management are presented as well.

* * *

Introduction

Management sciences turned to problems of enterprises' competitive advantage as late as 1950s, as part of Ch. I. Barnard's school of social systems. The school arose under the influence of the structural trend in American social theory and Gestalt psychology.

Its representatives introduced the notion of a social system, that is, a dynamic set of organisation members who cooperate with one another for a specific objective. They analysed three types of links between the members: 1) *communication* – stimulating parts of a system to activity and constituting a means to coordination and control; 2) *equilibrium* – identified with a mechanism for stabilisation of an organisational whole and its adaptation to changeable conditions; 3) *decision-making* – a means to regulation and strategic management, responsible for development of an organisation.

The school inspired Cyert's and March's 1964 behavioural theory of the firm. It explained the nature of behaviour of enterprises striving for competitive advantage and the associated decision-making processes which lead to strategic pro-development decisions.

The behavioural theory of the firm can be assumed to underlie discussions of an enterprise's competitive advantage. It must be noted, however, that by focusing on psycho-sociological analysis, the theory ignored material aspects of an enterprise, in particular, processes of work planning and organisation that play an essential role in a business.

Economic sciences proposed more efficient tools in this respect. Therefore, concepts of competition based on neoclassical economics with their fundamental assumptions of a full, unlimited rationality of managerial decisions were soon to triumph. The dramatically escalating turbulence of the environment caused Barnard himself to use the term ‘intended rationality’ whereas in 1958, Herbert Simon (the Nobel Prize winner of 1978) opposed the neoclassical idea of perfect rationality of businesses. He proposed to replace it with the assumption of ‘bounded rationality’. Turbulence of an organisation’s environment continues to increase, causing contemporary management processes to take place in conditions of a generalised uncertainty. This has given rise to a need for modernising the nature of decision-making processes leading enterprises to gain competitive advantage, which means the concept of enterprise competitiveness has been restructured.

This paper is intended as a review of successive stages of restructuring of models of enterprise competitiveness in the second half of the 20th century and selection of an effective theory of enterprise competitiveness given the contemporary conditions of its functioning.

With a view to this objective, theories of enterprise competitiveness distinguished by K. R. Conner in his 1991 *Journal of Management* paper are discussed in the second part of this article. The present-day, resource-based theory of competitive advantage is described and a corresponding model of enterprise management is then selected. Fundamental strengths of the resource-based approach to strategic management are presented in the final section.

Historical review of concepts of competitive advantage

Accepting after Koźmiński¹ that competitive advantage denotes being better at the competitive game, that is, more attractive to buyers of products and services, commercial partners, investors and workers, it must be stressed the advantage is pursued in all three types of markets: goods and services, capital and labour. Striving for the advantage determines a variety of enterprise behaviours in these markets. Decision-making criteria applied by enterprises in their competitive game are the key issue. Diverse schools of the so-called Industrial Organization Economics have proposed different sets of decision-making criteria to assure competitive advantage to enterprises.

Conner² distinguishes five concepts of the advantage which he claims gained prevalence in turns:

1. The concept based on the neoclassical economics, perceiving an enterprise as an organisation in search of best (optimum) combinations of production factors such as fixed assets, raw materials, materials, energy, human labour. These factors help to maximise profits in the long term. Full, unbounded rationality of managerial decisions is the fundamental assumption of this school.
2. The concept derived from the theory of monopoly competition, which finds sources of competitive advantage in a dominant standing in the market and enables to limit production and charge high prices.
3. The concept based on the Shumpeterean School of innovation, which attributes the key role to incidental inventions leading to ‘creative destruction’, i.e. a dramatic change of the existing foundations of competitive advantage.
4. The concept associated with the (laissez-faire) ‘Chicago school of economics’ prevalent since the mid-1970s, which returned to the neoclassical theory of competition focused around categories of costs and prices. It additionally presumed perfect self-regulation properties of all the three types of the markets (goods and services, capital and labour). This concept looks for sources of competitive advantage in reducing costs of production and distribution which allows for profit maximisation in a perfectly competitive market where prices should be independent from manufacturers.

¹ Koźmiński A. K., *Management under uncertainty. Advanced Guide*, PWN, Warsaw 2005, p. 91.

² Conner K. R., *A historical comparison of resource-based theory and five schools of thought within Industrial Organization Economics: do we have a new theory of the firm*, “Journal of Management” 1991, t. 17, No 1, pp. 174-185.

5. The concept according to the school of transaction costs, the latest among those discussed by Conner, claiming the competitive advantage derives from participation in the market using institutional licences and permits given complete security of ownership rights, legal enforceability of effective contracts, and free access to information. This theory is associated with two Noble prize winners for economics: Ronald Coase (1991) and Oliver Williamson (2009).

It should be noted all these concepts rely on the assumption of relative stability of the circumstances in which an enterprise operates. This is not regrettably true of the present conditions of generalised uncertainty, where everything continues changing at an increasing rate. This variability obtains for both political and macroeconomic (chiefly financial and monetary) parameters of business environment, needs and tastes of customers, constant (technical, economic and social) innovation, unpredictable behaviour of market players (changes of ownership and alliances), as well as state and supranational market regulators.³

The neoliberal and Chicago school notions of competitive advantage and transaction costs-based competition, applied by a majority of transnational corporations active in Poland, are the most common in Polish economic practice. It is interesting to consider whether the former is likely to remain prevalent in this country.

The neoclassical 'Chicago school' economics continues to base its theoretical discussions of financial market models on the assumed rationality of market players, supported with a positive verification of the Efficient Market Hypothesis (EMH). Efficiency of the financial market is regarded as efficient allocation, organisational efficiency and efficiency of market information. Stock pricing is assumed to reflect market information and markets are productive, effective, capable and competent. Prices of financial instruments at any one time express all information available at the time, both historical and rationally predictable.⁴

It was as early as 1985 that Oliver E. Williamson⁵ said the neoclassical economics, which assumes ubiquity of optimisation measures in analysis of market contracts, fails to consider all costs of contract conclusion and performance. His theory, known as the New Institutional Economics (NIE), based on the transaction costs economics, includes two fundamental behavioural assumptions: of bounded rationality of business organisations and opportunism of parties to contracts.

The assumption of bounded rationality of business organisations was accepted after Herbert Simon who, in his *Organizations*, co-authored with J. G. March in 1958, called on economists to rely on more realistic microeconomic assumptions and suggested replacing the fundamental neoclassical microeconomic principle 'of perfect rationality of business organisations' with one 'of bounded rationality'. In his view, the neoclassics were unrealistic in appreciating possibilities of using 'perfect information' in decision-making processes. Such information would in fact come at a high cost and a low real rate of return on capital since real decisions exhibit bounded rationality as real choices are made on the basis of a simplified, limited and approximate scheme of reality. In addition, parts of this scheme are not data, strictly speaking, but products of psychological and sociological processes comprising activities of both decision-makers and other, independent individuals in their environment. A business organisation does not pursue an optimum choice, as presumed by the neoclassics, but one that is satisfactory to decision-makers.

The other behavioural assumption posits opportunistic behaviors of parties to a contract, defined as crafty attempts at attaining their own interests, also using deception, theft and lies in the subtle form of cunning. This was discovered as part of Williamson's own research into behavior of large corporations

³ Koźmiński A. K., *Management...*, op. cit. p. 92.

⁴ More on this topic: A. Peszko, "Financial markets in the mechanism of corporate governance, "Legal and Economic Studies, Volume XCI / 2/2014", Scientific Society Lodz, Lodz 2014, pp. 281-292

⁵ Williamson O. E., *Economic institutions of capitalism. Firms markets, contractual relationships*, PWN, Warsaw 1989., pp. 56-64. Original: *The Economic Institutions of Capitalism. Firms Markets, Relational Contracting*, The Free Press, a Division of Simon & Schuster Inc. 1985.

in international markets. In 2009 (the second year of the credit crunch), he was awarded the Nobel Prize in economics for his research into and description of conduct of large corporations in the markets.

Starting from these behavioural assumptions, Williamson himself and other scientists of this trend have developed and proposed to politicians and business practitioners a range of institutional solutions that contributed to the dynamic growth of large transnational corporations in final decades of last century⁶

It should be admitted a completely new trend in economics, referred to as behavioural economics and finance, has dramatically gained importance since the publication of George A. Akerlof's and Robert J. Shiller's *Animal Spirits*⁷ by Princeton University Press in 2009. The leading proponent of this trend, Robert J. Shiller of Yale University (b. 1946), has been the most strident and consistent critic of the Efficient Market Hypothesis since the 1980s. He received the Nobel Prize for economics for this work in 2013, with the Committee distinguishing the author of the Efficient Market Hypothesis, E. F. Fama (b. 1939), and his co-worker at the University of Chicago, L. P. Hansen (b. 1952), at the same time.

It must be noted Fama continued to revise his original Efficient Market Hypothesis as first proposed in the 1960s. In 1965, he represented an even more optimistic view that free market competition between an ever-expanding groups of intelligent investors results in improved efficiency of capital markets. After a number of cases of negative verification of the original Efficient Market Hypothesis, he introduced as many as three forms of the financial market's information efficiency in 1976: weak (with negative verifications of the efficiency hypothesis), half-strong (where negative and positive verifications interweave), and strong (always positive verifications of the efficiency hypothesis). This failed to solve the problem fully as, after thorough empirical research, Fama admitted in 1991 to generating results both confirming and undermining his Efficient Market Hypothesis in reference to each of his forms of information efficiency. He thereby corroborated the views of Shiller, who clearly stated practice negatively verified the efficiency hypothesis of contemporary capital markets as far back as the 1980s.

In light of the above, the proposition that the neoliberal theories of competitive advantage based on the belief in self-regulation properties of the markets have been discredited can be taken as proven. It should also be noted authors postulating the need to reconsider the role of the market and even for statutory separation of certain areas of public life where market regulations must be prohibited from applying for ethical reasons gain increasing acclaim in global scientific literature.

Michael Sandel, a world-renowned political philosopher and a lecturer at Harvard University, is one of them. In his 2011 book, *What money can't buy. The moral limits of market*⁸, he states the 2008 global financial crisis was perceived as a moral punishment for uncritical fascination with the market in the last three decades of the 20th century. Bringing the once-powerful Wall Street financial firms to the brink of collapse and the need for massive taxpayer subsidies were bound to provide food for thought. Even Alan Greenspan, an enthusiastic believer in the market triumphalism as head of the US Federal Reserve, confessed to his failure when his confidence in self-regulation properties of the free market proved wrong. The era of the market triumphalism came to its inglorious end. A time of moral summaries and sober verifications of the belief in the market.

Sandel goes on to state, anxiously: *'The spectacular failure of the financial markets has hardly undermined faith in the market as such. In effect, the credit crunch discredited governments rather than banks. Surveys in 2011 showed the American public opinion tends to blame the government more than twice as often as Wall Street institutions for economic trouble of the country. The recession sank the United States and the bulk of the global economy in a slump unseen since the Great Crisis and deprived millions of their jobs. It has failed to provoke a fundamental revision of the markets, though. Instead, the*

⁶ Rainelli M., *Industrial Economics*, PWN, Warsaw 1996 (originally issued in French in Paris in 1993).

⁷ Polish edition: G.A. Akerlof, R.J. Shiller, *Animal instincts. Is human psychology drives the global economy and how it affects the transformation of world capitalism*, Publishing Studio Emka, Warsaw 1910.

⁸ Polish edition: Michael J. Sandel, *What can not be bought with money. The moral limits of markets*, Kurhaus Publishing, Warsaw 2011.

rising support for the Tea Party movement, whose hostility to the government combined with acceptance of the free market would even confuse Ronald Reagan, was its most marked political consequence. The Occupy Wall Street movement initiated protests in many cities in America and worldwide in the autumn of 2011. They focused on big banks and corporations, as well as growing inequalities of income and property. In spite of ideological differences, activists of both Tea Party and Occupy Wall Street voiced their populist indignation at the state financial aid to banks. Despite these voices of opposition, a serious debate of the role and extent of the markets is still absent from our politics. Democrats as usual argue with the Republicans about taxes, spending and budget deficits with even more persistence and less openness to persuasion or suggestions. Disappointment with politics has exacerbated in line with the growing frustration with a political system incapable of acting for the common good or of dealing with the most pressing issues.⁹

Sendel is deeply worried that economists commonly assume the market to be indifferent without influencing goods in trade, whereas this is not the case. Markets leave their mark, market values often even displace non-market values which merit care¹⁰

M. Sendel's position confirms the earlier view that, in an increasingly turbulent macroeconomic and political environment, the free market theory of competition is not perfect or universal. It suffers from major drawbacks and should therefore be counterbalanced with more of an institutional and behavioural approach. This concept is linked to the point of the resource-based theory of competitive advantage, developed in the last decade of the 20th century and thus not addressed by Conner's analysis.

Resource-based theory of competitive advantage

Resource-based theory of organisations emerged in the 1980s in response to the escalating market uncertainty under the new, liberal policies of the US government.¹¹ In general, this theory sees organisations as actively seeking hard to copy, scarce, valuable and unique configurations of skills and resources and capable of creating, recreating and multiplying the same. Many economists developing this concept have assumed that, in conditions of generalised uncertainty, the capacity for quick real-time and adequate responses to changing situations and forecasts for the future is the source of competitive advantage.¹² Pioneers of the resource-based theory of competitive advantage recommend that organisations maintain a certain surplus potential, that is, spare resources whose configuration can be easily varied according to need.

A notional and highly simplified process of gaining competitive advantage in light of the resource-based school is illustrated by Figure 1.

⁹ Ibidem p.p. 24-26.

¹⁰ Ibidem p. 22.

¹¹ Koźmiński A. K., Latusek-Jurczak D., *Development of organization theory*, Publishing House and Wolter Kluwer, Warsaw 2011, p. 113.

¹² Barney J., *Firm's resources and sustained competitive advantage*, „Journal of Management t. 17, No 1991, pp. 99-120; Mahoney J., Pandian J.R., *The resource-based view within conversation of strategic management*, “Strategic Management Journal”, t.5, No 13 1992. pp. 363-380.

Figure 1: The simplified process of gaining competitive advantage as postulated by the resource-based school

| | | |
|-------------------|--|--|
| Positive feedback | MANAGEMENT SKILLS | <ul style="list-style-type: none"> ▪ Knowledge management ▪ Team work ▪ Leadership |
| | ABILITIES TO CREATE AND RECREATE RESOURCES | <ul style="list-style-type: none"> ▪ Information ▪ Transformation ▪ Adaptive ▪ Innovative ▪ Sociotechnical |
| | RESOURCES | <ul style="list-style-type: none"> ▪ People ▪ Knowledge ▪ Brand ▪ Culture ▪ Strategy ▪ Technology ▪ Capital ▪ Market access ▪ Structure |
| | COMPETITIVE ADVANTAGE | |

Source: Koźmiński A. K., *Management under uncertainty. Advanced Guide*, PWN, Warsaw 2005, p. 93.

In this approach, competitive advantage is based on appropriate management skills, particularly in the areas of knowledge management, team work organisation, efficient and effective leadership. Such management skills should provide a competing organisation with the ability to create and recreate information, transformation, adaptive, innovation and socio-technical resources as this determines whether an organisation will be able to secure continuing improvement and development of:

- People and their skills, aspirations, motivations and attitudes;
- Corporate culture, i.e. entrenched patterns of conduct, norms and values;
- Organisation's knowledge or information resources useful to operation of a business;
- Financial, fixed and intellectual capital;
- Brand determining public perception of a firm and its products;
- Access to the market, that is, legally and socially consolidated contacts with customers and suppliers;
- Product design, production technology and know-how, resources, both own and acquired or purchased as part of strategic alliances or participation in virtual structures;
- Strategy defined as a programme of long-term actions, clear to both enterprise workers and to external market players;
- Organisational structure of an enterprise, understood as formalised division of duties, powers and responsibilities, as well as flows of internal and external firm information.

All the above factors, in particular the so-called soft factors listed at the top, decide competitive advantage of an organisation from the viewpoint of the resource-based school. The positive feedback between the competitive advantage already in place and management skills consists in continuing

learning of the organisation and improvement of knowledge creation and distribution processes within an organisation.

Efficiency of continuing learning and knowledge management in an organisation is a condition of development of the capacity for creation and continuing recreation of all resources of an organisation.

It is time to address the issue of selecting a model of enterprise management that would be conducive to processes of gaining and maintaining competitive advantage according to the resource-based theory.

From among the extremely high number of publications on the subject, the most comprehensive approach is offered by Quin, Faerman, Thomson and McGrath in their book entitled *Becoming a Master Manager. A Competency Framework*.¹³ The authors distinguish four basic models of enterprise management: reasonable objective, internal process, interpersonal relations, and open systems.

The models of reasonable objective and internal process emerged in 1900 – 1925. The former is associated with achievements of Frederick Taylor's American school of scientific management. Basic hierarchical arrangements of the latter model had been in use for centuries, although they had not been codified until works by Henry Fayol and Max Weber were translated. Simplified characteristics of both the models are listed in Table 1.

Table 1: Characteristics of the classic models of enterprise management

| Specification | Model of reasonable objective | Model of internal process |
|---------------------------------|--|---|
| Effectiveness criteria | Productivity, profit | Stability, continuity |
| Theory of means and ends | Clear management leads to productivity | Routine assures stability |
| What is emphasised | Explaining objectives, rational analysis and actions | Defining responsibilities, measurements, documentations |
| Climate | Rational and economically viable financial result | Hierarchic structure |
| Manager's functions | Manager, realiser and controller | Monitoring and managing |

Source: Quin R. E., Faerman S. R., Thompson M. P., Mc Grath M. R., *Professional management. Key managerial competence*, Polish Economic Publishing House, Warsaw 2007, p. 28.

Even a cursory analysis of both the classical management models shows they will not be effective or efficient in generally uncertain conditions of enterprise operation. They cannot assure success to a large corporation intending to apply the resource-based concept of competitive advantage.

This does not mean, however, that the classical models are of merely historical value. Competitive advantage can be provided to small and medium-sized enterprises by means of the rational objective since these enterprises commonly function in stabilised sectors of the economy where the classical, neoliberal theories of competition continue to apply. The model of internal process, on the other hand, will still be of use at the operational level of management, especially in control of day-to-day operations and financial flows. State-of-the-art IT equipment already guarantees these possibilities even to large transnational corporation that put the resource-based concept of competing into practice.

¹³ Polish edition: Quinn R. E., Faerman S. R., Thompson M. P., McGrath M. R., *Professional management. Key managerial competence*, Polish Economic Publishing House, Warsaw 2007.

Two more recent models of enterprise management: of interpersonal relations and open systems, are incomparably more broadly applicable at present. They are characterised in Table 2.

Table 2: Characteristics of contemporary models of enterprise management

| Specification | Model of interpersonal relations | Model of open systems |
|---------------------------------|--|--|
| Effectiveness criteria | Commitment, cohesion, morale | Adaptive capacities, external support |
| Theory of means and ends | Involvement leads to commitment | Continuity of adaptive processes and innovations helping to gain and maintain external resources |
| What is emphasised | Participation, conflict resolution, arrival at consensus | Political adaptation, creative problem solving, innovations, change management |
| Climate | Team focus | Innovation, flexibility |
| Manager's functions | Mentor and moderator | Innovator and intermediary |

Source: Quin R. E., Faerman S. R., Thompson M. P., Mc Grath M. R., *Professional management. Key managerial competence*, Polish Economic Publishing House, Warsaw 2007, p. 28.

The model of interpersonal relations arose in the second half of the 20th century from an experiment conducted by a Harvard psychology professor, Elton Mayo, at Western Electric Company. McGregor, Argyris, Likert, Simon and March made some of the key contributions to its development. Some authors believed the model had not been fully crystallised until the 1950s and was contrary to the models of rational objective and internal process.¹⁴ It only became practicable after research with large corporations in the next quarter of the century and gained extensive currency as part of Human Resources Management (HRM) or, more broadly, the behavioural current of management sciences.

The open systems model evolved in 1951-1975 under the impact of an increasingly rapid rate of change and the need to understand how to manage an enterprise in a quickly changing world, since internally efficient enterprises increasingly often collapsed as they were unable to adapt to growing turbulence of the environment.

In the second half of the 20th century, development of an enterprise depended on the surrounding circumstances rather than internal organisational and technical efficiency which underlie the potential for growth of production. This was bound to open the enterprise to the environment although it continued to be regarded as a uniform and coherent system realising its own objectives as set by an internal coalition. Interests of external partners had to be considered in setting of these objectives, however. Mutual relations were consciously transformed from the struggle for access to resources and customers into cooperation, as part of which rare resources and unique competences were shared by partners. Rare resources and/or unique competences that are valuable to the enterprise's partners are the magic key to such a transformation of mutual relations. The resource-based theory of competitive advantage fully brings it to light. An enterprise without its own rare resources and unique competences is not attractive

¹⁴ Quin R.E., Faerman S.R., Thompson M.P., McGrath M.R., op. cit. p. 24.

to other competitors-partners and will not be offered collaboration as part of a shared network of market value creation. It will miss development opportunities and quickly vanish from the market.

The foregoing discussion may appear to imply the resource-based theory of competitive advantage brings success only to those enterprises that apply a pure model of open systems to their management while ignoring the remaining three management models. This would be a simplification, though. The authors distinguishing the four models of enterprise management believe they are but subsets of actions which, if in appropriate combinations, produce an adequately high effectiveness in an organisation. None of these models in isolation provides for a sufficient variety of viewpoints and choices or an adequately high potential effectiveness of an organisation.¹⁵

A basic set of tools for improving effectiveness of organisation management as part of the resource-based theory of organisational advantage is provided by the two most recent models, of open systems and interpersonal relations. They are best suited to the generalised indefiniteness faced by contemporary enterprises.

Resource-based approach to strategic management

The institutional trend in economics, including the resource-based approach, is largely based on Schumpeter's microeconomic theories. In his work (1934, 1950), he stressed the role of creative destruction of an existing economic equilibrium with innovations based on breakthrough inventions and introduction of a new, higher level of economic balance once the innovations have become common. That theory countered the static view of competition and enterprise environment by assuming these forces are by nature unstable and clash against each other in a continual process of creative destruction.¹⁶ Such an approach obviously cannot include time-consuming SWOT analysis or analysis of Porter's five competitive forces, typical for classic competition strategies of industrial organisations.

The institutional economics places more emphasis on an entity and assumes its economic relations with the environment are determined by experience and knowledge acquired over time, not strictly rational attempts at maximum benefits. In this light, the economic activity becomes dynamic and is impacted by social institutions an entity comes in contact with. In turn, competition is seen as a continuous, dynamic and unforeseeable process dependent on the knowledge people acquire as part of their everyday activity. The resultant uncertainty is in sharp contrast to the traditional industrial organisation with each instance of competition treated as relatively stable. In the institutional perspective, meanwhile, a strategy is perceived as a protracted process identical with strategic change. Each strategic change arises in turn from a better recognition, understanding of a situation, which comprises subjective and objective views of the competitive environment of a firm and political factors inside and outside.¹⁷

Along these lines, strategic thinking means learning to understand ambiguity, while strategic action is a dynamic process of learning about competitive forces at a given organisational tension and defining of a strategic intention based on key competences of organisations.¹⁸

More importantly, when a firm considers a strategic change, its intentions may prove inappropriate to the resources in place. If resources are substantial and intentions modest, it is a case of low organisational

¹⁵ Ibidem p. 29

¹⁶ Shumpeter J., *The Theory of Economic Development*, Harvard University Press, Cambridge 1934, *Capitalism, Socialism and Democracy*, Harper, New York 1950.

¹⁷ Jashapara A., *Knowledge Management. An integrated approach*, Polish Economic Publishing House, Warsaw 2006, p. 208. (The first edition of the original: *Knowledge Management. An Integrated Approach*, Person Education Limited, 2004).

¹⁸ Ibidem p. 209, fig. 2.

tension. On the other hand, of resources are highly restricted and intentions highly ambitious, a high organisational tension arises and competitive advantage cannot be built without external support.¹⁹

The institutional school of thinking also attaches significant weight to diagnosing a system of forces in an organisation preparing for a strategic change. The system is rarely static and normally continues to vary in time. Distinction of two opposing forces: cooperation and rivalry, is of the essence. The former relates to an integrating culture founded upon shared norms, convictions and values. Where the spirit of rivalry prevails, however, an organisation may break into separate groupings that fight for influence and defend their interests fiercely.

A certain configuration of internal forces is most common, with a single prevalent force shaping an organisation. Such a dominant force may block other, equally justified forces, though. A state of contamination emerges then and produces a dysfunctional organisation. For example, an effectiveness-oriented business may ignore the necessity of innovation in response to breakthrough changes in the market. States of combination, where no force prevails over others, or conversion, where different forces alternate to prevail, occur from time to time in an organisation. The former tends to foster splits, i.e. an open clash of two or more forces that threatens to paralyse an organisation. Serious consequences may arise from conflicts within top management when diverse groups interpret a competitive situation differently and attempt to enforce their respective visions of the enterprise's further development.²⁰

The notion of 'key competences', introduced by Prahalad and Hamel in their paper 'Strategic intent', published by Harvard Business Review in June 1989, is fundamental to the resource-based school. They went on to explicate the nature of key competences as the foundation of competitive advantage in equally famous publication of 1990.²¹ They say *a diversified enterprise can be compared to a big tree. The trunk and branches are base products, twigs are the firm's offices, leaves, flowers and fruit are end products. Key competences are the roots which supply nutrients and stability to this system. Power of competitors cannot be judged solely by their end products, just like power of a tree cannot be assessed only by looking at its leaves.*²²

Specialists commonly accept the key competences are rooted in 'soft' resources of an organisation and in particular encompass information, transformation, adaptive, innovative and socio-technical competences.²³

Ranks of economists who employ the resource-based theory as the method of building permanent competitive advantage continue expanding. A leading proponent of this approach, Barney, defines resources as any tangible and intangible assets used in the process of selecting and implementing a strategy.²⁴ His *magnum opus*²⁵ emphasises the resources building competitive advantage should be: scarce (as they are held by few), precious (connected to effectiveness), inimitable by competitors, irreplaceable with other resources and impossible to buy in the free market.

The concept of knowledge as the most precious resource is a special variety of the resource theory. It looks for sources of competitive advantage in other fields of science that deal with: individual knowledge, learning processes, transformation of one form of knowledge into another, and routine organisational behaviour as part of knowledge creation and conversion processes. Key importance is

¹⁹ Ibidem p. 211, with reference to: G. Hamel, C.K. Prahalad, *Strategy as Stretch and Leverage*, Harvard Business Review, No 2 (71), 1993.

²⁰ Ibidem p.p. 210-211.

²¹ Prahalad C.K., Hamel G., *The Core Competence of the Corporation*, "Harvard Business Review" No 3 (68), 1990

²² Jashapara A., op. cit. p. 211.

²³ Koźmiński A.K., Latusek-Jurczak D., *Development of organization theory*, Publishing and Wolters Kluwer, Warsaw 2011, p. 116.

²⁴ Barney J. B., *Is the Resources – based „View” a Useful Perspective for Strategic Management Research? Yes*, "Academy of Management Review", No 1 (26), 2001.

²⁵ Barney J.B., *Firm Resources and Sustained Competitive Advantage*, "Journal of Management", No 7 (17), 1991.

attributed to sharing of knowledge. Transfer of latent knowledge, the most common building material of an enterprise's competitive advantage, is especially difficult. Management of enterprise knowledge is expected to incorporate staff knowledge into goods or services offered. This implies coordination of knowledge dispersed across the organisation is the key job of management. This is facilitated by treatment of the organisation as a dynamic and self-regulating socio-technical system.²⁶

The resource-based theory of strategic management continues to develop and acquire characteristics of practicable knowledge, exemplified for instance by concepts of Collis and Montgomery of Harvard Business School.²⁷ Depending on scale of an organisation's operations, they propose varied approaches to building of a resource-based strategy. They define strategy of a business unit as 'a way of struggling for continuing competitive advantage in a specific, well-identified market' and of an enterprise – transnational corporation or an international holding - as 'a way of value creation via configuration of products, national markets and structures as well as a method of coordinating operations in various markets.'

They suggest presenting issues of strategy as a triangle with its three apexes representing basic elements of a resource-based strategy, namely: 1) resources; 2) areas of operation; 3) structures, systems and processes. Once these are oriented towards implementation of a vision and motivated by definite goals, they can provide foundations for the strategic advantage. The resources are (tangible and intangible) assets and organisational skills which decide what an enterprise is capable of doing in the strategic sense. Tangible assets become strategic when they are scarce, unique and hard to copy. Location of a warehouse or a hotel near a major client may serve as an example. Intangible assets commonly enjoy significant strategic importance as they comprise brand, reputation, experience, accumulated knowledge and good customer relations.

Demand, scarcity and appropriateness endow resources with a strategic value. Demand means resources must create value to customers. If a given resource fails to enhance value for a customer, it has no strategic value either.

A scarce resource provides an enterprise with 'circumstantial rent' of the Ricardian (e.g. a permanently scarce resource in case of a state monopoly) or Schumpeterean type (periodic scarcity arising from innovation which is bound to be copied sooner or later). Scarcity of a resource may also be a function of another visible characteristic (e.g. a location or patent), gradual accumulation or a good composition of factors which is impossible to achieve overnight. Scarcity of a resource is a highly dynamic feature as well. Appropriateness relates to an answer to the question, who really stands to benefit from a given resource? An enterprise owning a resource, an external party, a worker or a group of workers are possible beneficiaries. Resources bringing maximum benefits to their owners obviously have the highest strategic value.

Conclusion

The last quarter of a century has brought essential technical, political and social changes in the enterprise environment, which has dramatically modified the approach to the concept of competitive advantage.

The fundamental assumption of neoclassical economics of the complete unbounded rationality of managerial decisions has been undermined, largely by Herbert Simon, who suggested replacing that notion with the principle of 'bounded rationality' as early as 1958. Feasibility of finding optimum combinations of production factors that would ensure maximum long-term profit has been gradually

²⁶ Jashapara A., op. cit. p.213.

²⁷ Brillman J., *Modern management concepts and methods*, Polish Economic Publishing House, Warsaw 2002, s142-143. (The original data of the publication: David J. Collis, Cynthia A. Montgomery, *Corporate Strategy: Resources and the Scope of the Firm*, McGraw-Hill New York 1997)

eliminated from strategic thinking ever since. Such an approach characterised the school of strategic management planning.

A range of counter-monopoly legislation was introduced after the great crisis of the 1930s which prevented effective use of monopoly competition theories to gain competitive advantage.

The neoliberal 'Chicago school' wreaked havoc with concepts of competitive advantage in the final three decades of the 20th century. It returned to the neoclassical notion of centring a strategy around prices and costs, assuming in addition perfect self-regulating properties of all the three market types of: goods and services, capita and labour. The assumption of perfect competition could be simplified to the slogan: 'the less state and law in the economy, the better it is for the economy'. That period of strategic thinking is associated with a 'monopoly' of M. Porters position school of strategic management. Under President R. Reagan, the *laissez-faire* concept even became a prevailing ideology in the United States and the UK and its consequences were deferred till the credit crunch of 2008-2009. The process of 'grinding away' at that ideology by economic theory commenced much earlier, pioneered by: Williamson (1985) with his new institutional economics based on the theory of transaction costs and Shiller (1981, 1982, 1984), a father of behavioral economics and finances. The latter is viewed as the most strident critic of the so-called capital market efficiency hypothesis, formulated in the 1960s by University of Chicago's E.F. Fama. Fama revised his position on efficiency of capital markets in line with progress of his research. He evolved from a highly optimistic opinion that free market competition boosts efficiency of capital markets (1965) via a moderate appraisal (1976) to stating empirical verifications of the capital market efficiency hypothesis produces utterly accidental results (1991). The latter agrees with Shiller's views, which contributed to awarding the Nobel Prize for economics to both of them in 2013.

In light of the above, it can be accepted the neoliberal theories of competitive advantage have been undermined, notions of competitive advantage have been profoundly restructured, the institutional approach has been resumed by economists and the resource-based theory of organisation has emerged.

It has opened new opportunities for propagating the resource-based theory of competitive advantage and the resource-based approach to strategic management. This is correlated with contemporary paradigms of enterprise management: the models of open systems and interpersonal relations, as well as currents of knowledge management and the learning process of organisations.

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THE EFFICIENCY OF STATUS AND THE STRUCTURE OF EMPLOYMENT IN THE CONTEXT OF COMPANY RESTRUCTURING

Summary

This article presents aspects of the rationalization of the status and the structure of employment as part of the restructuring of a company. It explains what the rationalization of employment is and what is its essence. In addition, it presents the process of carrying out the restructuring in the company while paying attention to the headcount reduction, which appears as a result of inside company changes and those occurring in the environment. Our cogitation was based mainly on the analysis of literature, but the inspiration to take up the topic derived from professional experience gained in a restructured company and observation of economic practice.

* * *

Introduction

The term rationalization means “application of measures to improve something”, “to recognize something in terms of rational, not emotional” and “inventing rational arguments for motivating actions and attitudes motivated by feelings and motives to which a person does not want to admit to himself”¹. Rationalisation of employment arises in the context of the Act of 25 September 1981 for the state-owned enterprises, under which the company operates on the principles of rational, self-financing and economic calculation². On the other hand, in Art. 6.1. Act of 16 December 2010 on the rationalization of employment in state budgetary units and some other public finance sector units in 2011-2013 we read that “rationalization of employment consists in reducing the employment of employees in the unit at least 10% in accordance with paragraph 2 and 3, subject to paragraph 4 to 6 “. In addition, Art. 7 of the said law states that “a reduction in employment in the context of the rationalization of employment can

¹ *Racjonalizacja*. [In:] <http://sjp.pwn.pl/slowniki/racjonalizacja.html> (14.11.2015r).

² *Ustawa z dnia 25 września 1981 roku o przedsiębiorstwach państwowych*. (Dz.U. z 1991 roku, poz. 122, art. 47. [In:] <file:///C:/DOCUME~1/WACICI~1/USTAWI~1/Temp/D19910080-1.pdf> (14.11.2015).

occur by: 1) termination of the employment relationship with the employee, including the employee with a right to a pension; 2) failure to sign another contract of employment, in the case of a contract for a trial period of a fixed-term or agreement concluded for the duration of a specific job; 3) reduction of employee working time with a proportional reduction in salary; 4) other than those referred to in paragraphs 1 and 2 cases of termination of employment³. Without going into legal issues related to this subject, it is worth noting that every organization, regardless of whether working in the public or private sector, must respect the principles of rational management of available resources, especially human resources.

The literature of the subject indicates that any company operating within the current socio-economic circumstances, should seek to achieve an optimal level of employment, the so-called rational employment, which occurs when all employees are essential in the work process, so there is no excessive employment. Rationalisation of employment includes adjusting the division of labor and allocation of staff according to the needs of the undertaking, which means that the tasks assigned to individual employees are consistent with their professional and social competencies. Thus, on the one hand the rationalization of employment should be taken into account and the economic aspect of employment, linked to the performance and productivity of work, and on the other - the social aspect associated with psychosocial factors and social benefits⁴.

The dynamic variation of the external environment in which there are various operators means that companies operating in global markets operate within global competition. To continue in these conditions, companies would have to increase their effectiveness, mainly by reducing costs and eliminating these areas of activity that impede their functioning⁵. A major role is played by the use of different tools. As noted by J. Mikulski, now “HR processes are very heavily supported by information technology, especially information technology to rapidly collect data about human resources, labor costs, changes in competence or progress in the movements of personnel with emphasis on rationalization of employment”⁶. Transformations taking place in the economy, cause changes in various areas of social life. The category of lifestyles reveals how complex these changes are⁷.

The process of restructuring the company

Thorough changes are inseparably inscribed in the implementation of the restructuring processes in every aspect of business operations⁸, and the restructuring is here understood as a tool to “implement radical changes in the functioning of the company aimed at increasing its economic efficiency, as well as adaptation to changing environmental conditions in the the future”⁹. The company’s restructuring

³ Ustawa z dnia 16 grudnia 2010 roku o racjonalizacji zatrudnienia w państwowych jednostkach budżetowych i niektórych innych jednostkach sektora finansów publicznych w latach 2011–2013. [In:] http://orka.sejm.gov.pl/proc6.nsf/ustawy/3579_u.htm (14.11.2015).

⁴ *Zatrudnienie racjonalne*. [In:] <http://mfiles.pl/pl/index.php/Zatrudnienie> (15.11.2015).

⁵ Juchniewicz M., Tomczyk U., *Restrukturyzacja zatrudnienia w przedsiębiorstwach a konkurencyjność regionów*. /In:/ *Zarządzanie przedsiębiorstwem w warunkach współczesnych wyzwań gospodarczych. Modele – metody – procesy*. Ed. by R. Borowiecki, J. Kaczmarek, Wyd. Fundacja Uniwersytetu Ekonomicznego w Krakowie, Kraków 2014, p. 203.

⁶ Mikulski K., *Technologia informacyjna wspomagająca zarządzanie kadrami. Kilka zagadnień*, Wyd. Adam Marszałek, Toruń 2014, p. 9.

⁷ Kulpa-Ogdowska A., *Kontynent dwóch prędkości? Europa wobec wyzwań społeczeństwa informacyjnego i konsumpcyjnego*. /In:/ *Współczesna Europa w procesie zmian. Wybrane problemy*, Ed. by J. Polakowska-Kujawa, Wyd. Difin, Warszawa 2006, p. 492.

⁸ Jaki A., *Restrukturyzacja jako instrument wzrostu wartości przedsiębiorstwa w warunkach kapitalizmu inwestorskiego*. /In:/ *Zarządzanie restrukturyzacją przedsiębiorstw i gospodarki. Uwarunkowania – procesy – efekty*. Ed. by R. Borowiecki, Wyd. Fundacja Uniwersytetu Ekonomicznego w Krakowie, Kraków 2014, p. 37.

⁹ Firlej K.A., *Cele i kierunki restrukturyzacji zatrudnienia w przedsiębiorstwie*, „Zarządzanie i finanse”, Journal of Management and Finance, Prace i Materiały Wydziału Zarządzania Uniwersytetu Gdańskiego, Vol. 11, No 1/2013,

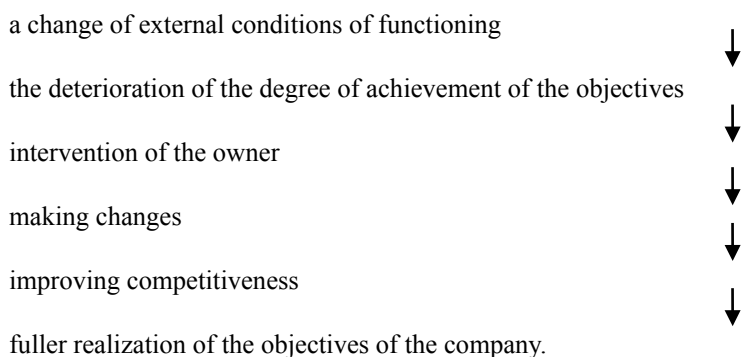
process should be thoroughly thought out and planned. In implementing the restructuring plan, we need to consider issues of key importance for the company, namely¹⁰:

- Expectations regarding the services: the implementation of which tasks is expected of us?
- Leadership: who has the authority and who bears the responsibility?
- Competence: are we adequately prepared to carry out our tasks?

Restructurization designed in such a manner consists of three stages that make up the process of taking appropriate action. First of all – the desire to increase the level of profitability, and secondly - to prepare a new functioning scheme of the organizational unit, thirdly - to develop growth strategies. Restructuring needs to be seen as a result, not a condition for effective efforts to gain a competitive advantage¹¹.

In connection with the scheme set out below it must be emphasized that in terms of producing balance in the internal labor market it is possible to use one of two methods with a similar purpose: restructuring of repair and restructuring of development, closely related to the human resources at the disposal of the company.

Figure 1: A generalized course of defined business restructuring



Source: Szóstek A., *Znaczenie i zakres restrukturyzacji*. [In:] *Firma w otoczeniu globalnym*. Ed. by J. Bogdanienko, Wyd. Towarzystwo Naukowe Organizacji i Kierownictwa • Stowarzyszenie Wyższej Użyteczności „DOM ORGANIZATORA”, Toruń 2006, p. 84.

The repair employment restructuring takes place in an emergency, ad hoc, and is associated with large excess employment, which for financial reasons can not be maintained and the lack of prospects for effective use of this work in the future. In connection with this, if the company is to survive, it must get rid of extra human resources. In contrast, employment restructuring and development should be recognized in the long-term restructuring of the company, taking into account its mission, strategy and objectives. It should also include other aspects such as the market, resources meeting the company's

p. 195. [For:] M. Juchniewicz, U. Tomczyk, *Restrukturyzacja zatrudnienia w przedsiębiorstwach a konkurencyjność regionów*. /In:/ *Zarządzanie przedsiębiorstwem w warunkach współczesnych wyzwań gospodarczych. Modele – metody – procesy*. Ed. by R. Borowiecki, J. Kaczmarek, Wyd. Fundacja Uniwersytetu Ekonomicznego w Krakowie, Kraków 2014, p. 203.

¹⁰ Fitzenz J., *Rentowność inwestycji w kapitał ludzki*, Wyd. Oficyna Ekonomiczna Dom Wydawniczy ABC, Kraków 2001, p. 195.

¹¹ Żyra J., *Restrukturyzacja przedsiębiorstw i wymagania kompetencyjne w czasie globalizacji*. /In:/ *Restrukturyzacja w obliczu wyzwań gospodarki globalnej*. Ed. by R. Borowiecki, A. Jaki, Wyd. Fundacja Uniwersytetu Ekonomicznego w Krakowie, Kraków 2014, p. 91.

productive needs, including the human factor or the possibility of raising funds for development and investments¹².

In conclusion it should be noted that “the role of employment restructuring processes becomes of particular importance in the process of implementation of new approaches to the market and strategies in the process of developing competitiveness”¹³. Furthermore, “in relation to other processes of change, restructuring of employment is an important tactic, a prerequisite for efficient and effective restructuring in its other areas. This is the result of the elementary importance of the human factor and the treatment of employees, their knowledge, competencies and skills as a key element of the competitive potential of the company”¹⁴.

Changes and competitiveness of companies

Transformations in companies are often caused by deteriorating economic results of employers, and in this case they are provided with the appropriate legal tools allowing them to make flexible changes in the structure of employment¹⁵. These tools must contribute to strengthening the company’s competitive position. In general it can be said that competitiveness reflects the company’s potential - resources, skills and abilities to provide an edge over other players in the same sector¹⁶.

In the highly competitive market an important issue affecting the efficient and effective functioning of the enterprise is the ability to react quickly to changes. The people who are employed in the company, have this ability equipped with appropriate values and human potential. How they relate to changes and whether they implement them in time depends on them.

F. Mroczo points out that an important factor in the effectiveness of changes in the company is the dynamics of their introduction, because changes can be slow and quick. The former are easier to control, as it allows favorable distribution of input costs and they do not affect the balance of the company, however, they carry the risk of being outdated and having negligible effects. On the other hand fast changes allow you to maintain a competitive position, and the speed of reaction to changes in the environment today becomes the decisive factor, among others, which strengthens the company’s competitive position¹⁷.

The success of the company in a competitive market, in terms of increasing globalization is prejudged by knowledge, skills and experience¹⁸. Therefore, it is worth remembering that on the global market corporate competition has a clear advantage, because¹⁹:

- For each enterprise even the largest it has its own equity or borrowed at the bank, it uses standardized and mass products that can be sold everywhere rather at low price;

¹² Makowski K., *Prognostyczno-zapobiegawczego kierowania zatrudnieniem*. [In:] *Jakość zasobów pracy. Kultura, kompetencje, konkurencyjność*. Ed. by A. Sajkiewicz, Wyd. Poltext, Warszawa 2002, p. 164.

¹³ Staszewska J., *Nowe podejście do restrukturyzacji zatrudnienia warunkiem wzrostu konkurencyjności globalnych organizacji inteligentnych*. [In:] *Restrukturyzacja w obliczu wyzwań gospodarki globalnej*, Ed. by R. Borowiecki, A. Jaki, Wyd. Fundacja Uniwersytetu Ekonomicznego w Krakowie, Kraków 2014, p. 154.

¹⁴ Staszewska J., *Nowe podejście do restrukturyzacji zatrudnienia warunkiem wzrostu konkurencyjności globalnych organizacji inteligentnych*, op. cit., p. 157.

¹⁵ Brayshaw L., Chrobot A., Kanior E., Plucienik A., Wanio G., *Derekrutacja czyli jak skutecznie rozwiązać stosunek pracy*. Wyd. PWN, Warszawa 2015, p. 183.

¹⁶ Walczak W., *Analiza czynników wpływających na konkurencyjność przedsiębiorstw*, „E-mentor”, No 5 (37)/2010. [In:] <http://www.e-mentor.edu.pl/artukul/index/numer/37/id/784> (15.11.2015).

¹⁷ Mroczo F., *Zarządzanie innowacjami*. [In:] *Przedsiębiorstwo zorientowane na wiedzę*. Ed. by G. Kobyłko, M. Morawski, Wyd. Difin, Warszawa 2006, p. 248.

¹⁸ Kaczmarek-Krawczuk J., *Wiedza jako czynnik przewagi konkurencyjnej przedsiębiorstwa w globalnym otoczeniu*. / In:] *Restrukturyzacja przedsiębiorstw i gospodarek w warunkach rozwoju rynków globalnych*. Ed. by R. Borowiecki, A. Jaki, Wyd. Fundacja Uniwersytetu Ekonomicznego w Krakowie, Kraków 2014, p. 155.

¹⁹ Narski Z., *Reformowanie Gospodarki. Zarys Ekonomii Strukturalnej*. Wyd. Suspens, Toruń 2006, p. 148.

- The product has a brand that is known through advertising and ensures the quality of the product;
- Uses an organized sale of goods with guaranteed service;
- Uses a thorough analysis of the market, extensive promotion of the merchandise based on a strategic action plan;
- Owns research centers that improve the products and invent new products with a wide range of applications.

The reduction in employment as a change in the organization

The external changes that are taking place are omnipresent in all aspects of the modern economy and are affecting all companies in their functioning, thereby connecting with some and reducing other organizations. Regarding the latter situation - "an integral part of reducing the organization are changes in its human resources, mostly amounting to limiting their size and structure in individual parts or in the organization as a whole"²⁰. In a situation where radical changes take place (ie. technology), to the extent that some workers are not able to adapt to these changes or require costly training, the company must decide whether to elect the process of training, or to dismiss some employees and employ others who do not require training²¹. Companies applying a policy of reducing fixed operating costs, often reduce personnel costs and thus decide on downsizing or reduce the salaries.

Reduction in employment can be seen as one of the easiest ways to make cost reductions in the company, but is it always effective? Staff rationalization processes are sometimes carried out without a professional approach. Problems with interpersonal communication or duplication of unverified information may develop. It also happens that employees are made redundant, and in their place new ones are hired without thinking whether due to the changes in restructuring the previously employed can be used elsewhere in the organization. Restructuring done in such a way not only affects the person discharged, but also those remaining in the organization²².

As indicated by J. A. Tabor, when threatened by downsizing employees make different decisions and take up actions, to remain at the workplace (eg. By prolonging sick leave or going on maternity leave)²³. Therefore, the risks associated with a reduction in staff evoke the need for adequate preparation of the company for changes involving, among others, reducing the status and structure of employment. The company should try to reduce the scale of layoffs of personnel without unnecessary conflicts arising from them²⁴. Changes in general can be approached in two ways: statically, stating that the amendment is a solution to the problem (not always a full solution) and dynamically recognizing that the change becomes the source of many new problems²⁵. Among the factors determining changes in the organization we can identify, inter alia²⁶:

- The fall of the company;

²⁰ Poczowski A., *Zarządzanie zasobami ludzkimi. Strategie – procesy – zasoby*. Wyd. PWE, Warszawa 2007, p. 163.

²¹ Zieliński M., *Restrukturyzacja zatrudnienia*. [In:] *Funkcja personalna w przedsiębiorstwie. Zakres, pomiar realizacji, uwarunkowania*. Ed. by M. Król, A. Warzecha, M. Zieliński, Wyd. CeDeWu, Warszawa 2014, p. 67.

²² *Właściwe podejście do restrukturyzacji zatrudnienia*. [In:] <http://www.kadry.abc.com.pl/czytaj/-artykul/wlasciwe-podejscie-do-racjonalizacji-zatrudnienia-pomoc-hr-eksperta> (13.11.2015).

²³ Tabor J.A., *Zarządzanie talentami w przedsiębiorstwie. Koncepcje, strategie, praktyka*. Wyd. Poltext, Warszawa 2013, p. 124.

²⁴ Zieliński M., *Zarządzanie kadrami w warunkach restrukturyzacji gospodarki regionu na przykładzie województwa śląskiego*. [In:] *Zarządzanie zasobami ludzkimi. Wyzwania u progu XXI wieku*. Ed. by Z. Wiśniewski, Wyd. UMK, Toruń 2001, p. 366.

²⁵ Antoszkiewicz J.D., *Innowacje w firmie. Praktyczne metody wprowadzania zmian*. Wyd. Poltext, Warszawa 2008, p. 201.

²⁶ Bańka W., *Człowiek w organizacji*. Wyd. Adam Marszałek, Toruń 2011, pp. 98-99.

- Change of owner;
- Reorganization of the organizational structure;
- A decrease in demand for the products of the company;
- Introduction of a new method of accounting of the results of the work;
- The introduction of new technical measures in the workplace;
- Introduction of a new business strategy;
- Widening the scope of duties;
- The need to participate in training;
- Approach from competition to cooperation, etc.

In considering making changes we cannot ignore factors related to the lack of involvement of workers in changes due to the occurrence of the following elements²⁷:

- Fear of change;
- Fear of financial consequences;
- The fear of losing their jobs;
- The fear of losing authority;
- Fear of the need of retraining;
- Unwillingness to learn, and to acquire new knowledge;
- Bad experience with previously carried out changes;
- Lack of knowledge of the purpose and nature of the changes.

Conclusion

Employment rationalization in practice means optimal use of available human resources necessary to attain the objectives of the company, which operates under dynamic changes. Of particular importance are changes in the status and structure of employment, which is the result of the restructuring of the company. The company's restructuring may involve different areas of its business. Reasonably restructured employment is a prerequisite for effective and efficient changes in other areas of the company. Rationalisation of the state and structure of employment allows for an optimal number of employees with appropriate theoretical knowledge, practical skills and professional competence that allow for quick adaption to changes within the organization and in the environment.

Companies operating in conditions of competition on the market must continue to make rational decisions related to their activities in a permanently changing environment. Each of them employs people who are different from each other. If an organization wants to survive and thrive, it must change, restructure the various areas of activity, including human resources, and adapt to current needs and expectations of the environment. Restructuring as a permanent process, which is obvious, should be implemented in an effective and efficient manner.

Restructuring is one of the ways to achieve a new form of organization, in accordance with the adopted and implemented economic purpose and direction optimally matched to ensure the development and efficient operation of the organization²⁸. However, with the increasing population and technological progress, reducing the size and structure of employment is becoming a serious humanitarian problem²⁹, which is why organizations should operate in a flexible manner. "A flexible company has the ability to adapt to change, to the circumstances, without becoming a threat to the cohesion of the organization and

²⁷ Kijewska A., *Zarządzanie zmianami w kierunku podniesienia wartości kapitału intelektualnego*. [In:] *Pracownicy – kreatorzy zmian w przedsiębiorstwie*. Ed. by A. Kijewska, Wyd. Politechniki Śląskiej, Gliwice 2009, p. 35.

²⁸ Gołębiowska E., *Etyczna restrukturyzacja organizacji na globalnym rynku*. /In:/ *Restrukturyzacja przedsiębiorstw i gospodarek w warunkach rozwoju rynków globalnych*. Ed. by R. Borowiecki, A. Jaki, Wyd. Fundacja Uniwersytetu Ekonomicznego w Krakowie, Kraków 2014, p. 126.

²⁹ Narski Z., *Reformowanie Gospodarki. Zarys Ekonomii Strukturalnej*, op. cit., p. 205.

achieving its objectives”³⁰. Besides that the “flexibility of the organization is enforced by the volatility of the environment at the same time it is a proven tool of renewal of business models in contemporary organizations”³¹.

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³⁰ Myjak T., *Restrukturyzacja zatrudnienia – w kierunku stosowania elastycznych form zatrudnienia w przedsiębiorstwach*. /In:/ *Zachowania przedsiębiorstw w obliczu nowych wyzwań gospodarczych. Restrukturyzacja – zarządzanie – analiza*. Ed. by R. Borowiecki, J. Chadam, J. Kaczmarek, Wyd. Fundacja Uniwersytetu Ekonomicznego w Krakowie, Kraków 2013, p. 166.

³¹ Skrzypek E., *Zarządzanie wiedzą w elastycznej organizacji w warunkach zmienności otoczenia*. /In:/ *Wiedza i doświadczenie a współczesne koncepcje i narzędzia zarządzania organizacją*. Ed. by J. Toruński, M. Chrzęściak, Wyd. Uniwersytet Przyrodniczo-Humanistyczny w Siedlcach, Siedlce 2015, p. 7.

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THE DESIGN OF ORGANIZATION EXPLORATORY STRUCTURES BASED ON RESTRUCTURING IN THE FRAME OF THEORETICAL APPROACH

Summary

An enterprise being the subject of restructuring is under the changes not only in terms of material resources, but also immaterial, so the culture of organization. When designing the organization, it is essential to take into account all elements of structure and the relationships between them. For all parts of the organization the respective objectives and tasks are allocated. Decision-making authority and responsibility are distributed, and then the processes of implementation are formalized. The authors of the article present the exploratory concepts, so the diagnostic approach to the organization design.

* * *

Introduction

Globalization and the new economy intensity of impact on the surrounding reality has caused the collapse of enterprises functioning existing paradigms¹. Contemporary economic reality determines the need for a change in thinking and enterprise management as key elements of any economy subject triad. In era of globalization and new economy the companies are obliged to a skillful adaptation of tasks and functions, work organization methods and management to rapidly mutating conditions of their functioning as the result of transformation and economic integration processes, as well as technological and information challenges. The dynamics of market processes causes that all companies are forced to continuous improvement of undertaken actions². The nature of these changes is most often incidental and they boil down to a specific part of the company. In contrast is the situation in case of big problems in the area of organization and management. Then the necessary action to carry out is complex repair processes. Restructuring is a tool for implementation the radical changes in certain company functioning,

¹ Borowiecki R., Wysocka E., *Analiza ekonomiczna i ocena ekspercka w procesie restrukturyzacji przedsiębiorstw*. Difin, 2012, p. 27.

² Saaty T., Kerns L.T., Kevin P., *Analytical planning: The organization of system*, Elsevier, 2014, p. 88.

which aims to increase its economic efficiency, as well as adaptation to changing environmental conditions in the future.

Main reasons and the essence of restructuring process

The definition of restructuring is recognized in the literature in various ways and differs depending on the context of carrying out the process. The common denominator in all definitions is the recognition of restructuring as making changes in the company. Restructuring processes are classified as having the objective or subjective character. By objective restructuring should be understood introducing changes to the enterprise aimed at improving the functioning of its technical and technological sphere. It concerns the property, employment, financial, technical, technological and product solutions changes. In turn subjective restructuring is aimed at system changes introduced in the legislative – organizational and financial – economic spheres. It concerns the ownership, legal and organizational, management, decision-making and cultural systems changes³.

Another division is used for the restructuring repairing and developing⁴:

- a) the repairing restructuring is the result of ongoing the crisis in the long term and the bad company situation. The purpose of its conduction is to eliminate adverse trends with economic character, including financial liquidity. The most important properties of the repairing restructuring, aimed at eliminating the risk of the company liquidation are:
- restructuring activities covering only selected areas of an enterprise functioning - they are related to the period from 1 to 2 years;
 - improvement of the financial result through the use of simple reserves in the enterprise;
 - focus on existing production;
 - achievement by the company quickly noticeable benefits.
- b) the developing restructuring is based on the company strategic decisions⁵, has a long-term character, covers the period from 2 to 5 years and is characterized by:
- making broad qualitative and structural changes;
 - high technical, manufacturing and marketing innovation;
 - higher than average risk of carried projects;
 - anticipatory approach to solving problems.

Both, in terms of repairing and developing restructuring, it is possible to introduce changes in two main areas, hence it is distinguished here three additional types of activities classifications⁶:

- a) operational restructuring consisting of the changes made in economic activity and related company resources. It includes restructuring of: marketing, enterprise resources, organizational activities and changes in management system;
- b) the financial restructuring consisting of changes made in companies finances (working capital, costs, financing sources);
- c) ownership restructuring, applicable in the case of state-owned entities privatization.

³ Kałowski A., *Przyczyny i kierunki restrukturyzacji przedsiębiorstw*. Prace Naukowe Uniwersytetu Ekonomicznego we Wrocławiu, 260; 2012, pp. 187-194.

⁴ Kirch A., et al., *Erneuerung durch Umstrukturierung? Zu den Auswirkungen von Gewerkschaftsfusionen (Revitalisation through restructuring? The effects of union mergers)*. Industrielle Beziehungen-Zeitschrift fuer Arbeit, Organisation und Management-The German Journal of Industrial Relations, 22.2, 2015, pp. 116-141.

⁵ Jelonek D., *Przestrzeń internetowa w otoczeniu organizacji: implikacje dla zarządzania strategicznego*. Prace Naukowe Wałbrzyskiej Wyższej Szkoły Zarządzania i Przedsiębiorczości, 22, 2013, pp. 309-320.

⁶ Schmude J., (ed.), *Neue Unternehmen in Ostdeutschland: Neuaufbau und Umstrukturierung der Unternehmenslandschaft*. Springer-Verlag, 2013, pp. 23 – 31.

The external changes relate to internationalization of activities, technical innovation, increasing customer demands or enterprise competitive position⁷. Both in terms of design and manufacturing are used computer techniques, and thanks to them the flow of information is often simpler, faster and cheaper. The most important rules of leading the business are also changing. Quality is an essential element for the success, independent of the industry in which the company operates. The restructuring of enterprises can be realized in the context of different concepts that are diverse in terms of the assumptions and the experiences of their use, methodological bases and popularity. These aspects cause problems in choosing the optimal restructuring method in a given situation.

The culture of organization and its changes by the influence of restructuring

There is not a standard model of organizational culture, creating ideal conditions for restructuring. However the literature indicates determinants of organizational culture that increase the probability of new ideas and solutions appearance. These include: effective methods of teamwork, diversity of the task teams composition, autonomous teams, interdepartmental cooperation, effective and less formal communication, knowledge sharing (data, insights, comments, solutions), initiatives leadership support, employee participation in management, delegation of permissions, focus on quality, orientation towards the risk, flexible working environments, providing the feedback on work results, creating the culture of trust and cooperation, promote the continuous development of employees⁸. It is often stressed that the company should create a climate conducive to restructuring. The elements of such climate are: appropriate organization of the company, management style, motivation systems, communication style. A climate conducive to restructuring involves⁹:

- participation - involving people, authorizations transfer, taking into account the opinion of employees on matters relating directly to their work;
- consequence - a strong culture, which treats innovation and creativity as core values;
 - adaptability - openness to change, sensitivity to market needs, responsiveness to changes, flexibility, risk-taking;
- mission - clear and defined objectives and directions of action, vision of the future.

According to another approach the organizational climate favorable to the restructuring is characterized by: access to information, collaboration and support, partial isolation, excess resources and critics delay¹⁰. This approach emphasizes that the company should extract the person providing it new ideas, relieve from duties and provide the access to needed information.

From the perspective of organizational culture it is essential if the restructuring is evolutionary or revolutionary. Evolutionary strategy facilitates adaptation of human resources in the course of changes introduction, allows for gradual adjustment of the organization culture to new operating conditions. Evolutionary changes are usually carried out in three stages, i.e.: the development of readiness to changes

⁷ Skowron-Grabowska B., *Procesy innowacyjno-konkurencyjne w strategiach przedsiębiorstw*. Przegląd Organizacji, 6: 2013, pp. 13-18.

⁸ Hofmann Cf. L.M., *Unternehmenskultur und Personalentwicklung*. Einführung Unternehmenskultur, Springer Fachmedien Wiesbaden, 2014, pp. 111-129; W. Hien, *Authenticity and Individual Mindfulness Within Organisations: Problems and Perspectives*, Mindful Change in Times of Permanent Reorganization, Springer Berlin Heidelberg, 2014, pp. 73-88; Borowiecki R., *Zarządzanie restrukturyzacją procesów gospodarczych. Aspekt teoretyczno-praktyczny*, Difin, Warszawa, 2003, p. 74.

⁹ Wiedemann H., *Die Dezentralisierung als Basis der Typen organisatorischer Umstrukturierung*. Das Unternehmen als dialektisches System. Springer Fachmedien Wiesbaden, 2015. pp. 227-272.

¹⁰ Ruigrok W., Van Tulder R., *The logic of international restructuring: The management of dependencies in rival industrial complexes*. Routledge, 2013, pp. 27-38.

implementation, modifications carried out and changes consolidation. According to practitioners the evolutionary changes are more favorable from the perspective of personnel, they cause increase of innovation and productivity. Revolutionary strategy is worse adopted by the executive staff, because it is most often carried out from the above management level, without preliminary consultations and it necessitates rapid changes. In the case of this strategy implementation it should be expected stronger resistance to changes and problems in the current management. Sometimes, however, the company must, under pressure from the environment, decide for revolutionary change. The advantage of revolutionary strategy is to focus on priorities and the speed of change. If an enterprise has a choice (does not work under pressure from the environment), it may choose the speed of changes introduction depending on the organizational culture and the expected resistance to change¹¹.

In the global economy conditions based on knowledge the source of competitive advantage becomes human capital, whose the most important elements are: specialist knowledge and creativity, unique skills, commitment and staff loyalty. In the global economy conditions based on knowledge the source of competitive advantage becomes human capital, whose the most important elements are: specialist knowledge and creativity, unique skills, commitment and loyalty of staff. Especially important resources are skills and competencies conditioning the ability of enterprise to capacity utilization, in particular the executives competence¹².

The biggest threat to the effectiveness of restructuring is the lack of adequate enthusiasm and commitment of senior management. This danger is present especially in the case of multiannual restructuring, requiring a new definition of business processes parts.

The diagnostic analysis of the organizational structures design

Diagnostic approach is based on registering the actual way of organizing, its analysis and evaluation. It is also used to search for the wrong solutions existing in the organization as well as finding elements that by the modification would affect with the improvement of performance. Design diagnostic approach involves registering the actual way of organizing, its analysis and evaluation, finding the elements and solutions that may be incorrect or may be improved. On this basis a new structure is proposed and designed¹³.

The moment of make the decision to start the process is important for the legitimacy and efficiency of expenses. Too long delays can cause losses, and if it is a manufacturing or service company it is even threatened by elimination from the market by competition. The use of other technology, enlargement or extension of an organization or organizational constraints statement may be a signal about the need to design a new management or work system. The structure unsuited to the institution activities or to the used technology works as an inhibitor and makes development difficult, and often prevents it¹⁴. At the same time it must be noticed that every change introduces distortions in the existing operations, often reducing their effectiveness and quality. On the other hand too early made modification does not allow to use to the end all the possibilities of the system used previously. This results in increased investment so that they are not justified either from an economic or organizational point of view. So they are just a waste.

¹¹ Reißig R., *Transformation – ein spezifischer Typ sozialen Wandels*. Brie, Michael (Hg.): Futuring. Münster: Westfälisches Dampfboot, 2014, pp. 50-100.

¹² Czyż M., *Funkcjonowanie przedsiębiorstw w warunkach globalizacji*, w: *Globalne i regionalne wyzwania restrukturyzacji przedsiębiorstw i gospodarek*, (ed.) R. Borowiecki, M. Dziura, Fundacja Uniwersytetu Ekonomicznego w Krakowie, Kraków, 2012, pp. 85-94.

¹³ Nührich K.P., *Unternehmensdiagnose: ein Führungsinstrument zur Sicherung der nachhaltigen Existenzfähigkeit von Unternehmen*. Springer-Verlag, 2013, pp. 132-138.

¹⁴ Pelzmann S., Strümpf B., *Integrative Tools für die Team- und Organisationsdiagnose: wirksam beraten*. Springer-Verlag, 2012, pp. 74-108.

Choosing the right moment of leading the restructuring allows to start the design cycle by allowing the creation of a new, better operating, corporate structure. The first phase of the diagnostic design method is a registration of the current state. This allows to notice problems on that during the process will need to pay close attention. Familiarizing with the structure allows to find the causes of failures, and thus also the ways of its improvement. To begin this phase there should be clearly defined the subject of the study. Related operations can be divided into two parts: the designation of the study primary object and description of all system components. This is the basis to start observing existing condition because it allows to look at the action through the objective of design.

Full and correct registration of the current state largely depends on the possibility of obtaining adequate information amounts. There are four problems concerning the collection of information. The first is too much data, which is very common in the era of computerization, and makes difficult to notice the areas important for diagnosis. Also, it is inappropriate to limit the amount of news, because it makes it difficult to quest for their synthesis and causes avoidance of some important sources. It is also important the quality of information that is lowered by the lack of precision, lack of adaptation to the diagnosis needs and expectations, inappropriate description or deliberate incorrect presentation to disguise bad results. The last problem is the impropriety of transmission involving the untimely transfer of records and errors in receiving the correct content. One of the way to obtain the information is observation. Unfortunately this is usually long and expensive technique. Its application requires the involvement of significantly more resources than other ways of obtaining data. However, this is the best way due to the quality of obtained information¹⁵.

A cheaper way is certainly the employment of staff the studied organization for registration, but it could lead to the incomplete and for various reasons falsify view. A common method of data collection is an interview or survey, but they largely exclude the recognition of situation that are difficult to predict, and that may be an important cause of malfunction the current system¹⁶.

Finally the study source may be the existing documentation related to the subject of the study. Also very important is the experience and knowledge of the investigator. Getting knowledge about the company should begin with the analysis of existing documentation. The first step for such action should be to familiarize with the strategy¹⁷ or, if it is not specified in writing, to define it in an interview with management staff. Then, it is desirable to know the history of the company, and to conduct interviews with persons with outstanding personalities who play in organization a large, but not necessarily formal role. It should be approached very carefully to the progress reports, as not all information can give the actual situation. However, it is possible to read there about the employees approach to the company, the range of investment activities, the formation of costs or economic situation¹⁸.

Another way is the questionnaire, which may in particular relate to¹⁹:

- strategic idea of the company,
- strengths and weaknesses,
- issues of cooperation and competition,
- communication, type characteristics of employees,
- careers mechanisms,

¹⁵ Heintel P., Krainz E.E., *Schritte beim Aufbau von Projektmanagement*. Projektmanagement. Gabler Verlag, 2015, pp. 229-234.

¹⁶ Schmutte A.M., *Organisationsdiagnose im Rahmen des Business Excellence-Prozesses*. Handbuch Organisationsdiagnose, München, 2013, pp. 205-218.

¹⁷ Romanowska M., *Pespektywy rozwoju analizy strategicznej*, Prace Naukowe Wałbrzyskiej Wyższej Szkoły Zarządzania i Przedsiębiorczości 22, 2013, pp. 197-203.

¹⁸ Hunert C., *Gegenstand der Organisationsdiagnose*. Handbuch Organisationsdiagnose, München, 2013, pp. 21-30.

¹⁹ Pelzmann S., Strümpf B., *Ausgewählte Aspekte der Organisationsdiagnose*. Integrative Tools für die Team-und Organisationsdiagnose. Springer Fachmedien Wiesbaden, 2013, pp. 45-68.

- organizational climate,
- image of supervisors and
- statistics.

It is also important to observe management meetings, during which, among other, should be analyzed the interaction between the participants to be able to get knowledge about the relations prevailing in the organization governing. It is also good to look at the meeting order, location of participants to each other and the atmosphere of conflict behavior. The results of registration are usually presented in the form of description. However, a verbal description can often turn out to be not the best way of presenting, because the ambiguity of words often causes misunderstanding submitted by the author thoughts. In the same time, the results under development are properly classified and divided or combined in appropriate groups. They set is also changing in a way that will allow for possibly accurately reflect the current status, and will facilitate its analysis. The form of such presentation may be different, but graphical one seems to be the most synthetic and practical²⁰.

The next phase of action is the analysis that presents research problems which should be analyzed during the organization diagnosis. The analysis allows to find ways of improving the organization. This can be done through a diagnosis of malfunctions and errors found during the recording of facts. Hence, it is often called diagnostic, and the whole process diagnostic analysis. The very important at this stage is the experience of investigators, but even more important seem to be the imagination and creativity²¹.

The analysis phase consists of several steps. Diagnostic analysis diagram is shown in Figure 1.

The starting point are data presentations prepared earlier, which are mostly cards or graphs. At this point it is worth to re-examine the purpose of the study, because it is possible that previous assumptions are impossible to implement, or on the contrary – it is possible to get much better results than initially expected. There may also be a change of emphasis from one target to another, whose operation needs to be improved. In this case, the whole process of change can not affect all, but only some parts of the structure, leaving those that operate in a satisfactory manner. Then the costs can be also specified that may apply only to minor shifts or complete reorganization.

Knowing the organization goals and possibilities the investigator, guided by the knowledge and experience, may determine the structure, which in his opinion would be optimal. Then he compares it with the existing state, in the same time simultaneously establishing deviations that exist. It is also necessary to determine the underlying causes of irregularities. They may be on the side of the man or machine, but also reside in the structure itself²². Improving this situation is a great field to work for the organizer. Often appearing the opportunities that can be applied only alternatively. The next step is to select a variant that under the existing conditions, as well as in the foreseeable future, will be the best for the organization.

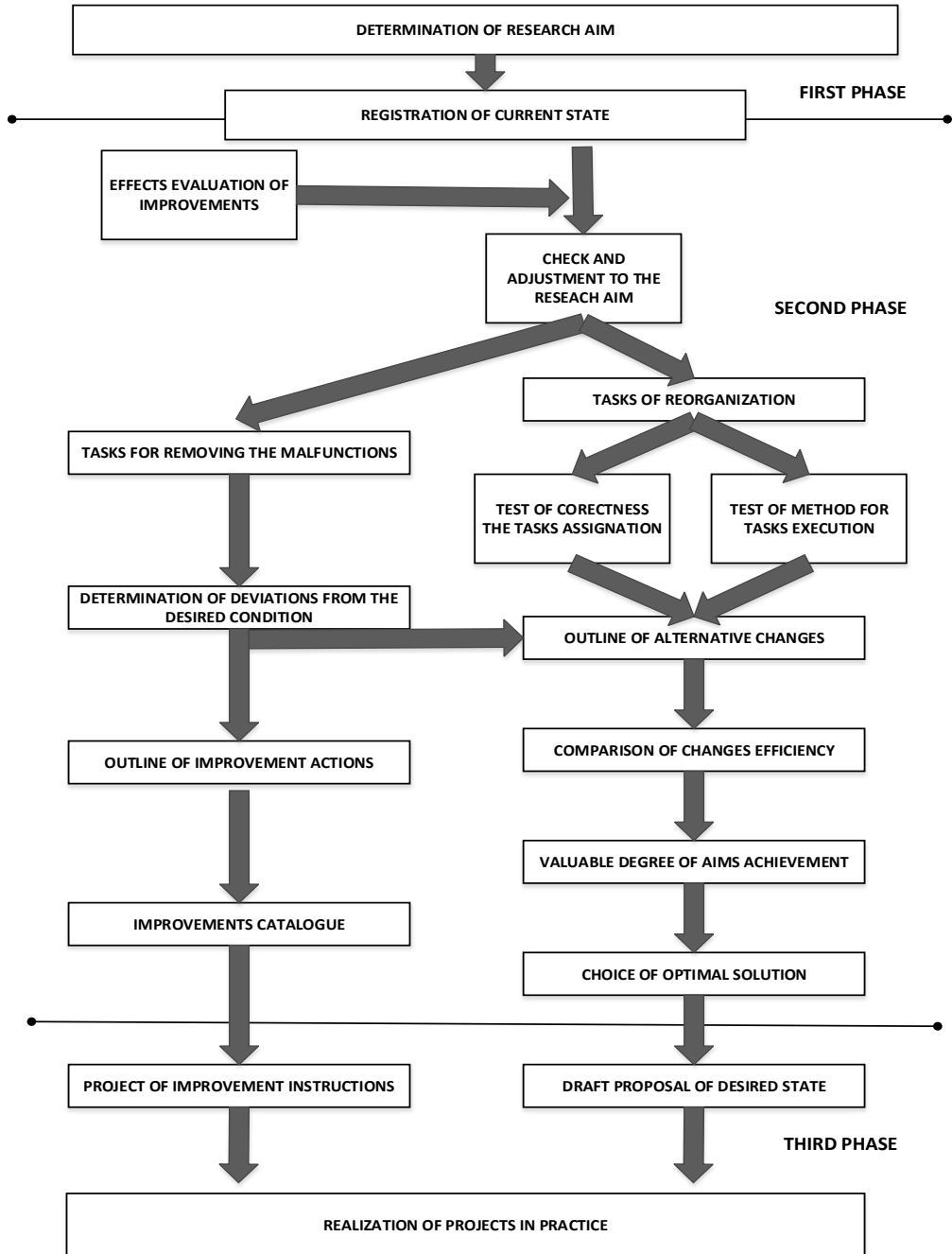
It is necessary to check the feasibility of assigned tasks by the relevant cells. The division of general tasks into pieces, and their distribution for the staff positions is in fact about the correct possibility of its implementation. Important are the criteria that are taken into account during task defragmentation. Each task can be described by many parameters and categories.

²⁰ Pelzmann S., Strümpf B., *Unser Zugang zu Organisationsentwicklung*. Integrative Tools für die Team- und Organisationsdiagnose. Springer Fachmedien Wiesbaden, 2013, pp. 11-16.

²¹ Werther S., Jacobs Ch., *Charakteristika von Organisationen*. Organisationsentwicklung–Freude am Change. Springer Berlin Heidelberg, 2014, pp. 21-40.

²² Krüger W., *Techniken der organisatorischen Problemanalyse*. Springer-Verlag, 2013, pp. 27-31.

Figure 1: Diagnostic analysis diagram.



Source: own elaboration based on: Werther S., Jacobs Ch., *Charakteristika von Organisationen. Organisationsentwicklung–Freude am Change*. Springer Berlin Heidelberg, 2014, p. 38.

Then the research team selects those that are important for the diagnosis and affect the correct execution of the evaluation. These parameters are referred to evaluation criteria²³. The assumed criteria are based on the objectives, the type of process, the place in the structure, people, and also the action phase. Adoption of appropriate criteria allows to the division of labor until partial tasks. This allows them to be grouped together in order to create structure elements. There are five rules to be applied during grouping.

The first of these is the principle of specialization, which dictates that the assignments should be limited as much as possible to implement one or more functions. The principle of hierarchy is committed to clearly define the relationship between subordinates and superiors. Another treats about the span of management staff – it should be determined the correct amount of subordinated subordinates to one supervisor. The last two deal with the balance between the competencies, duties and responsibilities and also about an explicit definition of tasks and capturing them in writing. The fusion of operations in accordance with these instructions creates jobs, and further, the cells of a higher order. This leads to the determination of the entire system structure.

At this stage, there is making a list of all the parts and tasks and also to selection the variants. It is therefore necessary to determine the degree of compliance and fulfillment to the individual proposals, then choose the one that seems to be the best. There are several selection methods based on both, calculations and estimations. A connection is made with parts into one coherent system. It is worth to notice that the more variants of solutions is provided, the greater is the probability of finding the one that will fit the most to the organization situation²⁴. The third phase of the diagnostic analysis method is to implement the project into the practice. It is a part of the process that lead, in a large extent, to the success of the new organization. It is an operation with four stages. First, the detailed plan for introducing new structure is developing. Its proper creation with deadlines and determination of responsibility will allow the conditions preparation.

At this stage the structure is disseminated, trainings and courses are conducted, as well as the new organization is popularizing. From this moment begins a temporary decline in the effectiveness and efficiency due to transition to another system. This decline deepened still in the start-up phase, especially when changes are not made in parallel. Minimizing this adverse effect should be planned already during the design stage. And the last stage of this phase is to control the uptake organization and obtained results. To be able to check the effects the control must be extended in time and takes a relatively long time after the design process completion and changes introduction²⁵.

Conclusion

Changes taking place in the turbulent environment are forcing companies to permanently restructure their business²⁶. The culture is a resource independent of the will of workers, but employees have an impact on its type. The cultural restructuring means the permanent and evolutionary process of modifying or overall changing the type and the organization culture components. The change is not only within the culture type, but also the norms, values, beliefs, perception of employees and everything that is the culture.

The companies operating in the globalization conditions, must respond: to the competition actions, to the emergence of new products, to the methods of management, to the technological solutions, that are threats for their market position. Therefore, it is necessary to appropriately quick respond to emerging

²³ Werther S., Jacobs Ch., *Charakteristika von Organisationen*. Organisationsentwicklung–Freude am Change. Springer Berlin Heidelberg, 2014, pp. 21-40

²⁴ Schmutte A.M., et al., *Die mächtigste Stelle im Unternehmen*. Harvard Business Manager, October, 2012, pp. 8-11.

²⁵ Hormel R., *Prozess der Organisationsdiagnose*. Handbuch Organisationsdiagnose, München, 2013, pp. 259-269.

²⁶ Bruch H., Vogel B., *Strategies for creating and sustaining organizational energy*. Employment Relations Today, 38.2: 2011, pp. 51-61.

threats in the environment, by introducing the broad understood restructuring to its performance. Corporate restructuring processes require adequate flexibility, so the change of organizational culture becomes necessary. The culture is formed, and then act in accordance with it the organization members. The creation of an organizational culture conducive to restructuring is a major challenge for the management staff. In addition, it is necessary to appropriate set the executive staff commitment, that must act in varying ambient conditions, agreeing to the changes in terms of tasks and work in changing employees teams.

All organizations being the part of the real world, like itself, are the subject to changes. These changes are often differently classified, however, in most cases take the form of a process, and their success is conditioned by a number of factors. Among the many considerations, of which depends on the ability to effectively restructure the company, its culture is also indicated. This very unique product of organization is a set of thoughts patterns, behavior and actions of all its members. It was noted that the attitudes of individuals, groups of employees and the entire institution derive with changes in organizational culture. To effectively support the introduction of restructuring in the company, it is necessary to diagnose the culture and determine its type. Awareness of this fact allows for closer attention to corporate culture and for taking in its area such activities that will ensure that it will be a factor supporting the restructuring of the company, necessary for the realization of its objectives.

Diagnostic analysis method has a high bulkiness in the case of designing new structures for completely new institutions, as during such process it does not exist the whole phase of recording and analyzing the current state. In order to use this method it is necessary to adapt the structure of other, similar organization. Unfortunately each company is different. Therefore, it is very difficult and sometimes impossible to revise the system in such way that it will operate at another institution. This method is also very time-consuming and costly. It focuses on the analysis of the past, while in the development it is important to predict the future on the basis of present conditions. Of course it is possible to take from the operating system some their components that have shown their efficiency, but it cannot be forgotten to use the new, often better. The creation of an organization structure based on future needs to use another method to help find and predict which state will take place in the future. Developing a system based on future conditions may be realized by another method, namely using the forecasting method.

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ORGANISATIONAL CULTURE AS A POTENTIAL CATALYST OF CHANGE

Summary

Analyses of organisational culture allow to shape a collection of administrative and procedural requirements and management requirements necessary for the decision-making process, especially in the case of shortage of resources and limited access to funds from traditional sources of financing. Organisational culture provides an opportunity for investigating the possibilities of organisation's operation in the course of transformation in a highly dynamic environment. Such a process is currently taking place in the system of higher education. The Silesian University of Technology is currently in the phase of developmental maturity and it is affected by the processes characteristic to the entire sector, i.e. utilitarianism of research and connection with industry, problems of business financing and first of all the time of population decline and difficulties with continuing education activities in certain fields of study. The social capital with organisational culture internal relationships as its element, and trust being the most emphasised value of the culture, may be able to regulate the elements of human behaviours in personal relations in such a way so as to reduce transaction costs in organisations and thus improve competitiveness of operation and reduce indirect costs. It becomes particularly important when internationalisation of operations, partial departure the logic behind a full-time job and necessity to work in project teams force an internal functioning without the possibility of a strict and procedural regulation and supervision of every element of the intraorganisational exchange. High quality of functioning in the research and implementation area requires a flexible cooperation with business practice, ability to respond to quickly changing needs of external clients and to act in a network and consortium-like manner with the use of active and diverse financial solutions, frequently other than traditional sources of financing existing in the academic area. The conducted research may form the basis for transformation of organisational governance, management procedures and methods and for implementation of new solutions in the University's incentive schemes. The analyses also provide an opportunity to build the appropriate type of intraorganisational relations and a sufficient level of interpersonal trust necessary to generate the right social capital which is essential for the functioning of work teams acting in an intensively changing environment.

* * *

Introduction

The purpose of the paper is to analyse the condition of the organisational culture among the central administration employees of a higher education institution with an attempt to define the impact of culture on the processes of preparation to changes in the environment and to new challenges presented by different groups of customers. The basic thesis of the paper is that analysis of organisational culture should form the basis for potential changes in incentive systems, workgroup managing styles and in the organisational structure. The basic research assumption is the following: diagnosis of culture in its existing and desired form and the resulting interdependency between cultural orientation and possibilities of a more or less flexible implementation of organisational changes. For the purpose of the research the Cameron and Quinn's questionnaire was used.

Change and culture

Creation of change is coupled with the transforming civilisation development processes. They emerge as a result of transformation of society from its industrial phase, whose transformation dynamics was based on the development of industrial business, through the pre-industrial phase the economics of which is based on services and finally to the information phase the economic basis of which will be science and in which economy will be based, to a large extent, on knowledge. Scientific achievements and knowledge are not limited to the market of a given country but they very quickly spread over the global market. A delay in that area slows down the pace of economic and social development since knowledge and implementation of technical and organisational achievements are the basis for economic progress.

The concept of organisational culture in its most general meaning refers to the structure of collective behaviours. Every culture is defined by a collection of shared meanings and values, a generally accepted set of preferences which determine the behaviours of organisation members. If you assume that members of an organisation act in accordance with individual preference models you cannot, at the same time, leave out the problem of personal experience which define the possible views on organisational reality, and in the broader understanding of the context, the selection of specific values which determine the actions of individuals and structural parts of the organisation. Such a point of view assumes, therefore, dynamic relations between organisational system and the system of organisational culture in the structure of the values and meanings co-creating that system. In such understanding transformations in the organisational system result in changes in the sphere of organisational culture and vice versa – changes in the area of workers' preferences may be the source of organisational change. The principles of organisation of in-house relations and institutionalised ways of conduct within a corporate community form the basis for determining the ways of anticipating collective behaviours. In the first instance such anticipation will be based first of all on the knowledge of cultural standards determining the groups of organisational behaviours. In the second case in order to anticipate behaviours it is necessary to establish who governs the interactions while taking into consideration diverse interests and values. In the third case the possibilities of anticipating behaviours depend on the degree to which intracorporate governance is a consistent and integrated system. In the process of changes, with pressure of the environment, in building competitive advantage and market position with the use of the value added based on a highly-processed knowledge, there is a necessity for a consensus of collective understanding of a tolerably uniform system of standards and values. Coordination of actions based on cooperation leads to a more effective development of employees' behaviours in internal relations and in complex interactions with an increasingly demanding external environment. The governance of collective agreements may be treated as an epistemological proposal for the development of a more discretely changing organisational phenomena. What should be taken into consideration in an attempt to characterise behaviour patterns displayed by members of an organisation, especially in the case of a turbulent environment and changing

expectations of customers, is both the manner of achieving conformism through individual behaviours of employees, their customs, styles, obligations, standards and attitudes, and the efficiency of a strategic and operational management in the situation of high dynamics of external changes. Interdependency between cultural and systemic and structural mechanisms of organisational life manifests itself in such a way that internal configuration and specific behaviours may form the basis for the actions keeping the organisational status quo or initiate the actions questioning the previous intracorporate governance. Such a situation may be the reason for dispersion of standard, culturally rooted patterns of behaviour and corporate rules and be followed by a negation of the decision-making process and the existing, formally established authority in the organisation. Consensus is of essence for the generally accepted authority of the management system. Kilman proved that there is a divergence between the standards followed by different groups and the behaviours which would be functional in the organisation. That phenomenon was called a culture gap with four basic types of it identified: task support, task innovation, social relationships and personal freedom¹. If you take into account the nature of a cultural gap as a peculiar dichotomy between the existing and desired culture you can see that it is a fundamental factor for cultural change.

According to Williams, Dobson and Walters the change driving forces include:²

- changes in the strategic management,
- vision of the future,
- strong leader,
- acceptance of the necessity for changes,
- external orientation,
- crisis or opportunity

Empirical studies of the organisations undergoing a transformation process provide the knowledge which is difficult to be organised and presented in a single, uniform model. According to Johnson as a result of the impact of conflicting interests and games of interested parties, there is often no consistency in the introduced changes.³ Groups of customers focus on separate meanings of events and actions and interpret the situation from the angle of their own cultural orientation. Delays in information flow, redundancy or shortage of information very frequently result in contradicting decisions. From the research conducted by Kotter and Heskett, HarvardBusinessSchool professors, you can draw a conclusion that culture has a strong impact on organisation's performance. The study ended with four basic conclusions:⁴

- organisational culture has a significant impact on a long-term economic performance of an organisation,
- organisational culture will determine the success or failure of an organisation in the next decade,
- organisational culture hinders long-term financial performance,
- organisational culture, although hard to change, may be turned into a more performance-friendly culture.

The researchers found out that certain cultures facilitate adaptation to a changing world and maintenance of the organisation's performance. They defined the basic values and standard behaviours in flexible (adaptive) and rigid (not-adaptive) cultures.⁵

Differences in the approach to the problems of organisational culture may result in failures of organisations' direct tasks. A complementary approach to organisational culture issues is presented in table no. 1.

¹ Kilman R., *Beyond the quick fix*, Jossey Bass, San Francisco 1985

² Williams A., Dobson P., Walters M., *Changing Culture. New Organizational Approaches. Institute of personal Management*, WF, London 1989.

³ Johnson G., *Managing Strategic Change - Strategy, Culture and Action*, Lon Range Planning, NY, 1992.

⁴ Kotter J.P., Heskett J.L., *Corporate Culture and Performance*, Free Press, New York 1992

⁵ Hofstede G., *Kultura i organizacje*, PWE, Warsaw 2007.

Table 1: Complementary approaches to the effectiveness of impact of the organisational culture.

| | |
|----------------------------------|---|
| CONTINGENCY APPROACH | Effectiveness of an organisation and its culture depends on the level of their agreement and interaction in responding to the company's environment. Effectiveness is therefore a derivative of the values shared by employees, of policies, procedures and regulations applicable in the company, of the ability to translate basic values into the company's policy and of the relations between them and the company's surroundings. |
| GOAL ACHIEVEMENT APPROACH | The greatest emphasis is placed on the ability to achieve organisation's goals and allocate the resources. Effectiveness can be evaluated depending on the degree of goal implementation. |
| SHAREHOLDERS APPROACH | Effectiveness is the degree to which leaders are able to respond to the requirements of different groups: shareholders, suppliers, recipients, employees, trade unions, groups of interest. The basic challenge is to find balance in satisfying these groups' needs. The values of organisational culture are therefore evaluated not only within the organisation but also outside it. |
| COMPETING VALUES APPROACH | The values and requirements of leaders must adapt to the influences of the environment. The importance of their roles and skills depends on the character of the environment and stages of the organisation's development. In a perfect situation adaptation would have a continuous character. |

Sources: developed on the basis of Aniszewska G., *Kultura organizacyjna w zarządzaniu*, PWN, Warsaw 2007.⁶

When transforming the organisational culture managers of the organisation should respect the following rules:

- cease to employ the people who refuse to change their behaviour and accept the new culture,
- do not expect that transformation of culture takes several weeks or months – it will last a couple of years,
- do not promise to introduce changes in the culture and then postpone the transformation processes

The literature usually distinguishes three types of organisational culture:⁷

- regressive – it means regression of the system in the learning process; it thus reaches back to “old and proven” but outdated solutions,
- adaptive – where old solutions are modified or certain new elements are added to the old ones; it does not mean that more important values, standards and symbols binding in the organisation are rejected,
- innovative – an organisational culture that involves creative and in-depth transformation

The system of culture should be changed in a planned way. A planned transformation of culture means that:⁸

⁶ Zbiegień-Maciąg L., *Kultura w organizacji*, Wydawnictwo Naukowe PWN, Warsaw 1999.

⁷ Chojnacki W., Balasiewicz A., 2006, p. 298 (in:) Gitling M. *Człowiek w organizacji – ludzie – struktury – organizacje*, Difin S.A., Warsaw 2013.

⁸ Sikorski Cz., *Kultura organizacyjna*, C. H. Beck, Warsaw 2002.

- as a starting point, a vision, that is the picture of the desired, future organisation must be outlined by defining the company's strategic goals; then you look for such features of organisational culture which facilitate implementation of such goals,
- support for change from the top management is essential,
- directors and managers must get involved in the process of transformation and must set an example to their employees and integrate them around themselves in order to implement the change in culture,
- the condition necessary for a successful transformation of culture is supporting the change with a relevant organisational structure,
- organisation's HR policy is the basic tool of culture transformation

The process of implementing organisational transformation may take place in seven phases:

- development of a cultural map of an organisation as part of diagnosis of the existing culture,
- acceptance of strategic arrangements – strong and weak points of the existing organisational culture, opportunities for introducing changes, costs and benefits resulting from introduction of changes,
- creation of a network of change promoters in the organisation – appointment of the persons to apply and introduce the planned changes in real life,
- outlining structural changes – tuning in the organisational structure from the inside, in accordance with the adopted strategy,
- outlining procedural changes – development of a set of new procedures including for example a human resources policy and preferred styles of management and communication,
- adaptation of the HR policy – supporting the transformation with personnel management tools and with consolidation of the implemented changes,
- monitoring the evolution of culture – comparing the assumptions of the plan with the implemented changes.

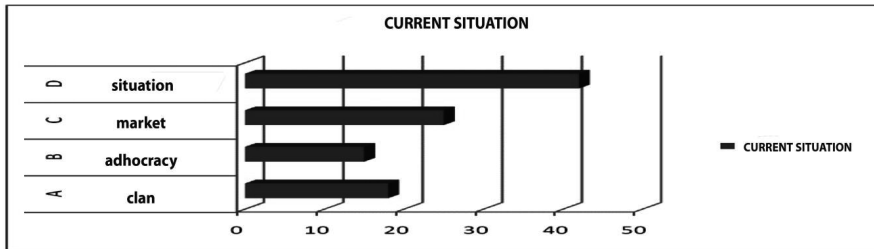
Research into organisational culture (as a source of change creation) in the central administration of a higher education institution.

The purpose of the conducted research was to define the existing type of organisational culture among the employees of central administration of the Silesian University of Technology and describe the type of organisational culture which, in the opinion of central administration workers, should be developed in order for the University to be able to face future challenges and requirements of the environment. The research conducted with the use of Cameron and Quinn's questionnaire⁹ allowed every employee of the University's central administration to express their own opinion about the current organisational culture in the University and it is to be used for the purpose of developing the method of implementation of cultural orientations preferred by the employees and management and consistent with the dynamics of the intensively changing environment. The research was conducted directly, by handing out the questionnaire to respondents, and by providing a possibility to fill out an on-line questionnaire. In total, 236 questionnaires were submitted which were then used as a basis for the study.

The following collective results were obtained:

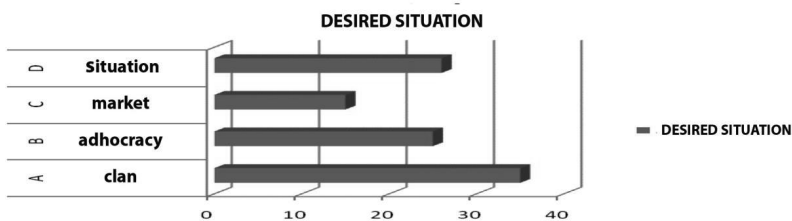
⁹ Cameron K, RE Quinn, *Kultura organizacyjna – diagnoza i zmiana. Model wartości konkurujących*, Wydawnictwo Oficyna Ekonomiczna, 2003.

Figure 1: General overview Central Administration (management + employees) current situation



Sources: Own research

Figure 2: General overview Central Administration (management + employees) desired situation



Sources: Own research

Improving the organisational culture – suggestions for changes

From the conducted survey the following conclusions can be drawn, together with the suggestions for changes.

- The University is in the mature phase of organisation's life cycle. The organisation grows due to its brand recognised in the market and due to the fact that its employees have been raising their specialist (academic and educational) qualifications. The goal of the organisations going through this stage is to grow and obtain resources mainly through flexibility of operation and changes in the organisational structure. In order for an organisation to be able to develop in the face of competition it is important to competently select and integrate the employees able to understand one another and to go for an innovative learning style.
- The social capital with organisational culture as its element, with trust being the most emphasised cultural value, may be able to regulate the elements of human behaviours in personal relations in such a way so as to reduce transaction costs in organisations and thus improve competitiveness of operation and reduce indirect costs.
- If trust is missing or if there is not enough of it it is difficult to develop effective incentive schemes encouraging employees' commitment. Without trust it is also hard to fully codify and supervise every, even the tiniest element of intraorganisational exchange. Trust is often an effective substitute for direct orders, and combined with the feeling of responsibility it allows to develop self-control. Modern concepts and methods of management in organisational culture with a high tolerance for uncertainty force commitment as a standard organisational requirement.

- Social inertia in an organisation has a both systemic and socio-cultural character. The systemic, cultural and political components of resistance to strategic changes in an organisation are always connected with the shaped organisational skills and competences of the managers of different levels. Technology, systems, structures and procedures do not depend directly on the dynamics of introduced strategic changes but are developed through the agency of a human factor.
- As a recommendation which is a synthesis of analytical reflections in the area of the conducted research you can issue a conclusion that the starting point for strategic reorientation of an organisation is development of a modified organisational culture consisting in development of new patterns and values, convictions and attitudes, in order to achieve committed, pragmatic and utilitarian behaviours, from the point of view of assumptions and directions of implemented changes. In practical terms it means application of organisational culture with trust built in as a stimulator, modifier and correlative amplifier of the behaviours forming a specific culture of an organisation as a tool for stimulating in-house entrepreneurship. Revival of engagement of the workers at different levels in the Central Administration hierarchy also allows, due to the generated direction of cultural incrementalism, to create new quality of economic and non-economic exchange between the organisation and its surroundings, and in particular between the Silesian University of Technology and its customers.
- Unlike in the current culture of the organisation outlined by research participants, in the desired model a clan culture is predominant – respondents believe that teamwork should be dominant in administration, superiors should treat their subordinates with care and they should create a friendly atmosphere of work. In the desired model the lowest value was attributed to the aspect of the market. Identification of the areas of greatest divergence between the current model and the expected one allows to determine directions of the desired changes. You should not forget, however, that certain features of culture may be so important to an organisation that they should not be eliminated even though they do not belong to the preferred type. When interpreting the foregoing results it is necessary to keep in mind that perfect model of culture does not exist. Every organisation must independently determine which type of culture is best for it and how strongly it should dominate.
- In the case of Central Administration of the Silesian University of Technology we can, therefore, talk about consistency of individual aspects of the organisation's culture in different groups and different age brackets – both in the perceived and in the preferred model of culture. It is a very important conclusion since consistency facilitates the optimum performance of an organisation.
- The diagnosis which can be made on the basis of analyses is that the potential for teamwork in the Silesian University of Technology exists and, what is more, the respondents verbally displayed their awareness of the necessity for cooperation on different organisational levels in order to achieve success in supporting the development of the University's value added. Declarations, however, so deeply rooted in the middle level of the Schein's model of organisational culture, do not translate into real actions. They also do not translate into full utilisation of the organisation's social potential, especially in the case of projects strictly oriented at implementation of organisational changes.
- It is clear that it is simpler and safer to do routine work, based on professional experience and routine, than creative work. Therefore it is important for organisational culture to facilitate creativity and encourage risk-taking and facing new challenges. An unfavourable situation is when workers show reluctance to change and when creative work is potentially blocked. Both management and employees should understand and implement the principles related to innovation. A decision to refrain from taking the actions oriented at innovative changes may also result e.g. from earlier failures in this area or from unclear goals of transformation and from the management tools used for that purpose.
- It is important that the service-like nature of Central Administration be not lost in the course of transformation. This means a necessity to keep the hierarchic element of the existing organisational culture. At the same time, the strongly expressed tendency towards creation of a clan culture should encourage creation (to a greater extent) of interdisciplinary teams for implementation of strongly

variable project tasks. Obviously it applies only to a minor portion of the tasks currently implemented in the Central Administration. Clan culture does not necessarily need to mean a stagnation-like orientation at simple exemplification of employees' wellbeing in their functioning in the University. It can also lead to the development of an organisational style of learning based on a greater involvement of employees in the process of resolving the issues in the functioning of individual organizational units. What is more, clan culture also anticipates superior's ability to share his or her problems with employees while looking, at the same time, for common, consensual solutions. You can clearly see that the incentive scheme should be more strongly than before tied to employees' personal commitment. The system should be built not only on comparative performance indicators; it is also important that it provides for a possibility of taking into account the total involvement of workers in the process of work. A diversified assessment complemented with descriptive and narrative parts would give employees an opportunity to better understand their mistakes, gaps in their qualifications and imperfection at performed tasks. Quantitative parameters do not say anything about the possibility to modify a given employee's competence profile and of his or her ability to learn and acquire new skills. A purely parametrised system does not provide a description of evolution of qualifications and professional actions and it only gives a basis for statistical and comparative overview of a given period.

- The declared clan culture supported with a hierarchical approach and with preference for adhocracy culture gives a chance for developing operation patterns based, to a larger extent, on delegating decision powers to lower levels of the organisation. It also facilitates the processes of an engaged and informed (and not only formalised) self-evaluation and self-control. Respondents from all groups and all age brackets (collectively) emphasised, in their declarations, also the adhocracy element which may mean their orientation at a greater flexibility of individual and team work and of a greater emphasis on a supervisory and cooperative style in direct personnel management. The actions leading to stronger reinforcement of the elements of decision-making flexibility, increased adaptation to the dynamics of the surroundings (organisational agility), Central Administration employees' adaptation to providing both traditional services in research and educational area and to multi-project configuration of the Silesian University of Technology relations with the environment require first of all that two elements be included in learning processes, i.e. development of employees' awareness and continuous development understood as an element of knowledge management in a changing and partly unfavourable environment (crisis, demographic changes, etc.). Development of awareness is connected with establishment of stronger relations between the superior and the subordinate. In practice it may mean an increased number of meetings (which are something more than just a form of discussion), application of group problem solving with the use of e.g. heuristic techniques, or a wider implementation of the forms of internal coaching provided on various levels by direct and indirect supervisors to selected groups of workers.
- General trainings may also be organised in the University, delivered by management theoreticians and practitioners and covering e.g. the issues related to organisational change, culture adaptation and consequences of a cultural gap in a turbulent environment and selected aspects of personnel management, including the connection between the career path system and the system of evaluation and motivation related and not related to salary. The trainings may be addressed both to middle management and to groups of executive workers.
- Structural changes may support the transformations in the organisational culture. However, potential structural transformations should take into account both scopes of competence as well as planning of a potential cooperation between individual organizational units of the Central Administration in order to prepare the central administration to implementation of increasingly complex tasks.
- When trying to establish the order of priority of cultural values from the point of view of utilitarian goals of operation of the Silesian University of Technology you should strive at strengthening the existing

hierarchical orientation which means better organisation of existing procedures and reinforcement of correct provision of services in the entire chain of value added in the Silesian University of Technology.

- In the second place employees' market orientation should be enforced. Understanding market orientation and the importance of an internal and external customer seem to be insufficiently consolidated in the awareness of the management and executive employees of the Silesian University of Technology's Central Administration. The dominating view is that market is nothing more than an internal competition between employees in a quasi-corporate "rat race" resulting from the application of the tools of employee evaluation which are perfectly parametrised but do not take into account all complexities and nuances. In order to strengthen such orientation it is necessary to prepare a training programme for managers of different levels that would explain both the method of establishing lasting interpersonal relations between employees as well as the importance of organisational culture for permanently configuring, in a long term perspective, a positive, non-petrified cultural identity. At the same time the training programme should cover the issues related to personnel management, including development of such incentive schemes that would to a larger extent involve the variable of a salary and be coupled with employee evaluation procedures. Dedicated trainings focused on a specific subject matter are the source of specialist knowledge and thus do not improve communication skills necessary in a difficult environment and in personnel management in complicated external conditions. It will depend on managers' skills whether employees will adapt to the greater need for changes and show innovativeness in team work. Very often cultural changes are achieved through application of the "kaizen" philosophy which, by means of a system of small innovative reinforcements, through perceived, appreciated and approved employees' actions, codifies flexible attitudes and positive approach in a long run and after some time becomes an element of succession of behaviours in operation of the entire organisation.
- Strengthening the market orientation should also mean an internal coaching provided by managers or employees of the Silesian University of Technology that would build an integrated awareness of the external and internal client's role in University's operation. Functioning in a turbulent environment, with an increasingly stronger impact of customers and continuously growing importance of projects and project management must increase the inclination towards different profiling of the external and internal client's role in the Silesian University of Technology. In the present situation the client (however defined) is not an element of the procedure and the related, strictly formal operations but is a link in a complicated chain of project operations (or close to projects due to their internal logics) and what follows from that, the service-like form of operation of central administration must be complemented with a consultative and advisory element. On the part of managers and employees it requires the knowledge of the logic behind project functioning, ability to communicate and make decisions and also the ability to generate financial and non-financial motivation that would stimulate employees to implement complex (from the point of view of competence) tasks while, at the same time, shaping team and personal goals.
- Potential changes in a motivation system that result in strengthening of employee initiatives may take place also through modification of the relation between the variable part of the salary and its unchanging part. In the current legal situation these changes will not be significant, however, if they are accompanied by properly prepared and convincing explanations describing employees' real involvement, such transparency and persuasiveness may contribute to evolution of the organisational culture and avoidance of ossification of the evaluation system coupled with the motivation system.
- For all training and coaching schemes an integrated budget and time schedule of their implementation should be prepared. Content arrangement of future trainings may be based in the first place on the diagnosis of training needs established by managers of different levels.
- Clan culture may reinforce employees' high-esteem and team identity among workers. It absolutely should not, however, become a dominant feature of the culture. Culture transformation should go

mainly in the direction of building a hierarchical and market culture with elements (of a certain wellbeing in the organisation) of clan (team) culture.

- Adhocracy orientation may be broadened, however, it is hard to imagine such an evolution of the organisational culture of central administration employees which would mean (with its existing service functions) a continuous commitment to permanent innovation.

Conclusion

It can be observed that there are no intracorporate cultural conditions allowing a continuous transformation in organisations; on the contrary, changes usually have a discrete character. Some aspects of organisational culture may be a barrier to change, others, on the other hand, may be the driving force for transformation, but changes in culture will still be implemented in a discrete manner. Organisational culture transformation usually involves three steps of change: unfreezing, changing and refreezing.

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MODIFICATION OF BUSINESS INTELLIGENCE DEFINITION AS A WAY TO IMPROVE QUALITY AND EFFECTIVENESS OF BUSINESS PROCESSES¹

Summary

Proposed definition of Business Intelligence changes a view to this aspect. It moves BI from technical into the business areas. Business Intelligence should be treated as a policy, which enterprise creates to be more effective in managing its data and information. That policy covers such elements like: gathering, storing and archiving, processing and finally publishing data and information.

The publication presents arguments why treating BI as a policy is more effective than treating it as a project or as a tool. Example presented here displays relationship of analytical and reporting processes with business processes, which are defined in ERP systems. Level of quality of analysis and a value of insights are related to quality and value of data registered by ERP systems. That shows how important is constant interaction between data gathering rules and data analysis processes. This situation leads, naturally, to the thesis that all processes related to data management require the support of clearly defined procedures of how to deal with the data in order to maximize the benefits of the data, as a resource.

* * *

Introduction

Even if Business Intelligence (BI), as a business subject has relatively short history, we can observe impressive development of different definitions, which should describe scope of it. Theoretically first appearance of BI definition was in 1958. Essay written by Peter Hans Luhn, a scientist working for

¹ The publication has been financed by the funds allocated to the Department of Economics and Organization of Enterprises at the University of Economics in Cracow in the framework of grants to maintain research potential.

IBM Corporation define BI as “An automatic system is being developed to disseminate information to the various sections of any industrial, scientific or government organization”². In the same essay, H.P. Luhn describes BI in other words. “In the process of transacting business it is often desired to determine who concerns himself with a given subject. The usual type of question asked is: “Who does or knows a certain thing?” A function of the Business Intelligence System is to answer questions of this type”³. It is not a strict definition of BI notion, but it very accurately indicates the essence of BI. The objective of BI is to answer questions, which are important for business.

Following five decades brought impressive set of new definitions of BI. Celina M. Olszak in her work in 2002 presents a list of definitions which consist of 25 different versions. This contains definitions created by both, business and science representatives⁴. BI subject descriptions proposed by software producers are significantly different from others, because of their focus on product functionality. Generally all of proposed definitions objectives are related to data processing.

Strong message from sentences describing BI is that BI relationship with data is passive, so tools or methodology has to process data to extract knowledge. That means that each and every information system that is capable to publish report can be treated as a BI tool. Further analysis of this list of definitions shows, that in 21 century, development of point of view on BI subject relates to size of data.

Based on that way of thinking BI was treated as an separate element of enterprise infrastructure, which should be implemented to automate reporting processes and improve data processing processes including analysis. And this is why finally BI role became different than expected by business user. Most often repeated mistake in projects of implementations of BI solutions is generated by wrong assumptions. Analytics and reporting tools objective is to support decision making process by delivering insight, knowledge, but not from processes. The knowledge is not extracted from processes, but from the stored data. Brief analysis of marketing messages, published by main ERP software producers on Polish market, shows that mistake mentioned above is common. Sage company promotes its BI solution in sentence that says: “Take advantage of the potential of the data to which you have access with a few clicks”⁵. It contains overestimated assumption that those data are properly collected and they have potential. Other ERP vendor and system integrator the Comarch Company, on its website devoted for presentation of the Business Intelligence Consulting Services, not even by one word mentions about relationship with potential customer business processes. Describing “Research Stage” Comarch says: “A description of the completed analyses of the system, servers and analytical solutions is presented. Together with results of the audit and interpretation of the same”⁶.

The most complexed vision of business intelligence service offered to potential customer is presented by the ITMAGINATION company. Their Business Intelligence Strategy service description promotes Data Governance Management processes, including data collection aspects. Part of the ITMAGINATION statement says: “Understanding the impact that the new systems can have allows the planning and further development of the organization in terms of BI solutions, as well as changes in business processes”⁷. That is a sign which is promise of new era of Data Management is coming.

Definition that is a subject of this work extends role of BI. Business Intelligence is a policy that company should establish to manage its data properly. The policy consists of such elements like:

² Luhn H.P., *A Business Intelligence System*, “IBM Journal”, 1958, Vol.10, p.314.

³ Luhn H.P., *op.cit.*, p.318.

⁴ Olszak C.M., *Analiza i ocena dorobku naukowego z zakresu Business Intelligence – wybrane zagadnienia*, Zeszyty Naukowe Wydziałowe Uniwersytetu Ekonomicznego w Katowicach, Systemy inteligencji biznesowej jako przedmiot badań ekonomicznych, Uniwersytet Ekonomiczny, Katowice 2012, p.13.

⁵ http://www.sage.com.pl/erp_bi?gclid=CIiy8LHF9coCFYF5cgodpXIN2w [2016.02.15].

⁶ <http://www.comarch.com/erp/business-intelligence-comarch-erp/dedicated-solutions/consulting/> [2016.02.15].

⁷ <http://www.itmagination.pl/products-services/business-intelligence/business-intelligence-strategy/> [2016.02.15].

- gathering,
- storing and archiving,
- processing,
- publishing of data.

Objectives of BI policy relate to business processes and company resources. Main objectives are:

- defining rules for data management processes,
- support present and future business processes,
- increase efficiency of company resources.

Differences between project and policy

Even different definitions of a project, which exist in business or scientific space, have minimum one similarity: “finished over the period of time”. In case of data management processes it is extremely difficult to declare that those processes could be finished over the period of time. Data management requires continuity in operation, development and improvement in several areas.

Policy definition, which is published by Cambridge Dictionaries Online says that: "Policy is a set of ideas or a plan of what to do in particular situations that has been agreed to officially by a group of people, a business organization, a government, or a political party"⁸. In relation to data management, BI policy should determine, which information should be gathered by organisation and who, which participant of organizational structure has an access to processed data.

Searching for reasons, why BI, for long time, was not treated as a policy, it is necessary to compare the BI policy to human resources policy, which is commonly implemented in many organisations. The difference comes from attitude of executive level. In many companies people working for organisation are treated as a resource, but data, managed by the same organisation, are neglected and not perceived as valuable resource.

When companies decide to act with data the same way, like proceed with other resources, it indicates, that they have to establish policy to maintain and increase a value of information, which they possess. Data is a completely new type of resource. On one side value of historical data raises from month to month, so companies try to protect access to data against competitors, partners and own workers. But in changing economic environment, where consumer habits and business processes are under a pressure of permanent change, historical data, which cannot help in understanding of current decision process, will lose their value.

On the other hand, data should be treated as a kind of renewable resources. Each new transaction, each new relationship with potential customer delivers a lot of information. And that is an objective of BI policy, to create rules, which specify, which set of information should be gathered and in what way. This element of BI policy has to be modified according to appearance of new sales channels and new communication channels in company' environment.

Words ‘agility’ and ‘agile’ are now in common use not only in an IT world, but also winning their position in other business areas. Popularity of this methodology comes from rejecting strict project management rules. Agile methodology interacts with a process, when the project is a plan, set of tasks, which gives a small space for modifications. For example, new communication channel, which was not taken under consideration during a planning process by project manager, cannot be integrated to the project, as a source of information. Where policy, which is above the project assumptions rules, clearly states that: data from all potential source of information should be gathered and stored according to relevant procedure.

⁸ Cambridge Dictionaries Online - <http://dictionary.cambridge.org/dictionary/english/policy> [2016.02.15].

Business Intelligence supports process

In contrast to analytical and reporting tools, which are focused on their functionalities, BI policy is in constant interaction with business processes. BI policy determines how to manage data to increase effectiveness of a process. To answer simple question: is the particular business process efficient or not, it is necessary to register as many information related to the process as possible. And that is one of a main incoherence of previous BI definitions. How tools and methodology of extracting and processing data bases, can get insight into an analysed process when they are separated from measurement processes?

Narrowing down Business Intelligence only to a data processing process is against essence of a cognitive thinking and cognitive acting. Better understanding of each business process is necessary to develop methodology, which allows measuring, in unhampered way, all tasks of the process and all aspects related to it. To maximize value of picture of an examined process scientist cannot base on the information collected and delivered by somebody else, who cannot present a documentation of how the business process was measured.

A business process, its definition and meaning for present state of business management practices, presents, how important it is to effectively manage the data related to it. Ann Lindsay's and Ken Lunn's work: „Business Processes – Attempts to Find a Definition”⁹ it is getting clear that in Economic Science it is not easy to design one definition for crucial aspects. One of, presented in work, definitions of a business process, proposed by Hammer & Champy (1993) says: "A business process is a collection of activities that takes one or more kinds of input and creates an output that is of value to the customer. A business process has a goal and is affected by events occurring in the external world or in other processes"¹⁰.

The definition highlights several aspects of business process, which in natural way, as a simple consequence, determines subjects for BI policy. Effective Business Process Management requires knowledge about Business Processes that are managed. The knowledge comes from information which is collected, stored and processed, with full trust and understanding to methodology used by business process owner.

Lindsay and Lunn presented historical evolution of objectives of Business Process Management, declared by business's leaders during last 50 years.

“The business world has been evolving;

- in the '60s industry concentrated on how to produce more (quantity),
- in the '70s how to produce it cheaper (cost),
- in the '80s how to produce it better (quality),
- in the '90s how to produce it quicker (lead time),
- in the 21st century how to offer more (service)¹¹.

Presented above directions of business processes improvement ideally describe, which objectives of data management, should be prioritized to support those strategies. Creating policy of business intelligence with interaction with company strategic objectives, this is the way, how data management should be conducted. For example in '90s BI policy declaration, to answer business needs, should setup its data collection processes to serve measuring methodologies related to aspect of time. While standard way of thinking about BI places the role of it in final phase of cognitive process.

Relationship between a business process and BI policy seems to be the best example of how this policy should be implemented from a practical point of view. In their work, Lindsay and Lunn focused their attention on one of the most significant aspect of Business Process Management, which is particularly

⁹ Lindsay A., Lunn K., *Business Processes – Attempts to Find a Definition*, School of Computing and Engineering, University of Huddersfield, Huddersfield 2003, p.1.

¹⁰ Hammer M., Champy J., *Re-engineering the Corporation; A Manifesto for Business Revolution*, Harper Business, New York 1993.

¹¹ Lindsay A., Lunn K., *op.cit.*, p.25.

important in present times, when business environment is under a pressure of constant changes. In sentence placed in conclusion that stated: "Both the environment the process must operate in and the process itself are not static, and changes in either one could affect changes in the other"¹².

Policy of Business Intelligence interacts with business processes in two areas of cooperation. First one is data gathering, which is necessary to measure effectiveness of a process. In ideal situation all relevant sources of information should be identified and the data available there collected. That means that a specialist of BI should be a part of team, which is responsible for business process designing or business process reengineering. Practical implementation of such a methodology could generate additional demand of qualified employees or external consultants specialized in BI, what could lead to paralysis of those processes. It is very possible scenario taking under consideration that by 2018 only in USA, there will occur a lack of 140,000 to 190,000 business intelligence professionals. Solution in such a situation could be properly design BI policy, which actively participates in defining employees competencies¹³.

Outcomes of research conducted by the Economist Intelligence Unit of The Economist in 2013 and presented in report "Fostering a data-driven culture" highlights, among other interesting conclusions, the importance of changing companies employees to be more "data-literate". "Around one in three respondents say it is "very important" to have programmes or partnerships in place to make employees more data-literate. Awareness of this need is even higher among executives at companies that out-perform their peers financially; 50% of respondents from this group rate training as highly important"¹⁴. Training employees to enhance their awareness and skills related to data gathering tasks in processes, that they are responsible for is much more reasonable investment, than extending headcount in specialized BI departments.

Second area of relationship between a business process and the BI is delivering high quality information to a business process operator, in most effective way, so the information can be used in tasks and in a decision making process. It is obvious that most of analytical and reporting tools and solution offered on world market declare that they support decision making processes. The question that should be raised at this point of this work relates to an adjective "effective". From a business process perspective, effective information is the one that:

- do not disrupt flow of tasks in a business process,
- minimize time and maximize knowledge or message, which an operator can extract from information.

Of course these elements represent separate subjects of scientific researches that should be conducted to help managers, to design business processes characterized by high productivity level.

Both elements of description of effective information, presented above, should be covered by BI policy. Both are related to the aspect of data publishing of BI policy. Defining this aspect of BI, policy makers should take into account interests of all stakeholders. BI policy should be treated as a result of consensus between all company departments. Otherwise, when most of decisions concerning implementation of analytics and reporting tools, are taken by one person or a team representing IT department, the rest of the company staff struggles with not effective solutions, which represents the "ALT+TAB" era. The "ALT+TAB" era is a name, that describes all analytical and reporting tools, which deliver/present their outcomes outside business applications, which are responsible for conducting of a business process. In the "ALT+TAB" era, an operator has to switch between to different screens whenever needs a knowledge required to finish a task or take a decision.

¹² Lindsay A., Lunn K., *op.cit.*, p.4

¹³ <http://www.mckinsey.com/business-functions/business-technology/our-insights/big-data-the-next-frontier-for-innovation>, [2016-02-15].

¹⁴ *Fostering data-driven culture*, Economist Intelligence Unit. The Economist, 2013 <http://www.tableau.com/economist-fostering-data-driven-culture> [2016-02-15], p.6.

Example of analytics implementation for order collecting process

Better understanding of real importance BI policy for making enterprises more effective, by switching the company culture into the data-driven culture requires studying of practical example. This case study comes from a project managed by an author of this work. The project objective was implementation of an analytical and reporting tool, in a distribution company, which represents SME sector.

This company is using ERP system delivered by polish vendor. The ERP application functionalities covers, among the others, sales processes, which are conducted by sales department. Author was not involved in an process of designing of any business processes implemented in this company.

Case study presents one report designed and executed by the author and a further discussion with the management team of the company. The report contained a table with data presenting a volume and a value of lost sale for selected period of time. A value and a volume of lost sales were calculated, as a sum of orders, placed by buyers, which were marked in the ERP system as "canceled". Presented numbers became a big surprise for management team, because they did not expected, that lost sale level could achieved such a high level.

During next hour entire team was checking a set of randomly chosen canceled orders to find out reasons of cancelation. The result of this research did not surprise the team. Most of the problematic orders were fully delivered to customers, but because of a set of unofficial business processes, which, on the other hand were not forbidden, they were canceled, and then created again.

It is not a subject of this work to analyze those processes, but this case study shows how important is an aspect of data management related to a business process. With properly defined BI policy, this company could avoid such a problem and increase a value of its data. If each and every employee was formally trained, the awareness of data importance to entire organization would be on much higher level. An example of simple rule, which can be established as an element of BI policy, states that: it is not important, on which position you work, but you should always take care that all changes you do in a task or in a process are properly registered in application. If you found that there is a lack of status in the system, which is relevant to your process, you should pass this information to your line manager.

In a result of mentioned project, management team decided to extend a list of statuses used by operators to mark orders. It is not a big improvement of sales processes, but became an important step to rethinking and redesigning of data management processes.

Business Intelligence - main rules

The policy, of whatever business area it is related to, cannot be setup on too detailed level. The policy reflects general rules that should be respected by organization, to achieve company's goals. The Data Management policy is not unique in this subject. For example the human resource policy takes care of employees, as an important value of enterprise, which comes from this resource. Corporate Social Responsibility Policy takes care of stakeholders, as crucial value of corporation, which comes from good relationship with the stakeholders community. Similar situation we can describe analyzing role that BI, Data Management Policy, which it plays for company and its value.

It is not a subject of this work, to present proposal of specific rules, which are universal for an each company. Analyzing meaning and role that a policy should play in enterprise and business areas where data management aspects occur in commercial organizations, Business Intelligence rules or using synonym Data Management Policy rules should be defined for such spheres of an organization:

- Responsibility and leadership - who in the enterprise is responsible for maintaining policy? In last decade, new C-level positions appeared, but it did not make more clear, who is really in charge of taking care of Data Management Policy. A new position, CDO, Chief Data Officer is a good sign that data, its role, will be enhanced.

- Data gathering - which information are important for organization and how they should be registered? That area is really wide and covers: relationship with all stakeholders plus a lot of external sources of information, like weather, fashion, political changes.
- Knowledge distribution - how to use data processing to enhance value of company and value of stakeholders community. Simply, this part of rules of BI, should help to answer a question, what kind of information and which way enterprise should deliver it to its stakeholders to increase effectiveness of business processes?

Conclusion

Business Intelligence definitions, which are currently in use contain logic error. The error lies in the fact that BI is treated as a means of drawing knowledge from the previously accumulated data, not the process of examining the business processes. Whatever is a subject of examination, a business process or consumer habits, it should be conducted following the same rules:

- description of a research object,
- defining methodology, including measuring tools,
- gathering results,
- analyzing collected data,
- presenting extracted data.

Most of Business Intelligence definitions cover only two last phases of entire cognitive process presented above.

New proposed definition of Business Intelligence shifts it on much more abstractive position. The Data Management Policy, new meaning of BI, should help enterprises to deal with this very complex and difficult subject. Growing number of data sources, rapid changes in design of business processes, these are challenges for each company. To answer these challenges organization needs more then new version of software tool.

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PART II

METHODS AND TOOLS OF SUCCESSFUL RESTRUCTURING PROCESS

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THE RULE AND THE SOLUTION FOR THE COMPANY CRISIS¹

Summary

One of the main purposes of crisis management is to successfully manage crises that cannot be prevented or identified early enough. Post-crisis analysis is also crucial to ensure that mistakes are not repeated in the future. Crisis communication is a significant part of crisis management. This study focuses on the companies crisis, an important economic topic, determined with the interruption in the process of development and consolidation for the creation of the goods .

* * *

Introduction

Economic entities perform their activities in a dynamic environment due to: the sharpening of the economic, educational and technical-scientific competitiveness; the expansion and increase of communication opportunities and media; the multiplying and diversifying of consumer needs; the promotion of certain requirements and new quality criteria for goods and services; the spectacular profusion of technical and technological innovations; the reevaluation of the man-nature relationship and the start of wide programs aiming at ensuring the ecological balance; the alteration of forms of organization and management; the limitation of classical resources of raw materials and energy; the deepening of economic and technical-scientific cooperation

The aim of this chapter is to give a complete overview of the crisis and, following a methodological method, this study carries out a diagnostic analysis in order to fix up and overcome the problem.

¹ This paper is an effect of cooperation between Department of Economics and Organization of Enterprises, Cracow University of Economics and University of Messina. Elaboration arose based on descriptions of restructuring processes in various countries and constitutes the admission to poglobionych of examinations in this respect.

The change and the restructuring

Changing is a necessary and sufficient condition for the survival of the company system which has to prevent or react to the environmental events.

Changing means to modify or to restructure the structure and the combination of production factors in order to improve the input-output ratio, adapting to the different product-market combinations.

We can distinguish three types of reorganization: organizational restructuring, reached through the revision of the operational units in order to examine the environment of the company activities and its goals, making them consistent with the present potentiality and the changes of the market. This process involves a reshaping of the structure starting from the personnel restructuring of portfolio, characterized by the analysis of the business trying strategic solutions different and efficient more than the past. This type of restructuring involves a more marked involvement towards the external environment to the company in order to recognize the signs of changing evident in the financial restructuring demand. The aim is to find a balance achieved via the financial methods more or less complex depending on the situation of reference.

Now, in the reorganizations the simple reduction of the structure is not a source of improvements that allow the company to reclaim its ability to create value. So, it is necessary to provide development paths of the innovator capacity and market.

The legislation in the company crisis

The intervention of the legislature in the field of business crisis is characterized by the presence of rules to govern the closure of the insolvent company or designed to avoid it.

To defend the opportunity of the institution of bankruptcy, one must consider the principle on which it is based on: it ensures that the procedures to tenders reduce the risks of the resolution of liabilities that do not meet the criteria of equity and homogeneity of the various debtors. This principle eliminates all contract terms established and accepted by the parties when a synallagmatic obligation has approved.

Another usefulness of the selection procedures should be represented by their low cost and the homogenous coordination. The beginning of bankruptcy procedures avoid the activation of individual initiatives undertaken by various creditors who may estinguish the available assets without the possibility of fulfillment for creditors "laggards". This coordination involves costs weighing on financial resources that come from the same procedure. We can distinguish between direct costs and indirect costs. The former are represented by the intrinsic obligation of the procedure, while the latter can be considered as the negative effects of the actions, oriented not to the creation of value of the company, but to its elimination. This category includes the obligation of distortion generated by the event that it would be more advantageous to continue in an enterprise. The "political obligation" are also considered indirect costs: they descend from the incompleteness of markets that avoids the autonomous economic operation.

The costs of failure are an important category of the procedure that often invalidates its economic utility because the lenders get very small percentage of their credit. Another defense of the economic vitality of the failure is in the theory of *creditors' bargain* that confers, to this procedure, the capacity of elimination of the obligation deriving from the various actions taken by individual creditors who, in the presence of a less active to passive bankruptcy, would cause an unnecessary splitting of the company.

The efficiency of the selection procedures is recognized in their chances of getting a higher value of assets over the actions of individual creditors.

The premise of the declaration of bankruptcy is represented by the inability to cope with their availability to the obligations contracted and overdue. The procedure initiates the liquidation of business operations in order to repay the amounts due from third parties. This ratio has its limitations:

- the insolvency is evaluated without considering the future prospects related to earnings and expected financial

- the insolvency is determined by a judge who lacks the information and the necessary knowledges to assess the actual situation and future of the company
- the procedure has no information necessary to allow the optimization of the liquidation stage
- the expulsion of the debtor from the procedure determines, in the pre-bankruptcy, the activation mechanisms, not optimal, for the preservation of the holdings, for the respect of the bankruptcy bureaucracy, for the executive action lasting the closure of the procedure that does not allow the creditors dissatisfied to apply differently their titles and it represents one of the fundamental aspects of the bankruptcy laws. This ratio restricts the responsibility of the individual entrepreneur, providing a kind of equity and economic incentive.

The trend of legislation today

Internationally, the regulatory intervention was aimed at favoring the company closure from a legal standpoint by dispossession in order to repay the various debtors.

The German legislation, in the field of bankruptcy, provides a procedure for the company's closure and the repayment of the asset positions. This procedure starts at the request of creditors and in connection with the verification of the existence of the state of insolvency. The bankruptcy agreement as a part of this legislation provides the possibility of identifying in the insolvency plan different solutions from liquidation, oriented to allow the survival of the company.

The approval of the plan takes place obtaining the vote of the majority of the various classes. The German legislation provides an important role for creditors who at the meeting, take up decision-making position on some topics and through the committee of creditors act as supervisors and controllers.

The French legislation can distinguish three alternative procedures to bankruptcy. The first precedes the verification of the state of insolvency and it is defined alarm procedure that can be activated at the instigation of the auditor if he distinguishes situations that might compromise the continuity of the company. A second case provides the reorganization of the company through an amicable agreement that starts with the appointment by the court of a conciliator. A final category is the judiciary one which includes reorganization and liquidation.

The English system distinguishes procedures of previous insolvency where there are formal or informal agreements for the settlement of business liabilities, and procedures in which you accept the insolvency which is evaluated on the basis of insufficient assets to satisfy debts.

The main aim of Poland's new Restructuring Law is to provide a functioning legal framework for financial restructuring of companies which are in temporary distress.

The earlier regulation governing restructuring processes were contained within the Bankruptcy and Reorganisation Law. These regulations proved ineffective, as in practice the B&R Law favoured liquidation bankruptcy and only a fraction of attempted restructurings were successful. In addition, even where restructurings were effective a degree of stigma attached to the debtor.

The new Restructuring Law relies to a large extent on the experience and successful models employed elsewhere in Europe and the US. It introduces four new procedures aimed at solving temporary solvency issues, varying both in terms of the potential benefits for debtors and the amount of control the courts and creditors have over the business. The general rule is that the greater the possible benefits for the debtors, the greater the amount of control granted to the court and creditors over the procedure and the conduct of business.

The insolvency proceedings, planned for the company, include:

- *Administration* that has the aim to safeguard the future of the company and to ensure to creditors a better solution than that one obtainable with the liquidation
- *Administration Receivership* in which a chargee on the assets of the company appoints a liquidator who is responsible to carry out activities necessary for the fulfillment of credit claims, liquidation

that may be voluntary or compulsory, then initiated by the Court in the event that it is manifested insolvency.

The administration allows companies potentially efficient to continue to operate avoiding liquidation through the arrangement with creditors that must be approved by 75% of creditors.

The active presence of the judicial authority, in addition to protecting the interests of creditors, may also be of economic and social benefits in order to preserve whole areas or macro-reality of particular importance to the territory.

The decision to start or not the procedure is currently the responsibility of the judge who does not possess the necessary knowledge and skills needed to reduce the complexity involved in this decision. The conventional solutions can be a useful formula to contain the problem, as the creditors and the company in decoction possess information and expertise useful to seek solutions less risky than those entrusted to the judge.

The debtor may have an active role in the procedure and obtain some resources if the crisis is not curable. The validity of the agreed solutions of the crisis depends on the presence of certain characteristics including the rapidity of their proposal, the transparency and truthfulness of its financial collapse, the protection of the creditors interests, the efficacy prospective of the recovery plan.

The conventional solutions

The instruments used for restructuring companies in crisis are: arrangement with creditors, the restructuring agreements.

The arrangement with creditors

The objective requirement for the arrangement with creditors is the existence of a state of crisis which you will cope with the implementation of a restructuring plan that includes the satisfaction of debts implemented by any re-entry formula.

The crisis is the step not terminal, then salvageable, of a degenerative process of the company which, due to imbalances and inefficiencies, suffers economic losses that may create the insolvency, then the definite disappearance of the company. Legally, this stage of the crisis is defined as a structural and fixed imbalance that prevents the fulfillment of the trade repository's obligations.

The subjective condition for the admission to the procedure changed and established certain requirements for the entrepreneur applicant. The reformulation does not interpret the agreement as a kind of prize that rewards the honest but unlucky entrepreneur, but it considers this legal mechanism an alternative to bankruptcy for the company in crisis.

A further innovation is the elimination of the minimum payment of unsecured creditors and the attenuation of the role of the judge either in the evaluation phase and in the implementation one. The creditors participate in the risk and the economic damage suffered by the company. The eligibility for the procedure depends on a report, prepared by an expert, attesting the veracity of the data and confirm the viability of the restructuring plan proposed. The Court has the task to verify the completeness and regularity of the instance proposed by the party. The legal text does not add anything about the contents of the explanatory report to certify the reliability of information and data that make up the plan. The report should indicate the break points with previous experiences, so the managerial changes that the company intends to adopt and, eventually their opportunities to the achieving objectives. It is a document for the conclusion of the plan. It is possible to realize it with a preliminary analysis of the causes of the crisis followed by the study concerning the validity of the proposed solutions and their consistency in relation to the endogenous and exogenous characteristics of the company. Everything will be completed with a periodic business plan which will show the income and financial flows that could have the company.

The plan, in addition to providing guidance on the payment of debts, has also to present the current and future financial situation accompanied by a report, prepared by an expert. The essential requirements

of the program are those of the veracity of the data and the real possibility of implementation of planned objectives. If there are difficulties for the implementation of the plan, the judicial commissioner has to explain this condition so that the Court can comment state on the declaration of bankruptcy.

The plan proposed by the company in crisis may provide different solutions ranging from partial liquidation to its restructuring, also passing through mixed formulas. It is also predicted a full payment of the subordinate creditors, a partial payment of the unsecured creditors and the division in classes of the whole team which is responsible to approve the plan. It is necessary the positive vote of the majority of creditors, allowed to the vote for single class, to approve the plan. It is also provided that the judge may enact the agreement, in spite of an unfavorable outcome of the vote, if he/she considers the plan acceptable and provides the possibility to repay debts to a greater extent than other formula.

The arrangement with creditors has to be applied promptly by the same company in crisis, so before insolvency.

The restructuring agreements

The restructuring agreements are an innovation, introduced by the law converting Decree 35/2005, that fit into the scheme of arrangement with creditors, trying to consolidate its proposal. The company is autonomous in adding to the documents an agreement, which it signed with at least 60% of its creditors in which you explain the modalities of extinguishing debts, stating the reality of this perspective with the report of an expert too. The appointment of the expert is up to the debtor, but considering that it is a consensus agreement, should be more correct, to guarantee both sides, the joint appoint.

The legal text does not specify how to proceed with the acquisition of membership in the plan by creditors. The correct procedure could provide first the division into classes of creditors, distinguishing them for interest and/or legal positions, and then obtain the membership in the plan by the majority.

Within 60 days from the date of registration of the plan, the creditors or other interested parties may object, giving reasons for their dissent that will be assessed by the Court that, if it should not be relevant, will carry the approval of the act.

One of the problems generated by the rule is represented by the absence of specification regarding the majority that it does not explicit if the 60% refers to the total of secured creditors. This percentage should refer to the unsecured creditors.

A further difficulty is related to the "regular payment of the creditors outside the agreement." The term "Regular" might be considered as "precise" if you interpret the purpose of the rule as a protection, from the possible revocation action of the creditors coming out after the approval. This reading is restrictive to the perspective contained by the law. The term "regular" means also "according to the rules" of the agreement and this reading is also potentially invalid for the presence of intrinsic deficiencies in the new legal provisions.

In the absence of tax rules, resulting from the agreements of debt restructuring, the office has stated that the rule, predicted by arrangement with creditors, can not be extended to this agreement, whereby the reductions of debts will have to be taxed. In addition to the arrangement with creditors and the agreements of debt restructuring, we have another case that does not require a judicial validation, but it is characterized by the autonomy of the company. It may draw up a recovery plan that is an extrajudicial act that safeguards, against the risk of revocation, the restructuring actions undertaken by the company.

The turnaround

The birth of the crisis requires the activation of the organizational and administrative review processes of the company that are identified with the term *turnaround* which assumes different connotations depending that is activated in case of crisis, or at the moment of the decline. These processes of change involve the assumption of timely and radical decisions which involve the change of structure, internal and

external to the company. In the operations of restoration, the turnaround is characterized by the presence of causality links between the origin of pathological phenomenon and the proposed solution. As part of the turnaround can be recognized two moments: the strategic aspect and operational applications. Both have to be considered as part of a single process which can not be characterized only for the existence of one or the other aspect.

Within the studies of the turnaround, the return processes to the value can distinguish in strategic and operational, identifying the underlying causes of the crisis and its recovery. They recognize the *current operating health* which refers to the business analysis from the operational and strategic profile; the *operative health* regarding the strategic analysis of the company assessed with the strengths and weaknesses benchmarks related to critical sectorial factors. Further studies have eliminated the distinction between strategy and practicality and they have focussed on the analysis of the efficiency of the turnaround processes, by checking the level of use of the structures and the validity of the strategic choices.

The implementation of the turnaround processes derives from the existence of a state of decline or crisis that requires the implementation of radical changes whose aim is to enable the enterprise to the return value, and then to reduce the inability to achieve the income.

It may also happen that the turnaround is activated following the occurrence of an event that requires radical changes. It would be favourable not to wait this stage of the crisis but to perceive and to recognize the *trigger event* at the moment of its first manifestation. The timely identification of the *trigger event* and the implementation of changes in management is an essential element for the success of the turnaround.

This is an exceptional event in the life of the company because of its rare manifestation and the effects it produces. Its implementation requires awareness and total approval of all system components. The stakeholders have the decision to accept and support this process. A useful decision to pursue this aim consists of the change in the management that appears to be the necessary condition to apply the new strategic approaches and the associated operational processes.

The importance of this phenomenon has generated the birth of professional figures named *turnaround specialist*, the implementation process of the return value by providing support and coordination activities during the drafting stage and the implementation of the turnaround plan. These plans are developed on three areas:

- strategic, which involves a review of the business model
- economic and financial, with which you try to predict the impact in terms of cash flows
- economic of the programs, which you can intend to implement organizational asset, since it is necessary to imagine even useful changes in operating structure which can be a cause of instability.

The success of a turnaround plan depends largely on the cultural change through which you can change the content and the management and strategic skills damaged previously. The turnaround, ultimately, requires the timely action, the analysis of the initial situation, the change of management, the definition of the plan and its implementation.

The business process reengineering

The Business Process Reengineering (BPR) is part of the turnaround. It can be considered as the set of actions undertaken, with the help of the tools of information technology, in order to allow a strategic realignment of the company that is in a difficult condition according to the market and the income.

In the stages of B.P.R. you may recognize some moments connected together:

- the *business process redesign* that focuses on the efficient use of technology
- the *business network redesign* that allow the adoption of electronic media in order to facilitate trade and inter-enterprise relationship
- the *business scope redefinition* that covers the total rethinking of management processes

The B.P.R. radically impacts on the administrative and organizational architecture of the company and it conforms to situations that require a general and timely revision. When the operating conditions do not need rebalancing acts, it appears useful to refer to the Continuous Process Improvement that provides a period of adoption longer than BPR because it generates its effects without having to make general confusion in the existing balances.

The validity of the Continuous Process Improvement depends on the timing and the context of its implementation.

This process requires a monitoring of the various phases in order to be able to perceive the signals of improvement and decide possible further steps to support this action. The B.P.R. includes the whole redesign of the company through the technological support that has to be implemented without having to consider the previous structure.

The information technologies appear as a fundamental element of the BPR which, to have success, it has also to re-evaluate the quality of the human and organizational aspects. The possibility of success of the interventions of BPR can derive by the type of membership sector. Another conditioning for the success of the BPR is the level of managerial culture existing in the company. The first moment of B.P.R. has been represented by the analysis of the operating conditions of the company and its environment.

In conclusion we can say that from not only financial point of view it is essential that in comparison with the bankruptcy, by restructuring a business continues, and the company does not expire and it gradually restructures and the debt is being relieved. For the success of the restructuring, the right attitude and cooperation of all stakeholders concerned are necessary. Restructuring can become an essential part of economic progress only when structural changes correctly predict where the companies can take corrective action quickly and effectively manage the necessary changes, and where public authorities help to create the right conditions.

Conclusion

When company faced with a crisis, the main concerns from a management's perspective are the continuation of the organization's activities as smoothly as possible, minimization of the consequences, and reputation management. Successful crisis management is possible when the key persons have a consistent real-time situational picture of what has happened, irrespective of the geographical distance or time difference between them. A consistent situational picture allows them to manage the organization's own activities as well as crisis communication to the stakeholders and mainstream media as well as to the public via social media.

It is necessary to define processes and to decompose them in the different sequences that characterize them in order to identify the various operating units, the flows and the resources used. This leads to a discussion of critical activities from which can derive inefficiency.

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SELECTED TOOLS OF A COMPANY RESTRUCTURING IN THE CONTEXT OF MANAGEMENT PROCESSES IMPROVEMENT

Summary

In the article described chosen topics concerning a company restructuring. At the beginning of the article, the author explained the idea of restructuring and tools of its realization. Next, the author described a crisis situation as a cause of restructuring activities. The further part of the article refers to chosen, indirect tools of restructuring in the area of a company improvement as a system and management processes. In the end of the article emphasized the aspect of restructuring effectiveness assessment.

* * *

Introduction

Contemporary companies exist in environment which characterizes a big uncertainty in the meaning of forecasting. Good sale results, satisfied customers, good cooperation with partners, these are factors proving about good condition of a company. Such condition is not given forever. Many circumstances of the environment influencing on a company (like economic, demographic, law, social, political, etc.), could cause making worse of functioning in areas: financial, human, organizational, material, etc. A big uncertainty of tomorrow causes that even the best prospering companies could be in crisis situation. A way to escape from this situation is wide meaning restructuring of a company¹. Restructuring process could be defined as:

1. "Restructuring is a system rebuild, modernization or improvement of organizational structure and rules of company's functioning or other objects of economic researches. It has complex, multidimensional

¹ Restructuring in general stands for an active answer of a company on changes and caused by them a need of quick reorientation of company's activity (improve of rationality and effectiveness, innovation and adaptation). See Borowiecki R., [ed.], *Pomiar i ocena procesów kreowania wartości w badaniu efektywności przedsiębiorstwa*, Wyd. Uniwersytetu Ekonomicznego w Krakowie, Kraków, 2009.

Table 1: Exemplary tools of restructuring

| Direct tools | Indirect tools |
|---|--|
| <ul style="list-style-type: none"> – debt reduction through redemption, – debt conversion into shares and stocks, – conversion of liabilities into other liabilities, – consolidation of commitments, – rescheduling of the debt in installments, – postponement of commitments implementation, – equity reduction and reincreasing, – rationalization of employment, – reduction of fixed costs, – marketing strategies to promote sales growth, – marketing mix, – measures to improve the organization of work, – actions for rational use of production factors. | <ul style="list-style-type: none"> – sale of assets, – divestments, – separation of the organized part of the company, – spin-offs, spin-outs, sell-off, – the division of the company - split-off, split-up, – securitization of assets, – outsourcing, – insourcing, – downsizing, – the sale of shares of the subsidiary company, – optimal management of working capital, – leveraged buy-out - lbo, – management buy-out - mbo, – employee stock ownership plan - esop, – lean management, – reengineering. |

Source: Rochoń M., *Efektywność restrukturyzacji finansowej przedsiębiorstw*, Wydawnictwo Walkowska, Szczecin, 2006, p. 96.

and long-term character. Premises to its taking are critical situations in structures' development, which it concerns²⁹.

2. "Restructuring constitutes a diagnostic-planning procedure coming to improve a management system and exploitation system of a company, but changes concern transformation of organizational form, deciding systems and human resources³⁰."
3. "Restructuring is a system rebuild, modernization and improvement or adaptation to contemporary level of technique and development of organizational-managerial thought of a company structure³¹."
4. "Restructuring is a radical change in the refer to the economy, branch, company, at least in one out of four areas of their activity, it means: technique and technology, organization and management, economy and market and organizational-law, to the purpose of ensuring an economic system an internal balance and towards an environment³²."

A process of restructuring is the process decomposed at time, complicated and multidimensional. Characteristics mentioned above let conclude that restructuring could concern: production potential, organizational sphere, financial sphere and deciding-proprietorial sphere. In the following article the merit emphasis is put on organizational sphere (managerial).

² Borowiecki R., *Zarządzanie restrukturyzacją procesów gospodarczych. Aspekt teoretyczno-praktyczny*, Difin, Warszawa 2003, p. 77.

³ Stabryła A., *Zarządzanie rozwojem firmy*, Księgarnia Akademicka, Kraków, 1995, p. 16.

⁴ Durlik I., *Restrukturyzacja procesów gospodarczych. Reengineering. Teoria i praktyka*, Placet, Warszawa, 1997, p. 47.

⁵ Malara Z., *Restrukturyzacja organizacyjna przedsiębiorstwa*, Prace Naukowe Instytutu Organizacji i Zarządzania Politechniki Wrocławskiej. Monografie, Nr 32, Oficyna Wydawnicza Politechniki Wrocławskiej, Wrocław, 2001, pp. 16-17.

The efficiency of restructuring depends on prepared rescue plan and selected and used restructuring tools. The restructuring could be realized by existing potential (financial restructuring in the area of property and capital) or by lean approach. Tools of restructuring are divided into two groups: direct and indirect. Table 1 presents selected ones⁶.

In the further part of the article the author characterized indirect tools like: lean management (continuous improvement), reengineering, TQM and outsourcing.

The meaning of the crisis in a company

The crisis could be described as a period of breakdown, collapse and potential breakthrough in functioning of exact system⁷. From a company perspective the crisis means a situation, where, as the effect of accumulation of many difficulties, realization of its basic functions is endangered and simultaneously barriers in their removing exist⁸. In this meaning the problem is about the crisis endangers company's existence.

S. Sudoł, points out following sources of the crisis in a company⁹:

1. Company's crisis being a consequence of general crisis in the international, domestic, regional or branch scale.
2. The crisis which is a consequence of economic growth and competition.
3. The crisis as the results of economic situation variation.
4. The crisis being the effect that a company is present in declining sector.
5. So called autonomous crisis of a company, resulting from: low qualifications of managers and crisis of the leadership, wrong company strategy (wrong situation diagnosis, wrong predicting, too risky activities, excessive expansion, overcapitalization or wrong investments, too narrow production specialization), breakthrough or making worse company image as the effect of product's defects appeared resulting withdrawing from the market or mending them on the producer costs, mistakes in company functioning, state of employees (low qualifications, low productivity, high costs, low products quality) and others.

Escape from the crisis was never easy and is not easy. It requires restructuring activities, which described above, have complicated and long-term character. For a few years, the crisis has a big scale (world, Europe, Poland), what causes that restructuring activities are integral element of a company management. Their scale depend on how big the crisis is. Universal model of crisis management does not exist. General directions for managers being in such situation are as follows¹⁰:

1. Intensifying of management activities (even a change of management staff).
2. Organizing of a team supporting management activities, with the reference to company's functioning repairing.
3. Crisis identification (causes, character, scale).
4. Preparing corrective plan, with co-attendance of all interested.
5. Improvement of information gathering from the environment, so as to downsize uncertainty in management, finally, to restrict activity risk.
6. Verification of company strategy (modification).

⁶ It is recognized that direct tools change a structure of liabilities and financial results, indirect tools change a structure of assets.

⁷ Słownik języka polskiego, Wydawnictwo PWN, on-line version: www.encyklopedia.pwn.pl

⁸ See Wawrzyniak B., *Zarządzanie w kryzysie. Koncepcje, badania, propozycje*, PWE, Warszawa, 1984, pp. 38-39.

⁹ Sudoł S., *Przedsiębiorstwo. Podstawy nauki o przedsiębiorstwie. Zarządzanie przedsiębiorstwem*. Wyd. PWE, wyd. III, Warszawa, 2006, pp. 300-302.

¹⁰ Ibidem, pp. 304-306.

7. Quicker reaction on changes in the environment, it means quicker adjusting to these changes internal resources of a company.
8. Improvement of decisions making processes.
9. Improvement of organizational structure and management processes.
10. Corrective and restructuring actions taken to the purpose of overcome a crisis should have been realized quickly, what often collides with a need of deep analysis and cases.

In the crisis situation corporate social responsibility towards employees and the nearest environment becomes more important. Managers should hand over employees true information about company's economic situation, existing dangers, realizing activities and perspectives of going out from crisis or bankruptcy. The same responsibility concerns relations with external partners, like: customers, suppliers, other cooperators.

Improvement of system and management processes in a company

One of relevant conditions functioning and development of contemporary companies is their improvement, which could be treated as a process directed on problems' solving. Company improvement described in the literature and realized in the practice has a dimension of upgrading of efficiency its functioning or changes in its activity. This dimension correlates directly with a category of crisis and repairing actions, described in the synthetic way in the previous paragraphs. One of possible answer for a need of change is wide meaning improvement¹¹.

The idea of processes improvement in a company signs in a holistic its improvement and it is one of ways of its realization. The purpose of processes improvement is aiming to achieve better results from its realizing. It could be realized in two ways. Narrow approach, improvement of processes concerns optimization of existing processes in order to making better supplied by them value, lowering costs, shortening realization time, keeping terms or improving quality of final products. Wider approach, processes improvement is identifying with a concept Business Process Improvement (BPI) and it is one of form of improvements a whole company. Improvement of processes in the framework of this concept has a permanent and composite character, influencing on every action and a result being its consequence. Nowadays, it is not enough for companies using process approach in management, system thinking must be put into it.

Contemporary approach to processes improvement is connected with a level of organization's process maturity. Such maturity means a state, which could be increased and could be recognized as an effect of some process and it is achieved by forming of exact features, which a set is some potential and constitutes about possibility of tasks doing. Increasing of process maturity stands for that different its level, from intense immaturity to full maturity, could be described. Achieving of next level is a result of processes' improvement. Improvement of processes in a company requires a big engagement of managers, employees and readiness to changes in wide meaning infrastructure. Improvement of processes should have balanced and adjusted to company business model character¹².

The idea of contemporary companies improvement, which implement modern management concepts, like: reengineering, benchmarking, lean management or TQM, based on continuous improvement rule, called from Japanese language kaizen. Kaizen means a process of mentioned continuous improvement and systematic searching for causes of appearing problems and implementing in a whole company or in

¹¹ Czekał J., *Metody organizatorskie w doskonaleniu systemu zarządzania*, WNT, Warszawa, 2013, pp. 20-22.

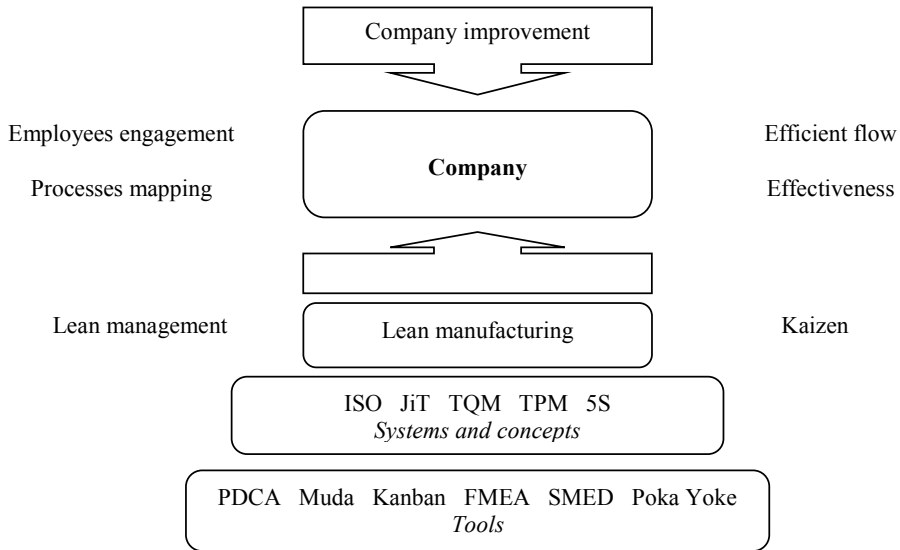
¹² R. Brajer-Marczak, *Dojrzałość procesowa przedsiębiorstw do doskonalenia procesów z perspektywy zdolności organizacji*, in: T. Borys, P. Rogala, P. Skowron [ed.], *Zrównoważony rozwój organizacji – odpowiedzialne zarządzanie*, Wyd. Uniwersytetu Ekonomicznego we Wrocławiu, Wrocław, 2015, pp. 265-267.

its parts changes letting achieving set goals in a more effective way¹³. Further explanation of continuous improvement in the framework of lean management was presented in next chapter.

Selected indirect restructuring tools

Improvement by lean and kaizen are realized with use many instruments (fig. 1).

Figure 1: Company improvement by lean and kaizen



Source: Mazurek R., *Zwiększanie potencjału konkurencyjnego przedsiębiorstwa*, in: E. Skrzypek [ed.], *Uwarunkowania dojrzałości organizacji w obszarze zarządzania i technologii*, Wydawnictwo UMCS, Lublin, 2013, p. 150.

Lean management leads to achieve high quality production and work, efficient organization and management and high quality products. It is achieved by company goals, tasks and functions integration. The most typical and relevant features of lean management are as follows¹⁴:

- integration of strategic, operational, economic, technical and social actions in a company,
- optimization of manufacturing, supporting and services processes,
- implementation of updating and developing schemes,
- usage of complex quality management system,
- stimulating of employees' motivation to good and free of waste work,
- direct contacts with customers, suppliers, cooperators.

Among different instruments used in this concept following could be pointed out¹⁵:

- normalization and unification of products, making simple construction,
- simplifying of processes and technological operations,
- rationalization of rearmaments (SMED),
- quality ensuring system (TQM),

¹³ J. Czekał, *Metody organizatorskie ...*, op. cit., p. 23.

¹⁴ Grudzewski W. M., Hejduk I. K., *Metody projektowania systemów zarządzania*, Difin, Warszawa, 2004, pp. 201-202.

¹⁵ Ibidem, p. 202-203.

- preventing from possible mistakes (Poka Yoke),
- total productive maintenance (TPM),
- friendly cooperation with suppliers,
- production flow steering system (Kanban),
- care about organization and aspect of post (5S),
- employees' motivating system and developing continuous improvement mentality (Kaizen).

Management of a company according to rules and instruments of lean means management a system, in which, identification and elimination of activities which do not create a value, by continuous processes, work and products improvement happens. The purpose of lean activity is adjusting a company to present market circumstances, by transforming organization, management and functioning.

One of a key element of lean management is continuous improvement – kaizen. In this process managers and employees are engaged. It requires relevant changes in people behavior and authority based on experience, as well as conviction about reason of taken actions. Kaizen bases on assumption, that employees own some skills and competences, which could be used to the interest of a company. It could be concluded, that Kaizen is oriented on people and their activities. It does not matter who they are: operation workers or managers. Kaizen is an investment in organization team spirit. In a company kaizen is realized by minor improvements, but done consequently¹⁶. Fundamental rules of continuous improvement are as follows¹⁷:

- philosophy – prevention instead of detection,
- acting – total quality management,
- scale – everybody is responsible for improvements,
- norm – properly by the first time,
- measure – quality costs,
- area – a whole company (system),
- topic – continuous improvement.

Another indirect tools of restructuring are: reengineering, TQM and outsourcing¹⁸.

Reengineering is an approach which leads to improvements in realization of individual processes or in a whole company. It means organization of a company from the beginning (it has revolutionary character, unlikely to evolutional changes in kaizen). Reengineering destroys contemporary structures of actions and build them on different rules. It concerns a type, a scale and an area of manufacturing in a company. Reengineering means also examination of key processes under their usefulness and functionality. Constructing of a company by reengineering stands for: rebuild of production process, sales and service, organizational structure, management system, communication in a company and decisions making and information system. Reengineering requires strategic reorientation, forming new organizational strategy, build new goals system and tasks in a company. It is a reorientation of a company from tasks structures onto process ones, oriented on a customer¹⁹.

Total Quality Management (TQM) constitutes implementation in a company mechanism of reliability, dependability, adaptation and innovativeness, including structural aspect, as well as process path of customer's chain value creating. Concept should release entrepreneurship and engage skills of staff in searching of possible actions improving systems and processes. TQM emphasis a need of rebuild company management system in the direction of concentrating on soft reserve factors, on people and their values, as well as on common values respected by a company. Thinking about investing in employees is strategic thinking for a company development. TQM should release employees' engagement in processes of good

¹⁶ Fraś J., *Kompleksowe zarządzanie jakością w logistyce*, Wyd. Wyższej Szkoły Logistyki, Poznań, 2013, pp. 264-265.

¹⁷ Ibidem, p. 267.

¹⁸ See classification of typical areas of company restructuring, R. Borowiecki [ed.], *Pomiar i ocena procesów ...*, op. cit., p. 121.

¹⁹ Kisielnicki J., Turyna J., [ed.], *Decyzyjne systemy zarządzania*, Difin, Warszawa, 2012, p. 530.

quality work creating. TQM is a long-term strategy. In practice is recognized, that well designed and implemented quality management system according to ISO 9001 brings near a realization of an idea and a program of TQM²⁰.

Outsourcing relies on separating from organizational structure of a company some from realized by it processes and passing them on to realization by other external units, suggesting, they will be done better. Outsourcing influences a change of organizational structure of a company, its contacts with environment and has a character of restructuring. Outsourcing reduces organizational structure, reduces employment, decrease amount of units and posts in a company and management levels. Thanks to lean actions, a company structure is more elastic and able to quicker reaction on changes in its environment. As a restructuring action, outsourcing is a strategic action, it means long-term. Thanks to outsourcing a company concentrates on key tasks, saves money, because it does not have to invest in employees and technologies²¹.

Conclusion

Company orientation on situations and changes in the environment, subordination its needs is contemporary requirement of company existence and its growth. Only in such example possible will be long-term capital increasing and realization of basic goal of owners which is maximization of company's market value. Fulfillment of these expectations is connected with realization of company's permanent restructuring processes. These processes let realize relevant changes in sphere of processes and organizational systems, technical and economic ones, deciding about company survival and growth. Restructuring has a complex and multidimensional character. It concerns different processes, whose effects are changes on the economy, diverse sectors and companies²².

Merit scope of the following article concerns presentation of restructuring meaning and instruments its realization. In the article the author described crisis situation as a cause of restructuring actions. In the description of selected restructuring tools concentrated on indirect ones, concerning wide meaning company improvement as a system and realized in it processes: lean management, kaizen, reengineering, TQM and outsourcing.

In the restructuring important is assessment of actions' effectiveness. There is important answer for a question: how realized efforts meet initial settings? How restructuring actions caused adjustment of a company to changes in the environment? In general, it is recognized, that three methods of restructuring effects assessment exist²³:

1. Assessment ex post, realized to prove efficiency of restructuring and examine potential.
2. Assessment ex ante, realized to explain planned restructuring or choose an option the most beneficial from accepted point of view.
3. On-line assessment, means monitoring of changes and supplying data explained a need and direction of restructuring process modification during its realization.

Every method and a way of restructuring effectiveness assessment should be treated carefully. Restructuring result is determined by complexity and duration. Often, restructuring effect is noticeable later, not immediately after its finish.

²⁰ Lisiecka K., *Systemy zarządzania jakością produktów, Metody analizy i oceny*, Wyd. Akademii Ekonomicznej w Katowicach, Katowice, 2009, pp. 20-22.

²¹ Grudzewski W. M., Hejduk I. K., *Metody projektowania ...*, op. cit., p. 211.

²² Borowiecki R., [ed.], *Pomiar i ocena procesów ...*, op. cit., pp. 113-114.

²³ Ibidem, p. 126.

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SELECTED METHODS OF ORGANIZATIONS' REACTION TO CHANGES IN THE POLITICAL AND LEGAL ENVIRONMENT

Summary

Political and legal environment has always been one of key elements influencing enterprises. Appearing threats and opportunities coming from this environment can be crucial to company's future, that is why it is necessary for companies to know how they can predict those changes and influence them. The paper's focus is influencing legal environment and is an initiation to discussion and further research on factors indicating representation needs.

* * *

Introduction

Enterprises nowadays function in an extremely dynamic environment that constantly creates opportunities and threats. Their survival and development depends largely on their response to these changes, anticipation of risks and seizing opportunities. They are therefore in a situation of constant change, the need to adapt to external conditions and creating a management system that will allow them to effectively manage relations with the environment.

Accumulation of newly created legislation, disapproval of officials towards entrepreneurs and piling up regulations and directives effectively impede the existence of enterprises. Today, more than ever, there is a necessity for strategies and tools that will allow for effective interest representation and active attempts to influence the environment. Lobbying gives this opportunity through legally available methods and techniques allowing to influence legislation, both national and international.

Company's environment

Organizations operate in a complicated, complex and dynamic environment on which they depend. That is why managers nowadays, in order to develop organizations and create value, need to look into future perspective and focus attention on what is happening outside their companies. Each organization

is a system separated from the environment in which it exists, to which it is associated and which ensures company's survival and operating conditions. Company may draw workers, resources, technology, information, financial and other resources from the environment at the same time supplying products or services offered. These products and services are also an element of functioning of other organizations which operate in this environment. Such openness clearly defines that companies are under environmental influence and are trying to exert influence on this environment. Therefore, it is necessary that they evolve, adapting to this changing environment.

In today's highly competitive business world, one of the essential elements of creating and modifying corporate strategy is a constant analysis and monitoring of the environment. Business environment, like any other system, consists of various interrelated elements, among which interactions occur. As a result of globalization, the relations between these elements can become stronger and closer. This environment, as a whole, consists of internal and external factors, which in a certain ways affect the company. The literature defines two kinds of external environment, which through different types of interaction shape the organization, directly or indirectly and consist of: the general environment (also called macro-environment) and task environment (also called competitive, closer or micro-environment). Micro-environment consists of defined groups or organizations that directly affect the organization, while at the same time remaining under its influence. They can include: new competitors in the market, suppliers of goods and services, transport companies and service providers, customers, competitors, regulators, strategic partners etc. Pressure groups, which as organized groups directly affect companies, aim to intensify the impact on legislative and regulatory solutions (which may affect the functioning of the organization). This group also includes the unions, which unite the employees and therefore significantly influence the policies of employers. This environment is possible to be shaped because it may be affected directly by the company.

The macro-environment is a set of forces indirectly affecting the organization, although having a major impact on the context of its activities through economic, technical and technological, socio-cultural, legal, political and international dimensions. This environment is not under a direct influence of the organization, although in some cases, organizations have the opportunity to shape it. This environment includes: politics and economics (of the countries in which the company operates), the level of science and education, legal regulations and the condition of justice, social services, environment, media, society (the preferences, the culture of a country or region), international relations, economic ties, customs, demographic and natural factors and so on.

Interactions between the company and the environment remain asymmetric, uneven in its intensity and efficiency. The environment gives companies numerous opportunities for growth, but also creates numerous threats that could weaken the company, or even, in extreme cases, lead to its collapse. Managers are therefore committed to a thorough environmental analysis, monitoring forthcoming changes and demonstrating a high degree of understanding of the relationship between the environment and the organization.

The external factors, which currently show increasing impact on the condition of enterprises are mainly: the globalization of markets, the continuous development of new technologies (this applies to all aspects of business and private life), progressive consolidation of businesses (growing competition, a growing number of mergers and acquisitions), progressive social changes (progressive computerization, more mobile lifestyle, increased access to knowledge, increased consumer requirements, new marketing, less numerous families, etc.), increasing emphasis on environmental efforts, increasing economic unrest (mainly due to economic crises, bankruptcies of large companies), geopolitical and global terrorism¹. These factors affect the sense of security and standard of living of the population worldwide. In the era of globalization, these elements have gained particular importance, especially in the context of the

¹ Krupski R., *Zarządzanie przedsiębiorstwem w turbulentnym otoczeniu*, PWE, Warszawa 2005, p. 16.

unification of cultural, consumer, political and economic patterns. They are followed by the phenomenon of technology globalization, thanks to the ever wider access to modern technologies, research capabilities, miniaturization, access to information anywhere in the world and creating global networks (especially online). This ongoing access to knowledge and information from around the world will entail the danger of noise and chaos of information, which can cause huge disruptions in enterprises that do not have the skills to select relevant information.

Legal and political context of the environment

The environment influences the company in all aspects of its operations. This influence is various in intensity and frequency depending on which dimension or group is taken into consideration. The company however does not have too many possibilities to influence different areas of the environment. While it is easier to influence the closer environment, such as suppliers (eg. sign in long-term contracts, fixed prices-a hedge against inflation) and competitors (eg. by introducing new products, lowering prices of products and services, creating new applications for the products, finding new customers, creating loyalty programs for clients etc.), increasing market share or acquiring new markets through mergers, alliances and acquisitions, it is for the further environment that the company has very low impact on.

Companies have the ability to manage information, monitor the environment, create in-depth analysis and predictions of future opportunities and threats arising from the changing circumstances. This allows the company itself to create information to be made widely available, prepare information campaigns, cooperate with local governments, try to influence regulations and legislation through lobbying activities. They may also try to strengthen and deepen positive relationships with the environment through practices defined in the context of corporate social responsibility. Leading charity, caring for the development and welfare of workers, engaging in the life of local communities and caring for the environment – those actions help business create an unbreakable bond with its environment while positively affecting it.

With regard to the impact on the environment, business environment should be analyzed from a slightly different angle. For a given organization that would have impact on the political and legal environment, or which is interested in the interests representation, there are two groups of important environmental influence (stakeholders):

- a) groups of audience that have meaning for the company now or will have in the future, because they affect it,
- b) a group of the public who are interested in it, because it relates to their own interests, and who by solving their own problems seem to realize that the solution to their own problems depends, inter alia, and to a large extent, on this company².

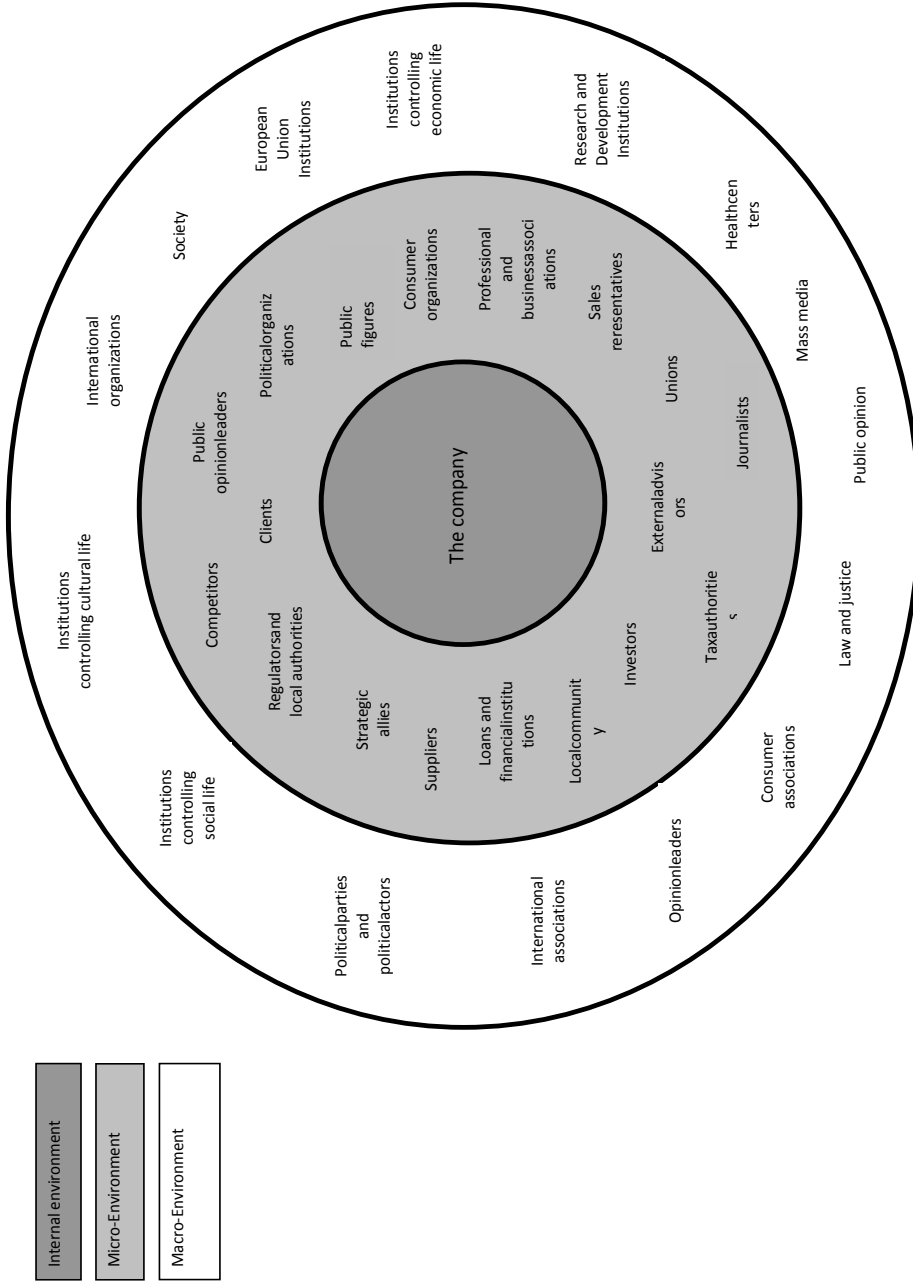
The company is dependent on the activities and resources of these groups, as they may have both - negative and positive influence on it³. This impact will be conditioned by changes in the whole environment and thereby it will vary as well. Organization's environment in terms of PR is defined so as only the portion of the public (society), which has at least one common - in name and essence - interest, but not necessarily compatible; whereby in the concept of interest one may understand interests of both natural and material manner, and - equally - fundamental values, needs and expectations of groups, communities and their constituent units⁴. For the company conducting lobbying activities, the environment can contain the elements illustrated in Figure 1.

² Wójcik K., *Public relations od A do Z. Tom I*, Agencja Wydawnicza Placet, Warszawa 2001, p. 51.

³ In the case of positive influence it may happen, that companies will expect reciprocity of services or information.

⁴ K. Wójcik, *op. cit.*, p. 52.

Figure 1: Elements of the environment of a company engaged in lobbying activities



Source: own elaborations on the basis of: Wójcik K., Public Relations od A do Z Tom 1, Agencja Wydawnicza Placet, Warszawa 2001, p. 57.

Generally the environment in which the organization operates forces its adaptation to appearing changes. Changeability is characterized by the fact that what was previously considered to be stable-undergoes changes to such an extent that an organization must take into consideration these changes and adapt to them. This process usually occurs at a greater or lower degree of uncertainty, depending on the complexity of the environment and the rate of change. The more dynamic changes occur, the harder it is to predict in which direction they will go and how to adapt the strategy.

Changes in the environment

There is no doubt that there are close links between organizations and their environment, and any changes in the business environment must be constantly monitored and identified as opportunities (favorable development) or threats (threatening the survival) to the organization. R. Ackoff stated that the organization as a system, has an information and communication system that allows it to communicate and obtain information both from within the system, as well as from the environment. Systems theory confirms that the organization is an open system (interdependent with the environment) which must constantly adapt to a changing environment.

Today's environment of enterprises is most often referred to as turbulent due to its rapid changes, lack of stability, a high degree of risk and uncertainty. Such environment has a significant impact on all elements of the company's activities, from setting objectives and strategies, through a significant impediment to planning the volume of production and investment, to the salaries and bonuses for employees. Such complex environment requires constant vigilance, tracking changes, analyzing them and predicting a variety of possibilities. This situation is influenced by many factors, of which the most important are among others: huge supply of high-quality products competing with each other, constantly emerging technological innovations, increasing customer demands for quality of goods and services, automation of manufacturing processes, instantaneous spread of information, the increasing role of the media and the Internet as opinion-formers, the growing role of marketing on a global basis, rising expectations of employees in relation to duties and jobs, constant changes in legislation and international regulations, and the growing role of corporate social responsibility.

Uncertainty of the environment is considered to be a result of two powerful forces: the complexity and pace of change, and is therefore the interaction between the variable values of complexity and change of the environment. When managers perceive the environment as stable and slightly complex, they believe that the necessary information is known and available, so the level of experienced uncertainty is small. When the environment is perceived as highly complex and subject to rapid change, managers are either in the position of information overload, or are facing the need to make a huge effort to obtain current information, experiencing moderate uncertainty while this happens. In the case of high uncertainty, managers observe highly complex and changing environment and are forced to face overwhelmingly large amount of information. Due to the continuous changes in circumstances, they do not know which of them is worth paying attention to⁵.

While choosing the right strategy for the company, an analysis of its environment is the fundamental phase. First, the analysis allows to target the formation of general goals for the company, which allows to focus on the identification of irregularities and changes occurring in the environment, as well as identifying trends. Another role of environment analysis is focusing on strategic planning, which allows to focus on identifying opportunities to obtain a competitive advantage within the sector. The

⁵ Hatch M. J., *Teoria organizacji*, Wydawnictwo Naukowe PWN, Warszawa 2002, p. 100.

last element of the environment analysis is the orientation on functional management, restricting works to analysis of the various functions of the organization⁶.

Every company should carry out an analysis of the environment in order to identify its strengths and weaknesses, as well as threats and opportunities arising from the changing environment. Unfortunately, due to the instability of a constantly changing environment, anticipation of change is extremely difficult. In addition, companies are under the influence of many forces and dependences, on which they may have only a negligible impact, which is why a thorough analysis of the company aims to create a strategy that would give the possibility to react to those changes. First, the company must, however, be examined from the inside with emphasis on areas such as: key competencies, values, goals, human resources, financial assets, organizational structure or management styles. Results of this analysis will show if it has enough financial assets and qualified human resources to conduct a proper analysis of environment and show its influence on the company. Such information should be taken into consideration while making appropriate decisions to adapt to the changing business environment.

Some level of prediction is possible when considering changes in the environment and provided intensive analysis. Any change that occurs in the environment is preceded by certain signals allowing for recognition of the upcoming changes. Therefore it is important, in addition to continuous monitoring of the environment and the company itself, to suitably select signals (to distinguish relevant signals from information noise) and rapidly communicate these signals to the managers in the organization, which should allow early identification of the problem, enable its diagnosis in terms of causes, significance, intensity, size, type and long-term stability. The most important areas of the environment should be identified, as well as it is important to determine exactly what data sources can obtain the most relevant information, and to pick out and gather only the most important signals in order to develop action plans and respond to changes.

Selected reactions to changes in legal and political environment

When all strengths and weaknesses are identified, opportunities and threats coming from the environment are known, it is necessary to create action scenarios followed by a selection of the most appropriate strategy for influencing the environment. When considering lobbying activities, this choice will concern purpose of the lobbying strategy, its form, time boundaries, intensity and recipients of the lobbying communication. The organization is not able to plan a lobbying strategy, which is the result of many factors, while not having the above listed information. Without precise knowledge of the environment, both external and internal, it is expedient to speculate on how to conduct lobbying activities.

The author assumes that the degree of specialization of lobbying activities depends on the nature of business activity. The basic choice standing in front of the company is the right balance between representing their own interests and lack of representation. The decision to withhold lobbying activities may be made for many reasons, including:

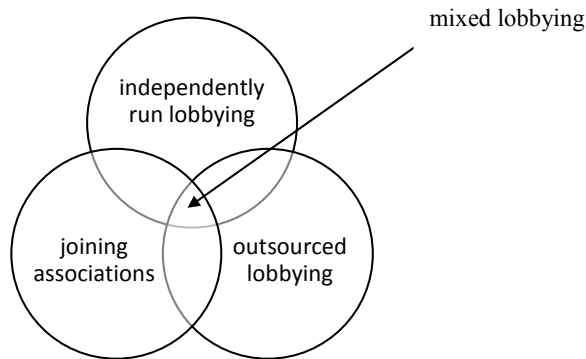
- lack of sensitivity to changes in political and legal environment,
- lack of resources that would enable tracking the environment (human, material or financial),
- lack of ability to obtain information from the environment, which could be a signal of upcoming opportunities or threats,
- lack of adequate competences to analyze the information obtained from the environment,
- having a negative opinion about lobbying,
- awareness that "without contacts nothing can be done",
- lack of knowledge on the possibilities of interest representation.

⁶ Tarczyński W., *Metody ilościowe w analizie otoczenia przedsiębiorstwa*, Uniwersytet Szczeciński, Szczecin 1995, p. 10 - 11.

However, if a decision is made about the need to start lobbying activities in order to represent the interests of the company, there are four possible models, depending on the available resources and the required degree of professionalization of lobbying activities:

- 1) joining associations representing their members,
- 2) independently run lobbying (using own human resources),
- 3) outsourced / contract lobbying (external specialist or lobbying agency),
- 4) mixed lobbying⁷ (a mix of the above-mentioned strategies in various configurations).

Figure 2: Strategies of influencing political and legal environment



Source: own elaboration.

Independently run lobbying can be both the most primitive form of interest representation, as well as the most advanced. The author proposes three levels of independently run lobbying:

- 1) natural lobbying – without specific skills, competencies, expertise or resources. The company, based on resources that currently possesses, attempts representation of interests. The impulse to undertake such representation is most commonly caused by appearance of signals from the environment alerting as hift towards which to start the action. Often, these actions are *ad hoc* rather than aconscious strategy. This type of lobbying activity may be unconscious (when the company represents their interests, not calling it professionally or not being aware that the undertaken actions are in fact lobbying) or conscious (when the company is aware of the lack of adequate resources, but is forced to represent its interests and wants to do it consciously);
- 2) semi-professional lobbying – when the company carries out a conscious lobbying strategy, but in conditions of limited resources (financial, human and technical). These activities, with the time passing and experience gaining are characterized by increasing level of professionalization;
- 3) professional lobbying – relating mainly to large companies and corporations. Most commonly a special position or cell is created for this purpose, and in extreme cases even a whole department, which main activity is to monitor changes in the environment, analyze the obtained information, create reports and recommendations, predict future changes, conduct lobbying activities in order to influence decision-makers, etc. Having such specialists inside the structure, however, involves both human work costs, as well as information obtaining, creation and implementation of lobbying strategies.

⁷ It is important to distinguish mixed lobbying from lobbying mix concept –a theory stating that lobbying is 20% of law, 20% of politics, 20% of economy, 20% of diplomacy and 20% of communication.

Affiliation – joining associations - is usually caused by three reasons: PR needs, business contacts or (and) interest representation. In conducted research the author very often met an opinion that associations primarily run on the basis of business contacts exchange. Companies are often looking for their new allies or clients, they get to know the competition, acquire suppliers of goods and services.

This form of acquiring new contacts often gets quickly exhausted, as the rotation of participants is relatively small, and the number of members - relatively constant. Some organizations allow their members to use the logo and visual identity of organization, for example in their commercial offers or websites. Adding information about membership in prestigious business organizations makes the company's image more professional. In terms of interest representation, nowadays employers' associations are perceived as the most effective in interest representation. They are followed by business lounges and industry organizations. They have a reputation of the most active, organizing numerous trainings, meetings, forming opinions and recommendations for policymakers, representing affiliated companies. Companies often opt for this form of representation of interests, since it is relatively non-expensive, especially compared to hiring a specialist from outside the company.

The term outsourced lobbying relates to hiring all kinds of third-party or independent professionals who represent the interests of the company. These may be law firms, PR and government relations agencies, lobbying agencies and other. Because of the negative associations with the word *lobbying*, enterprises engaged in such activities usually do not have that word in its name. Hiring external companies to implement a lobbying strategy can take various forms, depending on the time horizon and frequency of lobbying needs. The first form can be lobbying on an *ad hoc* basis - when a company decides on the need to hire external experts to a single, specific project. Such tasks are usually covered by experts who are narrowly specialized in a particular subject area. The company may also establish permanent cooperation with an agency or a law firm that will keep monitoring the environment and *ex ante* in form about the needs for representation, present a proposed strategy, as well as methods and techniques of its implementation. This is by far the most expensive form of lobbying.

The proper lobbying strategy will depend on 6 factors determining, which of the above-mentioned solutions will be the most suitable:

- 1) size of the company,
- 2) identified need for representation,
- 3) sensitivity of the industry to changes in the environment,
- 4) possessed financial resources,
- 5) possessed personnel resources (their competencies and knowledge),
- 6) expertise.

Declared need for representation may assume values: none (when the company is not aware of these needs or believes that it is not necessary to affect the environment), small (when the company sees the possibility of impact on the environment and is slightly dependent on potential changes in political and legal environment; these changes are not, however, able to influence the survival of the company – they can only slow down its growth or lead to financial consequences or the need for reorganization), medium (when the company is aware of the impact of the environment and convinced that potential opportunities or threats will affect its functioning; it is also aware that it is somehow able to influence this environment in order to shape it to their own needs) and large (when the business is strongly influenced by the political and legal environment, but is also convinced of the possibility of risk prevention and active seize of opportunities through implementation of strategies for interest representation).

From research conducted by the author, it may be concluded that the company is sensitive to changes in the environment, as sensitive is the industry to which it belongs. Legislative changes apply to all companies operating within emerging or changing law. This sensitivity, in analogy to the need for representation, is classified in four categories: none (when companies operating in the industry are not sensible to regulation), low (when the sector is sensitive to changes in regulations in a small way, eg. as

regards to general regulations on economic activity; companies often do not take action to influence these regulations), medium (when changes in the political and legal environment have a significant impact on the functioning of enterprises in the industry, eg. if the regulations apply to subsidies, environmental restrictions or customs issues), large (in this situation companies are strongly influenced by political and legal environment, which could jeopardize their further functioning, exemplified by regulations on biofuels, pharmaceuticals, tobacco products and others).

The last three factors relate to company's resources. When there is lack of available financial resources for representation, the company can rely only on taking actions that are not cost-intensive. It will therefore not be able to efficiently impact on the environment. Analysis of the environment, anticipation of possible changes, creating strategies of representation, preparation of expert reports and proposals for legal changes, taking steps to influence the decision-makers-are activities that require adequate funding. It can therefore be assumed that in the absence of measures, the company will be unable to take action related to the representation of interests itself, not to mention the membership fees of organizations, associations, or even more to employ an external company. In terms of small investments, the company will be able to afford trying to represent itself on its own (definitely in the previously described "natural" way, more intuitive than supported by knowledge and skills) and will belong to an association that will represent its interests in exchange for periodic payment of contributions. Of course, the choice of the proper association will also be dependent on the funds that the company can save for such activities. The more dynamic and efficient the organization is, the higher the membership fees are. When having medium-sized financial assets, company will be able to choose any of the available options: through growing professionalization of its own personnel resources it can lead independent lobbying on its own, hire an external lobbying consulting firm (because of costs of such a solution, perhaps this cooperation will not be constant, but will only be conducted to specific order/task), it may also join a professional and effective association or use mixed combination of the presented options. If there are sufficient financial resources, the company can either represent itself (with the help of qualified personnel hired in the company), or to hire external lobbying agency (experts in a given field), or apply mixed lobbying, combining these two possibilities possibly with a membership in and organizations of group interests. The choice of strategy will not be determined by financial constraints, but will depend on the needs of interest representation. In all cases, the company may decide not to lobby, because regardless of financial resources it will be conditioned for example by sensitivity to changes in the business environment and awareness of the needs of representation of interests.

Own staff and its competence constitutes a decisive factor as to whether having made the decision to start lobbying activities, the company chooses to represent itself or entrust the representation to specialists. In conditions of absence of qualified personnel, or with insufficient resources, the company should take advantage of any of the possible ways of transfer the representation to third parties. If, however, it has medium level qualified human resources, employs non-experts in the field, but with some qualifications, the company may decide to progressively professionalize its personnel and provide them with opportunities to improve skills and gain experience through participation in independent lobbying, cooperation with external companies specializing in such activities and active participation in company's actions. In a situation where the company has sufficient personnel resources, it can afford its own representation at the expert level. The skilled workers will be able to individually carry out the entire lobbying strategy.

Expertise is presented as a separate factor of influence. It is of course directly related to the available human resources, but the author believes it is possible that the company hires people with visible potential to carry out activities related to lobbying, but they do not have adequate training, knowledge, technical and technological resources to carry out this type of analysis (as already mentioned above). In this case, employees only need to develop methods of observation and analysis of the environment to create the foundations of a changes reporting system and their prediction. Although they possess skills needed

to represent interests, they must, for example, broaden their knowledge and understanding of law and lobbying methods and techniques. If the company does not have the expertise and is not able to mentor new employees, lobbying will have to be outsourced or not begun at all. In the case of little expertise, lobbying would be rather intuitive. When the level of expertise is average, transition period is necessary, when the company learn show to conduct such activities. When expertise is sufficient, there is no need to outsource lobbying, because employees have best knowledge about their own company or industry, which combined with their knowledge about the process of creating regulations and administrative decision-making proves to be sufficient to conduct an effective lobbying strategy.

Strategy of not undertaking lobbying activities assumes that the company, which does not conduct lobbying may be of any size and have any resources (financial, personal or expertise). It must not anticipate any need for representation of interests or identify it as small, and the industry must be sensitive to changes in the political and legal environment in a very little or none way. If the industry is sensitive to changes, but the company has no awareness of the need for representation, it falls in the category defining that in accordance with the results of strategic analysis, representation is needed. No or very little representation needs and little sensitivity to changes in the environment will in this case be the most important parameters while creating strategy.

Independent lobbying is recommended to organizations of all sizes which, at least in a small way, see the need for interest representation, and the industry they belong to is sensitive to changes in the environment in at least an average degree (in the case of low sensitivity to changes, representation of interests is hardly profitable due to the low need and high costs of lobbying activities). The company must have at least a minimal budget for the representation (only basic activities will be undertaken and they will involve the company at the lowest financial level), at least the average level of human resources and expertise. If these resources and knowledge are not sufficient, it is not advised to undertake lobbying, as reckless actions could damage the company's reputation and put her among the "non-serious players". So these two factors to the greatest extent determine the adoption of this lobbying strategy. In order to achieve a high level of professionalization of lobbying strategy in enterprises, the author does not recommend natural/intuitive lobbying as proper strategy. This strategy does not have any limits. It can be used by companies with maximum resources, awareness of the need for representation and the ones from the industry very sensitive to changes in the environment. If the values of parameters concerning resources have reached the maximum values, professional lobbying will take place. Employees will have expert knowledge and skills, and funds will be properly connected to lobbying.

Membership in associations is recommended to companies of any size, perceived needs of representation or sensitivity of the industry to the environment changes. The company may in fact participate in them, guided by other grounds⁸, unrelated to lobbying. Organizations of interest representation can be useful when a company does not have expertise or is of a smaller medium size. If this knowledge was sufficient, membership in associations would then be unfounded.

Enterprises having expertise knowledge and funds for representation, in order to become a strong force in influencing the decision-makers, they rather tend to unite into a small *ad hoc* group to join forces of several companies and be perceived as a powerful interest group sharing common interest. It is not possible to belong to an association if the firm lacks funds to pay them membership fee. When it has large funds for representation-it can afford hiring an external professional company or join forces *ad hoc* within cooperation idea. Financial and human resources will therefore be determining factors for the choice of this strategy to the greatest extent, followed by possessed expertise, and only then the size of the company. The need for representation and sensitivity to changes in the environment will in this case have the lowest impact.

⁸ As already mentioned before, those can be the conditions associated with acquiring new customers or allies, benefits or another offer of organization.

The main parameter determining the possibility of outsourcing lobbying to an external company are company's financial resources, which should be at least at a moderate level. The possibility to hire a lobbying agency is excluded when the company has sufficient expertise and human resources, as it is then able to carry out lobbying activities itself, without the involvement of external companies. For employing a lobbying firm to be profitable, the company must see at least an average need for representation and at least average sensitivity of the industry to the changes in the environment. In other cases the costs of lobbying activities will not bring tangible results. In addition, micro and small companies often do not have sufficient funds to pay for these types of jobs, so they choose to participate in associations or self-represent. Financial resources, the need for representation and industry's sensitivity to changes in the environment will therefore be the most important factors for selection of this lobbying category. If the company is located in several of those areas at the same time, it means that it has the conditions to apply mixed lobbying, combining different lobbying strategies presented above, depending on the identified needs.

If the company is not going to undertake lobbying activities, further actions will not be needed. When the decision to choose one of four presented strategies is made, next steps should be made to effectively influence the decision-makers. Associated companies and most often smaller companies do not take part in those actions. In the case of outsourced lobbying the enterprise will be exempt from having to carry out analysis, preparation of tactical plans, choosing representation tools or implementing the strategy. It will only be responsible for the approval of the strategy prepared by an external company, supervising the ongoing activities and an adaptation of the effects of lobbying.

Conclusion

Any organization seeking to survive and maintain its market competitiveness must be active, constantly monitor its environment, at the same time anticipating and responding to potential changes. It should pay close attention to trends in management, anticipate future threats and opportunities and be prepared for a cultural, technical, legal or any other significant revolution that could have great impact on the business. In addition, and perhaps primarily, shape its organizational culture and structure in order to be flexible and tolerant to uncertainty.

In Poland, as in any other country and political system, a phenomenon of creating interest groups aimed at influencing the legislative process is being observed. Nowadays more and more companies see the need to influence the decisions of public administration and take part in the law-making process at a local, regional and central level. This influence on the environment is strictly connected to company's strategy, because threats and opportunities coming from legal and political environment might have crucial influence on its future.

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THE ENTERPRISE RESTRUCTURING THROUGH DEBT CONVERSION AND IMPROVEMENT OF MANAGEMENT PROCESSES

Summary

In the article a topic of company restructuring and its tools was taken under consideration. Authors, at the beginning of the article, characterized restructuring concept. Next, authors described direct and indirect tools of restructuring. Chosen direct tool – debt conversion and chosen indirect tool – improvement of management processes (lean approach) were showed in more detailed way. In the article, Case study method was used to present direct tool of restructuring.

* * *

Introduction

In times of financial crisis and permanent economic changes restructuring is a special circumstance that generates the need for autonomous action which redirects the enterprise into the changes within its environment¹. Thus, the restructuring may be an effective management tool serving the development of the enterprise and building its market competitiveness. In practice, restructuring is seen as a process of adaptation of enterprises to market conditions, covering the whole complex of measures to improve the management of the enterprise, undertaken either to repair (so-called repair restructuring) or to develop (so-called development restructuring)². As a multidimensional process restructuring can affect all areas of the enterprise and may take for example the form of: organizational restructuring, the restructuring

¹ Lichtarski J., *O potrzebie i kierunkach rekonstrukcji systemu zarządzania w procesie restrukturyzacji przedsiębiorstwa* [in:] A. Jaki, J. Kaczmarek, T. Rojek (ed.), *Restrukturyzacja. Teoria i praktyka w obliczu nowych wyzwań. Księga pamiątkowa dla uczczenia Jubileuszu 45-lecia pracy naukowo-dydaktycznej prof. zw. dr hab. Ryszarda Borowieckiego*, Uniwersytet Ekonomiczny w Krakowie, Kraków 2011, p. 27.

² Dźwigoł H., *Zarządzanie przedsiębiorstwem w warunkach XXI wieku*, Wydawnictwo Politechniki Śląskiej, Gliwice 2013, p. 142.

of the scale of operation or financial restructuring³. Financial restructuring focuses, among others, on legal instruments for planning and financial management in order to increase the financial capacity or to restore financial liquidity⁴. One of possible ways to restructure financial liabilities of the company is the debt conversion. On the other hand, improvement of management processes includes for example the lean management concept, which eliminates all types of waste in the enterprise.

Selection of the above mentioned restructuring instruments is mainly due to their importance and significant role they play in management of the enterprise in dynamically changing economic conditions.

The main goal of the following article is a presentation of selected tools of the enterprise restructuring. These tools concern among others debt conversion and improvement of management processes.

The concept of enterprise restructuring and its basic instruments

Restructuring is a complex and interdisciplinary concept which can be defined in many ways and includes numerous mechanisms, processes and instruments to perform its efficiently. Generally, it can be understood as a fundamental, systemic reorganization of the enterprise. It involves upgrading, modernizing or modification enterprise's organizational structure and rules of functioning in a manner that facilitates its functioning in current economic reality⁵. It is also a multifaceted process which is extended in time⁶. Restructuring is also understood as a change which is radical and which concerns important areas of economic activity⁷. There are varied definitions for restructuring. The table below presents selection of restructuring concepts in Polish literature⁸.

Table 1: Selected concepts of enterprise restructuring

| Author | Description |
|-----------|---|
| Durlik I. | Restructuring most often refers to systemic reconstruction, modernization or adapting to current level of technology, as well as development of organizational and managerial concept in enterprise's or institution's structure. |

³ Borowiecki R., *Restrukturyzacja jako narzędzie strategii zarządzania we współczesnym przedsiębiorstwie. Dynamika zarządzania organizacjami. Paradygmaty-Metody-Zastosowania. Księga pamiątkowa wydana z okazji 50-lecia pracy naukowej Prof. Jerzego Rokity*, Akademia Ekonomiczna w Katowicach, Katowice 2007, p. 253; Barcik A., *Financial restructuring of the company's liability by insolvency proceedings*, Organizacja i Zarządzanie. Kwartalnik Naukowy, No 2 (26), Gliwice 2014.

⁴ Suszyński C., *Restrukturyzacja, konsolidacja, globalizacja przedsiębiorstw*, Państwowe Wydawnictwo Ekonomiczne, Warszawa 2003; p. 138, Barcik A., Dziwiński P., *Upadłość przedsiębiorstwa szansą jego restrukturyzacji – stan obecny i kierunki zmian* [in:] R. Borowiecki, J. Chadam, J. Kaczmarek (ed.), *Zachowania przedsiębiorstw w obliczu nowych wyzwań gospodarczych*, Uniwersytet Ekonomiczny w Krakowie, Kraków 2013, p. 129.

⁵ Dźwigoł H., *Zarządzanie... op.cit.*, p. 141.

⁶ Borowiecki R., *Restrukturyzacja ...op.cit.*, p. 253.

⁷ Borowiecki R., Nalepka A., *Restrukturyzacja w procesie funkcjonowania i rozwoju przedsiębiorstw* [in:] R. Borowiecki (ed.), *Zarządzanie restrukturyzacją procesów gospodarczych*, Difin, Warszawa 2003, p. 76.

⁸ Durlik I., *Rekonstrukcja procesów gospodarczych. Reengineering. Teoria i praktyka*, Placet, Warszawa 1998, p. 47; Karpiński A., *Restrukturyzacja gospodarki w Polsce i na świecie*, PWE, Warszawa 1986, p. 20; Nalepka A., *Zarys problematyki restrukturyzacji przedsiębiorstw*, Antykwa, Kraków 1998, p. 21; Pełka B., *Restrukturyzacja przedsiębiorstwa przemysłowego*, Instytut Organizacji i Zarządzania w Przemysle „Orgmasz”, Warszawa 1994, p. 7; Sapijaszka Z., *Restrukturyzacja przedsiębiorstw. Szanse i ograniczenia*, PWN, Warszawa 1996, p. 30; Stabryła A., *Zarządzanie rozwojem firmy*, Księgarnia Akademicka, Kraków 1995, p. 16; Suszyński C., *Restrukturyzacja przedsiębiorstw. Proces zarządzania zmianami*, PWE, Warszawa 1999, p. 67.

| | |
|--------------|--|
| Karpiński A. | Restructuring process is associated with structural changes within the material basis of society which lead towards increasing the role of all the elements of this structure which represent modernity and usually higher effectiveness than current solutions. This process is associated with more effective solutions within the system of economy functioning, more beneficial relations between investments and economic results, as well as progress in satisfaction of human needs within more rational and effective solutions. |
| Nalepka A. | Restructuring is a studied reorientation of the enterprise's objectives with regard to changes in the environment and adaptation of technology, organization, economics and human resources to the above objectives. |
| Pełka B. | Restructuring is a systemic change in the enterprise which refers to technology, forms of production organization, system of management, economics and market, as well as organizational and legal status of the enterprise. |
| Sapieżka Z. | Restructuring is a radical change in at least one out of three dimensions of the enterprise e.g. activity range, capital structure or internal organization of the enterprise. The purpose of this change is to restore the enterprise's internal balance or/and its balance within the environment. |
| Stabryła A. | Restructuring is a diagnostic and project process which is to improve system of management and exploitation system of the enterprise, wherein changes refer mostly to transformation of organizational form, decision – making systems and human resources. |
| Suszyński C. | Restructuring is a complex process of important and often fundamental changes in the enterprise. The aim of this process is current (operational) and long-term (strategic) creation of its attributes of subjectivity with regard to changes in environment and the needs of the enterprise. |

Source: own elaboration.

The effectiveness of restructuring depends on properly selected instruments matched to each other. In the literature, the division of restructuring instruments into direct and indirect restructuring instruments takes place. Instruments of direct restructuring are used to restore the financial liquidity of the enterprise which then allows to continue its functioning and to cover the debt. Indirect restructuring instruments are designed to increase the efficiency of the existing potential of enterprises by reducing the burden resulting from the maintenance of redundant resources or generate additional money stream. Direct restructuring instruments have impact on changes in the structure of liabilities, as well as results of operations, while indirect restructuring instruments alter the structure of assets⁹. The table below illustrates the division of restructuring instruments.

⁹ Niebieszczańska W., *Rola restrukturyzacji naprawczej w postępowaniu upadłościowym przedsiębiorstwa*, [in.] *Finanse – Problemy – Decyzje*, Tom 2, G. Łukasik, H. Zadora (ed.), Uniwersytet Ekonomiczny w Katowicach, Katowice 2014.

Table 2: Direct and indirect restructuring instruments

| Direct restructuring instruments | Indirect restructuring instruments |
|--|--|
| Changing the structure of liabilities: <ul style="list-style-type: none"> - Debt reduction through redemption, - Debt conversion into shares and stocks, - Conversion of liabilities into other liabilities, - Consolidation of commitments, - Rescheduling of the debt in installments, - Postponement of commitments implementation, - Equity reduction and reincreasing, - Rationalization of employment, - Reduction of fixed costs, - Marketing strategies to promote sales growth, - Marketing mix, - Measures to improve the organization of work, - Actions for rational use of production factors. | Changing the structure of assets: <ul style="list-style-type: none"> - Sale of assets, - Divestments, - Separation of the organized part of the enterprise, - Spin-offs, spin-outs, sell-off, - The division of the company - split-off, split-up, - Securitization of assets, - Outsourcing, - Insourcing, - Downsizing, - The sale of shares of the subsidiary enterprise, - Optimal management of working capital, - Leveraged buy – out - LBO, - Management buy - out – MBO, - Employee stock ownership plan – ESOP, - Lean management, - Reengineering. |

Source: Rochoń M., *Efektywność restrukturyzacji finansowej przedsiębiorstw*, Wydawnictwo Walkowska, Szczecin 2006, p. 96.

The variety of instruments and insufficient knowledge on their application may create the risk that they will be used in an inappropriate manner. Their proper implementation requires from responsible persons to possess interdisciplinary knowledge and skills.

Debt conversion as the instrument of restructuring

Debt conversion is a restructuring instrument which allows the enterprise facing financial liquidity problems to reduce or renegotiate its debts in order to restore fluent cash – flows and stable financial situation so that it can continue its regular operations¹⁰. It is usually less expensive solution than bankruptcy. It is included as one of restructuring methods in art. 156 of The Restructuring Law¹¹ although it is performed according to provisions of civil law and commercial companies law. In debt conversion which is also defined as debt for equity swap the creditors of the enterprise agree to cancel the debt in exchange for shares or stocks of that enterprise. It allows to improve the structure of liabilities and at the same time offers the creditors a chance to accept the result¹². Conversion of debt into shares or stocks as a proposal of arrangement proceedings for creditors is a way of strengthening the financial condition of entrepreneurs who do not have sufficient assets to meet its arrangement proceedings. This structure can be described either in terms of a creditor of the enterprise and then it will concern conversion of the

¹⁰ Skawiańczyk K., *Podwyższenie kapitału zakładowego przez konwersję wierzytelności. Cz. II*, Monitor Prawniczy No. 3/2000.

¹¹ The Restructuring Law, retrieved from: <http://www.sejm.gov.pl/sejm7.nsf/PrzebiegProc.xsp?nr=2824>, 15.06.2015

¹² Nowak J., Zarzecki D., *Perspektywa finansowa restrukturyzacji z elementami prognozowania upadłości przedsiębiorstw*, Difin, Warszawa 2012, p. 77.

debt into equity or from the point of view of the debtor and then it will concern conversion of debt into share capital. In legal terms debt conversion can be performed in two ways:

1. By submitting a non-monetary contribution (contribution in kind) in the form of claims against the enterprise which are a subject to redemption.
2. By contractual deduction of receivables in accordance with provisions of the Commercial Companies Code.

Generally it should be noted that debt conversion is a form of debt extinction. It can also be explained as a transformation of creditors' claims against the enterprise into shares or stock within increased share capital. Debt conversion depends on various factors which should be taken into consideration and which include:

1. High probability that key commercial objectives of the enterprise will be achieved by the debt for equity swap.
2. Assumption that the debt for equity swap has necessary support of participating creditors, as well as shareholders.
3. Verification of any legal issues which may have impact on the ability of the enterprise to carry out the debt for equity swap.

On the other hand, the key commercial issues for creditors, shareholders, as well as the enterprise itself include: valuation of the enterprise, taking into consideration how much of the debt owed should be substituted for equity, making decision what type of equity interest the creditor would acquire. The enterprises should also consider the impact of applicable laws, rules and regulations on the debt conversion proceedings. It includes, among others regulations on public companies, banks, insurance companies, competition law, tax and accounting law.

In terms of equity interest issues it should be stated that any equity interest can be used e.g. ordinary shares or preference shares. Preference shares may have some of the following features:

1. Priority over other shares with regard to income and capital return, fixed preferential dividends, fixed date for redemption.
2. Right to convert into ordinary shares.
3. Veto right in some cases.
4. Right to appoint directors.

As an illustration of the above defined mechanism Polish constructing group Polimex – Mostostal can be used which seems to be a positive example of efficient debt conversion which has taken place in recent years. Polimex was one of major casualties of contracting boom in Poland. As a result of the restructuring agreement with its creditors (banks and stock holders) a debt restructuring was performed. The debt restructuring includes PLN 250 mln in debt conversion on existing stocks and extension of remaining stock liabilities at PLN 144 mln until the end of 2016. The agreement assumptions include the conversion of part of the debt into equity, as well as a new stock issue for further operations. The company expects that debt restructuring and conversion will allow it to enter the market again¹³.

Debt conversion is a restricting instrument which offers a series of advantages, as well as disadvantages. Firstly, equity financing doesn't have to be repaid. Furthermore, the enterprise shares the risks and liabilities of its ownership with the new investors. Since, the enterprise doesn't have to make debt payments, it can use the cash flow generated to further growth of the enterprise or to diversify into other areas. Maintaining a low debt-to-equity ratio also puts the enterprise in a better position to get a loan in future when needed. On the other hand, by taking on equity investment, the enterprise gives up partial ownership and in turn, some level of decision-making authority over its business. Large equity investors often insist on placing representatives on company boards or in executive positions. If the enterprise takes off it is obliged to share a portion of its earnings with the equity investor. Over time,

¹³ Polimex – Mostostal, retrieved from <https://www.polimex-mostostal.pl/en/>, 16.06.2015

distribution of profits to other owners may exceed. The following table presents the debt conversion benefits for the enterprise and for the creditors.

Table 3: Benefits of debt conversion

| Benefits for the enterprise |
|---|
| <ul style="list-style-type: none"> - Strengthening the balance sheet - Elimination of potential over - indebtedness - Increasing in the debt-to-equity ratio and a decrease in financing costs - Resulting increases in profitability and company creditworthiness - Retention of the operating entity |
| Benefits for the creditors |
| <ul style="list-style-type: none"> - Possibility of greater return than if bankruptcy is performed - Participation in any other growth of the enterprise - Possibility of decision – making in the enterprise - Gaining control over enterprise |

Source: own elaboration.

In conclusion, debt conversion often occurs when large enterprises fall into serious problems with financial liquidity. As a result these companies can be taken over by their principal creditors. The main reason for this is that both the debt and the remaining assets in these enterprises are so large that it makes no sense for creditors to push the enterprise toward bankruptcy. Instead the creditors prefer to take control over the enterprise which receives a chance to restore its liquidity and undertake new actions.

Restructuring through improvement of management processes

Another way of the company restructuring is improvement in area of management processes. Descriptions of restructuring concept presented in the table 1 concern also an aspect of changes in organizational scope in the company. At the beginning, this way of restructuring requires understanding the idea of process approach.

Process approach is defined in ISO norm 9000 as one out of eight rules of quality management. Every company and organization should be oriented in management system on processes. Processes take place in every unit. A role of managers is to identify them and create proper conditions of their management. Usually, processes are divided into management ones, leading and supporting processes. When all processes are defined, relations between them and their measures should have been set. In the company treated as a system, output from one process is an input of another one. Basic improvement of processes, according to quality management norms, puts on Deming Cycle (PDCA Model, P – plan, D – do, C – check, A – act)¹⁴.

Improvement of processes aims to recovery of their realization, to achieve better effects. It could be understood in narrower and wider context. In narrower context, improvement of processes concerns optimization of existing processes in order to extend supplied by them values, lower costs, shorten time of realization, improve a quality of final product. In wider context, it is identical with Business Process Improvement concept and it is one of a way the whole company improvement. Improvement of processes

¹⁴ See also: Grudzewski W. M., Hejduk I. K., *Metody projektowania systemów zarządzania*, Difin, Warszawa, 2004, chapter I.

in the framework of this concept proceeds in continuous way and has complex character, influencing every action and result being its outcome. Nowadays, implementing by the company process approach is not enough. It must be realized together with continuous improvement, planned in long-time perspective¹⁵.

Present approach to processes improvement is connected with a level of organization process maturity¹⁶, which includes complex approach to processes and measures of their synchronization. Maturity is a state, which could be graduated and might be recognized as an effect of some process and it is achieved by creating proper features, which set is some potential and constitutes a possibility to do tasks. Different levels of maturity could be defined, from extreme immaturity to full maturity. Achieving next levels is realized by improvement of processes. Improvement of processes in the company is a difficult action, requires big engagement of management, staff and readiness to changes of infrastructure (technical equipment, organizational methods and organizational solutions, financial possibilities, etc.). Processes' improvement should have had sustainable character and have been matched to business model of the company¹⁷.

The literature and the practice know many ways of processes improvement in a process of a company restructuring. A lot of instruments like: quality management systems, concepts (TQM, Lean Management, Kaizen, 6 Sigma), methods (FMEA, OFD, SPC), tools and others are used to change present form of a process and to create better one, needed in a whole system, which is the company¹⁸. Lean philosophy is often used solution.

The key principle of lean approach is moving towards elimination of all waste in order to develop an operation that is faster, more dependable, produces higher-quality products and services and, above all, operates at low cost. However, the means to achieve this lean state are less easily explained and sometimes counterintuitive. This is why it is best to start developing and understanding of lean operations through the phrase that is often used interchangeably with "lean" – Just-in-time (JIT) or sometimes lean synchronization. It means producing goods and services exactly when they are needed¹⁹.

The lean approach to managing operations is founded on doing the simple things well, on gradually doing them better and on squeezing out waste every step of the way. Often seen as the leading practitioner of the lean approach in Japan, the Toyota Motor Company has developed a set of practices which has shaped what we now call lean (or JIT). Three key issues define the lean philosophy: the elimination of waste, the involvement of staff in the operation and the drive for continuous improvement (picture 1)²⁰.

¹⁵ Brajer-Marczak R., *Dojrzałość procesowa przedsiębiorstw do doskonalenia procesów z perspektywy zdolności organizacji*, in: T. Borys, P. Rogala, P. Skowron [ed.], *Zrównoważony rozwój organizacji – odpowiedzialne zarządzanie*, Wyd. Uniwersytetu Ekonomicznego we Wrocławiu, Wrocław 2015, p. 265-266.

¹⁶ Process maturity is a concept, which comes from quality management and good business practices. According to T. B. Kalinowski "maturity" means: an ability of a company and realized by it processes to systematic provide better results of activity. Quoted: T. B. Kalinowski, *Modele oceny dojrzałości procesów*, Acta Universitatis Lodziensis, Folia Oeconomica 258, Łódź, 2011, p. 173.

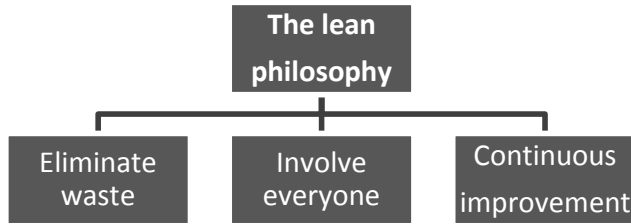
¹⁷ Brajer-Marczak R., *Dojrzałość procesowa ...*, op. cit., p. 266. See also: R. Haffer, *Samoocena i pomiar wyników działalności w systemach zarządzania przedsiębiorstw: w poszukiwaniu doskonałości biznesowej*, Wyd. Naukowe Uniwersytetu Mikołaja Kopernika, Toruń, 2011, p. 415; Hamrol A., *Zarządzanie jakością z przykładami*, PWN, Warszawa, 2007, p. 537; Kania K., *Doskonalenie zarządzania procesami biznesowymi w organizacji z wykorzystaniem modeli dojrzałości i technologii informacyjno-komunikacyjnych*, Wyd. Uniwersytetu Ekonomicznego w Katowicach, Katowice, 2013, p. 84.

¹⁸ See also: Jakubiec M., *Metody i narzędzia zarządzania jakością*, in: L. Bylinko, M. Jakubiec, M. Kubański, *Zarządzanie XXI wieku. Zarządzanie logistyką i jakością*, Wyd. Naukowe Akademii Techniczno-Humanistycznej w Bielsku-Białej, Bielsko-Biała, 2012, p. 87-106; Jakubiec M., *Instrumenty doskonalenia jakości w przedsiębiorstwie*, in: Giemza M., Sikora T., *Wielowymiarowość systemów zarządzania*, Wyd. Naukowe PTTŻ, Kraków, 2015, p. 101-121.

¹⁹ Slack N., Chambers S., Johnston R., *Operations management*, Prentice Hall Financial Times, London, 2007, p. 466.

²⁰ Ibidem, p. 469.

Figure 1: Elements of lean philosophy



Source: Based on: N. Slack, S. Chambers, R. Johnston, *Operations management*, Prentice Hall Financial Times, London, 2007, p. 469.

The most significant part of the lean philosophy is its focus on the elimination of all forms of waste. Waste could be defined as any activity which does not add value. Two instruments are commonly used in lean improvement. One, “seven forms of waste”, is concerned with identifying waste at the first step towards eliminating it. The other, “5S”, is a simple set of principles for reducing waste²¹.

Lean philosophy is often put forward as a “total” system. Its aim is to provide guidelines which embrace everyone and every process in the organization. An organization’s culture is seen as being important in supporting these objectives through an emphasis on involving all of the organization’s staff. This culture is sometimes seen as synonymous with “total quality”²².

The third key issue of lean philosophy is continuous improvement. Continuous improvement is defined as Kaizen. Kaizen means continuous improvement process in which managers and all other employees in the company are engaged. It requires significant changes in people’s behavior and authority based on experience, as well as conviction that action way is proper. Kaizen assumes that all employees have some skills which could be used in the interest of the company. Kaizen should be realized on every post in the company, because every employee should know that he has an impact on wide meaning quality (processes, products, etc.). Kaizen in its assumptions bases on small steps of improvement, but steps which are done consequently.

Conclusion

Restructuring process could be realized in many ways. The meaning of restructuring is very wide. Mainly, restructuring is identified with actions taken in the areas of: funds, real capital, infrastructure and staff. In this example, restructuring is materialized by so called direct instruments of this process. Nowadays, when companies face many challenges (economic, political, social, law, etc.), so called indirect instruments of restructuring are popular as well. Managers perceived their usefulness. Very often, a combination of both groups of restructuring instruments is a good solution to implement in the company needed changes.

Direct instruments are example of quick restructuring realization. Debt reduction, debt conversion, consolidation of commitments, reduction of fixed costs or rationalization of employment are realized by company’s management in the situation demanding sudden actions. Any other moves could cause the bankruptcy. But, restructuring could take place also in long-time perspective. Improvement of management processes can be realized permanently. It could be materialized by mentioned in the article

²¹ Forms of waste (areas of wastage): over-production, waiting time, transport, process, inventory, motion, defectives.

²² Following “S” mean: sort, straighten, shine, standardize, sustain.

²² Slack N., Chambers S., Johnston R., *Operations management ...*, op. cit., p. 473.

lean management with its all tools. The idea of continuous improvement could be taken in the company at any time, not only during serious problems.

In the article, authors presented the idea of restructuring, instruments of this process, as well as characterized chosen ways of restructuring: debt conversion as direct instrument and improvement of management processes as indirect instrument. The goal set in front of the article has been fulfilled.

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PART III

**EFFECTS OF USING
METHODS AND TOOLS
OF RESTRUCTURING**

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CHANGES IN THE DEVELOPMENT STRATEGIES OF THE SELECTED POLISH CAPITAL GROUPS UNDER THE IMPACT OF CRISIS IN 2007–2013

Summary

The crises of 2007-2013 had different impact on the strategic restructuring and development strategies of the Polish capital groups quoted at the Warsaw Stock Exchange. In this article the strategic changes in Marvipol, Budimex, Ciech, Orbis, Redan and Impexmetal have been analyzed in three dimensions: the level and type of diversification, geographical market reach and the mode of development (external, internal). The selected groups tended to overcome the barriers arising due to the crisis with the adoption of available methods, however with differentiated effectiveness.

* * *

Introduction

This article is aimed at explaining the strategic reaction to the crisis of 2007-2013 on the sample of selected 6 Polish capital groups investigated in depth in two subsequent research projects conducted in 2011/2014¹ and 2014² by the team of Institute of Management of Warsaw School of Economics under the direction of Professor Maria Romanowska.³

The phenomenon of the emergence of Polish capital groups was closely related to the systemic transformation and privatization of the country economy. Their impact can be measured by the growth of their number and their share on the “Rzeczpospolita” newspaper “2000 list” (containing the annual list of top 2000 companies in Poland according to revenue). In 2007 their number within top 100 capital groups listed was 42, while in 2012 it reached the level of 52.

¹ *Determinanty odporności polskich przedsiębiorstw na kryzys makroekonomiczny*, Grant NCN, 2011/3/13/HSR/04922. Team members: M. Romanowska, A. Sopińska, P. Wachowiak, S. Gregorczyk, W. Mierzejewska, S. Winch, A. Tomaszewski, B. Majewski and M. Pietrzak.

² *Reakcja polskich grup kapitałowych na kryzys ekonomiczny*, statutory research of WSE. Team members: M. Romanowska, J. Cygler, Z. Dworzecki, S. Gregorczyk, C. Suszyński, A. Sopińska, G. Leśniak-Łebkowska, P. Wachowiak, W. Mierzejewska, A. Tomaszewski, A. Krejner-Nowecka, B. Majewski, S. Winch.

From this list six capital groups have been selected to qualitative analysis aimed at discovering foundations of their positive value of the resistance to crisis index.⁴ Their acronyms are: “Marvipol”, “Budimex”, “Ciech”, “Orbis”, “Redan” and “Impexmetal”. The total number of mother and daughter companies belonging to these capital groups in 2007 was 140, while in 2013 – 139. However, the scale and scope of changes for every group was different. Only two of them had foreign strategic investors (“Orbis” and “Budimex”), the other attracted mainly Polish investors. “Orbis”, “Budimex”, “Ciech” and “Impexmetal” date their history long before the transformation, and gained their competences in country and foreign trade, while “Marvipol” and “Redan” are the new business ventures on this map.

The analysis is preceded by the short description of roots of the Polish capital groups emergence.

The roots of emerging Polish capital groups

Polish capital groups (PCGs) have totally different origins than those from the Western Europe or the United States, where the accumulation of capital at the company level enabled and fostered the processes of business concentration up to the global scale. In Poland the critical departure point was the year 1989, when the system transformation - from the centrally planned to the market driven economy – started, as the result of political decisions, followed by the change in legal frameworks for business activity, referring both, to the existing, and the newly created companies. It was a real shock therapy for the large state enterprises, which had to fight for survival requiring the radical change of their market activity and dramatic search for new sources of revenues, frequently in new domains.

They were compelled to navigate the route from narrowly specialized state owned enterprises with predesigned structure of suppliers and customers to large but diversified conglomerates operating under the unified management board, thus creating the capital groups. The introduction of the antimonopoly legislation was the decisive factor favoring diversification strategies at the level of capital group, and specialization at the operating level of separate enterprises. It was clear that such a change was feasible only for the large enterprises reshuffling their resources. Among the winners one can find the former foreign trade enterprises having monopoly in their related industries on the exchange with abroad, what made them learning faster the real market conditions. Privatized formerly state owned large enterprises were the second beneficiaries of the change.

There were three more processes creating the foundations for the capital group appearance. The first one, reserved for the businesses of key importance, was the top-driven legal transformation of the state owned enterprises into stock exchange companies with state capital, gathered in industry-related holdings, e. g. “The Polish Copper” concern active in querying and processing the copper ore. The second track also led to consolidation of some companies previously associated within one primary industry, such as coal or sugar, and being converted into holdings.

The Mass Privatization Program, as the third way, led to the foundation of the 15 National Investment Funds governing the adjustment processes of all other Polish companies. The portfolios of companies subordinated to each of the investment funds, although resulting from the political decisions, in reality created the capital groups.

The whole business transformation was aimed at the privatization and de-monopolization of the Polish economy.

The capital availability was the key factor of real business transformation. The Warsaw Stock Exchange in 1990 was the natural step on this road. The consolidation within the Polish banking sector was another one. Privatization, mergers and acquisitions started the process of change in the banking sector. Due to concentrated money assets and growing financial expertise the Polish enterprises

⁴ For the index calculation, based on model G, see: Mączyńska M., Zawadzki M., *Dyskryminacyjne modele predykcji i bankructwa przedsiębiorstw*, „Ekonomista” 2006, nr 2.

undergoing transformation were offered the financial and management support. It wouldn't be possible without the deep change banks themselves as the business companies had to undergo. Commercial banks were entering into such new in Poland activities as brokerage services, investment advisory services, and leasing transactions. Numerous banks invested their capital in insurance companies, entered into partnerships with them offering their distribution networks to sell the insurance products. The commercial banks often took over the part or entire property of indebted companies, what could be considered as unintended diversification. Since this troublesome property was usually difficult to sell, banks had to manage it for some time, to upgrade it, and then to sell. The PeKaO S.A is a good example of bank successfully transformed from the state owned one into the strong capital group with the Italian strategic investor (Intesa).

The separate pattern of transformation was the creation of the Polish capital groups through the consolidation of existing private companies, as it takes place in all market economies.

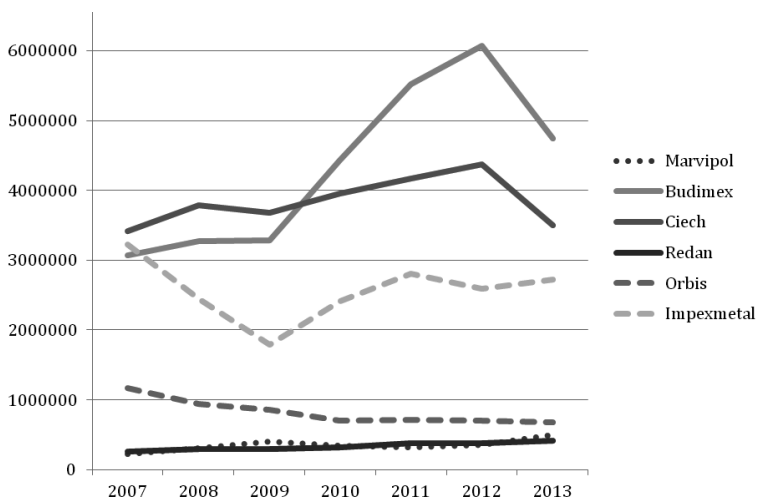
The foreign investors, financial ones and directly involving into the restructuring process of the acquired companies, provided the steady inflow of capital, especially to the most attractive allocations, which without their involvement would be not able to keep pace with timely changes. There was a full spectrum of possibilities and legal forms suitable, both, to foreign investors and companies in need to conclude the transaction. Numerous institutions facilitated the entry of foreign investors and provided their advisory services.

Alongside with the progress of transformation one could observe the switch towards the creation of capital groups through creation of new companies, mergers and acquisitions accompanied by portfolio investments by financial institutions.

Financial performance dynamics in the selected six capital groups in 2007-2013

The crisis had the unquestionable impact on the strategies of our target groups, the results of the restructuring processes in strategies, operations and assets are reflected in the level and dynamics of change in sales revenues (Fig.1).

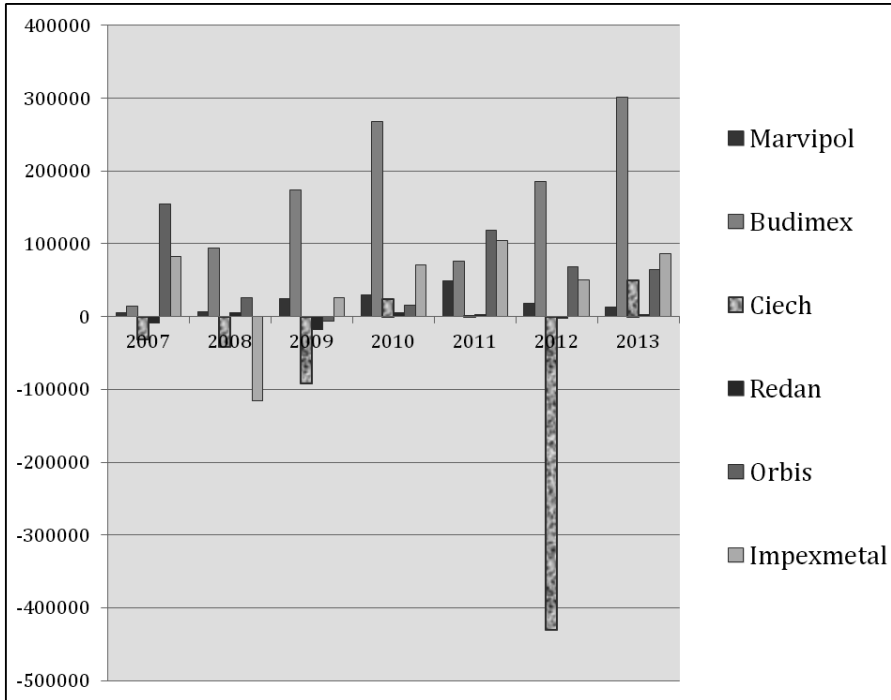
Figure 1: Sales revenues in subsequent years (in thousands, PLN)



Source: own elaboration

Since the sales revenues didn't reflect the costs side of the transformation processes, the net sales changes in the respective years indicate the financial condition of the capital groups, including the danger of bankruptcy (Ciech).

Figure 2: Net sales (in thousands, PLN)



Source: own elaboration

Strategic restructuring process of the selected capital groups in 2007-2013 - conclusions from the empirical research findings

The analysis of the crisis impact on the groups' strategies was conducted in three dimensions: the level and type of diversification, geographical market reach and the mode of development. Below there are research findings concerning the changes reported by these capital groups.

“MARVIPOL”

The Marvipol Co. Ltd. was set up in 1996 and converted into the joint stock company in 2006. On the Warsaw Stock Exchange has been active from 2008.

Table 1: Strategic restructuring in Marvipol

| | |
|---|--|
| <p>Level and type of diversification</p> | <p>Increase of the diversification level through the entry into the developing industry The specialization index has been reduced over the analyzed period from 0,79 to 0,55. New companies were created, at the beginning in the automotive industry: Robo Wash center (car wash network from 1996), AM 2009 (sales of vehicles and spare parts for Aston Martin); M. Automotive 2010; Lotus Warsaw 2011 (sales and services) and next from 2011 in development industry (acquisition of new spots under future constructions). Changing importance of both segments in the portfolio In 2007-8 automotive s. dominated (import and sales of luxury cars), while developing activity was temporarily reduced to be re-activated in 2009 and after 2011 rising interests in new development projects. Tendency to balance revenues from both business segments The share of developing s. in total revenues increased from 17% in 2007 to 45% in 2013.</p> |
| <p>Geographical market reach</p> | <p>Crises didn't cause any changes in market reach. Focus was on three city locations in Poland: Warsaw, Lodz and Gdansk/Sopot/Gdynia</p> |
| <p>Development mode</p> | <p>Maintained domination of the organic mode in relation to scale and internal improvement activities. New constructions were suspended. A number of improvements were introduced: reduced employment of line workers, reliance on the experienced human resources, better risk management (target companies set up for each project, buffers), focus on financial performance, organizational structure modifications and changes in management board. In 2007-2012 18 new companies have been created (2 of them through acquisitions in 2011 and other set up from scratch, with renaming some of them). The structure of the group became more complex. In 2013 among 23 dependent companies there were 20 daughter-companies, and 3 grand - daughter companies. The related companies undergo strict control, especially in the developing s., where the strong centralization of the decision power is sustained. The ownership change The dominated shareholder and the president of the group board (71,39%). Among the mother company and daughter companies there are strong capital and personal relationships.</p> |

Source: own elaboration

The crisis in the macro environment didn't cause the adverse impacts on the company strategy and performance. The group continues its previous development strategy of unrelated diversification strategy on selected local markets in Poland with the use of the organic (internal) growth schemes. Due to smart change management the group improved its competitive position.

„BUDIMEX”

It is one of the old biggest construction companies in Poland founded in 1968 as the foreign trade company, in 1992 privatized in the form of Company Limited, from the 1994 - Joint stock company, and from 1995 quoted at WSE. Spanish strategic investor, Ferrovial, acquired the strategic package of shares in 2000.

Table 2: Strategic restructuring in Budimex

| | |
|---|--|
| <p>Level and type of diversification</p> | <p>Considerable reduction of sector diversification level. The index of specialization switched from 0,32 in 2007 to 0,52 in 2013. The main reason was the termination of the EU funds for completed investments.</p> <p>The strategic importance of construction market segments changed. In 2007-2008 the high volume non-dwelling houses had the biggest share in the group revenues (31% in 2007 and 45% in 2008), while starting from 2009 the infrastructural investments (highways construction) became the key revenue drivers (62% in 2009, 53% in 2010, 76% in 2011, 58% in 2012, and 52% in 2013). Developing investments in housing and non-housing segments were maintained at the same level over the whole period, complementing the share of infrastructural segment.</p> <p>Increased diversification of client segments. Smaller scale projects for smaller clients were realized (more flexibility in the use of resources, and more important – growth of large competitors with foreign capital, as the main reasons).</p> <p>Increased product diversification. The portfolio was broadened with the construction types not realized before, such as railroad investments, hydro-technical works, energy sector investments, and hospitals. The smaller scale projects dominated.</p> <p>Forward diversification moves. Infrastructural road investments were followed by the exploitation and maintenance services, as the next step in the industry development path.</p> <p>Strategic foreign investor – Ferrovial, the leading Spanish construction company with global reach.</p> |
| <p>Geographical market reach</p> | <p>The strategic importance of the Polish market. It constituted even 88% of the group revenues. Foreign markets role was considerably limited as compared to prior periods and should be perceived as the supplementary one. Contracts executed abroad in 2007-2013 were mainly for smaller projects in Russia, Czech Republic, Slovakia and Bulgaria. The group capacity would allow for the execution of large foreign investment projects, including turn-key, but regardless from the reduction of the formal barriers within the EU market, the real entry barriers were too high, especially in the most lucrative locations in Germany and France, highly protected against the inroads from Poland. In Germany only the contracts for employing the Budimex workers in the German-led projects were occasionally signed to keep the employment and enable learning, although other benefits were out of the Group strategic priorities.</p> <p>Consortia with Polish and foreign partners. The main purpose was the defense against the growing competition from abroad. In order to properly serve the Polish market in high volume complex projects consortia offered the opportunity for all participating parties due to their complementary resources and competences.</p> |
| <p>Geographical market reach</p> | <p>The market reach was broadened. In view of competition tightening even more in crisis, the Group starts investments in the smaller cities in Poland, not served before. The second move was to withdraw from too risky contracts.</p> |

| | |
|-------------------------|--|
| Development mode | <p>Strong focus on strategic restructuring through acquisitions (external growth), e.g. the acquisition of the railroad infrastructure maintenance company, the purchase of shares of some Polish companies (Elektromontaz Warsaw J.s.c., Elektromontaz Import Ltd., Instal Polska Ltd). The Group discounted the opportunity of the restructuring and re-positioning within the whole economy.</p> <p>Activity in selling units and shares of its own dependent companies or the shares, e.g. the sale of some shares in South Motorway, J.s.c.</p> <p>Internal consolidation through mergers of dependent companies and strategic alliances with selected partners, with the aim to jointly execute contracts for more advanced projects, such as hospitals, renovation of historical complexes, and bridges.</p> <p>After the strategic restructuring Budimex S.A. controls 34 companies. In that number in 2012 there were 21 dependent companies, 5 shared companies, and 3 associated ones.</p> <p>The ownership structure stayed stable in the whole period with the Valivala Holdings B.V. as the main shareholder.</p> |
|-------------------------|--|

Source: own elaboration

The crisis forced the group to search for new construction opportunities (infrastructural and special purpose projects) and to broaden the portfolio of client segments. The focus from large construction project was broadened by undertaking smaller scale projects located outside the big centers.

“CIECH”

Founded in 1945 as the export-import trade company in chemical industry. In 1995 converted into Ciech J.S.C. when the creation of the capital group started with 100% of the state ownership. In 2005 entered the WSE.

Table 3: Strategic restructuring in Ciech

| | |
|--|---|
| Level and type of diversification | <p>Substantial reduction of the diversity level. The specialization index grew from 0,38 I 2007 to 0,58 in 2013.</p> <p>Sale of non-profitable companies and those from non-strategic chemical industry segments, such as Gdanskie Fosfory, Zachem, Ciech Service, Translean, Alwernia.</p> <p>Concentration on just one soda industry.</p> |
| Geographical market reach | <p>Within the soda production segment focus on the European market. Retained: 2 production plants in Poland, 1 in Germany, and 1 in Romania. Dependent and associated trade companies in Germany, Romania, Nigeria, Great Britain, Singapore, Austria, Sweden, Denmark, and Finland.</p> <p>High ratio of internationalization (measured as the relation of the number of foreign companies to all group companies) was maintained, and in 2013 amounted to 0,26.</p> <p>International trader role in exports of the third party chemical products and imports of chemicals also on behalf of other Polish companies.</p> |

| | |
|-------------------------|--|
| Development mode | <p>Disinvestments from agrochemical sector (sale of Alwernia), organic sector (Infrastruktura Kapusciska), considered: sale of Organika-Sarzyna J.s.c., the glass and silicon business (Vitrosilicon J.s.c.), as well as some other companies or production and non-operational assets.</p> <p>Important change in the Group structure due to intended acquisitions, sales, bankruptcy of some dependent companies and internal consolidations. Vigorous activity in strategic restructuring resulted in the reduction of the number of dependent companies from 42 in 2007 (26 Polish, and 16 foreign units) to 31 in 2011 (19 country, 11 foreign units). In 2013 again it grew up to 35 (24 country, 11 foreign units). In total the number on companies within the Group structure was reduced from 60 to 43.</p> <p>Centralization of control over all core and supportive functions at the level of mother-company. Dependent companies role stayed purely operational.</p> |
|-------------------------|--|

Source: own elaboration

The group evolved from the diversified giant to the focused leader in the soda industry operations. Market reach was narrowed to the Polish and EU market. In 2014 Ciech J.S.C. was taken over by KI Chemistry, dependent from the Kulczyk Holding.

“REDAN”

It is one of the new biggest holdings of clothing companies created in 1995, mainly active on the Polish market. In 2003 became the public company.

Table 4: Strategic restructuring in Redan

| | |
|--|---|
| Level and type of diversification | <p>No important changes in industry diversification. Specialization index for 2007 was 0,60, while for 2013 amounted to 0,58. The Group stays in 2 clothing industry sectors: fashionable clothing and discount clothing. It follows the vertical diversification pattern: production has been performed in one dependent company, wholesale and retail trade in daughter-companies and in the mother-company.</p> <p>Diversification of distribution channels (own sales points, franchise shops, discount and hypermarkets, wholesale network, and Internet platforms.</p> <p>Change of strategic importance of both sectors following the market demand trends: fashion clothes sales dominated in 2007, while in 2013 the discount sales became the key driver of revenues.</p> <p>Concentration on the discount sales proving to be more resistant to crisis and indicating the higher profitability.</p> |
| Geographical market reach | <p>The increase in political risks in Ukraine resulted in limited exports. The drop of demand made the Group to withdraw from Czech republic and Slovakia.</p> |
| Development mode | <p>Disinvestments from Czech Republic and Slovakia.</p> <p>The role of the mother-company changed to strong focus on performance related areas operations and improvements: in logistics, management of own sales points and supplies to sales networks, financial management on behalf of the whole group, management of trademarks. Centralization of high profile services in mother-company.</p> <p>Decreased number of dependent companies. In 2009 there was a mother company and 9 daughter companies, including 4 foreign ones. Under the impact of crises only 4 daughter companies were retained and 1 granddaughter company. The group ownership stays stable with one strategic private investor with dominating share.</p> |

Source: own elaboration

Crisis management in Redan should be perceived as entrepreneurial but chaotic and not rational. It was reflected in big fluctuations in financial performance and giving up of numerous undertakings. The behavior in crisis was not effective.

“ORBIS”

It is the renowned brand on the Polish market from the 1920, after the 2nd world war the traditional state company, from 1991 converted into the private diversified group of companies with 100% of state ownership, from 1997 quoted on the WSE, the Accor group is the strategic investor from 2000.

Table 5: Strategic restructuring in Orbis

| | |
|--|---|
| Level and type of diversification | <p>Radical reduction of the diversification level. In 2009 specialization index was 0,67, while in 2013 grew to 0,98. Prior model of concentric diversification changed for the focus on the core strategy.</p> <p>Continued core activities in hotel and restaurant business sectors of the broad tourism industry, while step- by- step dropping its related sectors, such as the tour operator role in 2010, casino in 2011, transportation in 2012, car rental in 2013 and sale of assets in related sectors.</p> <p>Client diversification related to 2 segments with different standards.</p> |
| Geographical market reach | <p>“Orbis” followed the strategy of Accor Group (the strategic foreign investor from 2000) and focused only on the Polish and East European market.</p> |
| Development mode | <p>Deep restructuring of the Group assets. Sales of hotels in prime locations but requiring high investments for upgrading the property.</p> <p>Adjustment to the standards of Accor in all strategically important locations (25 cities in Poland plus 2 abroad), and places with high attractiveness for tourists. The number of hotels dropped from 42 in 2007 to 28 in 2013.</p> <p>Major switch from organic growth to external growth pattern. In the analyzed period the group created 3 new companies and acquired 1. Later on the franchise model and contracts for property management substituted own investments in new hotels and companies, while modernizing only its own property. The franchisees stayed the owners of their property and signed agreements on management with “Orbis”, (<i>asset-light contract</i>). Orbis supervised the adjustment of the property to one of the standards of Accor.</p> <p>Disinvestment. In 2007-2013 “Orbis” sold out or closed 13 daughter companies. Mother company operates the whole business.</p> <p>The ownership structure remains stable with Accor as a strategic investor and major engagement of pension funds.</p> |

Source: own elaboration

Although the crisis and restructuring period were a big challenge for Orbis, the close cooperation and learning from its strategic foreign partner (Accor) enabled Orbis to attain Master License Agreement with Accor in 2015, thus opening the new era of its leadership in Central and Eastern Europe in the hotel industry under the world known trademarks belonging to the Accor Group: Sofitel, Pullman, MGallery, Novotel, Mercure, Ibis, Ibis Styles and Ibis budget. Standardization of services and modern management systems of hotel networks are the base of its competitive advantage nowadays.

“IMPEXMETAL”

This is the company set up in 1951 as the foreign trade company, specializing in nonferrous metals and prefabricates. As the first Polish enterprise it was quoted on the London Metal Stock Exchange. In 1995 it was transformed into the Joint stock company with 100% of state capital. On the WSE it is quoted on WSE.

Table 6: Strategic restructuring in Impexmetal

| | |
|--|---|
| Level and type of diversification | <p>Increase of the diversification level in the non-ferrous metals industry. Specialization index changed from 0,49 in 2007 to 0,36 in 2013.</p> <p>Attempts to balance the revenue streams from diverse sectors. The share of aluminum and copper was lower, while zinc, plumber and bearing businesses grew up.</p> |
| Geographical market reach | <p>The lack of major changes in geographical reach with changing role of existing markets. Stronger focus on the Polish market, especially in zinc and plumber (70% of sales in Poland in 2012). In aluminum and copper the internal sales exceeded exports (52% aluminum and 53 copper%).</p> <p>Main export markets were maintained in 2012. Aluminum markets: Germany, Czech Republic, France, Ukraine, Finland, Sweden, Slovakia and Norway. Copper markets: Germany, Czech Republic, Slovakia, USA, Great Britain, Denmark, Ukraine and Hungary. Zinc and plumber markets: Germany, Italy, France, Czech Republic, South Korea, Great Britain, Cyprus and Lithuania.</p> |
| Development mode | <p>Dynamic changes in the portfolio of dependent companies. External growth pattern was supplemented by internal consolidation moves. The number of companies stayed stable, so was the relation of foreign/country units. The average number of dependent companies was 25 with fluctuations over time from 23 to 29. The proportion of country companies to foreign ones was 3:2.</p> <p>Mother company performs operational role.</p> <p>Major Polish and industry strategic investor was the same, i.e. the Boryszew Group.</p> |

Source: own elaboration

Crisis made the group to radically transform its portfolios. It moved towards more advanced and higher value-added activities with the permanent care of balancing and stabilizing the revenue streams from major market segments, i.e. aluminum, copper, zinc and plumber, and the bearing business.

Conclusion

The adverse impact of crisis have not been noticed in the analyzed capital groups at the same time, e.g. Impexmetal was hit already in 2008, Orbis in 2009, while Ciech had suffered two times: in the period of 2007-2009 and 2012 when the bankruptcy was a very likely course of action. Redan performance was very hectic showing permanent ups and downs. Only Marvipol and Budimex during the whole period showed the positive financial results despite of the market turbulences. Moreover, Budimex regrouped its assets and acquired new ones thus creating base for the future likely contracts (e.g. with railways).

The crisis in the macro environment in 2007-2013 proved to be the acid test for the Groups' management agility in maneuvering with their strategies and structures. The level of diversification was decreased and reduced to more controllable portfolios of products, sectors, clients and markets. The best example is the Ciech capital group, which cleared its portfolio of dependent companies, strongly centralized controls over them leaving the daughter companies only the operative functions.

The international operations were in general continued in case of raw materials industries, while in the majority of cases the Polish market stayed the core base for their operations. In the capital-intensive industries the introduced changes seem to be durable if not irrevocable (Ciech, Impexmetal, Orbis). In other (Redan, Marvipol, Budimex) the changes could be reversed and the established flexibility allows for the switch from small to large projects in case of the appearance of such opportunities. Redan, however, was delayed with its anti-crisis ventures and the hidden orientation in many cases was contra-effective, so there is no clear tendency towards improvement.

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A QUESTION OF STATE AID FOR RESCUING AND RESTRUCTURING FIRMS IN DIFFICULTY – PRE AND POST CRISIS PERSPECTIVE

Summary

State aid for enterprises is applied in the European Union as derogation from a rule of creating equal opportunities for starting and running a business in the Single European Market. The rules of state interventionism in the economy has been defined precisely in this field and they tend to seek a compromise between the position of the European Commission and the position of the Member State concerned with the admissibility of State aid. These rules, on the one hand, prohibit providing State aid so as not to lead to distortions of competition in the market of integrating countries, while on the other hand, they allow for providing the aid by public authorities in order to correct the imbalance in development between regions, stimulate or accelerate necessary changes and development of certain sectors of the economy. The subject of the article is an analysis of the rules of state aid admissibility on the basis of the implementing regulations, adopted by the European Commission in 2004 and 2014 on rescue and restructuring aid.

* * *

Introduction

State aid for rescuing and restructuring enterprises is without a doubt one of the most controversial cases of financial support provided by the State, which considerably affects the distortion of competition and trade within the European single market¹. The only legal basis on which the aid for undertakings in difficulty can now be regarded as admissible is art. 107. par. 3 point c) of the Treaty on the functioning of the European Union (TFEU)². According to this provision the European Commission has the power to authorize “aid to facilitate the development of certain economic activities or of certain economic areas, if [the aid] does not affect trading conditions to an extent contrary to the common interest”. This case

¹ Nicolaides P., Kekelekis M., When do Firms in Trouble Escape from State Aid Rules? *European State Aid Quarterly*, 2005, 1, pp. 17-26.

² Treaty on the Functioning of the European Union - Consolidated version 2012, OJ C 326, 26.10.2012.

may take place in particular when the aid is necessary to correct disparities caused by market failures or to ensure economic and social cohesion. Therefore providing the aid to the economic entities in this field can be regarded as legitimate only under certain conditions. This aid may be justified, for example, due to the applied social or regional policy, because of the need to take into account the advantageous role fulfilled by small and medium-sized enterprises in the economy or, exceptionally, due to the need to maintain the competitiveness on the market at a time when the liquidation of enterprises in difficulty could lead to create a monopoly or clear oligopoly on that market. On the other hand, in any case, it is not justified to artificially support of the activity of the enterprise in a sector characterized by long-term and structural overproduction or the enterprise whose survival depends only on repeated state interventions.

The purpose of this article is to analyze the conditions of admissibility of State aid for rescuing and restructuring undertakings in difficulty.

Admissibility of State aid for rescuing and restructuring undertakings in difficulty

The Commission adopted its original Guidelines on State aid for rescuing and restructuring undertakings in difficulty in 1994³. In 1997, the Commission added specific rules for agriculture⁴. A modified version of the guidelines was adopted in 1999⁵. In 2004 the Commission adopted new guidelines⁶, the validity of which was first extended until 9 October 2012⁷ and subsequently until their replacement by new rules⁸ in line with the reform programme set out in the Commission Communication of 8 May 2012 on EU State aid modernisation⁹. From 1 August 2014 the provisions entered into force of the new guidelines on State aid for rescuing and restructuring non-financial undertakings in a difficult situation¹⁰, which introduces some changes, most favorable to the beneficiaries - e.g. temporary restructuring support.

European Commission guidelines clearly indicate that aid for rescuing and restructuring undertakings in difficulty can be granted only to enterprises in difficulty. An enterprise in difficulty is the business entity which using its own funds is not able to reduce the growing negative financial result and without outside intervention of public authorities is not able to function in the short or medium term. According to the guidelines of the European Commission in 2004 - on the basis of which Member States granted State aid both before the financial crisis and already in the period of its duration - the undertaking was considered to be at risk in the following circumstances:

- 1) where more than half of the registered capital has been lost including more than one quarter of that capital over the preceding 12 months (a limited liability company, joint stock company), or when more than half of the company's capital according to the financial statement has been lost, including more than one quarter of the preceding 12 months (personal trading company and a civil partnership);

³ Community guidelines on State aid for rescuing and restructuring firms in difficulty, OJ C 368/12, 23.12.1994.

⁴ Community guidelines on State aid for rescuing and restructuring firms in difficulty, OJ C 283/2, 19.9.1997.

⁵ Community guidelines on State aid for rescuing and restructuring firms in difficulty, OJ C 288/2, 9.10.1999.

⁶ Community guidelines on State aid for rescuing and restructuring firms in difficulty, OJ C 244/2, 1.10.2004.

⁷ Commission Communication concerning the prolongation of the Community Guidelines on State aid for Rescuing and Restructuring Firms in Difficulty, OJ C 156/3, 9.7.2009.

⁸ Commission communication concerning the prolongation of the application of the Community guidelines on State aid for rescuing and restructuring firms in difficulty of 1 October 2004, OJ C 296/3, 2.10.2012.

⁹ Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on EU State aid modernisation (SAM), COM/2012/209 final.

¹⁰ Communication from the Commission: Guidelines on State aid for rescuing and restructuring non-financial undertakings in a difficulty, OJ C 249/1, 31.7.2014.

2) if the criteria of the national law were met concerning collective insolvency proceedings (regardless of the type of company).

The enterprise was also regarded as a threat, if there are premises indicating loss of financial liquidity, such as increasing losses in the current activity, diminishing turnover, growing stock inventories, excess capacity, declining cash flow, mounting debt, rising interest charges and falling or nil net asset value. In each of these cases an enterprise in difficulty was eligible for aid only if it clearly could not regain financial liquidity through its own resources and, in some justified cases, through resources obtained from the shareholders or from market sources.

The previous definition of “undertaking in difficulty” contained both so-called “hard” (objective) criteria and “soft” criteria which required a broader and more subjective assessment of the undertaking’s situation. To improve clarity and legal certainty, the new guidelines aim to shift the emphasis from soft to hard criteria, making it easier for granting authorities and potential aid beneficiaries to determine whether a given undertaking is in difficulty. The soft criteria are therefore reduced to a residual category that will apply only in exceptional circumstances. To keep the coverage of the definition approximately the same overall, the new guidelines balance the reduction in the scope of the soft criteria by introducing new hard criteria. Therefore, an undertaking is considered to be in difficulty if at least one of the following circumstances occurs:

- a) in the case of a limited liability company¹¹, where more than half of its subscribed share capital has disappeared as a result of accumulated losses. This is the case when deduction of accumulated losses from reserves (and all other elements generally considered as part of the own funds of the company) leads to a negative cumulative amount that exceeds half of the subscribed share capital.
- b) in the case of a company where at least some members have unlimited liability for the debt of the company¹², where more than half of its capital as shown in the company accounts has disappeared as a result of accumulated losses.
- c) where the undertaking is subject to collective insolvency proceedings or fulfils the criteria under its domestic law for being placed in collective insolvency proceedings at the request of its creditors.
- d) in the case of an undertaking that is not an SME, where, for the past two years:
 1. the undertaking’s book debt to equity ratio has been greater than 7,5 and
 2. the undertaking’s EBITDA interest coverage ratio has been below 1,0.

New guidelines from 2014 do not contain an indication that the quarter of enterprise capital loss must have occurred within the preceding 12 months.

Community guidelines of 2004 distinguish between two types of aid to enterprises in difficulty, i.e. aid for rescuing and aid for restructuring. EU guidelines of 2014 distinguish additionally third type of aid - temporary restructuring support.

Rescue Aid

Rescue aid for undertakings in difficulty is a support which is by nature temporary and reversible, which is focused on maintaining financial liquidity of unprofitable enterprise for the time to develop a plan for its restructuring or liquidation. The general principle is that rescue aid makes it possible to

¹¹ Annex I, Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/ EEC and 83/349/ EEC, OJ L 182, 29.6.2013.

¹² Annex II, Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/ EEC and 83/349/ EEC, OJ L 182, 29.6.2013.

provide temporary support to an undertaking facing a serious deterioration of its financial situation, involving an acute liquidity crisis or technical insolvency. Such temporary support should allow time to analyse the circumstances which gave rise to the difficulties and to develop an appropriate plan to remedy those difficulties.

Rescue aid cannot be longer than six months, is repayable and is admissible in the form of credit guarantees or loans with an interest rate comparable to loans for enterprises in good financial condition, including, in particular, with an interest rate comparable to the reference rates published by the European Commission¹³. Within six months from the moment of granting the aid the Member State has three possibilities of action: 1) it shall notify the enterprise restructuring plan to the European Commission; 2) it shall submit a plan of liquidation of the enterprise; 3) it shall provide proof of full repayment of the loan or proof of termination of the guarantee validity. New guidelines of 2014 show that the amount of admissible rescue aid must be limited to the minimum. Rescue aid must be restricted to the amount needed to keep the beneficiary in business for six months.

It should be noted that the rescue aid is a one-off operation designed to keep functioning of the undertaking in a certain period of time, in which its chances will be assessed concerning continuing existence in a given market - i.e. the principle of *one time last time*¹⁴. In the situation when the rescue aid is granted to an enterprise that has already received restructuring aid, it can be considered that the beneficiary's difficulties are of lasting and stable nature and frequent state interventions cause distortions of competition, which is contrary to the principles set out in the TFEU of State aid admissibility. Repeated granting of rescue aid essentially misses the principle when it only comes to the shift in time of inevitable liquidation of the enterprise. Therefore, in order to avoid unfair provision of aid to the undertakings that can survive on the market only by repeatedly granted State aid, rescue aid should be granted only once. In turn, the responsibility of the Member State intending to provide emergency aid should be submitting to the European Commission the necessary documentation which shows if the potential beneficiary used in the past ten years of this type of aid. In addition, the application of the principle of "first and last" is in no way affected by the ownership changes of the enterprise following the granting of aid and any administrative or judicial procedures, aimed at "healing" the balance sheet, reducing liabilities or cancelling previous owner debts.

Restructuring aid

From the moment in which the restructuring or liquidation plan of enterprise in difficulty has been established and is being implemented, every additional aid will be considered as aid granted for the purpose of restructuring. The purpose of restructuring aid is to restore the long-term profitability of the undertaking. Restructuring may involve one or more of the following elements: the reorganisation and rationalisation of the beneficiary's activities on to a more efficient basis, typically involving withdrawal from loss-making activities, restructuring of those existing activities that can be made competitive again and, possibly, diversification towards new and viable activities. It typically also involves financial restructuring in the form of capital injections by new or existing shareholders and debt reduction by existing creditors. It should be however noted that restructuring processes cannot be limited only to financial aid which will compensate the losses without identifying and removing the causes of their occurrence. The restructuring plan which duration must be as short as possible, must accurately describe the circumstances that led to the company's difficulties, thereby providing a basis for assessing whether

¹³ Communication from the Commission on the revision of the method for setting the reference and discount rates, OJ C 14/6, 19.1.2008.

¹⁴ C. Mehta (2009), *Rescue and restructuring aid*. [In] K. Bacon (ed.), *European Community Law of State Aid*, Oxford-New York: Oxford University Press, pp. 216-217.

the proposed measures are appropriate. In addition the restructuring plan should include the analysis of the current status and forecasts concerning changes in demand and supply in the market, taking into account situations based on the best, and the least favorable and intermediate assumptions and the specific weaknesses and strengths and of the enterprise. This plan must also provide such a change in the situation of enterprise, which after the completion of the restructuring processes will allow it to cover all costs including amortization and other charges.

The amount and intensity of restructuring aid must be limited to the strict minimum necessary to enable restructuring to be undertaken, in the light of the existing financial resources of the beneficiary, its shareholders or the business group to which it belongs. In particular, a sufficient level of own contribution to the costs of the restructuring and burden sharing must be ensured. Such assessment will take account of any rescue aid granted beforehand. The European Commission expects the beneficiaries of the aid that a substantial contribution to the restructuring plan will come from their own resources, including the sale of assets that are not essential to the continued existence of the undertaking. Contributions must be real, that is to say actual, excluding future expected profits such as cash flow, and must be as high as possible. The minimum contribution is at least 25% for small enterprises, 40% for medium-sized enterprises and 50% for large enterprises. In order to limit the distortive effect, the amount of aid or the form in which the aid is granted cannot provide the company with the surplus cash, which can be used for speculative activities distorting competition in the internal market. Therefore the Commission shall make a thorough analysis of the enterprise liabilities after the restructuring, taking into account primarily financial situation after each postponement or reduction of its debts. In the case of restructuring aid to small and medium-sized enterprises it is sufficient to forward each year a copy of the balance sheets and profit and loss account of the aided enterprises. In the case of aid granted to large enterprises, the Commission shall require providing confirmation of the proper way of implementation of the restructuring plan through regular detailed reports transmitted by the Member State concerned, which contain all the necessary information on the stages of the implementation of restructuring program, the schedule of payments of subsequent tranches for the enterprise and its current financial situation and to comply with all conditions and obligations laid down in the decision approving the aid.

The previous guidelines has required undertakings that are being restructured to make a contribution to the restructuring costs from their own resources. This “own contribution” rule has helped to limit the amount of aid to the minimum necessary. However, it has lacked the precision needed to ensure that the costs of restructuring are distributed fairly among investors and taxpayers. In dealing with State support to banks during the crisis, the Commission developed a more targeted approach in this respect, using the concept of “burden sharing”. This concept looks not only at the amount of own contribution, but also at who is providing that contribution. In particular, since the high returns that shareholders obtain when a enterprise is performing well are balanced by the risk of losses that they bear, there is no justification for expecting taxpayers to bear losses in place of shareholders.

Another issue, which therefore required more detailed regulation was the sharing of the burden between current investors. The draft guidelines of 2014 contained two possible approaches to this question. Option 1 took a more broad-brush approach by requiring that the contributions made by incumbent shareholders and creditors should be reasonable in view of the likely losses that they would have suffered in the event of insolvency. Option 2 was more precise, requiring first that all past losses be borne by shareholders and then, if that is not sufficient, that subordinated creditors also contribute. Finally the principle of adequate burden sharing was accepted, according to which incumbent shareholders and, where necessary, subordinated creditors must absorb losses in full. Subordinated creditors should contribute to the absorption of losses either via conversion into equity or write-down of the principal of the relevant instruments. Therefore, State intervention should only take place after losses have been fully accounted for and attributed to the existing shareholders and subordinated debt holders.

Admissibility of restructuring aid depends on taking appropriate compensatory measures to avoid excessive distortions of competition. Aid for undertakings in difficulty cannot be treated in terms of “automatic mechanism”, where its operation will be based on the principle: “if necessary - the State will intervene and grant appropriate support”. The possibility of receiving unconditional State aid in the event of a threat of bankruptcy on the one hand can lead to excessive risk-taking, on the other hand, however, such aid may mean rewarding those enterprises that have the latest adapt to changing market conditions. Compensatory measures are intended to provide a kind of renunciation for the enterprise benefiting from State aid, the price for the opportunity to remain on the market. It is most often the appropriate reduction of capacity. The reasoning behind this requirement is, however, more difficult in a situation where on a given market there is no excessive production capacity. In this case, production capacity limitation of the undertaking which is a recipient of the State aid will in the short term cause the shortage of production capacity on a given market and, consequently, decrease the supply of the goods and increase of prices. In the long term, assuming that the market is a competitive market and is not characterized by a very low price elasticity of supply, the balance will be restored, because the most effective competitors, adapting to changing market conditions by lowering costs and increasing productivity, will fill the gap on the market.

Condition for implementation of compensatory measures would not be normally applied to small enterprises, since it can be assumed that *ad hoc* aid to small enterprises generally do not distort competition to an extent contrary to the common interest. Generally speaking aid for small and medium-sized enterprises have a lesser effect on trading conditions than aid granted to large enterprises. Hence the plan of restructuring small or medium-sized enterprise is not subject to individual notification and notification by the European Commission, but only to approval by the Member State concerned¹⁵. Whereas any rescue aid to granted for more than six months, or stopped after a period of six months must be individually notified to the Commission. Aid schemes for rescuing and restructuring aimed at small and medium-sized enterprises must specify the maximum amount of aid that can be granted to each enterprise, taking into account possible changes in the restructuring plan. The maximum amount of aid granted in total for rescuing and restructuring undertakings may not be more than € 10 million, and if it is exceeded it shall be individually notified to the European Commission. In addition Member States are required to individually inform the Commission of the aid granted to the enterprise, which took over the assets of another, already supported for rescuing and restructuring, enterprise.

The tangible result of the restructuring processes carried out should be a significant reduction or complete cessation of activity by the undertaking. It results from the fact that the decrease in market share is necessary to achieve the intended efficiency and rationality of management, regardless of the reduction of production capacity. However these savings lead to a reduction in employment in the restructured enterprise. Therefore the aid is additionally distinguished to cover the social costs of restructuring. Beside covering the costs of redundancy payments and early retirement, this aid includes special restructuring schemes through training, counseling and practical help with finding alternative employment, aid in moving, as well as professional training and assistance for employees who want to run their own business. Given that such measures, which increase the employability of redundant workers, further the objective of reducing social hardship, the European Commission consistently takes a favourable view of such aid when it is granted to undertakings in difficulty.

Temporary restructuring support

The previous guidelines have treated all forms of restructuring aid alike: loans, guarantees, capital injections, debt waivers and even outright cash grants. However, liquidity assistance (loans and

¹⁵ Quigley C., *European State Aid Law and Policy*, Hart Publishing Ltd., Oxford-Portland 2009, p. 311.

guarantees) that is limited in both amount and duration is less distortive than other forms of aid, since it does not go beyond what is needed to address the liquidity problems that are commonly the main obstacle to restructuring and since it must be repaid with interest. To simplify the provision of aid for restructuring, while also reducing distortions of competition, the guidelines of 2014 include a new concept of temporary restructuring support.

Temporary restructuring support is liquidity assistance designed to support the restructuring of an undertaking by providing the conditions needed for the beneficiary to design and implement appropriate action to restore its long-term viability. Temporary restructuring support may only be granted to SMEs and smaller State-owned undertakings. This kind of State aid may also be granted to undertakings that are not in difficulty but that are facing acute liquidity needs due to exceptional and unforeseen circumstances.

Temporary restructuring support may be granted for a period not exceeding 18 months. Before the end of that period the Member State must approve a restructuring plan, or liquidation plan, or the loan must be reimbursed or the guarantee terminated. Recipients of temporary restructuring support do not have to submit a full restructuring plan, but they are required to provide a simplified plan that identifies the actions that they intend to take to restore their long-term viability.

Conclusion

Taking into account the rules of admissibility of aid for rescuing and restructuring undertakings in difficulty, the enterprise interested in receiving aid must comply with a number of conditions. While the rescue aid is a one-off operation, the aim of which is a temporary improving finances of the enterprise for the time needed to prepare a restructuring or liquidation plan, the restructuring aid is based on the specified plan to restore long-term profitability of the enterprise. Hence in the latter case, to get the support of the public authorities, the undertaking must provide a detailed recovery plan that describes how to return to financial liquidity and reduce the production, which is a form of compensation for other enterprises in the sector of the economy that did not receive State aid.

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TRANSFORMING OF THE COMPETITION IN UKRAINIAN RETAIL

Summary

Starting with the analysis of the evolution of Ukrainian retail, the authors state the original competitive disposition and explain its changes in this sector of Ukrainian economy. The analysis is focused on two adjacent markets: downstream and upstream retail markets. In the first one the retailers are sellers of consumer goods that compete with each other for consumer demand. In the second one they are buyers of consumer goods from producers and wholesalers. Here they compete for the bigger portion of economic rent of supply chain. Dealing with the elastic consumer demand for retail services, Ukrainian retailers tend to exploit their market power mostly on the upstream market by the use of the range of anticompetitive provisions of supply contract. There are no legislative restrictions for this anticompetitive practice in Ukraine because of the strong retail lobby. The authors ground the need of such restrictions or other ways of state regulation of competition in Ukrainian retail, highlighting the risks of its unregulated development.

* * *

Introduction

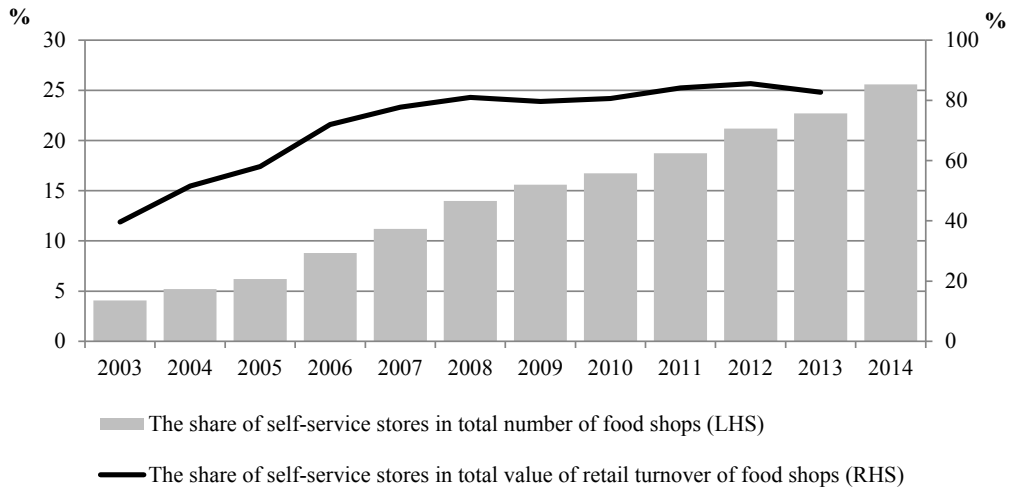
Economic history of Ukraine during the Soviet period, and even in Post-Soviet period, shows that domestic trade was carried out mainly through the counter with the active role of the seller that was represented by providing trading services in weighing, packaging, etc. and direct payments in cash. There were mostly the specialized stores with such classical names for those times as “Bread”, “Milk”, “Fish” and so on. These stores were completely dependent on the central supply, despite of their own monopoly position in the local markets in villages or city districts. These stores had no market power, despite the fact that they were usually united in the consumer society. That meant, that neither common property, nor general consumer cooperative management was approaching this trade system to Western-style trade system.

The predecessor of the modern universal trade formats in Ukraine was rather village shop. It was operated literally in every village. There were products from bread to clothing and construction materials placed on just several square meters of selling space. This small range of products covered only minimum

consumer needs while centralized supply was compensated by autonomic management, which increased the differences between the American and Soviet retail¹.

Gastronomies started to appear in the period of industrialization, which step by step replaced the village shops. The one-stop shops appeared in the late 1980-s - early 1990-s. They combined food and non-food goods together. But the model of organization in internal trade had hardly changed.

Figure 1: Dynamics of the share of self-service stores in the structure of foodstuff retail



Source: created by the authors with the data of Ukrainian State Statistic Service²

The basis of trade changed after Ukraine's independence and when the course on the market economy development was established. As a result, the self-service stores, primarily supermarkets, started to appear. The first supermarket appeared in Ukraine in 1992, that began an era of expansion of modern retail formats in the domestic market. This new era mostly influenced to the foodstuff segment, where the share of supermarkets, in just the last 10-15 years, had grown several times, reaching 25% by number of stores, and 80% - by volume of retail turnover (Fig. 1). Herewith, the structural analysis of the relevant foodstuff segment shows a rather high level of concentration. Three largest retail chains in Ukraine control 47.5% of market today³. The same situation is in the DIY, pharmacy and fuel retail. The CR₃ is approaching to 70 % in the beauty segment^{4, 5, 6}. All of these facts create a specific system of competitive relations in the Ukrainian retail. The mission of this article is to study these relations. Chapter 2 explores the ways of competition for the consumer between the representatives of Ukrainian

¹ Cholenko V., *Mam, I like retailer* "Mirror of week" 4th of October, 2013. – Available at: [http://gazeta.dt.ua/business/mamo-ya-riteylera-lyublyu-_.html\(29/09/2015\)](http://gazeta.dt.ua/business/mamo-ya-riteylera-lyublyu-_.html(29/09/2015)) [Rus]

² Official web-site of Ukrainian State Statistic Service. Available at: [http://www.ukrstat.gov.ua/\(21/09/2015\)](http://www.ukrstat.gov.ua/(21/09/2015)) [Ukr]

³ Romanishin A., Sinelnikov Y, and Krazhan Y., *Retail: Test for toughness/ In./Ukrainian retail market*. EY Report. Available at: [http://www.eba.com.ua/static/members_reviews/EY-Report-KSBD-Retail-trends-2014-Rus_11112014.pdf\(22/09/2015\)](http://www.eba.com.ua/static/members_reviews/EY-Report-KSBD-Retail-trends-2014-Rus_11112014.pdf(22/09/2015)) [Rus], p. 7-10.

⁴ *The source of profit of Ukrainian retail: trends and results of retail market*, "CompanionOnline", 5th of January, 2015. Available at: <http://www.companion.ua/articles/content?id=292498> (22/09/2015) [Rus]

⁵ Romanishin A. et. all, *op. cit.* p.6.

⁶ Kuun S.: *From fire to flame* "Mirror of week". 20th of February, 2015. Available at: [http://gazeta.zn.ua/energy_market/rynok-nefteproduktov-iz-ognya-da-v-polymya-_.html\(29/09/2015\)](http://gazeta.zn.ua/energy_market/rynok-nefteproduktov-iz-ognya-da-v-polymya-_.html(29/09/2015)) [Rus]

retail chains. Chapter 3 is devoted to the analysis of competitive relations in the upstream retail market of purchasing of consumer goods, where organized chain retail is competing with a variety of suppliers of consumer goods for the capture of a bigger portion of economic rent in supply chain. Chapter 4 devoted to investigation of the foreign experience of state regulation of competition in retail and the problems of its use in Ukraine. Chapter 5 contains conclusions about the perspectives and the risks of further development of competition in the Ukrainian retail.

Competition in the downstream retail market

Analysis of the competitive strategies of retailers in Ukrainian downstream retail market allows to divide it into two groups: extensive and intensive ones. Extensive competitive strategies manifests in expansion of the retail chain to the number of local retail markets and fix on it. The more the market is covered by a specific retail chain

- the more recognition and more customers loyalty get the brand of this retail chain (getting used to buy goods in this retail chain, consumers, that find themselves in another area, *ceteris paribus* prefer to make their purchases in the stores of this retail chain);
- the less are its logistic costs that tend to lower prices and higher demand;
- the more are its bargaining power over suppliers, for whom big turnover of retailer means bigger batches of purchasing goods, etc.

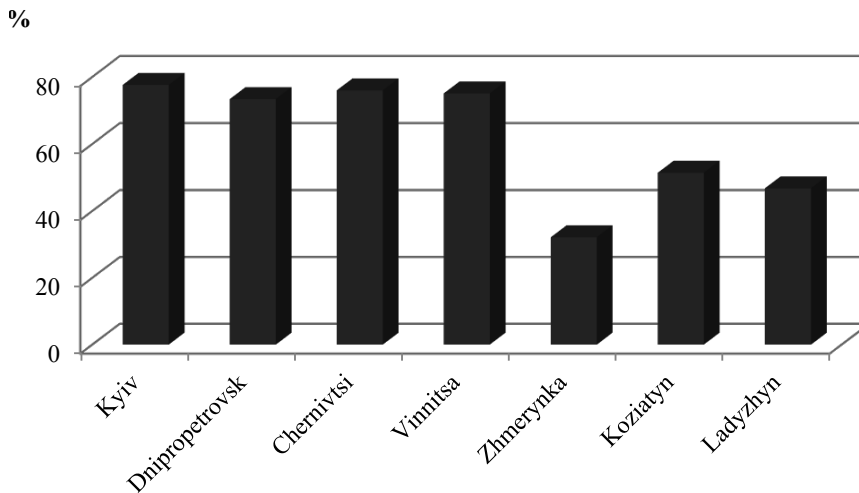
Intensive competitive strategies mean consumer hunting. Taking into account ineffectiveness of price competition today, such hunting is carried out mainly by the creation of a specific trade service. Retailers do they best to separate their services from other retailers' services in the consumer' mind. Buying at the supermarket instead of buying in the market or specialized shops, or even discounters, the consumer gets not only the suit of goods and the basic trade service, but also the range of additional services that determines his willingness to buy goods in the supermarket. For example, the ability to pay by debit/credit card for the consumer with the lack of cash is the key factor of choosing a supermarket over purchasing the goods in the local market. Convenient parking attracts automobilists, long working day attracts full day working people, a wide range of goods attracts people whose consumer preferences go beyond the usual consumer basket, comprehensiveness of shopping attracts all consumers who value their time.

Hyper- and supermarkets do not just attract the consumers with these additional services, but they are also creating a new culture of consumption with the main parameters – convenience of shopping and consumer satisfaction, not only by goods but also by buying process. This new culture has become so widespread that it can not be ignored by the other retailers. They are being forced to participate in its expansion and spending additional costs. Today, the European consumer is not surprised by using of POS-terminals by street sellers, who participate in different trade fairs and bazaars. Even discounter format does not allow its owner to save on packaging – disposable bags, packaging strip, etc. Opening hours of the modern store is much more flexible then in the times of Soviet Union, when grocery shop in small towns were open from 9:00 to 18:00, in fact, making it impossible for working people to make the necessary purchases during the working days. Today, even the specialized stores are open until 20:00 or 21:00, despite of small number of their customers who can't be the reason to extend the opening hours, but these stores can no longer ignore the general trend of Ukrainian retail development.

The strongest competition between different retail segments is in the big cities. The share of modern retail formats in the foodstuff sector in such cities is already approached its rational edge (Fig. 2). The demand for services of hyper- and supermarkets is almost completely satisfied there. The vacant niches are too small for big retailers. That means that extensive way of their development is exhausted. The task of maximizing profit is complicated now, because the traditional ways of attracting customers are not effective any more. All the people, for whom additional services of hyper-, supermarkets are the principal factors in their consumer choice, have already been buying products from big retail chains.

But their scope is not so big. According to the result of polling the customers by Centre of Complex Research of Antimonopoly Policy, the average rank given by the Kyiv customers was in the middle of “1” and “2” (at the 4 point scale). That means - “not important but can be taken into account as an additional factor in the process of choice”⁷. If we also add the factor of people impoverishment due to the crisis in the national economy, warfare, etc., it can be argued that in the coming years this channel of getting consumers will be closed, and hyper- and supermarkets will be forced to compete with the promotional programs and price discounts, in fact, getting into the segment of discounters, where due to higher turnover, lower transaction and transportation costs will be the trendsetters.

Figure 2: Saturation of foodstuff trade with modern retail formats in different Ukrainian cities / towns, 2013



Source: created by the authors with the data of Ukrainian State Statistic Service⁸

None of the stores will be able to ignore the competitive strategies of the close hyper- or supermarket, whose market dominance will determine the limits and the methods of competition on the one hand and the general rules of trading activity on the other one. Although, it should be noted, that this impact is not unilateral one. Hyper- and supermarkets also cannot ignore the behaviour of competitors, especially the other members of the chain retail (discounters, convenience stores etc.). Due to the massive presence in the market and the centralization of management, the latter can spread own stamps of competitive behaviour up to their catching on as a part of standard trading activities.

Fig 2 shows that regional markets do not completely saturated by the services of current retail chains. The share of current retail chains in the foodstuff trading in big Ukrainian cities (Kyiv, Dnipropetrovsk, Chernivtsi, Vinnytsia) is approximately 75%, while in small towns this figure is half as much. Big retail formats do not dominate here even among the local stores, much less among all the traders (including out of store trading). The competition here is quite different. Retail chains are trying to implement new trade standards, to win the competitors by higher quality of services, encouraging other traders to

⁷ Mazaraki A.A., Didkivska L.I., Gerasymenko A.G. and others. *The development of methodology of retail food market research and related markets: report of scientific research*. Center of Complex Research of Antimonopoly Policy, Kyiv, 2011. p. 229. [Ukr]

⁸ Official web-site of Ukrainian State Statistic Service. Available at: [http://www.ukrstat.gov.ua/\(21/09/2015\)](http://www.ukrstat.gov.ua/(21/09/2015)) [Ukr]

follow the leader. Local food traders in small towns and villages usually sell a wide range of goods, restricting this competitive advantage of supermarkets. That is why the supermarkets have to compete with additional services, like free packaging and paying via POS terminal. These type of services are not so common in traditional trading now, but neighbouring with supermarket force small traders to implement it. In such a way retail chains change the institutional environment of trade competition by entering the provincial markets.

The pioneer in this sense became the retail chain "ATB". Since early 2000-s it is extensively growing, covering the blind geographic niches. Today, ATB is represented in 185 cities / towns of Ukraine (before Crimea annexation and war in the East of Ukraine, this figure was bigger – 211 cities / towns) (Table. 1). The corresponding figures of the other well-known Ukrainian retailers – “Fozzy Group” (trademarks "Silpo" and "Fora" - 116 cities / towns in Ukraine⁹), "Furshet" (56 cities / towns¹⁰), "Retail Group" (trademarks "VelikaKyshenya" and "Velmart" - 29 cities / towns¹¹) are lower. But all these figures show the clear trend of geographical differentiation of Ukrainian chain retailers.

Table 1: Geographical expansion of "ATB" retail stores in Ukraine

| Year | Quantity of cities | Quantity of stores |
|------|--------------------|--------------------|
| 2003 | 12 | 85 |
| 2006 | 38 | 169 |
| 2013 | 211 | 750 |
| 2015 | 185 | > 670 |

Source: created by authors using the data of retail chain “ATB”¹²

This expansion (regional and institutional) will continue up to the moment of saturation the regional markets with modern retail formats when the competitive and institutional positions of different retailers become equal. Today, such equalizing has already happened in Kyiv. According to the statistic data, the dynamics of the share of large format retail in total foodstuff turnover has changed the vector in this city (Fig. 3), illustrating instability of dominant position in big retail business. The same results have brought the analysis of cartel case by Antimonopoly Committee of Ukraine that elicits the cartel created by the range of hyper-, supermarkets, discounters, Cash&Carry and other universal food stores in Kyiv¹³. All together these retailers monopolized the market, while they couldn't do it in smaller groups (for example, involving only the supermarkets).

⁹ Official web-site of Fozzy Group. Available at: [http://www.fozzy.ua/ua/\(21/09/2015\)](http://www.fozzy.ua/ua/(21/09/2015)) [Ukr]

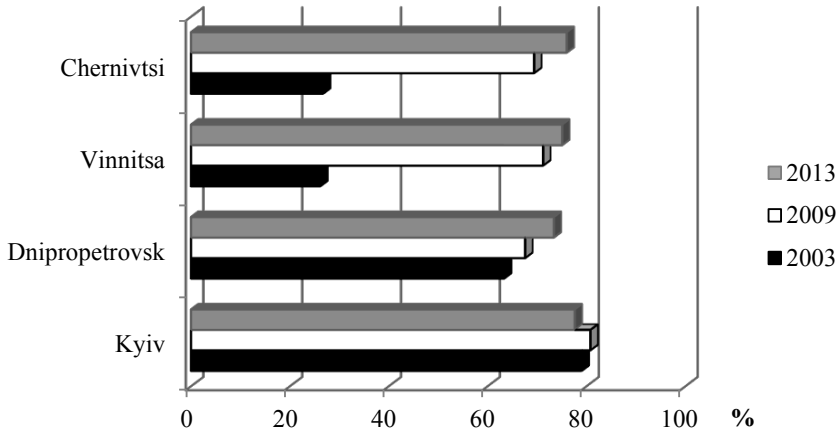
¹⁰ Official web-site of retail chain Furshet. [Internet source]. – Available at: [http://furshet.ua/ua/company/geography/\(21/09/2015\)](http://furshet.ua/ua/company/geography/(21/09/2015)) [Ukr]

¹¹ Official web-site of retail chain VelikaKishenya. Available at: [http://www.kishenya.com.ua/uk/kiiev/-shop-map/shop/\(21/09/2015\)](http://www.kishenya.com.ua/uk/kiiev/-shop-map/shop/(21/09/2015)) [Ukr]

¹² Official web-site of retail chain “ATB” Available at: [http://www.atbmarket.com/\(21/09/2015\)](http://www.atbmarket.com/(21/09/2015)) [Ukr]

¹³ On Violation of Legislation on Protection of Economic Competition and Imposing a Fine: Decision of Antimonopoly Committee of Ukraine №182-r at 29th April, 2015. Available at: [http://www.amc.gov.ua/amku/control/main/uk/publish/article/113529\(25/09/2015\)](http://www.amc.gov.ua/amku/control/main/uk/publish/article/113529(25/09/2015)) [Ukr]

Figure 3: Dynamics of the share of large format retail in the Ukrainian cities, 2003-2013



Source: created by the authors with the data of Ukrainian State Statistic Service¹⁴

In the close future we should expect the same changes in retail of big Ukrainian cities, where the growth rate of the large format retail has slowed down after 2009. Regarding the small cities and villages, they still have to pass through the above-described pathway of competition development in the retail sector.

Competition in the upstream retail market

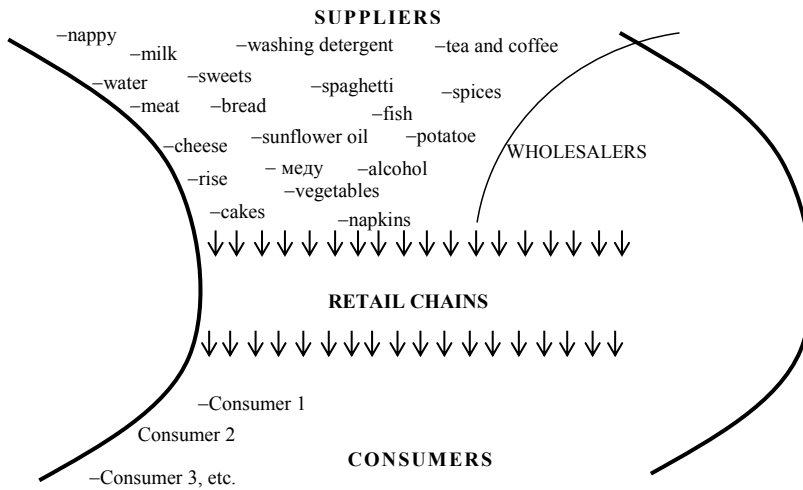
The analysis done in the previous chapter confirms close connection in selling process between different retailers, and therefore - high cross (and eventually direct) elasticity of demand for their services. For individual retailer it means the inadvisability of sales prices overstatement over acceptable consumer level, especially in conditions of falling inhabitants' incomes. Any price change causes the bigger shift in demand due to the switching the latter not only inside the group of closest competitors, but also to imperfect substitute – tradservices of other retailers up to the street traders. So the cartel members don't prone to price abusing their dominant position in the downstream retail market, trying to find other sources of economic rent withdrawal. The most popular and effective among them is upstream retail market.

There is no a single upstream market. There are the variety of commodity markets (markets of bread, milk, water, flour, meat, etc.), where retailer acts as a buyer of goods, which he further resells to the end consumers (Fig. 4).

Fig. 4 clearly shows that the retail acting as the bottleneck of the whole system of moving goods from producer to consumer, that generates its power over both of these groups of contractors and stimulates to its exploitation. In the conditions, when market power over consumers is limited with high elasticity of demand, all the abuses will fall to the multiplicity of upstream markets.

¹⁴ Official web-site of Ukrainian State Statistic Service. Available at: [http://www.ukrstat.gov.ua/\(21/09/2015\)](http://www.ukrstat.gov.ua/(21/09/2015)) [Ukr]

Figure 4: Supply chain



Source: created by authors.

Contract with big retail chain is more attractive for the supplier than a contract with a small independent retailer. It allows to save:

- transaction costs, including costs for searching honest partners, signing contracts with a number of independent retailers, control the agreement implementation to be sure in obeying the rulers of storage, sale, price policy and other non-standard conditions of the contracts;
- logistic costs – it is much cheaper to deliver the goods to the single logistic centre unlike the number of point of sale;
- storage costs, which are mostly incurred by the large retailer, unlike small ones, who have not appropriate storage space;
- manufacturing costs as the result of the economy of scale, scope and operating at full capacity etc.

It also guarantees:

- a solvency of the retailer (ability to pay);
- an access to the larger and wealthier target audience, comparing with independent small shops and stands.

Nevertheless, such contracts have also negative side. Big retail chains are aware of their market power and use it by fixing unfavourable clauses of delivery contract. Specifically:

- 1) refusal to fix the main terms of delivery contract: price, terms of ordering and returning the goods, that allows the retailer to change them in his own behalf;
- 2) payment delay, which is usually twice or more times longer than the period of selling the goods.
- 3) opacity (for the supplier) discounts terms (bonus programs, sales promotion, etc.);
- 4) forcing supplier to participate in promotion expenses. Usually, these promo costs are overvalued;
- 5) right of the retailer to return the goods to supplier after the expiry of sell-by date;
- 6) obligation of the supplier to inform retailer about the terms of the contracts with other retailers;
- 7) forcing supplier to participate in the development of retail chain infrastructure (investments into construction, opening new stores, “money gifts” for the “days of stores foundation”, etc);
- 8) claim for the entrance fee, shelf allowance and other additional payments;

9) forcing supplier to buy informational products of retailer (for example, sales statistics), despite of the demand of supplier for it¹⁵.

Recent years have been marked by active use of entrance fee by big Ukrainian chain stores. This payment is taken for each trade unit and its average value is about USD 10 K¹⁶. Herewith, this payment does not guarantee the long-term contract with the chain retailer. Even, when the contract is signed, the retail chain may change the amount of purchasing goods or cancel the agreement in the case of low sales.

Another object of supplier's complaint is payments "for retail development". The main question is why is retail development supported by suppliers? Why is the lack of money not covered with the bank credits or other ways of getting resources? The answer is that market power of the retail chains is enough to force the supplier to sign the discriminatory agreement (no one other channel can support the same traffic of goods as retail chain do). This situation creates institutional trap, where suffered side (supplier) is interested in supporting this kind of institutional environment, despite the unfair contracts with retail chains. There was experience of opposition to retail chains by the group of supplies, organized in a cartel, but it was destroyed by offering the better delivery conditions to one of the participants.

The most adverse term of delivery contract concerns the problem of payment delay. Such a delay in Ukraine takes from 45 to 180 days¹⁷, while the average time of unit sale is 35 days¹⁸. Really, this is the way for retailer to get free credit from supplier, while the supplier has to take out the bank or other commercial credit.

This unfair business practice determines the relations between retail chains and suppliers in Ukraine because of the lack of effective legislative or free will regulations. Obviously, the transformation of this practice into certain agreements is not linear. It allows some exceptions and revisions, which depends on the balance of bargaining power between supplier and retailer. For example, The Coca-Cola Company, Procter & Gamble Co., Nemiroff Inc. usually get better terms of delivery contract (inter alia payment delay terms) than small dispersed suppliers of less popular goods and not anchor goods. But this is only exception that confirms the rule of suppliers' discrimination by large retail chains.

This is not only Ukrainian problem. All the domestic markets meet it since the first cash register had been found. E. Toffler told that at the dawn of supermarket era the stores were dependent on suppliers because of the information asymmetry problem. Due to the large network of salesperson and the ability to manipulate with the volume of advertisement the suppliers had complete information about their good¹⁹. Control over this information allows suppliers to dominate over the raw materials and other resources (demand of resources is depend on the demand of final goods) suppliers, as well as over wholesalers and retailers (supermarkets couldn't ignore the goods that were demanded by consumers, while supermarkets there had not own source of information about brand popularity).

Founding the bar code changed the market situation in 1980-s. Ability to read the bar code gave the supermarket the power that previously had the supplier (sales volumes, price elasticity, regional specific of consumption, etc.). It seemed like the problem of information asymmetry had been already solved, but it was not true. The market power moved to the retailers' side. Today the retailers, who operating with complete sales information, use it to empty the shelves, to refresh the assortment, to invite new

¹⁵ Chernenko S.O., Voznuk O.V., Alichanovskiy V.V. and others. *Theoretical and Practical Aspects of Preventing and Limiting the Negative Effects of Market Power in the Retail Market and the Markets Adjacent to It: A report of scientific research*, Centre of Complex Research of Antimonopoly Policy, Kyiv, 2010. p. 43-44. [Ukr].

¹⁶ Chernenko S.O. *op. cit.* p.51.

¹⁷ Garbaruk I., *Time to Stop Flirting with Business and Society*. "Business", 6th of July, 2015, Vol. 27. p. 44. [Rus]

¹⁸ Gotsuenko E. and Gotsuenko N. *Behind the Showwindow of Trade Imbalances* "Mirror of week" 6th of February, 2015. – Available at: [http://gazeta.zn.ua/business/za-vitrinoy-torgovyh-disbalansov-_html\(13/10/2015\)](http://gazeta.zn.ua/business/za-vitrinoy-torgovyh-disbalansov-_html(13/10/2015)) [Rus]

¹⁹ Toffler A. *Powershift: knowledge, wealth and violence at the edge of XXI century*. Izdatelstvo AST Ltd, Moscow, 2002, p. 122. [Rus]

products and to get the new portion of door-money, etc. Furthermore, this information was turned to the product, which can be sold to the supplier.

The result of this transformation has brought two principle changes. The first one is that the supermarket centre of profit rising has shifted. Previously, the main source of profit was a trade margin. Today almost a half of supermarket profit rise from additional services. Among them are: supply of sales information, providing with shelf allowance, promo-events, etc. The second one is that supermarkets got enough bargaining power to determine the terms of delivery contracts, which were mentioned above.

State regulation of competition in the retail sector

As the above mentioned problem is not only Ukrainian, let's take a look at the ways of its solution abroad. Logically and chronologically the first step in this direction was made by Germans, who amended in such a way the Act against Restraints of Competition in 1973. Its main purpose was to prevent discrimination of small independent petrol stations by the large oil companies during the oil crisis. Additional target was aimed to protect the other small retailers against the dependence on powerful brands and long-terms business relationships²⁰.

Formally this amendment concerned the adverse effect of discrimination the retailers by big suppliers, that corresponded date of amendment issue. Nevertheless, its flexible formulation ("Paper 20, paragraph 1 applicable to those producers and associations, that is appear in depending relations (as a dominating subject) with small and medium producers – suppliers or buyers particular products or services (as dependent person), that presume the lack of alternatives to redirect their activity to cooperation with other producers²¹") made the German competition law able to react properly for the cases of bargaining power abuse in the ten years period.

French Economic Dependence Rules was established with development and concentration of retailers. In 1985, the Competition Commission itself demanded to establish rules for monitoring the implementation of discriminatory behaviour of companies, trading partners are mandatory for manufacturers, even if they do not occupy a dominant position in the market. The range of dominance cases were extended by Ordinance of 1986, introducing special rules of economic dependence (abus de dependence economique). These rules had been modified successively in 2001 and 2005²². They are available in a full range in Article L 420 and L 422-6 of the French Commercial Code, that means:

Article L 420 – "...the exploitation by company or group of companies the circumstances of economic dependence, in which the client company or supplier appeared vis-à-vis with such a company, is prohibited, when it significantly affects to the functioning and structure of the competition. These abuses may manifests in refuse of selling, tying or other discrimination practices, determined in the Article L 442-6²³".

Art. L 422-6 – "Provides responsibility and compensation of the producers, commercials, industrials and other entities, registered in Craft Register in case of follow actions:

1. Getting or trying to get any profit from the trade partner, that do not correspond to any trade service or obviously disproportional considering the cost of provided service. This benefit may be in form of participation unsubstantiated general interest without proportional equivalent, in the financing of sales stimulation, buying objects or investment to store repair or for making brand stores or centres

²⁰ Act Against restraints of competition Available at: http://www.gesetze-im-internet.de/englisch_gwb/index.html (10/09/2015), p. 20.

²¹ Act Against restraints of competition *op. cit.* p.20.

²² Chernenko S.O. *op. cit.* p. 157-158

²³ Chernenko S.O. *op. cit.* p. 158.

of product sampling or purchases. This benefit may be in artificial generalization of sales or in claim to disclosure the terms of commercial agreement with other clients.

2. Trying to oblige the partner with such terms, which create a misbalance in the rights and obligations between the partners.
3. Getting or trying to get the benefit, as a precondition for getting the order, without signed agreement concerning the amount of purchasing, and, without providing the service, that is ordered by supplier²⁴.

In French law, there is a usual practice of assessment of the baseless commercial conditions or obligations for the partner that is reflected in positive law and branch agreements, being a complex of rules for the participants. Besides, it concerns the regulation of problem of payment delay. Since 1.01.2009, the term of payment delay has had to be no longer than 45 days from the delivery date or 60 days after the issue of invoice. If the terms of payment have not been determined, the term of payment is 30 days, starting from the date of delivery goods or submitting services. Participants that do not follow these terms get the sanctions in the form of penalty – EURO 15 K²⁵.

Since 1.03.2013, the EU Directive №211/7/EU has got the power and has settled the term of payment for the delivered goods. It also increases the penalties for the overdue²⁶.

Among the latest law in this sphere is Latvia's law "On Prohibition of Unfair Practice in Retail Trading". According to this document, the term of payment delay has to be no longer than 30 days from the delivery date for goods with the period of validity less than 25 days and 20 days – for vegetables. Also the law contains the range of the prohibited actions of the retailer:

- claiming for shelf allowance;
- forcing supplier to refund lost profit;
- forcing supplier to invest into retail infrastructure development (opening new stores and renovation of existing ones);
- restricting the right of supplier to negotiate with other retailers for better terms of goods delivery.

The penalty for this law violation is equal to the 0.2 % of annual sales²⁷.

The similar clauses are presented in the Law of Russian Federation "About the terms of trade regulation in Russian Federation" № 381-FZ at 23.12.2009 (with changes and additions at 31.12.2014). According to this law the range of prohibited practices consists of:

- claim for disclosure the terms and conditions of delivery contracts with other partners;
- claim for the entrance fee;
- claim for the payment for assortment changes;
- returning the products to the supplier after its shelf life expiry, except the cases, determined by law, etc.

The terms of payment is also determined. The term of payment delay has to be no longer than

- 10 working days from the delivery date for the products with shelf life less than 10 days;
- 30 calendar days – for the products with shelf life from 10 to 30 days;
- 45 calendar days – for the products with the shelf life more than 30 days, as well as for the alcohol products, produced on the territory of Russian Federation²⁸.

These regulation is concerning to the common Ukrainian practice of organization relations between supplier and retailers. These rules would change competition environment in trade segment. The necessity of these rules between suppliers and retailers, together with common necessity of trade regulation, have been the matter of discussion for ten years (it was accepted as the conception of project of Ukrainian

²⁴ Chernenko S.O. *op. cit.* p. 158.

²⁵ Chernenko S.O. *op. cit.* p. 165-166

²⁶ Garbaruk I. *op. cit.* p. 45.

²⁷ Garbaruk I. *op. cit.* p. 45

²⁸ *State Regulation of trade in Russian Federation: Federal Law N. 381-FZ, 28.12.2009* Available at: [http://www.consultant.ru/document/cons_doc_LAW_95629/\(29/09/2015\)](http://www.consultant.ru/document/cons_doc_LAW_95629/(29/09/2015)) [Rus]

Law “About inner trade”²⁹), but it was not accepted. During this time the country changed three presidents and five governments, but the powerful retail lobby was always one step ahead the suppliers, reducing to zero all the efforts of law promotion. Finally, in the June of 2013 it was refused to accept the law “About inner trading” was announced. It was decided to introduce the demanded standards of inner trade regulation into the actual laws³⁰. It may be considered as the next triumph of powerful retail lobby. Today, the state position is constant concerning this question.

After this, we had only one organization that could be the lawyer between suppliers and retailers – Antimonopoly Committee of Ukraine. In 2014-2015 Committee proved the fact of uncompetitive agreement of main Ukrainian retailers in foodstuff sphere, mainly in Kyiv. The proof was done on base of “economic dependence”, not “domination”, that was the new precedent for the Ukrainian legislation practice, making Ukraine closer to the European legislation from one side and destroying institutional trap in relations “retailer– supplier” on other side.

One of the key claims of Antimonopoly Committee of Ukraine to decrease the penalty for the violators was the participation in development and signing the “The code of professional ethics between retailers, represented by retail chains, and suppliers”. This code could be the new system institute in the trading sphere – soft regulation of fair relations between suppliers and retail chains, but it was not signed. Finally, Antimonopoly Committee of Ukraine had to impose the penalty to the violators with total amount of more than UAH 200 mln³¹.

Conclusion

Based on the above mentioned, we can conclude that there is a dominance of market power factors in the Ukrainian retail market. Big chain retailers form the most concentrated stage of supply chain causing a number of negative effects (price and non-price abusing). Herewith, the analysis of their behaviour shows that these companies not only use dominant position by the way of increasing retail price or decreasing invoice price, discriminating suppliers, etc. They compete with:

- participants of other retail segments– independent trade operators (traditional stores, markets, etc),
- wholesalers, trying to displace them from the market through entering into the direct contracts with suppliers, and
- suppliers by creating private labels, providing with information services, deformation of institutional environment of retail, including the legislation level.

They are competing for the additional profit and for taking control over the all stages of supply chain. And, certainly, the winner of current stage of this competition is large chain retail.

The result of this domination in the future development cannot be estimated accurately. It could lead to the branch conservation or turn to alternative ways against the developed countries. Reacting to the described risks of cooperation with large chain retail and correlated costs, the producers can:

- fix the cooperation with distributors, enlarging the assortment portfolio of the latter and causing the relocation of the market power in the branch (from retailers to wholesalers);
- invest in the development of the network of own stores, storage and logistic capacities or consolidate with actual logistic companies. It also has a potential of crucial change of the power balance in Ukrainian retail by weakening retailers, while strengthening producers. The problem is that it raise a

²⁹ *About inner trade*: the conception of project of Ukrainian Law: confirmed by Cabinet of Ministry of Ukraine N. 1200-r at 7th of October 2009. Available at: [http://zakon4.rada.gov.ua/laws/show/1200-2009-%D1%80\(25/09/2015\)](http://zakon4.rada.gov.ua/laws/show/1200-2009-%D1%80(25/09/2015)) [Ukr]

³⁰ *The Government do not pass the retail law* Available at: [http://www.unian.ua/society/806071-uryad-vidmovivsyia-vid-zakonu-pro-vnutrishnyu-torgivlyu.html\(25/09/2015\)](http://www.unian.ua/society/806071-uryad-vidmovivsyia-vid-zakonu-pro-vnutrishnyu-torgivlyu.html(25/09/2015)) [Ukr]

³¹ *Judgment to the retail* / Official web-site of Antimonopoly Committee of Ukraine. Available at: [http://www.amc.gov.ua/amku/control/main/uk/publish/article/112265\(25/09/2015\)](http://www.amc.gov.ua/amku/control/main/uk/publish/article/112265(25/09/2015)) [Ukr]

range of additional ineffective costs (ineffective spending of scarce economic resources), that can be avoided by the proper State regulation.

That is why we should make every effort today to overcome the trade lobby and to introduce state competition regulation in Ukrainian retail, or at least impose some minimal regulations able to provide the fair rules and good practices in this area.

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EMPLOYEE-OWNED COMPANIES IN THE OWNERSHIP TRANSFORMATION PROCESS OF STATE-OWNED ENTERPRISES IN POLAND*

Summary

The main aim of this article is to assess the role and the significance of employee-owned companies in the ownership transformation process of state-owned enterprises in Poland with taking into account their financial situation. The paper presents the analysis of a scale and a course of the ownership transformation process of state-owned enterprises as well as profitability and financial liquidity of employee-owned companies in the years 2001–2011. On the basis of the conducted analysis it can be concluded that the role and the significance of employee-owned companies in the ownership transformation process of Polish state-owned enterprises between 2001–2011 were much lower than during previous years.

* * *

Introduction

The ownership transformation process of state-owned enterprises in Poland started in 1989 and continues until today¹, arousing still a lot of excitement among all groups of stakeholders. The importance of this process for the transformation of the Polish economy from a centrally planned to a market system causes that it is an object of the interest for the scientific community, which regularly conducts research on its effects.

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¹ Compare: Kuropatwiński P., Ćwikliński H., Pawłowski G., *Transformacja systemu gospodarczego Polski. /In:/ Polityka gospodarcza*, edited by: H. Ćwikliński, Wydawnictwo Uniwersytetu Gdańskiego, Gdańsk 2003, pp. 237–279; Pancer-Cybulska E., Winiarski B., Winiarska F., *Procesy transformacji – od realnego socjalizmu do gospodarki rynkowej. / In:/ Polityka gospodarcza*, edited by: B. Winiarski, Wydawnictwo Naukowe PWN, Warszawa 2006, pp. 153–176.

The ownership transformation process of Polish state-owned enterprises due to the heterogeneous nature of its objectives² is implemented with various methods, which constitute a kind of the compromise between them³. However, while considering ownership transformation methods of state-owned enterprises the special attention should be paid to the direct privatisation by giving a state-owned enterprise for use against payment to the employee-owned company⁴. The capital participation of employees of the privatised state-owned enterprise in the company established to take over its assets for use against payment⁵ becomes then the basis of the statement that functioning and development of such a kind of entities best matches the implementation of both economic and social objectives of the ownership transformation process of state-owned enterprises in Poland.

The main aim of this article is to assess the role and the significance of employee-owned companies in the ownership transformation process of state-owned enterprises in Poland with taking into consideration their financial situation against the background of state-owned enterprises and other entities established as its result. In order to achieve the goal of this study the analysis of a scale and a course of the ownership transformation process of state-owned enterprises as well as profitability and financial liquidity of employee-owned companies in the years 2001–2011 was conducted.

The nature and effects of the ownership transformation process of Polish state-owned enterprises

The ownership transformation process of state-owned enterprises (excluding state-owned agricultural enterprises⁶) was implemented on the basis of⁷:

² Compare: Balcerowicz L., *Socjalizm, kapitalizm, transformacja*, Wydawnictwo Naukowe PWN, Warszawa 1997, p. 218; Bałtowski M., *Przekształcenia własnościowe przedsiębiorstw państwowych w Polsce*, Wydawnictwo Naukowe PWN, Warszawa 2002, p. 17, 30; Brozi E., *Drogi i bariery prywatyzacji przedsiębiorstw państwowych. Studium programów i doświadczeń*, Wydawnictwo Uniwersytetu Łódzkiego, Łódź 1993, pp. 17–18, 32–34; Prusek A., *Prywatyzacja polskiej gospodarki. Cele, programy i ocena rezultatów*, Wydawnictwo Akademii Ekonomicznej w Krakowie, Kraków 2005, pp. 7–15; Sobolewski H., *Determinanty i procedury przekształceń własnościowych przedsiębiorstw państwowych. Dwie dekady prywatyzacji*, Wydawnictwo Uniwersytetu Ekonomicznego w Poznaniu, Poznań 2011, pp. 43–53.

³ See M. Bałtowski, M. Miszewski, *Transformacja gospodarcza w Polsce*, Wydawnictwo PWN, Warszawa 2006, pp. 113–118.

⁴ Compare: B. Błaszczuk, *Zjawisko wtórnej prywatyzacji – zmiany struktury własnościowej przedsiębiorstw państwowych*. /In:/ *Przedsiębiorstwa sprywatyzowane w gospodarce polskiej*, edited by: M. Bałtowski, Wydawnictwo Naukowe PWN, Warszawa 2002, p. 193; A. Jawłowski, *Prywatyzacja pracownicza. Przemiany firm i ich załóg*, Instytut Studiów Politycznych Polskiej Akademii Nauk, Warszawa 2001, pp. 55–59; P. Kozarzewski, *Prywatyzacja bezpośrednia: stan prawny*. /In:/ *Prywatyzacja bezpośrednia. Inwestorzy. Menedżerowie. Pracownicy*, edited by: M. Jarosz, Instytut Studiów Politycznych Polskiej Akademii Nauk, Warszawa 1998, pp. 25–26; W. Thuchowski, *Prywatyzacja przedsiębiorstwa*. /In:/ *Restrukturyzacja, prywatyzacja i wycena przedsiębiorstwa*, edited by: H. Sobolewski, Wydawnictwo Akademii Ekonomicznej w Poznaniu, Poznań 2001, p. 139; *Leksykon prywatyzacji*, edited by: T. Zwierzyńska-Bubała, PWE, Warszawa 1998, p. 195.

⁵ Poland was the only country in Central and Eastern Europe, where managerial-employee privatisation implemented in the form of employee leasing (lease leverage employee buy-outs), developed on a large scale – compare: P. Aghion, O. J. Blanchard, *On privatisation methods in Eastern Europe and their implications*, „Economics of Transition” 1998, Vol. 6, No 1, pp. 96–97; M. Bornstein, *Non-standard methods in the privatisation strategies of the Czech Republic, Hungary and Poland*, „Economics of Transition” 1997, Vol. 5, No 2, p. 329; P. Kozarzewski, *Prywatyzacja w krajach postkomunistycznych*, Instytut Studiów Politycznych Polskiej Akademii Nauk, Warszawa 2006, p. 124; J. Lowitzsch, *Country Reports*. /In:/ *The PEPPER III Report: Promotion of Employee Participation in Profits and Enterprise Results in the New Member and Candidate Countries of the European Union*, edited by: J. Lowitzsch, Institute for Eastern European Studies, Free University of Berlin, Rome/Berlin: Inter-University Centre Split/Berlin 2006, pp. 132–134, 160–162, 253–255.

⁶ State-owned agricultural enterprises were incorporated into the Agricultural Property Stock of the State Treasury in accordance with the Act of 19 October, 1991 on Managing Agricultural Property Owned by the State Treasury (Journal of Laws from 2007, no 231, item 1700).

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- 1) the Act of 30 August, 1996 on Commercialisation and Privatisation of State-owned Enterprises⁸,
- 2) the Act of 30 April, 1993 on National Investment Funds and their privatisation⁹,
- 3) the Act of 25 September, 1981 on State-owned enterprises¹⁰.

Based on the listed legal documents three ownership transformation methods of state-owned enterprises¹¹ were applied, namely¹²:

- 1) the commercialisation¹³, which is the transformation of a state-owned enterprise into:
 - a) a sole-shareholder company of the State Treasury to:
 - privatise it¹⁴ through a takeover of shares in its increased equity capital¹⁵, a sale of shares belonging to the State Treasury¹⁶ (indirect privatisation¹⁷) or a contribution of these shares to agencies, funds (National Investment Funds) or companies appointed for this purpose¹⁸ with the intention of their later sale;
 - municipalise¹⁹;
 - b) a company with the participation of creditors (commercialisation combined with the conversion of claims into shares²⁰), to which regulations on the indirect privatisation were applied²¹;

⁸ The Act of 30 August, 1996 on Commercialisation and Privatisation of State-owned Enterprises (Journal of Laws from 2002, no 171, item 1397 with later amendments) coming in force on the day of 8 January 1997 repealed the former act on this issue i.e. the Act of 13 July, 1990 on Privatisation of State-owned Enterprises (Journal of Laws from 1990, no 51, item 298).

⁹ The Act of 30 April, 1993 on National Investment Funds and their Privatisation (Journal of Laws from 1993, no 44, item 202 with later amendments) was repealed on the day of 1 January 2013 – see *Act of 30 March, 2012 Repealing the Act on National Investment Funds and their Privatisation and Amending Certain Acts* (Journal of Laws from 2012, no 0, item 596), Articles 1 and 15.

¹⁰ Journal of Laws from 2002, no 112, item 981 with later amendments.

¹¹ See a scheme of the privatisation process in: *Mały Rocznik Statystyczny 2012*, GUS, Warszawa 2012, pp. 496–497.

¹² See *Prywatyzacja przedsiębiorstw państwowych w 2011 r.*, *op. cit.*, p. 24.

¹³ See *Act of 30 August, 1996 on Commercialisation and Privatisation of State-owned Enterprises*, *op. cit.*, Article 1 section 1.

¹⁴ The section concerning the commercialisation for another purpose than privatisation was repealed on the day of 28 July 2006 – compare: *Act of 30 August, 1996 on Commercialisation and Privatisation of State-owned Enterprises*, *op. cit.*, Article 3 section 2; *Act of 12 May, 2006 Amending the Act on Commercialisation and Privatisation and Other Acts* (Journal of Laws 2006, no 107, item 721), Article 1 point 1 letter b, Article 11.

¹⁵ See *Act of 30 August, 1996 on Commercialisation and Privatisation of State-owned Enterprises*, *op. cit.*, Article 1 section 2 point 1a.

¹⁶ See *Act of 30 August, 1996 on Commercialisation and Privatisation of State-owned Enterprises*, *op. cit.*, Article 1 section 2 point 1.

¹⁷ See *Act of 30 August, 1996, on Commercialisation and Privatisation of State-owned Enterprises*, *op. cit.*, Part IV chapter 1.

¹⁸ See *Prywatyzacja przedsiębiorstw państwowych w 2011 r.*, *op. cit.*, p. 25.

¹⁹ See *Act of 30 August, 1996 on Commercialisation and Privatisation of State-owned Enterprises*, *op. cit.*, Article 4a section 1 – this article received current wording on the day of 28 July 2006 – see *Act of 12 May, 2006 Amending the Act on Commercialisation and Privatisation and Other Acts*, *op. cit.*, Article 1 point 2, Article 11.

²⁰ See *Act of 30 August, 1996 on Commercialisation and Privatisation of State-owned Enterprises*, *op. cit.*, Part III – this part was deleted on the day of 1 May 2004 – see *Act of 11 May, 2001 Amending the Act on Financial Restructuring of Enterprises and Banks and Some Other Laws, the Act on National Investment Funds and their Privatisation and the Act on Commercialisation and Privatisation of State-owned Enterprises* (Journal of Laws from 2001, no 63, item 637), Article 3 point 2, Article 5.

²¹ See W. J. Katner, *Komerjalizacja i prywatyzacja. Komentarz*, Wyd. Prawnicze “LexisNexis”, Warszawa 2003, p. 112.

- 2) the direct privatisation²² consisting in the disposal of all material and non-material assets of a state-owned enterprise through its sale, contribution to the company or giving for use against payment²³;
- 3) the liquidation of a state-owned enterprise for economic reasons.

As a result of distinguished ownership transformation methods of state-owned enterprises following forms of companies were established²⁴:

- sole-shareholder companies of the State Treasury – the commercialisation of a state-owned enterprise,
- companies with the participation of creditors²⁵ – the commercialisation combined with the conversion of claims into shares,
- companies participating in the National Investment Funds Programme,
- companies privatised through a sale of shares belonging to the State Treasury in sole-shareholder companies – the indirect privatisation (capital privatisation),
- companies privatised through a takeover of shares in the increased equity capital of sole-shareholder companies of the State Treasury²⁶,
- companies with the State Treasury participation, to which assets of directly privatised or liquidated state-owned enterprises were contributed,
- employee-owned companies established to take over assets of directly privatised and liquidated state-owned enterprises for use against payment (employee leasing).

The analysis of ownership transformations of state-owned enterprises (excluding state-owned agricultural enterprises²⁷) indicates that in the years between 1990–2011 from the number of 5,897 state-owned enterprises included in this process, 1,761 were commercialised, 2,195 underwent the direct privatisation and 1,941 were put into the liquidation²⁸. By the end of 2011, 1,724 companies were created as a result of commercialisation, including 1,710 sole-shareholder companies of the State Treasury and 14 companies with the participation of creditors²⁹. Companies privatised through a takeover of shares in their increased equity capital³⁰, indirectly privatised and incorporated into National Investment Funds were respectively 0.4%, 33.5% and 29.9% of sole-shareholder companies of the State Treasury³¹. Among state-owned enterprises included in the direct privatisation 96.4% were privatised, 24.1% out of which through a sale, 11.0% through a contribution to the company with the State Treasury participation and 62.4% through giving for use against payment. The proportion of liquidated state-owned enterprises

²² See *Act of 30 August, 1996 on Commercialisation and Privatisation of State-owned Enterprises, op. cit.*, Part V.

²³ See *Act of 30 August, 1996 on Commercialisation and Privatisation of State-owned Enterprises, op. cit.*, Article 39 section 1.

²⁴ See *Prywatyzacja przedsiębiorstw państwowych w 2011 r., op. cit.*, p. 15–16.

²⁵ Companies with the participation of creditors created as a result of the commercialisation combined with the conversion of claims into shares were formed at the application of a state-owned enterprise's director, which could be submitted within three months from the day of 22 October 1996 – see W. J. Katner, *op. cit.*, pp. 103–104; *Act of 30 August, 1996 on Commercialisation and Privatisation of State-owned Enterprises, op. cit.*, Article 77.

²⁶ Sole-shareholder companies of the State Treasury can be privatised through a takeover of shares in their increased equity capital since 15 January 2003 – see *Act of 5 December, 2002 on the Amendment to the Act on the Rules of Exercising the Powers of the State Treasury, Act on Commercialization and Privatisation of State-owned Enterprises and Some Other Acts* (Journal of Laws from 2002, no. 240, item 2055), Article 2 point 2 letter a, Article 25.

²⁷ The liquidation process of state-owned agricultural enterprises, as a result of which 1654 state-owned enterprises were incorporated into the Agricultural Property Stock of the State Treasury ended in 1995 – see *Prywatyzacja przedsiębiorstw państwowych w 2011 r., op. cit.*, p. 44.

²⁸ See *Prywatyzacja przedsiębiorstw państwowych w 2011 r., op. cit.*, p. 49, table 1.

²⁹ In the years 2001–2011 no company with the participation of creditors was established.

³⁰ The first privatisation of a sole-shareholder company of the State Treasury through a takeover of shares in its increased equity capital was carried out in 2004 – see *Prywatyzacja przedsiębiorstw państwowych w 2011 r., op. cit.*, p. 49, table 1.

³¹ See *Prywatyzacja przedsiębiorstw państwowych w 2011 r., op. cit.*, p. 29.

among these put into the liquidation was 57.3%³². On the basis of assets of state-owned enterprises privatised directly and liquidated by the end of 2011, 1,824 companies were formed, including 261 companies with the State Treasury participation and 1,563 employee-owned companies.

The ownership transformation process of state-owned enterprises in Poland in the years 2001–2011

The scale of the ownership transformation process of Polish state-owned enterprises in the years 2001–2011

In the years 2001–2011 ownership transformations comprised 13.97% of state-owned enterprises included in this process between 1990–2011. State-owned enterprises privatised indirectly, directly and liquidated in the years 2001–2011 were respectively 51.57%, 16.20% and 28.07% of entities privatised using these methods during the whole period of the ownership transformation process. In the years 2001–2011 state-owned enterprises was given for use against payment comprised about 11% of entities privatised directly through this path between 1990–2011 (see table 1).

In the years 2001–2011 no sole-shareholder company of the State Treasury was involved in the National Investment Funds Programme³³. Employee-owned companies created in the years 2001–2011 were 9.34% of all employee-owned companies formed between 1990–2011 (see table 2).

Table 1: State-owned enterprises included in the ownership transformation process in the years 2001–2011 and 1990–2011 with regard to its methods and their effectiveness as well as paths of the direct privatisation

| State-owned enterprises | Number | | Proportion [%] | |
|---|-----------|-----------|----------------|-----------|
| | 1990–2011 | 2001–2011 | 1990–2011 | 2001–2011 |
| Included in the ownership transformation process | 5,897 | 824 | 100.00 | 13.97 |
| 1. Commercialised | 1,761 | 245 | 100.00 | 13.91 |
| 1.1. Privatised indirectly | 572 | 295 | 100.00 | 51.57 |
| 2. Covered by direct privatisation | 2,195 | 332 | 100.00 | 15.13 |
| 2.1. Privatised directly | 2,117 | 343 | 100.00 | 16.20 |
| a) Sold | 511 | 137 | 100.00 | 26.81 |
| b) Transferred to companies with the ST participation | 232 | 61 | 100.00 | 26.29 |
| c) Given for use against payment | 1,320 | 145 | 100.00 | 10.98 |
| 3. Covered by liquidation | 1,941 | 247 | 100.00 | 12.73 |
| 3.1. Liquidated | 1,122 | 315 | 100.00 | 28.07 |

Source: own study on the basis of *Prywatyzacja przedsiębiorstw państwowych w 2000 r.*, GUS, Warszawa 2001, p. 27, table 1; p. 41, table 11; *Prywatyzacja przedsiębiorstw państwowych w 2011 r.*, GUS, Warszawa 2012, p. 49, table 1; p. 56, table 8.

³² See *Prywatyzacja przedsiębiorstw państwowych w 2011 r.*, *op. cit.*, p. 56, table 8.

³³ 512 sole-shareholder companies of the State Treasury were contributed to 15 National Investment Funds, which were established in 1995.

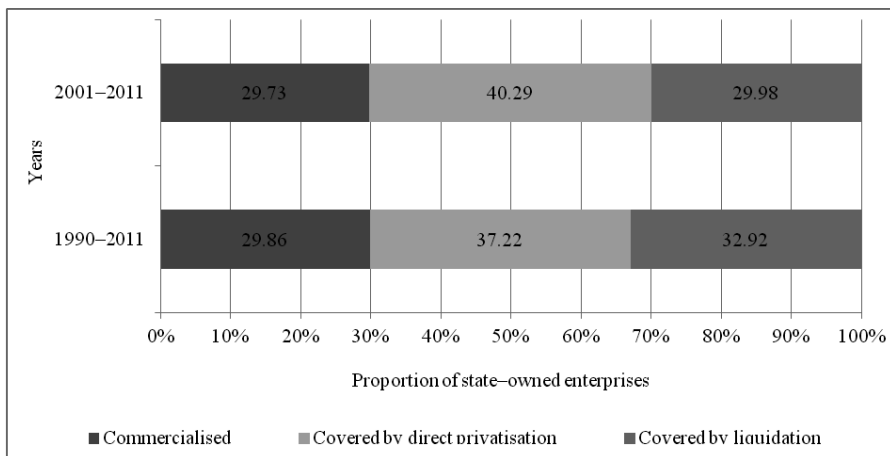
Table 2: Companies established as a result of the ownership transformation process in the years 1990–2011 and 2001–2011

| Companies | Number | | Proportion [%] | |
|--|-----------|-----------|----------------|-----------|
| | 1990–2011 | 2001–2011 | 1990–2011 | 2001–2011 |
| Sole–shareholder companies of the ST | 1,710 | 284 | 100.00 | 16.61 |
| Companies privatised indirectly | 572 | 295 | 100.00 | 51.57 |
| Companies participating in the NIF Programme | 512 | 0 | 100.00 | 0.00 |
| Companies with the ST participation | 261 | 39 | 100.00 | 14.94 |
| Employee–owned companies | 1,563 | 146 | 100.00 | 9.34 |

Source: own study on the basis of *Prywatyzacja przedsiębiorstw państwowych w 2000 r., op. cit.*, p. 47, table 15; *Prywatyzacja przedsiębiorstw państwowych w 2011 r., op. cit.*, p. 58, table 10.

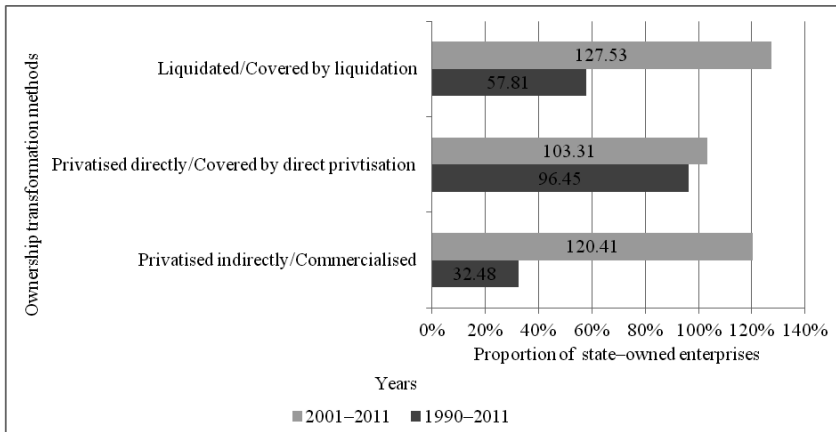
In the years 2001–2011 state–owned enterprises commercialised, covered by the direct privatisation and the liquidation were respectively 29.73%, 40.29% and 29.98% of entities included in these privatisation methods during this period. The structure of state–owned enterprises included in the ownership transformation process with regard to its methods using in the years 2001–2011 does not differ significantly from that between 1990–2011 (see figure 1).

Figure 1: State–owned enterprises included in the ownership transformation process in the years 2001–2011 and 1990–2011 with regard to its methods



Source: own study on the basis of table 1.

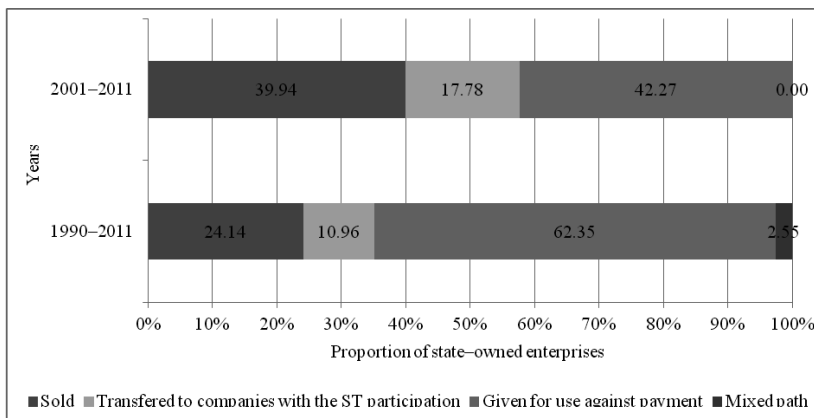
Figure 2: State-owned enterprises included in the ownership transformation process in the years 2001–2011 and 1990–2011 with regard to the effectiveness of its methods



Source: own study on the basis of table 1.

In the years 1990–2011 the direct privatisation was the most effective method of privatisation, because as at 31 December 2011, 96.45% of state-owned enterprises covered by it were privatised. In the case of the indirect privatisation of commercialised state-owned enterprises it must be noted that some of sole-shareholder companies of the State Treasury established as a result of it were privatised through a takeover of shares in their increased equity capital and within the framework of the National Investment Funds Programme. In the years 2001–2011 the share of privatised state-owned enterprises among these covered by the particular privatisation method was greater than 100%, which means that there were privatised entities covered by the privatisation in the earlier period. The proportion of directly privatised state-owned enterprises among these covered by the direct privatisation slightly exceeding 100% confirms a relatively short period of time necessary to carry out its procedure (see figure 2).

Figure 3: State-owned enterprises privatised directly in the years 2001–2011 and 1990–2011 with regard to paths of this privatisation method



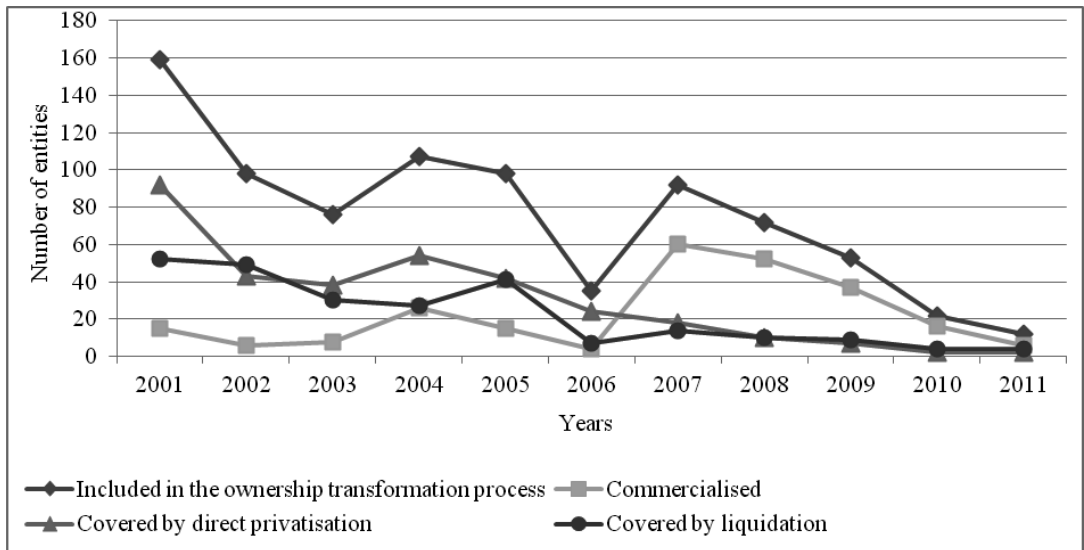
Source: own study on the basis of table 1.

In the years 2001–2011 state-owned enterprises that were sold, contributed to companies with the State Treasury participation and given for use against payment were respectively 39.94%, 17.78% and 42.27% of entities privatised directly during this period. No state-owned enterprise was privatised directly through the mixed path. Between 2001–2011 the role and the significance of the direct privatisation of state-owned enterprises through their sale and contribution to a company with the State Treasury participation increased whereas the role and the significance of entities given for use against payment decreased (see figure 3).

The course of the ownership transformation process of Polish state-owned enterprises in the years 2001–2011

In 2001 the ownership transformation process included 159 state-owned enterprises, of which 15 were commercialised, 92 were covered by the direct privatisation, and 52 were covered by the liquidation.

Figure 4. The course of the ownership transformation process in years 2001–2011 with regard to its methods

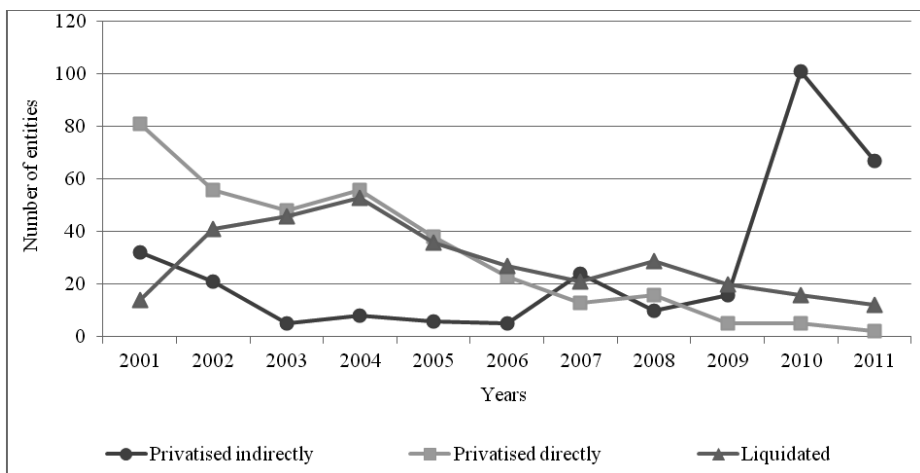


Source: own study on the basis of *Prywatyzacja przedsiębiorstw państwowych w 2000 r.*, GUS, Warszawa 2001, p. 27, table 1; *Prywatyzacja przedsiębiorstw państwowych w 2001 r.*, GUS, Warszawa 2002, p. 22, table 1; *Prywatyzacja przedsiębiorstw państwowych w 2002 r.*, GUS, Warszawa 2003, p. 28, table 1; *Prywatyzacja przedsiębiorstw państwowych w 2003 r.*, GUS, Warszawa 2004, p. 28, table 1; *Prywatyzacja przedsiębiorstw państwowych w 2004 r.*, GUS, Warszawa 2005, p. 28, table 1; *Prywatyzacja przedsiębiorstw państwowych w 2005 r.*, GUS, Warszawa 2006, p. 28, table 1; *Prywatyzacja przedsiębiorstw państwowych w 2006 r.*, GUS, Warszawa 2007, p. 38, table 1; *Prywatyzacja przedsiębiorstw państwowych w 2007 r.*, GUS, Warszawa 2008, p. 42, table 1; *Prywatyzacja przedsiębiorstw państwowych w 2008 r.*, GUS, Warszawa 2009, p. 43, table 1; *Prywatyzacja przedsiębiorstw państwowych w 2009 r.*, GUS, Warszawa 2010, p. 48, table 1; *Prywatyzacja przedsiębiorstw państwowych w 2010 r.*, GUS, Warszawa 2011, p. 49, table 1; *Prywatyzacja przedsiębiorstw państwowych w 2011 r.*, GUS, Warszawa 2012, p. 49, table 1.

In the years 2001–2011 the number of state-owned enterprises included in the ownership transformation process, apart from the years 2004 and 2007 gradually decreased. In 2004 there were increases in the number of state-owned enterprises commercialised and covered by the direct privatisation, but in 2007 in commercialised and covered by the liquidation. The largest decrease in the number of state-owned enterprises included in the ownership transformation process in relation to the previous year, amounting to 64.29% was observed in 2006. Among state-owned enterprises included in the ownership transformation process in 2002 the majority were covered by the liquidation, in the years 2003–2006 were covered by the direct privatisation, while in the other years they were commercialised (see figure 4).

In the years 2001–2003 the number of state-owned enterprises privatised indirectly and directly decreased whereas the ones liquidated increased. An increase in the number of state-owned enterprises privatised indirectly occurred three times between 2004–2011 and the highest by 531.25% took place in 2010. Increases in the number of state-owned enterprises privatised directly and liquidated appeared twice, whereby bigger increases were in 2008. In the years 2001–2005 the direct privatisation dominated among privatisation methods, in the years 2006–2011 the liquidation and the indirect privatisation alternately (see figure 5).

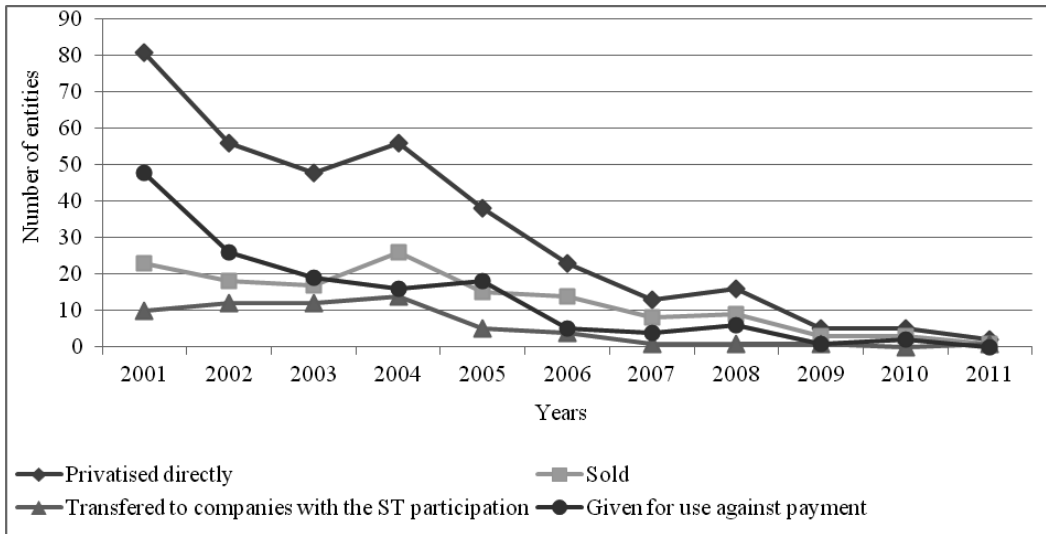
Figure 5: The course of the privatisation by direct and indirect methods as well as by the liquidation in the years 2001–2011



Source: the same as in figure 4.

In 2001 among 81 directly privatised state-owned enterprises 23 were sold, 10 were contributed to a company with the State Treasury participation, and 48 were given for use against payment. In the years 2002–2011 the number of state-owned enterprises privatised directly decreased gradually, except for the years 2004 and 2008. In 2004 there were increases in the number of state-owned enterprises sold and contributed to companies with the State Treasury participation, but in 2008 in sold and given for use against payment. No state-owned enterprise was contributed to a company with the State Treasury participation in 2010 and none was given for use against payment in 2011. Among the state-owned enterprises privatised directly in the years 2002–2003 and in 2005 the majority were given for use against payment, while in the other years they were sold (see figure 6).

Figure 6: The course of the direct privatisation in the years 2001–2011 with regard to its paths



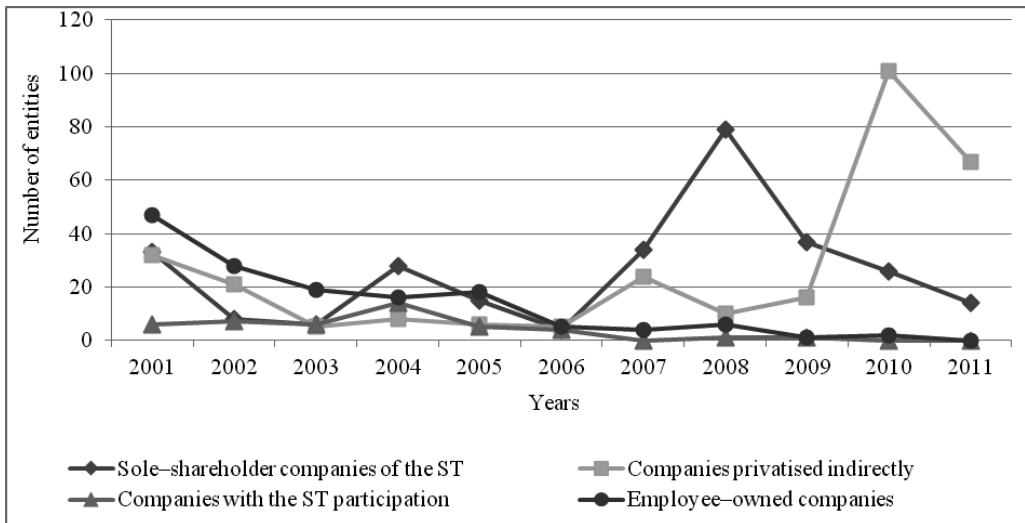
Source: own study on the basis of *Prywatyzacja przedsiębiorstw państwowych w 2000 r., op. cit.*, p. 41, table 11; *Prywatyzacja przedsiębiorstw państwowych w 2001 r., op. cit.*, p. 35, table 8; *Prywatyzacja przedsiębiorstw państwowych w 2002 r., op. cit.*, p. 41, table 8; *Prywatyzacja przedsiębiorstw państwowych w 2003 r., op. cit.*, p. 41, table 8; *Prywatyzacja przedsiębiorstw państwowych w 2004 r., op. cit.*, p. 36, table 5; *Prywatyzacja przedsiębiorstw państwowych w 2005 r., op. cit.*, p. 41, table 5; *Prywatyzacja przedsiębiorstw państwowych w 2006 r., op. cit.*, p. 43, table 5; *Prywatyzacja przedsiębiorstw państwowych w 2007 r., op. cit.*, p. 46, table 5; *Prywatyzacja przedsiębiorstw państwowych w 2008 r., op. cit.*, p. 50, table 8; *Prywatyzacja przedsiębiorstw państwowych w 2009 r., op. cit.*, p. 55, table 8; *Prywatyzacja przedsiębiorstw państwowych w 2010 r., op. cit.*, p. 56, table 8; *Prywatyzacja przedsiębiorstw państwowych w 2011 r., op. cit.*, p. 56, table 8.

In the years 2001–2011 an increase in the number sole–shareholder companies of the State Treasury formed in the ownership transformation process was noted in 2004 and between 2007–2008. As a result of this in 2007 and between 2009–2010 there was an increase in the number of companies privatised indirectly. After 2006 two companies with the State Treasury participation were created. The number of employee–owned companies established in the years 2001–2011 systematically decreased with the exception of 2005, 2008 and 2010. The most i.e. 47 employee–owned company were established in 2001 (see figure 7).

The most of state–owned enterprises were included in the ownership transformation process in the initial period of its implementation, i.e. 1990–1992³⁴. State–owned enterprises included in the ownership transformation process in the years 2001–2011, whose number was decreasing of year by year were below 14% of all entities covered by this process between 1990–2011.

³⁴ Compare: *Prywatyzacja przedsiębiorstw państwowych w 2011 r., op. cit.*, p. 28; H. Sobolewski, *op. cit.*, pp. 105–108.

Figure 7: Companies established as a result of the ownership transformation process in the years 2001–2011



Source: own study on the basis of *Prywatyzacja przedsiębiorstw państwowych w 2000 r., op. cit., p. 47, table 15; Prywatyzacja przedsiębiorstw państwowych w 2001 r., op. cit., p. 39, table 12; Prywatyzacja przedsiębiorstw państwowych w 2002 r., op. cit., p. 45, table 12; Prywatyzacja przedsiębiorstw państwowych w 2003 r., op. cit., p. 45, table 12; Prywatyzacja przedsiębiorstw państwowych w 2004 r., op. cit., p. 39, table 7; Prywatyzacja przedsiębiorstw państwowych w 2005 r., op. cit., p. 41, table 7; Prywatyzacja przedsiębiorstw państwowych w 2006 r., op. cit., p. 45, table 7; Prywatyzacja przedsiębiorstw państwowych w 2007 r., op. cit., p. 48, table 7; Prywatyzacja przedsiębiorstw państwowych w 2008 r., op. cit., p. 52, table 10; Prywatyzacja przedsiębiorstw państwowych w 2009 r., op. cit., p. 47, table 10; Prywatyzacja przedsiębiorstw państwowych w 2010 r., op. cit., p. 58, table 10; Prywatyzacja przedsiębiorstw państwowych w 2011 r., op. cit., p. 58, table 10.*

In 2011 67 state-owned enterprises were privatised indirectly, 2 were privatised directly and 12 were liquidated. No state-owned company was given for use against payment in the framework of the direct privatisation and no employee-owned company was established.

The financial situation of companies established as a result of the ownership transformation process in the years 2001–2011

Companies established in the ownership transformation process and state-owned enterprises that were examined are active entities, i.e. conducting an economic activity at the end of a year³⁵. From year to year studies included a smaller number of state-owned enterprises, which is a result of their continued inclusion in the ownership transformation process. The group of employee-owned enterprises, comprising more than 800 entities in 2011 was the greatest. The smallest category of entities among companies established in the ownership transformation process was constituted by companies with the State Treasury participation (see table 3).

The proportion of entities achieving a gross profit in 2001 was the largest among employee-owned companies and the smallest in state-owned enterprises. In 2002 this percentage increased compared to 2001 in all categories of enterprises aside from sole-shareholder companies of the State Treasury and state-owned enterprises. In the years 2003–2004 the proportion of entities reaching a gross profit compared to previous years did not decline in any group of companies.

In 2005 the percentage of entities achieving a gross profit rose in comparison with 2004 only among companies privatised indirectly and participating in the NIF Programme. In the years 2006–2007 this percentage decreased only in 2007 as compared to 2006 in sole-shareholder companies of the State Treasury and companies with the State Treasury participation.

Table 3: The number of entities surveyed in the years 2001–2011 by categories

| Entities | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 1. Companies established as a result of the ownership transformation process | 2,729 | 2,630 | 2,434 | 2,336 | 2,212 | 2,112 | 2,074 | 2,077 | 2,020 | 1,931 | 1,855 |
| 1.1. Sole-shareholder companies of the ST | 401 | 381 | 337 | 333 | 319 | 308 | 302 | 359 | 363 | 256 | 193 |
| 1.2. Companies privatised indirectly | 279 | 287 | 275 | 266 | 257 | 253 | 269 | 267 | 274 | 351 | 394 |
| 1.3. Companies participating in the NFI Programme | 429 | 407 | 367 | 345 | 314 | 290 | 274 | 265 | 250 | 241 | 227 |
| 1.4. Companies with the ST participation | 192 | 189 | 174 | 174 | 173 | 169 | 168 | 162 | 159 | 152 | 137 |
| 1.5. Employee-owned companies | 1,176 | 1,153 | 1,092 | 1,044 | 997 | 967 | 938 | 913 | 883 | 852 | 829 |
| 2. State-owned enterprises | 870 | 702 | 559 | 433 | 696 | 289 | 228 | 112 | 61 | 43 | 32 |

Source: own study on the basis of *Prywatyzacja przedsiębiorstw państwowych w 2001 r.*, op. cit., p. 46, table 21; p. 61, table 32; *Prywatyzacja przedsiębiorstw państwowych w 2002 r.*, GUS, Warszawa 2003, p. 52, table 21; p. 67, table 32; *Prywatyzacja przedsiębiorstw państwowych w 2003 r.*, GUS, Warszawa 2004, p. 52, table 21; p. 67, table 32; *Prywatyzacja przedsiębiorstw państwowych w 2004 r.*, GUS, Warszawa 2005, p. 45, table 15; p. 57, table 26; *Prywatyzacja przedsiębiorstw państwowych w 2005 r.*, GUS, Warszawa 2006, p. 45, table 15; p. 57, table 26; *Prywatyzacja przedsiębiorstw państwowych w 2006 r.*, GUS, Warszawa 2007, p. 53, table 15; p. 64, table 26; *Prywatyzacja przedsiębiorstw państwowych w 2007 r.*, GUS, Warszawa 2008, p. 56, table 15; p. 67, table 26; *Prywatyzacja przedsiębiorstw państwowych w 2008 r.*, GUS, Warszawa 2009, p. 60, table 18; p. 71, table 29; *Prywatyzacja przedsiębiorstw państwowych w 2009 r.*, GUS, Warszawa 2010, p. 65, table 18; p. 73, table 26; *Prywatyzacja przedsiębiorstw państwowych w 2010 r.*, GUS, Warszawa 2011, p. 66, table 18; p. 46; *Prywatyzacja przedsiębiorstw państwowych w 2011 r.*, op. cit., p. 66, table 18; p. 72, table 24.

³⁵ See *Prywatyzacja przedsiębiorstw państwowych w 2011 r.*, op. cit., p. 16.

In 2008 in comparison with 2007 the proportion of entities reaching a gross profit dropped in all categories of enterprises. In the years 2009–2010 compared to previous years declines were observed among sole–shareholder companies of the State Treasury, companies with the State Treasury participation and state–owned enterprises. A growth of this percentage in the group of companies participating in the NIF Programme was observed in both years. In 2011 the proportion of entities achieving a gross profit grew in all groups of companies apart from sole–shareholder companies of the State Treasury and employee–owned companies (see table 4).

Table 4: The proportion of entities achieving the gross profit in the years 2001–2011 by categories

| Entities | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|--|------|------|------|------|------|------|------|------|------|------|------|
| 1. Companies established as a result of the ownership transformation process | 55.7 | 57.5 | 66.0 | 74.7 | 74.1 | 79.3 | 80.9 | 74.1 | 70.6 | 68.8 | 68.7 |
| 1.1. Sole–shareholder companies of the ST | 57.4 | 48.3 | 60.5 | 66.4 | 64.6 | 71.1 | 67.9 | 66.6 | 55.6 | 54.3 | 61.1 |
| 1.2. Companies privatised indirectly | 54.5 | 60.3 | 68.7 | 75.2 | 77.0 | 79.1 | 82.5 | 71.5 | 75.5 | 65.5 | 64.0 |
| 1.3. Companies participating in the NFI Programme | 41.3 | 46.9 | 57.5 | 70.4 | 71.7 | 77.6 | 81.1 | 63.8 | 65.6 | 68.9 | 76.7 |
| 1.4. Companies with the ST participation | 44.3 | 58.2 | 66.1 | 73.6 | 72.8 | 75.7 | 73.8 | 71.6 | 71.1 | 63.2 | 69.3 |
| 1.5. Employee–owned companies | 67.2 | 68.4 | 75.2 | 81.3 | 80.1 | 84.4 | 87.2 | 83.8 | 77.9 | 75.9 | 70.6 |
| 2. State–owned enterprises | 42.4 | 40.0 | 52.4 | 63.5 | 59.8 | 62.3 | 71.1 | 60.7 | 52.5 | 46.5 | 62.5 |

Source: the same as in table 3.

The gross turnover profitability rate³⁶ in 2001 was positive only in companies privatised indirectly and employee–owned companies. In 2002 this indicator increased in comparison with 2001 in all categories of enterprises, except for sole–shareholder companies of the State Treasury and state–owned enterprises.

In 2008 the gross turnover profitability rate decreased in comparison to 2007 in all categories of enterprises. The largest decline was noted among state–owned enterprises, where this rate fell by 78.57%. In the years 2009–2010 compared to previous years the gross turnover profitability rate decreased in 2009 in companies with State Treasury participation and employee–owned companies as well as in 2010 in companies privatised indirectly. In 2011 this indicator was not negative in any group of entities but increased only among companies privatised indirectly (compare: tables 5 and 6).

The biggest changes were observed among the companies with the State Treasury participation and state–owned enterprises, in which the gross turnover profitability rate respectively increased by 105.56% and decreased by 300.00%.

Between 2003–2004 the gross turnover profitability rate compared to previous years rose in the group of companies privatised indirectly, participating in the NIF Programme, employee–owned companies and state–owned enterprises. However, growths of this indicator were smaller in 2004 than in 2003. In sole–shareholder companies of the State Treasury the gross turnover profitability rate in 2003 increased by 705.56%, while in 2004 decreased by 32.11%. In companies with the State Treasury participation this indicator in 2003 declined by 1,000.00%, while in 2004 rose by 562.96%.

³⁶ The gross turnover profitability rate is the relation of the gross financial result to the revenues from total activity – see <http://www.stat.gov.pl>.

Table 5: The gross³⁷ turnover profitability rate in the years 2001–2011 in companies established as a result of the ownership transformation process and in state-owned enterprises [%]

| Entities | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|--|------|------|------|------|------|------|------|------|------|------|------|
| 1. Companies established as a result of the ownership transformation process | -0.3 | 0.1 | 5.9 | 7.6 | 6.5 | 7.1 | 7.7 | 4.8 | 6.9 | 7.4 | 9.0 |
| 1.1. Sole-shareholder companies of the ST | -1.1 | -1.8 | 10.9 | 7.4 | 6.1 | 5.5 | 7.2 | 6.3 | 6.8 | 9.0 | 8.4 |
| 1.2. Companies privatised indirectly | 1.4 | 2.1 | 6.0 | 8.5 | 8.6 | 10.1 | 9.5 | 7.2 | 10.6 | 10.3 | 14.4 |
| 1.3. Companies participating in the NIF Programme | -4.0 | -1.7 | 1.9 | 4.7 | 3.5 | 5.6 | 8.6 | 3.1 | 5.1 | 5.6 | 5.4 |
| 1.4. Companies with the ST participation | -5.4 | 0.3 | -2.7 | 12.5 | 4.0 | 5.8 | 8.0 | 4.2 | 2.3 | 4.7 | 4.3 |
| 1.5. Employee-owned companies | 1.7 | 2.0 | 3.1 | 4.7 | 3.5 | 4.7 | 5.9 | 4.9 | 4.2 | 4.4 | 3.5 |
| 2. State-owned enterprises | -0.2 | -0.8 | 2.5 | 5.6 | 5.9 | 6.0 | 5.6 | 1.2 | 6.8 | 13.1 | 7.6 |

Source: own study on the basis of *Prywatyzacja przedsiębiorstw państwowych w 2001 r., op. cit.*, p. 47, table 22; p. 63, table 33; *Prywatyzacja przedsiębiorstw państwowych w 2002 r., op. cit.*, p. 53, table 22; p. 69, table 33; *Prywatyzacja przedsiębiorstw państwowych w 2003 r., op. cit.*, p. 53, table 22; p. 69, table 33; *Prywatyzacja przedsiębiorstw państwowych w 2004 r., op. cit.*, p. 46, table 16; p. 58, table 27; *Prywatyzacja przedsiębiorstw państwowych w 2005 r., op. cit.*, p. 46, table 16; p. 58, table 27; *Prywatyzacja przedsiębiorstw państwowych w 2006 r., op. cit.*, p. 54, table 16; p. 65, table 27; *Prywatyzacja przedsiębiorstw państwowych w 2007 r., op. cit.*, p. 57, table 16; p. 69, table 28; *Prywatyzacja przedsiębiorstw państwowych w 2008 r., op. cit.*, p. 61, table 19; p. 73, table 31; *Prywatyzacja przedsiębiorstw państwowych w 2009 r., op. cit.*, p. 66, table 19; p. 74, table 27; *Prywatyzacja przedsiębiorstw państwowych w 2010 r., op. cit.*, p. 67, table 19; p. 73, table 25; *Prywatyzacja przedsiębiorstw państwowych w 2011 r., op. cit.*, p. 67, table 19; p. 73, table 25.

In 2005 the gross turnover profitability rate decreased in comparison with 2004 in all groups of entities with the exception of companies privatised indirectly and state-owned enterprises. The biggest changes were recorded in companies with State Treasury participation and state-owned enterprises, where the rate respectively dropped by 68.00% and grew by 5.36%. Among companies privatised indirectly the gross turnover profitability rate in 2005 increased as compared to 2004, but this growth was weaker than in the years 2003–2004. In the years 2006–2007 the gross turnover profitability rate in comparison with previous years rose in the group of companies incorporated into the NIF, with State Treasury participation and employee-owned companies.

³⁷ The Central Statistical Office publishes gross and net turnover profitability rates for companies established in the ownership transformation process and state-owned enterprises. The net turnover profitability rate is less useful than the gross turnover profitability rate because it takes into account the obligatory charges on a gross financial result varied due to the form of ownership – see J. Macieja, *Metodologiczne problemy mierzenia efektywności gospodarowania przedsiębiorstw różnych sektorów własnościowych. Walory metody Total Factor Productivity. /In:/ Restrukturyzacja przedsiębiorstw w procesie transformacji gospodarki polskiej*, edited by: E. Mączyńska, Wyd. DiG, Warszawa 2001, tom I, p. 401.

Table 6: The pace of the gross turnover profitability rate in the years 2001–2011 in companies established as a result of the ownership transformation process and in state-owned enterprises [%]

| Entities | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|--|---------|-----------|--------|--------|-------|-------|--------|--------|--------|--------|
| 1. Companies established as a result of the ownership transformation process | 133.33 | 5,800.00 | 28.81 | -14.47 | 9.23 | 8.45 | -37.66 | 43.75 | 7.25 | 21.62 |
| 1.1. Sole-shareholder companies of the ST | -63.64 | 705.56 | -32.11 | -17.57 | -9.84 | 30.91 | -12.50 | 7.94 | 32.35 | -6.67 |
| 1.2. Companies privatised indirectly | 50.00 | 185.71 | 41.67 | 1.18 | 17.44 | -5.94 | -24.21 | 47.22 | -2.83 | 39.81 |
| 1.3. Companies participating in the NIF Programme | 57.50 | 211.76 | 147.37 | -25.53 | 60.00 | 53.57 | -63.95 | 64.52 | 9.80 | -3.57 |
| 1.4. Companies with the ST participation | 105.56 | -1,000.00 | 562.96 | -68.00 | 45.00 | 37.93 | -47.50 | -45.24 | 104.35 | -8.51 |
| 1.5. Employee-owned companies | 17.65 | 55.00 | 51.61 | -25.53 | 34.29 | 25.53 | -16.95 | -14.29 | 4.76 | -20.45 |
| 2. State-owned enterprises | -300.00 | 412.50 | 124.00 | 5.36 | 1.69 | -6.67 | -78.57 | 466.67 | 92.65 | -41.98 |

Source: own study on the basis of table 5.

The biggest changes were observed among the companies with the State Treasury participation and employee-owned companies, in which the liquidity ratio of the first degree respectively decreased by 43.06% and increased by 21.60%.

Between 2003–2004 the liquidity ratio of the first degree compared to previous years did not reduce in any group of entities. However, growths of this indicator in sole-shareholder companies of the State Treasury, companies with the State Treasury participation and employee-owned companies were weaker in 2004 than in 2003.

In 2005 the liquidity ratio of the first degree decreased in companies privatised indirectly, with the State Treasury participation and state-owned enterprises, and did not change in companies participating in the NIF Programme. The biggest changes were recorded in sole-shareholder companies of the State Treasury and companies privatised indirectly, where the ratio subsequently grew by 20.00% and dropped by 17.95%. Among the state-owned enterprises the liquidity ratio of the first degree in 2005 increased as compared to 2004, but this growth was smaller than in the years 2003–2004. In the years 2006–2007 the liquidity ratio of the first degree in comparison with previous years rose in all groups of entities, except for companies privatised indirectly and with the State Treasury participation.

In 2008 the liquidity ratio of the first degree increased in comparison to 2007 only in sole-shareholder companies of the State Treasury. The largest decline was noted among state-owned enterprises, where this ratio fell by 16.65%. In the years 2009–2010 compared to previous years the liquidity ratio of the first degree decreased in sole-shareholder companies of the State Treasury and companies with the State Treasury participation. In 2011 this indicator was the highest in the group of companies privatised indirectly, and the smallest in companies incorporated into the NIF (compare: tables 7 and 8).

Table 7: The liquidity ratio of the first degree in the years 2001–2011 in companies established as a result of the ownership transformation process and in state-owned enterprises [%]

| Entities | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| 1. Companies established as a result of the ownership transformation process | 15.1 | 15.6 | 24.4 | 35.7 | 33.5 | 37.0 | 36.6 | 36.6 | 41.6 | 41.3 | 48.1 |
| 1.1. Sole-shareholder companies of the ST | 11.2 | 11.7 | 28.8 | 38.0 | 45.6 | 53.3 | 53.6 | 58.8 | 47.4 | 39.8 | 35.6 |
| 1.2. Companies privatised indirectly | 23.8 | 26.7 | 30.3 | 44.0 | 36.1 | 40.7 | 39.1 | 36.2 | 42.5 | 46.1 | 68.2 |
| 1.3. Companies participating in the NIF Programme | 10.4 | 10.5 | 13.2 | 15.4 | 15.4 | 21.4 | 24.4 | 24.4 | 28.9 | 28.3 | 26.1 |
| 1.4. Companies with the ST participation | 14.4 | 8.2 | 14.7 | 35.0 | 32.5 | 44.0 | 43.8 | 37.8 | 37.7 | 36.6 | 45.6 |
| 1.5. Employee-owned companies | 21.3 | 25.9 | 32.6 | 34.9 | 35.1 | 35.8 | 37.1 | 34.1 | 48.8 | 49.0 | 36.6 |
| 2. State-owned enterprises | 31.5 | 33.0 | 44.4 | 60.7 | 59.0 | 66.8 | 78.1 | 65.1 | 71.5 | 61.2 | 65.6 |

Source: the same as in table 5.

Table 8: The pace of the liquidity ratio of the first degree in the years 2001–2011 in companies established as a result of the ownership transformation process and in state-owned enterprises [%]

| Entities | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| 1. Companies established as a result of the ownership transformation process | 3.31 | 56.41 | 46.31 | -6.16 | 10.45 | -1.08 | 0.00 | 13.66 | -0.72 | 16.46 |
| 1.1. Sole-shareholder companies of the ST | 4.46 | 146.15 | 31.94 | 20.00 | 16.89 | 0.56 | 9.70 | -19.39 | -16.03 | -10.55 |
| 1.2. Companies privatised indirectly | 12.18 | 13.48 | 45.21 | -17.95 | 12.74 | -3.93 | -7.42 | 17.40 | 8.47 | 47.94 |
| 1.3. Companies participating in the NIF Programme | 0.96 | 25.71 | 16.67 | 0.00 | 38.96 | 14.02 | 0.00 | 18.44 | -2.08 | -7.77 |
| 1.4. Companies with the ST participation | -43.06 | 79.27 | 138.10 | -7.14 | 35.38 | -0.45 | -13.70 | -0.26 | -2.92 | 24.59 |
| 1.5. Employee-owned companies | 21.60 | 25.87 | 7.06 | 0.57 | 1.99 | 3.63 | -8.09 | 43.11 | 0.41 | -25.31 |
| 2. State-owned enterprises | 4.76 | 34.55 | 36.71 | -2.80 | 13.22 | 16.92 | -16.65 | 9.83 | -14.41 | 7.19 |

Source: own study on the basis of table 7.

The liquidity ratio of the first degree³⁸ in 2001 was the largest in state-owned enterprises, and the smallest in companies participating in the NIF Programme. In 2002 this indicator increased in comparison with 2001 in all categories of enterprises, except for companies with the State Treasury participation.

The gross turnover profitability rate in employee-owned companies was lower in relation to all companies established in the ownership transformation process between 2003–2011 excluding year 2008. Moreover, in the years 2004–2006 and 2010–2011 in employee-owned companies this rate was lower than in state-owned enterprises. The liquidity ratio of the first degree in employee-owned companies in comparison with state-owned enterprises was lower throughout the analysed period³⁹.

Conclusion

Employee-owned company created in the years 2001–2011 accounted for less than 10% of all such entities formed over the whole implementation period of the ownership transformation process of state-owned enterprises in Poland. The number of employee-owned companies established between 2001–2011 was steadily declining, while in 2011 no employee-owned company was established. The reasons for such a situation could be related to changes of laws connected with the direct privatisation by giving a state-owned enterprise for use against payment to the employee-owned company entered in respect of the Polish accession to the European Union in 2004⁴⁰, which negatively affected conditions of their functioning and development.

The proportion of entities achieving a gross profit in employee-owned companies was the highest in relation to all companies established in the ownership transformation process of state-owned enterprises and state-owned enterprises. The gross turnover profitability rate in employee-owned companies during the studied period was greater than in all companies formed in the ownership transformation process and state-owned enterprises only in the years 2001–2002 and 2008⁴¹. The liquidity ratio of the first degree in employee-owned companies that was periodically higher than in all companies created in the ownership transformation process was lower than in state-owned enterprises throughout the whole research period.

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³⁸ The liquidity ratio of the first degree is the relation of the short-term investments to the short-term liabilities – see <http://www.stat.gov.pl>.

³⁹ See S. Krajewski, *Prywatyzacja, restrukturyzacja, konkurencyjność polskich przedsiębiorstw*, PWE, Warszawa 2009, pp. 67–84.

⁴⁰ The Ordinance of the Council of Ministers of 14 December, 2004 on Terms of Payment for Amounts Due on the Use of the Enterprise (Journal of Laws from 2004, no 269, item 2666) coming in force on the day of 22 December 2004 repealed the former ordinance on this issue i.e. the Ordinance of the Council of Ministers of 16 October, 1997 on Detailed Rules for the Calculation of the Amounts Due for the Use of the Enterprise, Ways of securing the Unpaid Part of Amounts Due and Terms of Interest Rates for Unpaid Amounts Due (Journal of Laws from 1997, no 130, item 855).

⁴¹ A decrease of the gross turnover profitability rate in employee-owned companies in 2008, which marks the beginning of the economic crisis was lower than in all companies established in the ownership transformation process and state-owned enterprises – see P. Szczepanowski, *Zmiany w gospodarce finansowej polskich przedsiębiorstw w dobie kryzysu finansowego*. /In:/ *Globalny kryzys finansowy a polska gospodarka*, edited by: W. Małecki, VIZJA PRESS/IT, Warszawa 2009, p. 209.

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THE EFFECT OF RESTRUCTURING – THE CASE STUDY OF PZL SĘDZISZÓW S.A.

Summary

In the paper there are discussed the issues concerning the restructuring of enterprises and the effects of its implementation. In the first part there has been made the review of the selected definitions and types of restructuring. Subsequently, there have been presented restructuring processes conducted in PZL Sędziszów and the results of the introduction of the changes.

* * *

Introduction

Among the significant part of the society the concept of ‘restructuring’ is regarded rather negatively. The reason for such an approach is the fact that, at the time of the political transformation, it was usually associated with the sales and liquidation of unprofitable state-owned companies, which brought about an increase in unemployment. However, nowadays, particularly at the time of recession or economic crisis, taking restructuring activities may protect the company against the fall or even bring about its development in the future. However, to make restructuring processes bring about the expected effects it is necessary to take a decision on restructuring at the appropriate moment as well as the selected direction of changes.

The aim of the paper is to present the process and the effects of restructuring on the example of PZL Sędziszów S.A.

The concept and essence of restructuring

In the subject literature there are a lot of definitions determining the concept of restructuring. Some of them present the process in a more general way, others, in turn, take into account diversity of dimensions and areas of the occurrence of changes. One of more general definitions assumes that restructuring is the strategy of growth and reorientation of the economy, the industry or the economic entity.¹ Another

¹ Bicksler J.L., Chen A.H., *The Economics of Corporate Restructuring*, [w:] A. Sametz, *The Battle for Corporate Control*, Irwin, Homewood 1990, s. 375-393.

one defines restructuring as a significant change in the structure of assets along with the accompanying change in the strategy of operation². More precisely, the concept of restructuring is presented by H. Singh specifying it as a dramatic change in assets of the company, its capital and organizational structure. The change refers to different transactions leading to the sales of some of the enterprise, gaining new areas of activity, change in the capital or ownership structure or changes in its internal organization.³

From the point of view of the range of impact one may discuss macro-restructuring, mezo-restructuring and micro-restructuring.⁴ The first one refers to the changes taking place in the whole national economy, the second one consists in the changes in individual industries, sectors or areas of the economy, the third one relates directly to enterprises. Many authors, in their definitions, emphasize the impact of the environment on the necessity to take actions of restructuring. For example, Z. Jasiński claims that restructuring is well considered – against the changes in the environment – reorientation of the goals of the company and the adjustment of technology, organization, economics and human resources to them.⁵ B. Nogalski and J. Waśniewski define restructuring as a tool adapting the company to the conditions of the environment while subsequently discussing it as a multi-dimensional process used for thorough reconstruction of the company.⁶ A. Nalepka, in turn, also pays attention to the issue of the internal necessity to take restructuring by the company. He indicates that restructuring may be brought about by changes taking place in the environment or a crisis situation inside the company.⁷

Taking into account the area of the activity of the company the restructuring refers to, in the subject literature, there is identified remedial restructuring and development restructuring.⁸ Remedial restructuring takes place when there is a threat to the efficient functioning of the company, most frequently, as a result of a crisis the company has faced.⁹ The aim of corrective actions is the improvement in its economic and financial situation and the restoring of the lost performance. The actions taken usually refer to the selected aspects of the operation of the enterprise and have a short time horizon.¹⁰ On the other hand, development restructuring is usually conducted in the enterprises being in good economic condition. It aims at an increase in efficiency and effectiveness of the enterprise as well as its attractiveness.¹¹ It is associated with strategic decisions, therefore, it refers to the period of at least a few years. Development restructuring is connected with the implementation of innovation in the field of products and services, production processes and marketing and organization, which is connected with a significant risk concerning

² Hoskisson R.E., Turk T.A., *Corporate Restructuring: Governance and Control Limits of the Internal Capital Market*, "Academy of Management Review" 1990, nr 15, s. 459-477.

³ Borowiecki R., Nalepka A., *Restrukturyzacja w procesie funkcjonowania i rozwoju przedsiębiorstw*, [w:] *Zarządzanie restrukturyzacją procesów gospodarczych. Aspekt teoretyczno-praktyczny*, red. R. Borowiecki, Difin, Warszawa 2003, s. 75-76.

⁴ Borowiecki R., Wysłocka E., *Analiza ekonomiczna i ocena ekspercka w procesie restrukturyzacji przedsiębiorstw*, Difin, Warszawa 2012, s. 52.

⁵ Jasiński Z., *Restrukturyzacja systemu zarządzania przedsiębiorstwem*, „*Ekonomika i Organizacja Przedsiębiorstwa*”, 1992, nr 8, s. 12.

⁶ Nogalski B., Waśniewski J., *Restrukturyzacja jako wyznacznik rozwoju przedsiębiorstwa budowlanego*, *Zeszyt Naukowy Uniwersytetu Gdańskiego*, „*Organizacja i Zarządzanie*” nr 13, Sopot 1999, s. 123.

⁷ Nalepka A., *Istota, zakres i metodyka restrukturyzacji przedsiębiorstwa*, [w:] *Restrukturyzacja a konkurencyjność przedsiębiorstw*, red. R. Borowiecki, Wyd. AE w Krakowie, Kraków 1997, s. 26.

⁸ Jagoda H., Lichtarski J., *Problemy i wytyczne restrukturyzacji naprawczej przedsiębiorstw*, [w:] *Restrukturyzacja przedsiębiorstw w procesie transformacji rynkowej*, red. R. Borowiecki, TNOiK, Kraków 1994, s. 150-160.

⁹ *Restrukturyzacja przedsiębiorstw w procesie adaptacji do współczesnego otoczenia. Perspektywa międzynarodowa*, red. M. Porada-Rochoń, Difin, Warszawa 2009, s. 71.

¹⁰ Kardas M., *Restrukturyzacja rozwojowa przedsiębiorstwa na przykładzie Nucor Corporation*, *Studia i Prace Kolegium Zarządzania i Finansów*, *Zeszyt Naukowy* 98, Dom Wydawniczy ELIPSA, Warszawa 2010, s. 114.

¹¹ Borowiecki R., *Zarządzanie restrukturyzacją procesów gospodarczych*, [w:] *Efektywność restrukturyzacji finansowej przedsiębiorstw*, red. M. Rochoń, Wydawnictwo Walkowska, Szczecin 2006, s.15.

the implemented solutions.¹² As J. Penc underlines, the discussed types of restructuring are complementary with each other. Therefore, in companies, there may be taken the process of restructuring through the actions of both remedial and development restructuring. It is also possible to select one of them.¹³

As for the effects of restructuring, they usually refer to all spheres of economic activity of the company and it is difficult to identify only one of the areas in which they occur. It follows that the changes made in one of them result in changes in the other spheres of activity of the company. The basic areas of restructuring in companies include: assets and equity, finance, organization and management, employment and production and sales.¹⁴

In case of the analyzed company - PZL Sędziszów S.A., restructuring was remedial in nature and, most of all, it was to restore long-term profitability of the company.

The activity of PZL Sędziszów before restructuring

PZL Sędziszów S.A. is one of the leaders in the field of filtration products. The company has manufactured fuel, oil and lubricating oil filters for different types of engines and working devices for automotive industry, agriculture, aviation and heavy industry for sixty years now. The company was established in 1979 in Sędziszów Mazowiecki and was known as Zakład Pomocniczy C.O.P. Spółka z o.o. At the beginning of the activity, the company dealt with the production of fittings for the production plant – Zakłady im. H. Cegielskiego in Rzeszów and Poznań. After the Second World War, for the first two years, there were manufactured threshers and there were carried out the repairs of agricultural machinery in the company, and in 1947 the production of O-rings for the needs of automotive industry was begun. In December 1950 the company was nationalized and a few months later, its name was changed for Sędziszowskie Zakłady Przemysłu Terenowego. In the period of 1951 -1953 the company extended its production range with another automotive accessories, among others, valve spring cups, brake fluid supply tanks or oil filler cap.

A real breakthrough in the activity of the company was the beginning of the manufacturing of the first air filter for STAR trucks in 1955. Since that moment, the company has begun to specialize in the production of filters. Intensive development of the company brought about the establishment of the company's own research and development center for oil and fuel filters in 1969. This allowed for the introduction of works connected with the improvement of the existing products and development of new solutions. During this period, the company was known not only on the Polish market but it also began the export of its products: at the beginning to East Germany, and subsequently, to France, Czechoslovakia, Hungary and the Soviet Union. As a result of new investments and development, the company satisfied the needs of not only automotive industry and agriculture but it also began the production of valves and filters for aviation. In 1971 there was another change in the name of the company for Wytwórnia Filtrów (Filter Manufacturing Company) "PZL Sędziszów".¹⁵ At that time there was bought the first license and technologies for the production of pleated filtering elements for oil and fuel filters, which allowed for further dynamic development of the company.

Another important year in the activity of the company was the beginning of the production of air filter cartridge with foamed polyurethane seal for Fiat 126 Bis cars. For the whole period of its activity, the company has introduced new products extending the range of goods, among others, with modern

¹² Suszyński C., *Restrukturyzacja, konsolidacja, globalizacja przedsiębiorstw*, PWE, Warszawa 2003, s. 123-127.

¹³ *Restrukturyzacja przedsiębiorstw*, op. cit., s. 71

¹⁴ Borowiecki R., Wysłocka E., op. cit., s. 61-62.

¹⁵ In 1999, as a result of commercialization, the state-owned company Wytwórnia Filtrów "PZL-Sędziszów" was transformed into the company whose owner, in 100%, was the State Treasury. The Minister of Treasury conducted the commercialization with the notarial act of 03.02.1999r. (a copy KRS (National Court Register) for PZL-Sędziszów).

filters for machines operating in mines, new types of filters for single and multi-point injection petrol engines, oil filters or hydraulic filters.

In 1997 the quality of the brand of Sędziszów was appreciated by the company - Fiat Auto Poland, which awarded the company the Supply Quality Certification. The product quality assurance was provided by the implemented quality systems: in 1997 – the quality assurance system compliant with PN-ISO-001:1996 issued by Polski Ośrodek Badań i Certyfikacji (Polish Center of Research and Certification) and the system of quality management compliant with the requirements of ISO/TS 16949, certified by TUV Rheinland.

Unfortunately, after the period of dynamic development, the condition of the company was subjected to unfavorable changes. As a result of the restrictive income and credit policy, applied in the 1990s, there was a dramatic fall in the production and insolvency of many enterprises, which consequently brought about a reduction in the investment activity.¹⁶ Also, in Wytwórnia Filtrów, there was a reduction in costs, employment and limiting the conducted activity. The global economic crisis (2007-2009) which, among others, affected the automotive industry, significantly influenced a difficult situation of the company. The deteriorating situation of the company brought about that the decision on privatization and restructuring was taken. The first stage of the privatization process, the result of which would be the sale of 85% of the stocks of the company, was initiated by the decision of the Minister Competent for the State Treasury of 18.03.2008.¹⁷

During the pre-privatization analyses, Poland addressed the European Commission requesting help for the restructuring of Wytwórnia Filtrów “PZL-Sędziszów” S.A.¹⁸

Among the reasons that affected the difficult financial situation of the company there were indicated:¹⁹

- the lack of effective strategies and structures for placing products on the market – the company cooperated with only one distributor, which was insufficient at the time of the occurrence of the economic crisis in the industry;
- obsolete and inefficient IT and reporting systems, which significantly impeded the performance of new tasks and the satisfaction of the obligations of the company;
- obsolete and inefficient production equipment which brought about a high level of operating costs and prevented the achievement of quality standards offered by competitors;
- flooding, which resulted in the destruction of production plants, equipment and products stored in the warehouses and the activity of the company was suspended in 2010;
- strong competition on the side of foreign companies, mainly from outside Europe, offering products at significantly lower prices.

The analysis of the financial situation of the company for four years directly preceding the decision on the restructuring indicated that:²⁰

- the turnover of the company fell from PLN 42.7 million to PLN 30.4 million;
- the value of liabilities increased by about PLN 2.5 million, and the interest burden more than doubled and reached the value of PLN 0.64 million;
- the net value of the assets fell from PLN 25 million to PLN 20.3 million.

The privatization was completed on 02.08.2012 with the signing of the contract of the sales of 85% of shares of the company to Unimot Express sp. z o.o., located in Warsaw, dealing with the wholesale and retail trade in engine fuels, oils, lubricants, gases (LPG), slack wax and paraffins.

¹⁶ Siuta-Tokarska B., *Problemy modernizacji gospodarki Polski w dobie globalizacji, rozwoju BIZ i handlu zagranicznego*, [w:] *Nierówności Społeczne a Wzrost Gospodarczy* nr16/2010, Uniwersytet Rzeszowski, s. 236.

¹⁷ <http://prywatyzacja.msp.gov.pl/pr/form/r666,Wytwornia-Filtrow-PZL-Sedziszow-SA.html> (dostęp 21.09.2015)

¹⁸ ec.europa.eu/competition/state_aid/cases/238801/238801_1333817_154_1.pdf, s. 1, (dostęp 21.09.2015)

¹⁹ *Ibidem*, s.3-4, (dostęp 21.09.2015)

²⁰ *Ibidem*, s. 2, (dostęp 21.09.2015)

The course and results of the restructuring

Some restructuring changes were made in Wytwórnia Filtrów before the privatization of the company. They, among others, included:²¹

- the purchase of a new IT system to improve management, monitoring and reporting in the field of processes associated with the production and automation of some of administrative tasks bringing about the reduction in the number of employees and the reduction in costs;
- the reorganization of the company structure as a result of which a new logistics department was created and there was conducted general re-distribution of tasks and functions between the existing departments; consequently, there was the reduction in the number of employees by 78 people;
- the change in the way of distribution from one intermediary to direct contact with customers; the new sales structure was based on marketing managers and sales representatives providing products of the company to the distribution networks and wholesalers;
- the beginning of repayment of public law liabilities, among others, the consent of the Mayor of Sędziszów Małopolski to write off some of the overdue tax debt and to change the repayment schedule of others, and also the consent of Social Insurance Company to change the repayment schedule of its obligations.

However, in spite of taking some corrective steps, the major opportunity for the company for its further activity and development was the privatization of the company in 2012.

At the moment of the privatization the situation of the company was not the best. The company had only a few-percent-share in the market of filters in Poland, two-percent recognition of the trademark and outdated production technology. For comparison, at the time of the prosperity of the company, it had virtually the monopolistic position on the market and generally recognizable brand in the industry. The manufactured goods were associated with high quality, which contributed to the high reputation of the factory.²² The data on the situation in 1992 and 2012 are included in Table 1.

Table 1: The selected data concerning Wytwórnia Filtrów “PZL-Sędziszów” S.A. at the end of 1992 and 2012

| Specification | 1992 | 2012 |
|----------------------|----------------------|----------------------|
| Number of employees | 1 496 | 308 |
| Volume of production | 6 471 thousand items | 4 735 thousand items |
| Sales result | PLN 3.9 million | PLN -3 million |

Source: The data obtained from PZL-Sędziszów S.A.

- Apart from the unfavorable financial result the company was heavily indebted. The debt included:
- real estate tax debt of PLN 4 498 000,
 - social security contributions of PLN 6 158 000,
 - overdue trade liabilities of PLN 5 150 000.

The difficult situation was even worse due to forced mortgage registered on the real estate in the company and the lack of the opportunity to obtain the credit financing the operations of the company.

The restructuring activities taken in the company referred to different areas of its activity. As mentioned above, some of them were performed before the privatization. However, most of them took place after the acquisition of the majority of the shares of the company by the new owner. In the framework of the

²¹ Ibidem, s. 4-5, (dostęp 21.09.2015)

²² All the data included in the further part of the paper were received directly from PZL-Sędziszów S.A.

restructuring of the assets, there was made a decision on the sales or liquidation of the redundant real estate. This allowed for the reduction in costs connected with its maintenance. Savings in the field of the costs associated with the property tax are shown in Table 2.

Table 2: Savings due to property tax concerning the real estate sold in PZL Sędziszów

| Specification | Area[m ²] | The annual amount of tax [PLN] |
|-----------------|-----------------------|--------------------------------|
| Hall W - 11 | 6 573 | 143 294 |
| Hall 1B | 3 784 | 82 491 |
| Boiler room | 735 | 16 023 |
| Office building | 1 700 | 37 060 |

Source: The data obtained from PZL-Sędziszów S.A.

As a result of selling the real estate specified in table 2, the company reduced the costs associated with the property tax, amounting to PLN 278 868 per year.

Another reduction in costs of the activity was obtained by the changes in the field of utilities. Firstly, it was connected with the change in heating from coal to gas heating. In the case of the production halls, there was applied radiant heating. Such a solution was decided on since the installation costs were low compared to traditional heating methods. Operating costs are also lower due to lower prices of energy from natural gas or LPG. The office building, in turn, is heated with the gas boiler. This change allowed for the reduction in costs amounting to PLN 626 thousand per year. The company also renegotiated the prices with the electricity supplier, which brought about another PLN 267 thousand savings per year. Further reductions in costs amounting to about PLN 240 thousand per year were the result of the closure of the sewage treatment plant. Totally, these decisions brought about that the company created the savings of PLN 1 230 thousand per year.

Restructuring processes usually also refer to changes in the amount and structure of employment. It was similarly in the case of the discussed entity. The changes in this area are presented in Table 3.

Table 3: The employment in Wytwórnia Filtrów "PZL-Sędziszów" S.A.

| Specification | 08. 2012 | 12. 2013 | Difference |
|------------------------|------------|------------|------------|
| Production departments | 211 (62,1) | 156 (55,7) | - 55 |
| Support services | 35 (10,3) | 50 (17,9) | + 15 |
| Administration | 94 (27,6) | 74 (26,4) | - 20 |
| Totally | 340 | 280 | - 60 |

Source: The data obtained from PZL-Sędziszów S.A.

As a result of organizational changes in the supplementary activity of the company there was a slight increase in the employment. On the other hand, among the production and administrative staff, the number of employees was gradually decreasing. The changes in the employment also affected the reduction in monthly costs of salaries from the amount of PLN 970 thousand to about PLN 645 thousand.

Cost reduction was also the result of the changes in production processes. There was introduced the modernization of the selected stages of production and their automation (in case of adhesive dispensers, air filter table, overprints). The performance of some processes was also abandoned and it was entrusted to entities specializing in their performance (e.g. outsourcing involved the processes of electroplating

and blacking). In this way, apart from the reduction in costs, there was obtained the access to better quality services, the opportunity of using the released company resources for other purposes and the concentration on the key processes developed in the company. This allowed for extending the range of products with new items (in 2013 there appeared 162 new items in the offer, and in 2014 - another 446). New filters designed for automotive industry, agriculture and heavy industry were introduced for sale. On the other hand, burdensome, low-volume production was abandoned. The company also takes actions to extend the range of products for aviation as a prestigious future trend. The confirmation of the willingness to develop this field of production is the fact that, since October 2012, PZL Sędziszów has been the member of the Association of Entrepreneurs of the Aerospace Industry "Aviation Valley".²³ This membership is very important from the point of view of the development of the company since it, among others, enables the support in the field of the transfer of knowledge from the Center of Advanced Technology AERONET or increases the opportunities to appear on the international aviation market.

Further restructuring activities were to restore the lost market position of the company. Therefore, there were taken the actions concerning the reconstruction and development of the distribution network. One of the ventures developed in the framework of these activities was the common distribution of the brands WF Filter and Exteremizer - a special line of fuels and diesel fuels. Nowadays, the sales of filters extends to the area of the whole country and the distribution network is divided into five regions, which provides rapid availability of the offered products. The products are supplied to the distributors directly from the warehouse in Sędziszów and the amount of points of sales is gradually growing. The company applies the policy of building stable relationships with the distributors by supporting them in the field of sales and marketing. Also, the development of export, mainly to the eastern market, is being planned. In the framework of the cooperation with foreign entities, in 2015, PZL Sędziszów accessed the Industrial Cluster in Kazakhstan. Initially, the company is planning the start of the filter assembly where it will supply the components manufactured in Sędziszów. At the final stage, there is planned the start of full production there. Consequently, it is to bring about an increase in the employment of qualified engineers in PZL Sędziszów, working on new technologies which, subsequently, will be exported.

Conclusion

The considerations presented in the paper clearly indicate that the conducted restructuring of the company has been the process necessary for its further existence. The restructuring processes were carried out in stages and took place virtually in all possible areas of the company. In the field of the assets and equity, there were carried out the sales or liquidation of the redundant components of the assets, the modernization of production assets and the strategic investor was won, which resulted in the change in the ownership of the company (at present Unimot Express sp. z o.o. has 90% of the shares of PZL Sędziszów). As a part of financial restructuring, there was arranged the repayment of liabilities in installments, the reduction in labor costs, overhead costs, which allowed for the improvement in the financial liquidity as, in 2004, the company received the creditworthiness certificate, in which the solvency of the company was found to be good.²⁴ The changes in the field of organization and management, in turn, referred mainly to the creation of a new logistics department and the purchase of a new computer system allowing for the improvement in the management, mainly in the area of production processes. There were also initiated the activities concerning the planning of the further development of the company. The restructuring in PZL Sędziszów also affected the employment. In the framework of the actions taken in this field, there

²³ "Aviation valley" is the largest industrial and technological cluster established in April 2003. Nowadays, it associates 90 manufacturing companies connected with the aerospace industry, situated in the south-east Poland.

²⁴ The certificate issued by Creditreform Poland, in which PZL Sędziszów received Indeks Zdolności Płatniczej (Creditworthiness Index) at the level of 299.

were created new posts and there took place the changes in the division of tasks and functions among the existing ones. However, in general terms, there was the reduction in the employment. The restructuring of the production and sales referred to the modernization of production technology, the improvement in the quality of the manufactured goods and also the changes in the structure of the range of products. The company also took actions aimed at the development of export, particularly to eastern markets, along with the plan of the construction of the filter production plant in Kazakhstan in the future.

The processes developed in PZL Sędziszów were, most of all, remedial in nature and their task was mostly to restore the reputation of the company and its position on the market and, consequently, the achievement of long-term viability. Nevertheless, it seems that the actions taken will allow for the development of the already started initiatives in the field of the initiation of the production abroad and possible export of technologies. The involvement in the development of products for aviation also seems to be prospective. These actions will undoubtedly provide the stability of the company operations and its further development.

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THE MANAGEMENT OF EXECUTIVES' PARTICIPATION IN THE ESTRUCTURING PROCESS – A CASE STUDY

Summary

This article discusses a method of restructuring developed by the authors, and used for the preparation and implementation of structural changes in a large food company. A high level of involvement by the executives in the process of change, and an ability to combine solutions proposed by the employees with the experts' own solutions, constitutes a special feature of this method. It is possible to indicate two main reasons for developing the method presented. The first was the large amount of tacit knowledge falling under the responsibility of the management staff in the representation of the realia of the business and industry. The second was the high potential resistance to the implementation of organisational changes resulting from the significant amount of routine and habit which had been developed and cultivated over the years in the restructured company in question.

* * *

Introduction

This article presents the author's own process of restructuring, involving both the development stage of new organisational solutions, as well as the work of outside experts and teams consisting of members of the management staff of the restructured company. This article aims to present the method in which the authors of the article, acting as external experts engaged in the restructuring of the company, combined their own projects with the results of the work by the management team of the restructured company.

The article consists of four parts. The first part presents the specifics of the restructured company. The second part is devoted to explaining the methodological assumptions of the methods adopted for the restructuring, characterised by a high degree of participation by the executives in the development of new structural solutions. The third part describes the method used to organise the participation processes, called the scenario of participation, which constitutes the authors' own research. The fourth part presents the evaluation of the solution developed. The article ends with a summary of the results obtained.

Description of the business

The restructured company is a large food industry enterprise. The company was founded at the end of the first decade of the last century as a cooperative, in which the suppliers and employees were also the owners of the company. Thanks to the high involvement of the members of the cooperative, the venture has become one of the leaders in the food industry. Such a legal form gives rise to interesting consequences in terms of management priorities. It should be noted that leaving the ownership in the hands of suppliers means that the payment for raw materials is also one of the company's expenses. Furthermore, the cooperative's members- cum -the suppliers' profit also constitutes an expense of the company. This means managing through balancing the highest remuneration for raw material (which makes the cooperative attractive for the suppliers), and at such a level of cost that will allow the building of a competitive advantage in the market. This game determines the effectiveness of the cooperative and forces the management to continuously respond to conditions from both the purchasing and marketing sides.

The cooperative is now one of the biggest Polish producers in the food industry. Almost one quarter of the manufactured products is exported. After the changes in 2014 related to the slump in the food sector, the deep downward trend in prices of raw materials and finished products, deepened by political decisions around the world (e.g. the Russian embargo, amongst others), sales declined significantly. On the other hand, the cooperative was forced to seek alternative markets beyond Polish borders.

Since 2008, the development of the cooperative has been progressing rapidly. The growth dynamics of production and sales has not been going hand-in-hand with the development of regulations for the functioning of the organisation in all areas. The company has invested in links with other cooperatives, in a technology park, as well as in business solutions such as information systems, quality management systems, the construction of an overall controlling department and in creating support in the form of sales representatives. The creation of such solutions to suit the moment also resulted in the structure being matched to functions which were then amalgamated or extension of the scope of activities. But it was only in 2013 that a decision was made about the need for the regulation of the situation in terms of the organisational structure, which was not in tune with the new manufacturing potential of the company and the rapidly changing market environment. In recent years, the cooperative has begun to pursue a strategy of dynamic growth through the acquisition of four smaller companies in the same industry. This resulted in a rapid and considerable increase in the scale of operations and territorial range, which then emphasised the need to have a transparent system capable of the coordination of five distant plants. It also became clear that the introduction of such solutions would result in a deep reformulation of the entire management system of the company, which, for a century, had developed as a single factory. It is this aspect of the strategy that was a direct incentive for the undertaking of the attempt to restructure it, the purpose of which was defined as the development and implementation of an organisational structure that would enable efficient management, and which would open up some opportunities for the development and growth of multi-employer businesses in the food industry. But this was not the only reason for the changes. The company has also faced a cultural change, which has led to the following:

- The election as president of a person who was very strongly linked to the company and who, based on the models of Japanese corporations, has risen through virtually all levels of the corporation's structure during his career. He represents a management style based on "democratic" solutions and a strong management tendency for the delegation of powers, independent decision-making, the financial accounting of individual projects and, on this basis, the assessment of the effectiveness of individual managers. It is a completely different style from that applied by his predecessor.
- The redefining of the mission of the company, which now emphasises its roots in the principles of the cooperative. One of the mission entries states that "... the diversity of views is the driving force for positive change, and tolerance and understanding is a measure of the company's culture and people."

This approach towards the employees encourages it to make changes and to be open to possible new solutions. On the other hand, the adherence to the earlier management system based on the "strong-arm method" and the workers' attachment to decision-making inertia and their fear of taking responsibility for decisions is historically conditioned, and heavily influences the process of change.

Preliminary analysis of the organisational structure

In order to diagnose the problems that hindered the efficient functioning of the cooperative, the authors of the article decided to conduct a survey amongst the members of its management staff. As a result of the analysis of the questionnaire results, some areas that required immediate intervention or adjustments to their existing structural solutions were identified. These areas have been divided into the following groups of problems: systemic, functional and divisional, which apply to the management of the departments, and communicative.

Too high a workload, low levels of the formalisation of the functioning of the departments, a lack of a single centre responsible for planning the stock and the level of production, the imprecise allocation of decision-making powers, which often required the intervention of the President, as well as the existence of "orphan zones" in the sphere of tasks and decisions, have all been identified as some part of the systemic problems. Amongst the other problems we can identify are the excessive centralisation of the decision-making process, and the mixing of the areas of decision-making powers between the departments and organisational units, as well as a lack of custom in project management in interdepartmental projects.

In terms of the second group, i.e. functional problems, some comments by the respondents relating to specific units performing some imprecise functions in the company were reported. The main problems in this area include: a lack of uniformity in managing sales, thus causing a lack of responsibility for sales, no centralised system for acquiring raw material, especially in terms of planning and dealing with suppliers, the need to separate administrative functions from Human Resources, the dysfunction regarding invoicing in different organisational units, and a dead ISO system- a lack of implementation of procedures, unacquaintance with, and non-application of, the same procedures and a lack of normalised internal rules for manufacturing quality control, the need for the centralisation of purchases for all production units, and many more other specific problems in this area of the functioning of the cooperative.

The divisional problems concerned observations which appeared in the questionnaires and were connected to the management of the departments, or the cooperation between the headquarters and the departments. The following have been indicated as being the main problems: the unjustified dominance of the production unit at the cooperative's headquarters, the different treatment of individual production units, a lack of a formalised system of cooperation and information regarding the competence amongst the production units and the headquarters of the cooperative, and a lack of a common standard in the performing of tasks in all functional problems.

The last group of problems was the result of a lack of efficiency in the area of organisational structure, and the difficulties in management that arise from it. Communication problems manifested themselves primarily as a result of the lack of an effective flow of information and a lack of willingness to cross-cooperate.

Detailed information about the dysfunction of the management system made it possible to develop a specific scenario to develop a programme for restructuring, i.e. its scope and reach.

Expected problems

During the diagnosis of the current structural solutions, it was determined that the company's area of current development was:

- Technical progress, involving the implementation of new technological solutions capable of meeting the stringent production standards in force in food production, and consumer expectations in terms of quality and price.
- Market-oriented changes. In order to meet the dynamic market changes and increasing competition, the reorganisation of the sales department and the establishment of departments of logistics, marketing, as well as Public Relations was required.

Despite these changes, the organisational culture of the company cultivated traditional patterns of thought and action. They included:

- A high stability of employment. In the company, which is located in a small town, there prevails a tendency to bond with the employer for the entire duration of one's career. This results in, amongst other things, negligible experience in the functioning of other organisational solutions.
- The role of a habit. Operation practice is based on custom and common routine operations, developed over years. The key to efficacy is vast knowledge of the industry and of the company as a result of one's experience. The consequence of this operational logic is the relatively low importance attached to formal knowledge in the field of management; the possession of managerial education has never been a condition needed in order to take up a managerial position. A large part of operating practices results from the habits adopted rather than from regulations or procedures.
- These observations allowed us to predict the occurrence of a high level of resistance to change. It was therefore decided to develop and implement a procedure involving the strong participation of the management staff in the process of analysing the organizational situation and in the development of new structural solutions.

Theoretical basis of the methodology

Restructuring is a concept which has been defined in various ways in the literature, and for the specific needs of economic practice. The scope of the definition, however, is similar. A. Nalepka defines restructuring as "a well-considered reorientation of the targets (mission) of the enterprise, in relation to the changes which have taken place or which are planned for the future in its environment, and to adapt the technology, organisation, economics and human resources to this"¹. A. Stabryła states that restructuring "is a diagnostic and design procedure, aimed at improving the management and operating system of the company; however, the changes relate primarily to the transformation of the organisational form, of the decision-making systems in management, and of human resources."² The definitions quoted define the restructuring of a company as a profound change in the management, engineering and technology systems, in human and financial resources, and in the organisational and legal status, with the aim of complying with the objectives and requirements of the business environment, as well as with the improvements and economisation of the manufacturing and management processes. Such a defined perception of restructuring is fully consistent with the objectives of the management board, which launched with restructuring of the cooperative.

Restructuring processes in enterprises are a widespread and ongoing phenomenon in the global economy. In Poland, they intensified in the nineties during the transition period and then, after 2004, when there was the full opening up of the Polish economy to European markets. Currently, the widespread globalisation trends and geopolitical situation are another incentive to aim at the constant improvement of the efficiency and competitiveness of Polish enterprises, and thus their continued restructuring.

In the literature, many typologies of restructuring have been presented. How they differ is the criterion for the allocation of this process and, thus, the types of restructuring activities undertaken by the company.

¹ Nalepka A., *Zarys problematyki restrukturyzacji przedsiębiorstw*, OW Antykwia, Kraków 1998, p. 36.

² Stabryła A., *Zarządzanie rozwojem firmy*, Księgarnia Akademicka, Kraków 1995, p. 16.

B. Pełka distinguishes restructuring based on the following criterion within the area of operation: technical and technological, the range of products; those associated with ownership transformation, as well as organisational and economic³. The separation of these forms of restructuring has a contractual significance because changes in organisations are rarely of a fragmentary, territorial or functional range. The systemic nature of the organisation means that transformations in one area involve general changes in other areas of the same business. Most frequently, a restructuring programme of a company consists of a whole package of different types of restructuring measures, and thus create a chain of changes.

In business practice, the preferred approach to the restructuring of a company is dependent on the market situation, as well as the economic and financial situations, which is the basis for the initiation of the process of reconstructive or developmental restructuring. Reconstructive restructuring is carried out at a time "when, as a result of not carrying out structural changes in due time, or carrying them out in an insufficiently comprehensive manner, a direct threat to the company occurs."⁴ In contrast, developmental restructuring is a voluntary, but generally necessary, act, so that the company can maintain or strengthen its position in the market. This type of restructuring is associated with the development strategy of the company. Restructuring is a tool enabling the company to "specify the areas of activity, define nodal points of the company's activities, focus on the implementation of the strategy chosen, and to calculate its costs and declare the cost of its implementation"⁵. The case study in question is a typical example of developmental restructuring.

An outline of the methodology of the structural changes

One problem widely discussed in the literature is the methodology of the implementation of structural changes. The methodological approach is dependent on the economic and financial condition of the company, its size, business profile, and domain of action. On the one hand, it generally takes into account the objectives of the restructuring and of the resulting range of changes, and on the other hand, the general rules and guidelines for managing changes. It seems that there is no one single, universal model of the restructuring process which can be used for all businesses and in all operational conditions, but typical stages can be distinguished, although only at a certain level of generality, which need to take place in every restructuring process. According to C. Suszyński, some typical stages of restructuring can be identified⁶:

1. recognition of the situation – a diagnosis of the restructuring needs,
2. the planning of changes - the restructuring programme of the company,
3. the organisation of the implementing task – a plan and timetable for the restructuring,
4. the managing of the process of the implementation of changes – the implementation of the restructuring programme,
5. control of the proceedings of the implementation of changes, and their results.

The standard process of the restructuring activities in a company as outlined above is the basis for the directing of the work associated with the change of the management system in the cooperative. The Hersey and Blanchard's concept of the effective implementation of changes identifies two cycles of change. The participatory cycle, i.e. the cycle of bottom-up changes⁷, „stems from the knowledge and initiative of the members of the organisation, as well as from a strong motivation to carry them

³ Pełka B., *Restrukturyzacja przedsiębiorstwa przemysłowego*, cz. II, „Szczegółowe procedury restrukturyzacji”, IOiZ w Przemysle Orgmasz, Warszawa 1994, p. 27.

⁴ Kowalczyk-Jakubowska D., Malewicz A., *Restrukturyzacja jako technika ratowania i rozwoju przedsiębiorstw*, IOPM, Warszawa 1994, p. 19.

⁵ *Ibidem*.

⁶ Suszyński C., *Restrukturyzacja przedsiębiorstw. Proces zarządzania zmianami*, PWE, Warszawa 1999, p. 76-120.

⁷ Sobka M., *Zmiany organizacyjne w teorii i praktyce*, Politechnika Lubelska 2014, p. 15.

out, which in turn affects the strategy improvement. Changes in this cycle are effective thanks to the employees' involvement and the openness of the management towards the bottom-up initiative and the enabling of employees to train."⁸ On the other hand, the directive cycle is based on the assumption that all decisions come „from above”, i.e. from the top management. According to this concept, the workers are forced to adapt by introducing changes in their work habit and in getting extra training. The main advantage of changes carried out in a participatory way is the involvement of the employees involved who then contribute more, which then translates into a higher level of acceptance of the changes. One of the disadvantages of the cycle is the fact it's time-consuming. A directive conduct of change can successfully take place in companies which have such a way of operating ‚in their blood’, where employees are accustomed to accept decisions. The second case refers to companies which are unable to make changes, and there is no other way to carry them out. This concept constitutes a theoretical foundation to carry out restructuring measures in the context of organisational change.

In the implementation phase of the organisational restructuring plan the assumptions of Lewin's theory were used. There are three phases of change: the thawing phase, the change phase and the freezing phase. The first stage is the preparation, the understanding of the changes, the motivation to engage and actively participate in the process. The change itself is a stage of creating new patterns of behaviour, habits through procedures, informal procedures, and the building of new structures. The freezing phase consolidates the patterns acquired and learnt. This is the time to strengthen and maintain the desired actions, and to phase out any negative ones. The whole process is a lengthy one, because, in the long run, it relates to the building of a new organisational culture. The authors decided to build a specific scenario of changes, connecting the two approaches mentioned by Hersey and Blanchard and using Lewin's concept of thawing to achieve two objectives:

- to get tips or suggestions regarding certain structural solutions.
- to build an atmosphere of understanding and an acceptance of the logic of the changes proposed.

The authors assumed that, due to the implementation of these objectives, they would achieve a considerable reduction in the resistance to organisational change, and that they would develop high-end solutions by combining expertise with the executives' deep professional experience.

A scenario for executives' participation in the development process of organisational change

As mentioned earlier, a large part of the knowledge regarding the company's practices is the personal experience of executives stemming from their years of practice. Therefore, the prospect of accessing this type of knowledge has been described as one of the objectives of the participation scenario. The main goal is to reduce the level of resistance to change. The version of the scenario implemented consisted of six stages (from A. to F.). Below, the content and the results achieved in each stage is described:

A. The diagnosis of the current structural solutions

The research tool used for delivering the diagnosis was the author's own survey, consisting of a set of open questions concerning the assessment of current structural solutions from the respondent's perspective. The managers described how the organisational arrangements affect the realisation of their personal professional duties. The next group of questions related to a generalised assessment of the management system. The results of this study were discussed in detail in the first part of this article. The implementation of the survey included the management in the restructuring process. Its results helped to determine the next stages of the scenario.

⁸ *Ibidem.*

B. The preparation and start of the teamwork session

The results of this assessment were presented at a meeting with the management. As recommended by the consultants, it was also decided to implement two-day managerial workshops, whose aim was to deliver a comprehensive discussion of the current structural solutions and to develop elements for the future structure.

The workshop was attended by 25 people, namely the board and the management staff of the company, as well as the production units included in the structure of the cooperative. In order to facilitate the participants to see beyond their professional routine, the meeting took place offsite. At the opening session, a short exercise was carried out in the field of creative thinking. One of the organisers presented a beach ball and asked "In what other way can you use this ball?" and giving the task, said "The more uses, the better." The answers were applauded. In this way, an atmosphere of fun and appreciation for creativity was introduced⁹. Next, there was a brief introduction to the theme of the meeting, a reminder of the vision and mission of the company, and of its strategic objectives. The content of the workshop was the realisation of three consecutive stages of the scenario of participation as described below.

C. Team evaluation of the functional units

The next stage was teamwork aimed at assessing the organisational structure from the perspective of the management teams involved in the execution of the functions listed in the contemporary organisational structure. These were teams representing finance, domestic and foreign sales, logistics, production, HR, IT, manufacturing, purchasing, and quality management. A team of senior managers involved in strategic perspectives was formed. The existing division of responsibilities between the various functional divisions of the cooperative was analysed and critically evaluated. Thanks to this, the representatives of each department possessed a full review of the expectations that the representatives of other organisational departments had of them.

D. Team analysis of the rationality of the decision-making division of powers

During the teamwork, the division of competences relating to the implementation of individual processes was discussed. One interesting phenomenon was the fact that the people who chaired the meeting proposed conducting an analysis 'department by department'- in accordance with existing functional division. During the discussion the group independently, decided to start analysing in a process-oriented way. On its own, this change can be interpreted as an expression of the commitment of the participants to improving the organisational structure of the company and, thus, that they also agreed to the implementation of organisational changes.

The teams analysed the information and decision-making processes, pointing out, as in the earlier stage, many mistakes and inconsistencies. Almost all of them have been identified as resulting from the sudden growth of the company being managed in a manner based on tradition and familiar routines, which is suitable for a small, single unit employing experienced workers as staff. Unfortunately, well-worked out routines failed to be successfully applied to the needs of a large multi-factory company. Organizational solutions ensuring the coordination of the work between the cooperative head office and its production units were carefully and thoroughly discussed. The resulting differences of opinion during the discussion clearly showed how many organisational problems stem from the difference in beliefs adopted by individual managers on how to coordinate the work. When closing this stage of discussions, some clear proposals needed to introduce the necessary changes and reorganisation appeared. Many of them gave no reasons for concern, which may mean that it was possible to work out a common, accepted and widely shared overview of the company.

⁹ E. Nęcka, *Trening twórczości*, PTP PW, Olsztyn 1992, p. 18-19; R. Krupski, *Identyfikacja i realizacja strategii firmy*, Wyd. „Leopoldinum”, Wrocław 1994, p. 60-61.

E. Finding solutions

The last element of the meeting was to ask the participants to develop new organisational solutions. Two roles of the new solutions were emphasised: solving problems and fixing weaknesses in the organisational structure as identified during the earlier stages of the implementation of the scenario, and the enabling of the efficient management of a multi-factory enterprise. Thanks to this discussion, clarification and realistic assessment of the practices applied, the search for new solutions was conducted in a typical brainstorming atmosphere (there was a ban on criticism). The ideas for new solutions were created with great openness and commitment. Some of them gained immediate universal acceptance, as if by acclamation, and were categorised as solutions whose implementation is a must.

F. The last stage was the experts' verification and integration of the solutions.

The moderated discussion and the analysis carried out by the management personnel helped to clarify the clear direction for the structural changes. Experts' evaluation covered both the systematisation of the identified weaknesses of the current structure, as well as the evaluation and refinement of the changes proposed. Particular attention was paid to these structural solutions that were collectively approved during the workshop. Keeping the implementation of these solutions was one of the conditions for sustaining a sense of co-authorship amongst the management staff regarding the new organisational structure, which was a source of responsibility for the success of the changes implemented. These solutions were integrated with the experts' own solutions to form a coherent, functional design for a new organisational structure.

Summary and evaluation of the scenario

The implementation of the workshop, which was the main element of the scenario for the managers' participation in the development of guidelines for the new structure, certainly helped to achieve its objectives. The atmosphere at the workshop combined both creative play with responsible involvement in shaping the future of the company. We managed to identify and discuss the problems arising from the current structural solutions. The elements of the new structure were designed as constituting a form of codification developed over years of the managers' professional experience and tacit knowledge. During the workshop it was noted that the managers' knowledge of the functioning of the various sections of the company they were not directly linked to was sometimes very limited. During the discussion it turned out that the way the managers understand the functioning of the unfamiliar parts of the organisation was very fragmentary or incorrect. These misconceptions were replaced with reliable knowledge given by the relevant staff. The authors speculate that such lack of knowledge zones stem from the executives' personal knowledge and experience on which the practices of the company were based. In such a situation, the understanding of the various parts of the company requires some personal commitment, allowing the managers to develop their own vision of reality based on their own personal experience. Updating one's own knowledge that will allow each of the managers to understand the logic of the functioning of all the components of the organisation, will also promote the understanding of the new organisational solutions.

The evaluation of the change

In the detailed analysis of the problem areas, the need to modify the current organisational structure and the clear directions in which the changes should go, emerged. The first and most important objective to be carried out was the removal of the isolation of the individual organisational units and the improvement in their cooperation. Maintaining the information-exchange flow, the effective sharing of responsibility and the mutual understanding of the functioning of the structure is closely related to the aforementioned aim. It was necessary to construct such a structure that would speed up the decision-making process. The specific objectives are defined below:

- increasing the number of management levels,
- the separation of functional departments which are in charge of responsibilities and decisions,
- the organisation of tasks carried out by the organisational units, in particular the technical, quality, accounting, IT, administration and HR departments,
- a combination of all sales functions on one trading floor,
- the development of rules of operation between the headquarters and the departments, both in a functional and in a divisional way,
- a centralised management of purchasing, logistics and transport functions,
- the dedication in the structure of solutions to enable efficient planning process,
- finding a solution which will enable the creation of a coherent, comprehensive strategy,
- the dedication of solutions to provide adequate, two-way communication in the organisational structure division.

Some of the solutions were quickly and unanimously accepted. Others have raised many doubts and there was no consensus achieved. The implementation of the new organisational structure, however, went smoothly. Most of the organisational solutions met with general approval. Each of the managers had a revised and completed image of the current organisational structure and of the nature of the new realities of work, involving the need to manage a multi-plant structure, with knowledge supplemented by the workshop. Thanks to this, the reasons for the adoption of specific organisational solutions were clear and understandable. The individual objections raised by some related mainly to those solutions which entailed the loss of some of their power.

Conclusion

This article presents the scenario, developed by the authors, of the implementation of a restructuring process, which can be described as dual, in that it relied on a combination of an expert approach - "top-down" with a participatory one - "bottom-up". The results suggest that the scenario presented allowed the authors to combine the strengths of both approaches. The experts' work helped avoid the restructuring process getting entangled in the dynamics structure of organisational power. The scenario also provided a systematic approach and a proper level of professionalism. A high level of involvement by the executives helped to achieve the intended result of reducing resistance to change. It also allowed access to the tacit knowledge which is the result of the executives' professional experience. In this case study, important knowledge about the company and the industry existed in a personalised form. The management's high commitment to cooperation was necessary in order to gain access to this kind of knowledge.

The weaknesses of this method include the high level of organisational requirements and a higher cost connected with organising an away meeting for management personnel. According to the board, the reality of the implementation of the changes developed in this way are characterised by:

- a small number of conflicts,
- a fast implementation of new solutions,
- a high level of executive involvement,
- an understanding of the logic of the new organisational solutions, and the need for their implementation, and this has allowed then to unambiguously assess the whole process as positive.

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SPECIFICITY OF REORGANIZATION IN POLICE BASED ON THE EXAMPLE OF MUNICIPAL POLICE HEADQUARTERS IN LODZ

Summary

Reorganization usually means the imposition of a new organization; organizing differently (often involving extensive and drastic changes). It also means accurate decisions defining the form, pace of goal accomplishment and the scope of changes introduced. This paper presents specific tools and methods of improvement and justification to changes in such vital organization as police headquarters.

* * *

Introduction

The necessity of perpetual and quick responsiveness to changes makes contemporary organizations encounter some new business strategies and forms of competitiveness. A direct effect of new economy constitutes a new model of knowledge-based organization subject to constant adaptability to transformations. It requires the holistic attitude to the environment and global thinking, that is multi-layered, multi-threaded, perspective and long-term thinking, which allows to obtain tangible results and recyclable information, indispensable for constructing and managing an organization's strategy. Constructing such an effective information base is strictly related to readiness, strong will and deep engagement (often compared to sacrifice), loyalty towards the company, responsiveness to signals coming from the environment, ability to create information flow channels and the atmosphere fostering the information exchange¹.

In Police, that is an incredibly vital institution for public safety, there is a constant need to improve management methods, which justifies the research on reorganization. While introducing changes, particular features of a paramilitary formation have to be taken into consideration. The main characteristics

¹ Robbins S. P., *Zachowania organizacyjne*, Wyd. Zysk i S-ka, Poznań 2001, p. 31.

include: service discipline, hierarchical subordination, autocratic management style. These qualities heavily influence the Police organizational structure. Conducting the up-to-date research concerning the specificity of reorganization process in police units was absolutely necessary in order to draw people's attention to complexity of this process, especially regarding the requirements set by society. The paper links the area of restructuring in organizations with occupational activity and reorganization in the Police, which is the biggest, most important and responsible institution for public safety. The objective of the research conducted was the analysis of organizational changes in police units subordinate to the Municipal Police Headquarters in Lodz. The article presents the restructuring process of the Police at a district level, which embodies police officers' effectiveness growth. The process of restructuring which took place in the Municipal Police Headquarters over the years 2010-2015 was thoroughly described. All alterations referred to work effectiveness.

Essence of restructuring process in organization

Different changes within an organization are inevitable, and in case of crisis even indispensable. One has to understand what change is, when and for what reasons it should be introduced. Reorganization is a tool which aims to transform something. It entails the change to the functioning of the given entity in order to boost economic growth and adjust to variable environment conditions in future. This process means mutual correlations between the particular elements, evoking interactions between them. The necessity of restructuring is the consequence of a crisis situation in a company. The assumption of that process is vast contribution to improvement through defining and realizing some strategies. For any organization it means a complete reconstruction of its character, culture of employment and management, which aims to implement new solutions, new technologies, and modernization of the services provided.

Reorganization is a complex process covering many aspects of a company's activity. It takes place in different areas, at a different pace. It is a multithreaded process involving a wide variety of hand-picked tools and methods².

Bearing in mind the construction of an organization's new standard, reorganization may be considered an effective and creative tool fostering changes for the better, modernizing the management style and raising its quality, and facilitating implementation of innovative solutions. New solutions aim to improve an organization's attractiveness in terms of partnership and competitiveness. Hence, reorganization includes³:

- creation of an enterprise's new strategy,
- reconstruction of a company's organizational and functioning rules,
- adjustment the number and competences of employees to a new strategy,
- implementation and consolidation of an enterprise's new functioning system.

Considering various criteria of changes, there can be mentioned several approaches to the topic of reorganization. One of the criteria can be economic system's subjective structure. Here we can mention two basic types of reorganization, quite different in terms of the scope of changes, that is⁴:

- macro-reorganization – reorganization on a large scale based on conscious, steered, country-led or state-supervised reconstruction of economy or its particular sector;
- micro-reorganization – reorganization on a small scale taking place at a basic economic level, that is an enterprise.

² Egeman M. E., *Restrukturyzacja i kierowanie zatrudnieniem...*, Poltext, Warszawa 1999, p. 86

³ Ibidem, p. 18

⁴ Kowalczyk-Jakubowska D., Malewicz A., *Restrukturyzacja jako technika ratowania i rozwoju przedsiębiorstw*, IOPM, Warszawa 1992, p. 21.

Bearing in mind a company's activity subject to transformations, reorganization can be:

- objective (topical) – indicating the system changes connected with technical and technological or stock (assortment) alterations, initiated by an enterprise;
- subjective – indicating the management system changes and alterations in the area of finance and market, initiated either by an enterprise or country (ownership changes)⁵.

Regarding the scope of reorganization and the current stage of an organization's lifecycle, the process can be:

- developmental – conducted in thriving enterprises, whose aim is to boost effectiveness and efficiency of a company, thus increasing competitiveness on the market;
- remedial (repair) – resulting from a threat to the company's operation or even an already existing danger⁶.

Developmental reorganization is offensive and usually takes from 2 to 10 years. That process is closely related to the planning of a company's strategy and facilitates not only the adjustment to the changes occurring in the environment, but also anticipation and coordination of any activities. Offensive restructuring can be⁷:

- creative – undertaken relatively regardless of changes within the environment, initiated by an organization to achieve clearly-defined goals;
- anticipating – being the result of the changes anticipated by the management board, in case of accurate forecast it allows to adapt to changes and gain a competitive advantage on the market;
- adapting – resulting from quick responsiveness to changes.

Remedial reorganization can be treated like a peculiar contingency plan for any organization doomed to collapse or radical alterations in the fundamental areas of its functioning. It is conducted within the company's potential and aims to improve management processes, production and work organization and the goods' quality. It also focuses on raising qualifications of human resources and introducing a beneficial rewarding system or eliminating ineffective links. Remedial restructuring also aims to use untapped possessions, and limit or change the assortment (slim down an organization)⁸. The range of reorganization also divides this process into operational, objective and financial one. Operational reorganization including changes to the basic business activity and the state or structure of organization's assets has the widest range.

Financial reorganization is necessary when there is no balance between organization's incomes and expenses. This kind of restructuring should take place in case of divergence between the number of liabilities and the real possibilities of term payments. Financial reorganization entails material alterations, that is planning and managing the finance leading to increase of financial capacity or restitution of an organization's cash liquidity. The changes usually concern⁹:

- reorganization of debts (debt reduction or cancellation),
- reorganization of property,
- reorganization of capital.

⁵ Pełka B., *Polityka przemysłowa, strategie i restrukturyzacja*, IOPM, Warszawa 1992, p. 32.

⁶ Stabryła A., *Zarządzanie strategiczne w teorii i praktyce firmy*, PWN, Warszawa-Kraków 2000, p. 89.

⁷ Ibidem, p. 90.

⁸ Stabryła A., *Zarządzanie strategiczne...*, op. cit., p. 92.

⁹ Suszyński C., *Restrukturyzacja, konsolidacja, globalizacja przedsiębiorstw*, PWE, Warszawa 2003, p. 64.

A specific and characteristic feature of every single shake-up is the change of organization's strategy and introduction of new functioning rules. The alterations may virtually concern every area of a company's activity. Therefore, this process should be well-thought-of, thoroughly planned and preceded by a restructuring plan¹⁰. First, a thorough analysis of a company's functioning, called a diagnosis ought to be conducted. Diagnostic analysis involves an organization's external environment and internal aspects of its activity. It also includes financial resources, technology used and a company's financial condition. A fundamental stage of this diagnosis is formulating and defining organization's strategic goals. Having juxtaposed the strategic goals and conclusions drawn from the diagnosis, the real capabilities of accomplishing the defined aims can be established. Identification of a strategic gap automatically defines the needs of restructuring an enterprise in order to materialize the pre-assumed goals. It happens when organization tends to adapt to the converting environment. The next stage involves drawing up an action plan leading to successful goal achievement. The proposed version of changes will be supplemented by a financial plan determining the assumed outcomes. The results achieved entail the continuation of one of the change alternatives. For a selected concept a final restructuring plan together with its implementation schedule is formulated¹¹.

The diagnosis of a company's condition is a set of analytical activities undertaken to study, recognize and describe the real state of a given enterprise. It aims as well to predict the results of its activity as establish the reasons of the factual state of being. In general, one can say that the objective of diagnosis is to establish the trend and direction of a company's development and its financial and economic results. The reason of the situation the company is in should be also recognized and disclosed. Furthermore, that kind of analysis should include all cause and effect correlations in the area of finance management. Regarding reorganization, the basic aim of diagnosis is to indicate all needs and desirable changes and define the methods or direction of the situation improvement. A very essential thing is to set the rationales for the idea of introducing any alterations or liquidating an enterprise¹².

Diagnosis is divided into several stages and it comprises an organization's current situation and a strategic analysis. In each stage one has to find the answers to some concrete questions.

The current evaluation tackles the following questions:

- What does an enterprise own and achieve?
- What can an enterprise achieve basing on the existing potential and how can it be changed to reach the assumed results?
- What should an enterprise achieve to function effectively within a dynamic market economy?

Restructuring plan should be clear, transparent and comprehensible as well for managerial staff as for the rest of employees. It helps to concentrate on the most crucial activities leading to return of a company's good condition. It also helps to measure the effectiveness of the proposed changes thanks to defining organization's quantitative goals.

Review of reorganization in the Lodz Municipal Police Headquarters and subordinate Police Stations in 2010-2015

In Lodz there is the Municipal Police Headquarters and eight subordinate police stations. The area is urbanized and resided. There are industrial facilities, malls, commercial, financial and economic centers as well. That specificity results in anonymousness of criminals and offenders who feel more and more unpunished while committing crimes. Within the Lodz Municipal Police Crime Division there can be mentioned:

¹⁰ Egeman M. E., *Restrukturyzacja i kierowanie...*, op. cit., p. 79.

¹¹ Ibidem, p. 80.

¹² Kowalczyk-Jakubowska D., Malewicz A., *Restrukturyzacja jako technika...*, op. cit., p. 43.

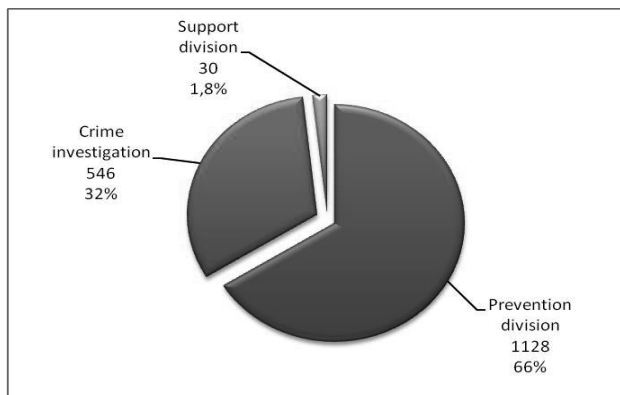
- Criminal Investigation Department,
- Investigation Department,
- Vehicle Theft Combating Department,
- Business Fraud and Corruption Combating Department,
- Drug Combating Department.

Within the Municipal Police Prevention Division one can list:

- Prevention Department,
- Police Staff Department,
- Patrol and Intervention Department,
- Detective Department,
- Traffic Department,
- Traffic Offence and Crime Department,
- Security Department.

In the Municipal Police Headquarters there are also divisions dealing with technical, logistic and organizational affairs, however, their operation does not influence the Lodz residents' safety.

Figure 1: Municipal Police Officers' vacancies by divisions as for 1.01.2015



Source: own work

As can be seen in chart 1, crime division police officers account for around a third of overall vacancies. It is worth highlighting that this division ended up the year 2014 with 20 vacancies, which must have heavily influenced the results achieved. Bearing this in mind, some recruitment processes are still being conducted to complement the staff.

One of the criteria of security state assessment is statistic measures. The most common crimes include: mugging, assaults, brutal battery (beating), health or property damage, burglaries, property and vehicle thefts (including burglary). Preventing and detecting those crimes are particularly essential for society, in addition, it will determine the image of the Police being an institution serving citizens.

Analyzing the data from the statistic bulletin for the years 2010-2015 (Jan – May), it is worth visualizing the range of crimes the Lodz police officers handle on a daily basis. Table 1 presents the number of pre-trial proceedings commenced by the type of crimes.

Table 1: Comparison of the number of pre-trial proceedings in the Lodz Municipal Police eadquarters

| Year | Burglary | Mugging | Property damage | Fight and brutal battery | Property theft | Vehicle theft (incl. burglary) | Health damage |
|------------|----------|---------|-----------------|--------------------------|----------------|--------------------------------|---------------|
| 2010 | 4464 | 966 | 2146 | 258 | 8107 | 1390 | 418 |
| 2011 | 4063 | 822 | 2346 | 245 | 8279 | 1310 | 423 |
| 2012 | 4043 | 703 | 2293 | 313 | 8430 | 1337 | 417 |
| 2013 | 3616 | 599 | 1817 | 273 | 7975 | 1050 | 448 |
| 2014 | 3070 | 475 | 1454 | 206 | 6931 | 735 | 416 |
| 2015 (I–V) | 1256 | 148 | 569 | 94 | 2301 | 293 | 156 |

Source: own work: based on the Lodz Municipal Police statistic bulletin

Over the years 2010-2015 the dynamics of the crimes committed in the above categories is on the fall. The assessment of the actions undertaken and indicating the potential that can be used to seek more effective methods of combating the crimes, result in constant changes and reorganization in the Lodz Municipal Police Headquarters. The changes refer to the ways of fighting against delinquency in the city of Lodz, which entails the growth in the sense of residents' security.

In order to guarantee the proper functioning of the given police units as of 1st October 2010 the MPH (Municipal Police Headquarters) and subordinate police stations' crime and prevention employment structures were reorganized. In the MPH crime departments, nine subordinate divisions were liquidated and transformed into specialized squads. As a result, a new unit was set up, that is Property Crime Combating Department. In police stations, the number of divisions subordinate to criminal investigation, investigation and prevention departments were reduced by 11 and subordinate links were reduced by 5, and specialized squads were formed instead. In the MPH police station III and VII investigation departments were closed down and the released vacancies were transferred to crime departments. The above solutions unified the operational and exploratory, and also investigation structures. They aimed to combat the most serious crimes, especially affecting property or drug smuggling, and those committed by juveniles. The consequence of reorganization was the reduction of managerial posts by 26, which were consecutively turned into executive positions.

On 1st February 2011 criminal investigation structures in the MPH Traffic Department were reorganized. In the Headquarters Criminal Investigation and Investigation Department were eliminated. Life and Health Crime Combating Department was set up. Corruption Department was also liquidated, as a result of which the retrieved positions were placed in the newly renamed Business Fraud and Corruption Combating Department. In police stations I, II, IV, V, VI and VII Criminal Investigation and Investigation Departments were closed down, as a consequence of which Life and Health Crime Combating Department and Property Crime Department came into existence. The repercussion of this state of being was transformation of 2 managerial positions into executive ones.

On 1st April 2011 in the Municipal Police Headquarters one hundred vacancies were released. Fifty-eight regular posts were excluded from the MPH organizational units and forty-two from the subordinate police stations. On 1st August 2012 the police establishment decreased by 40 posts, in connection with which organizational structures were thoroughly analyzed in the MPH and in some subordinate police stations. The analysis included: the number of free vacancies, the size of organizational units and cells, their specificity and possibilities of task completion by the particular units. Bearing this in mind, in the

MPH nineteen regular posts were eradicated and in subordinate police stations – 21 in total. One has to mention that 7 police posts moved from the MPH organizational units were dispensed to patrol services in different police stations.

On 1st February 2013 another reorganization took place. This time the process affected the MPH Traffic Department. The unit called Traffic Offence and Crime Department tasked with preliminary proceedings on traffic crimes and misdemeanors was set up. The department aims to supervise and guarantee task completion on a high level. The above changes implemented the second independent traffic unit in the MPH organizational structure. Separation of the objective unit put the police institution in a favorable light.

Another alterations aiming to reinforce the police establishment and improve the functioning of the MPH Traffic Department were introduced on 16th April 2013. The Traffic Control Division of this department gained 22 police regular posts, which were formerly eliminated from the indicated organizational units and subordinate police stations. The solution aims to guarantee safety and order on the public roads and increase effectiveness of traffic duty. It will help to monitor and cause the traffic to be less problematic especially in places exposed to frequent collisions or crashes. The department's task is also to eliminate the effects of traffic incidents in the unit.

On 1st January 2014 the MPH establishment was reduced by 27 regular posts, in connection with which organizational structures were thoroughly analyzed in the MPH and in some subordinate police stations. The analysis included: the number of free vacancies, the size of organizational units and cells, their specificity and possibilities of task completion by the particular units. Bearing this in mind, in the MPH six regular posts were released and in subordinate police stations – 21 in total.

On 1st September 2014 the MPH establishment increased by 17 posts. This reorganization was related to liquidation of the Motorway Police Station in Lodz, having its headquarters in Sosnowiec. Twenty vacancies were dispensed to the Lodz Municipal Police Headquarters to strengthen Traffic Department forces. At the same time in return for the 20 posts received, three police posts from the MPH and the police stations I & IV were given to the Provincial Police Headquarters.

On 1st January 2014 twenty-seven regular posts in total were released in the MPH. With regard to this, twelve police posts were excluded from the indicated organizational units. Simultaneously, 3 clerk's vacancies and another 15 posts were eradicated in subordinate police stations.

On 1st July 2015 another reorganization aimed at improvement of the MPH organizational units and police stations subordinate to them was held. Life and Health Crime Combating Department and Property Crime Department were eliminated and replaced by Criminal Investigation and Investigation Department. Creation of new organizational cells under criminal duty will surely entail the emergence of more specialized tasks connected with detecting and combating crimes. It will also facilitate coordination or supervision of task-related activities in subordinate police stations. Besides, Business Fraud and Corruption Department was reinforced by 1 police regular post and 1 working vacancy. Cybercrime Combating Squad was created as well. Creation of a new organizational cell under business fraud combat duty resulted from the necessity of effective combating any crimes committed by the use of computer networks and ICT tools. At the same time within the MPH prevention duty, Crisis Management and Police Operation Squad were liquidated in the Police Staff Department. Police Operation and Crisis Management Division was brought into existence instead. Such a change was induced by the necessity of providing supervision of high quality task completion.

Conclusion

Basically, the premises, prerequisites and reasons for reorganization result from some imperfections of an organization's management and control system, and lack of quick responsiveness to the changes the environment brings. The causes can be divided into external and internal ones which trigger up the

necessity of restructuring, and which indicate that its main objective is ability to operate effectively and develop within the rapidly changing environment. Reorganization also means accurate decisions defining the form, pace of goal accomplishment and the scope of changes introduced. Undoubtedly, reaching such a state of being is a desirable and positive effect of reorganization. However, to achieve this, it is absolutely necessary to understand some processes occurring in the particular stages of the change implementation plan or people's possible behaviors and reactions (resistance). It will surely allow to avoid negative effects.

The Police applies more and more tools and management techniques. Superiors are aware that effective and professional actions taken by police officers should be based on the management theory. The conducted analysis of reorganization in the Lodz Municipal Police Headquarters aimed to gain some information about organizational and management processes in police units at a district level. Hence, the MPH organizational structure was scrutinized. The analysis respected the need for police officers' effectiveness increase. The Police is a leading institution regarding protection of public safety and order, therefore, a peculiar management form is applied here. One can say that to improve the Police activity, a district unit is subject to organizational and management changes. The above alterations are deliberate and positively affect civil safety.

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In this publication crucial issues of the restructuring of enterprises were presented in the horizon of the contemporary environment. Authors paid attention to critical phenomena and prospects of the innovative look at the crisis, they effected the in depth analysis of the specificity of the business administration in the face of changes. They pointed also at international experiences in processes of adapting enterprises to economic, social and political new conditions in order to create the global competitive edge. The book is divided into three parts:

- ▶ Restructuring of Modern Economy and Enterprises – Theoretical Approach,
- ▶ Methods and Tools of Successful Restructuring Process,
- ▶ Effects of Using Methods and Tools of Restructuring.

The publication came into existence on the basis of many years' cooperation of Department of Economics and Organization of Enterprises at Cracow University of Economics with representatives of various Polish and foreign scientific centres and individuals coming from economic practice. Within the framework of this cooperation are organized, among others, conferences, seminars and symposiums, which are a platform for exchanging ideas and views. Results of such cooperation are the following English-language books published by the Foundation of the Cracow University of Economics:

- ▶ Borowiecki R., Jaki A. (eds.) (2008), *Enterprises in the Face of 21st Century Challenges. Development – Management – Entrepreneurship*,
- ▶ Borowiecki R., Jaki A. (eds.) (2009), *Global and Regional Challenges for the 21st Century Economies*,
- ▶ Borowiecki R., Jaki A. (eds.) (2010), *Enterprises Facing New Economic Challenges, Management – Development – Restructuring*,
- ▶ Borowiecki R., Jaki A. (eds.) (2011), *Global and Regional Challenges of the 21st Century Economy. Studies from Economics and Management*,
- ▶ Borowiecki R., Rojek T. (eds.) (2011), *Developmental Challenges of Contemporary Economies. Management – Finance – Restructuring*,
- ▶ Kaczmarek J., Rojek T. (eds.) (2012), *Dilemmas of the Contemporary Economy Facing Global Changes*,
- ▶ Borowiecki R., Jaki A., Rojek T. (eds.) (2013), *Contemporary Economy in the Face of New Challenges. Economic, Social and Legal Aspects*,
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