Strategic factors and a model of enterprise restructuring in the coal industry in Europe with emphasis on experiences in a Slovenia-Velenje coal mine case

by E. Dervarič*, M. Medved†, and V. Malenković‡

Synopsis

The main purpose of this paper is to introduce the main strategic restructuring aspects of companies that are directly (coalmines) or indirectly (companies that depend on coalmines) linked to coalmining. An attempt is also made to determine the principal factors required for the successful execution of a restructuring process in companies focused on the basic activities of coalmining, such as companies that provide supporting activities.

The restructuring process exerts an influence on the whole area that relies on coalmining. So coordination of activities among the government, the local community, and the coalmine is very important. This is the major premise of this paper.

The first section of the paper focuses on identifying and analysing the key factors in restructuring and a selection of key methods, drawing on past and present practice. The key factors to be considered in a model of enterprise restructuring in the coalmining sector are considered.

The second section is dedicated to the actual design of the model of enterprise restructuring in the coal industry. The proposed model is based on positive experiences in the restructuring of coalmining companies in Europe, with an emphasis on Slovenia, successful approaches to crisis management in corporations, and identifying key areas in bringing about a strategic turnarounds in company operation.

To support the argument for the key business areas, a brief summary of empiric findings has been included to demonstrate the applicability of the proposed model and the restructuring process. The summary is based on the survey done in both Slovenian coalmining companies (especially in Velenje Coal Mine) and their subsidiaries. The conclusion integrates key findings and outlines issues for further consideration and discussion.

Keywords: restructuring, coalmining, Velenje Coal Mine, strategic factors, restructuring model.

Introduction

Energy situation in EU countries, availability of quality substitutes, stringent environmental requirement etc. are just a few factors which have contributed to a rapid decline of coal mining in Europe. As a result, numerous countries have been faced with the task of addressing a mounting heap of problems additionally exacerbated by the fact that coalmining is a more or less regulated industry characterized by frequent government intervention. This situation pushed a number of coalmining companies into a state of crisis. As a rule, coalmining regions have strong ties to the traditional industry; therefore the emergence of crisis conditions represents a significant threat not only for coalmines but also for numerous other companies whose core business activities are directly or indirectly linked to the coal industry, as well as for the coalmining region in which the coalmine is operating[1]. The situation described above suggests the vast complexity of the problem necessitating a careful and target-orientated approach, which requires a close collaboration of the government, the local community and the coalmining company. The selection of appropriate strategies should be based on accentuating the importance of systems restructuring aimed at the sector becoming at least potentially competitive, which would enable its survival in the market. In terms of content, restructuring is of strategic importance; in terms of extent, we are talking about a comprehensive transformation. It naturally follows that the majority of measures should be designed to bring about a strategic turnaround in business operation[2]. The purpose of this paper is to present past experiences in relation to the restructuring of the coal industry in Europe (with particular emphasis on the situation in Velenje Coal Mine, Slovenia) and propose a restructuring model aimed at achieving the best possible results in the shortest period of time. This paper has been written with those objectives in mind.

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Identification of key factors in the restructuring of the coal industry

Key factors in the restructuring of the coal industry in western Europe

There are a few differences as well as similarities when it comes to the restructuring of coalmining companies and the coal sector in developed countries (which generally include EU countries) in comparison with the countries in transition[3]. The main differences are as follows:

- The process of restructuring of the coal industry in Western Europe began 15–20 years before the start of systematic restructuring in the countries in transition.
- The restructuring process in Western European countries was independent of changes in their political and economic systems. As a result, the process was less destructive and easier to manage.
- The restructuring process stretched over a longer period of time, which allowed for a gradual, more efficient approach to addressing social problems.
- As a rule, the restructuring took place in the countries whose economies were strong, which was undoubtedly a better starting point in the search for optimal solutions.
- Generally, the restructuring process in developed European countries was being undertaken as a concerted effort of the government, local communities and individual companies.
- The restructuring process has made effective and efficient use of structural and other EU funding[a] provided for the support and implementation of such projects.

The main similarities in the implementation of the restructuring process in developed European countries and the countries in transition are as follows:

- The start of the restructuring process is coupled with the assessment of future viability of individual coalmines in terms of (at least) potential profitability of operation and competitiveness in comparison with other sources of energy and (particularly) imported coal.
- For those coalmines, which have been rated unprofitable, the closing-down process would start immediately along with the environmental and social rehabilitation of the area. The problem of employees has mostly been addressed by re-skilling and re-training, retirement, and attrition by way of redundancy packages.
- For those coalmines, which have been rated potentially viable, the following has been undertaken in a systematic manner:
  - Improving the company's competitive position by focusing on the core business activity i.e. coalmining
  - Integration with the nearby thermal power/heat generation facility (if applicable)
  - Divestment of all business areas not directly related to the core business
  - Divestment of all assets not essential to company operation
  - Raising productivity
  - Identification and implementation of target investment projects aimed at improving quality, productivity and safety in coal mining
  - Intensified focus on improving cost-effectiveness;
  - Raising the level of education of employees
  - Retirement of employees by systematic promotion of early retirement
  - Extremely selective employment.

The restructuring of coalmining companies was not a partial, limited process but a comprehensive, global approach touching various spheres of society (such as the education system). The restructuring has also led to environmental problems being addressed in an effective and efficient manner.

The search for ways whereby domestic coals could become (at least) potentially competitive compared to other sources of energy and, in particular, imported coals, has resulted in a number of measures designed to lower the production price and, consequently, the sales price of coal.

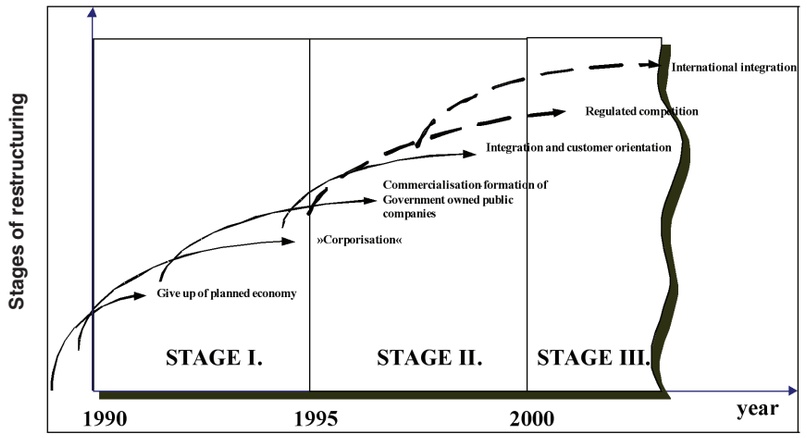
Restructuring as a way in which this objective could be achieved in European coalmining companies dates back to about 1975. Since then, fluctuations in the price of European coal have roughly matched the fluctuations in the price of imported coal. However, despite huge efforts in individual European countries it can be established that the prices of coal in Western European countries still exceed those of imported coal by a considerable margin[4].

Key factors in the restructuring of the coal industry in central and eastern Europe and in the countries formed on the territory of the former Soviet Union

For the countries in Central and Eastern Europe and the countries formed in the territory of the former Soviet Union it can be established that the restructuring of coalmining companies first started in the late 1980s. The analysis of restructuring practices has revealed the following:

- Restructuring of coalmining companies is an extremely complex process as it is closely tied in with vital social and other issues.
- Restructuring is a global process that does not merely affect the individual company concerned but the entire region and the country. Harmonized action on all levels is required in order to achieve positive outcomes.
- Quality restructuring is a long-term process. Experience shows that successful implementation takes 10–15 years of systematic, quality effort.
- As a rule, the restructuring process is a concerted effort of the government, the local community and individual companies. Various sources of funding at the EU level have been used extensively in the process of coalmine restructuring in Western Europe.

a RECHAR, ECSC, The European Regional Development Fund, The European Social Fund, The European Agricultural Fund…



Source: Adapted from http://www.worldenergy.org/wecgeis/publications/ reports/coal/intro/intro.asp

Figure 1—Stages in the restructuring of coalmining companies in the countries in transition

However, there is still a question of why certain approaches have proven successful while others have failed. Restructuring and company privatization in the sector is not merely an economic process but is closely interwoven with political and macroeconomic aspects as well as with social, regional, environmental and other issues[5]. The restructuring of the coal industry in the countries in transition took place in stages that were more or less characteristic of all countries. This is clearly demonstrated by Figure 1.

Liberalization and restructuring of the power sector took place gradually (see Figure 1) and was characterized by the following stages[b]:

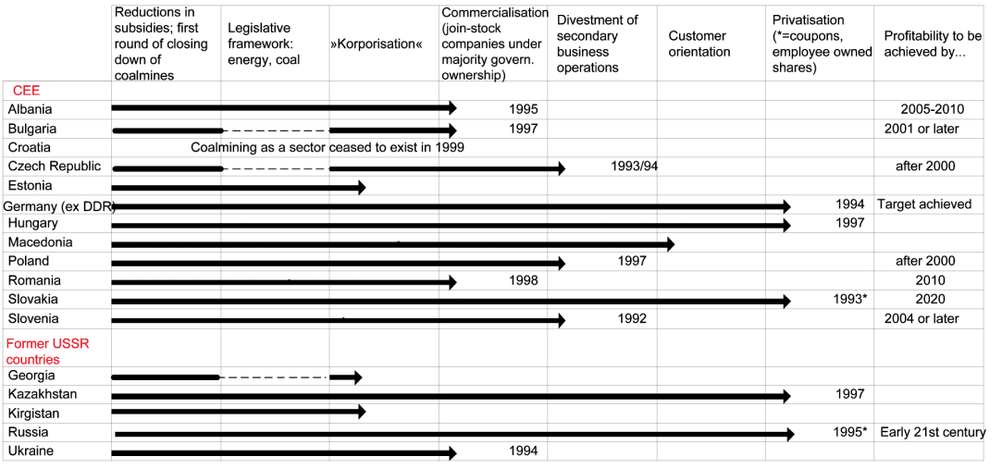
- Give up of planned economy—change of legislation and (rigorous) government control.
- 'Corporization'—in the early 1990s characterized by continued 100% government ownership of corporations, price control and market regulation.
- 'Commercialization'—transformation of companies into joint-stock companies with the majority of the shares owned by the government.
- Integration and customer orientation—the process of integrating less attractive capital (e.g. coalmines) with more attractive capital (e.g. thermal power plants). This approach not only makes the package more desirable but also creates a natural tie between the supplier and the (frequently sole) customer. Prices are still, at least partly, regulated due to direct/indirect subsidies. This has also resulted in profitable operation of certain companies that would not have been possible under normal market conditions.
- Regulated competition—developed in the early stages as a result of import/export demand. For the most part, however, companies retained their monopolistic or oligarchic positions. Price competitiveness of domestic coals compared to imported coal is becoming increasingly important.
- International integration—one of the key objectives of the majority of countries in transition is to be integrated into EU in the shortest possible time. This, however, necessitates relevant changes of the legislative framework including liberalization of the electricity market and gradual deregulation of industry.

In the first stage of the restructuring of coalmining companies it was impossible to avoid closures of coalmines rated as 'not economically viable'. Such measures naturally resulted in reductions of output and employee numbers[6]. The transition from potential to actual profitability is subject to continued implementation of ongoing reforms (clear demarcation between (potentially) profitable and unprofitable coalmines, privatisation, etc.) as well as the assessment of (potential) new investors[c], potential for partnership ventures, maximum utilization of synergetic effects, improved cost effectiveness and competitiveness. Such measures have been successful, as by 1998 20% of coal output came from the coalmines, which had received a boost from domestic or foreign investors. However, irrespective of the potential of the region, it has been estimated that its role as a potential net exporter of coal will become completely marginalized. Notwithstanding the fact that the processes of restructuring in most countries in transition are plagued by similar problems, actual outcomes vary a great deal from country to country, as shown in Figure 2.

In the cases of Kazakhstan and Hungary, privatization has been completed; however, both countries are grappling with ongoing problems of competitiveness (compared to other sources of energy and foreign suppliers) and profitability. In most countries (except for Albania, Slovakia and, for the most part, Ukraine), coalmining gives the appearance of economic viability and of being capable of (potentially) independent operation under local conditions. However, it should be emphasized that there has been no case where companies and industries have actually completed the process of restructuring; this is clearly shown in Figure 2. The main tasks associated with the restructuring of coalmines and the coal industry as a whole are as follows[7]:

b http://www.worldenergy.org/wec-geis/publications/reports/coal/intro/intro.asp

c The role of stakeholders who would provide the funds necessary for the implementation of urgently needed investments in coalmines.



Source: Brendow, 1999, p. 225

Figure 2—Restructuring of the coal industry in Central and Eastern Europe and in the countries of the former Soviet Union

- Closing down of 'not economically viable' coalmines
- Gradual withdrawal of financial support
- Divestment or downsizing of all business operations not directly related to the core company business
- Orientation of the coalmine towards end customers such as thermal power plants, steel mills
- Deregulation of coal prices, i.e. gradual withdrawal of the government and ascendancy of normal market mechanisms
- Non-discriminatory treatment of coal and other sources of energy
- Privatization of assets
- The government should assume responsibility for the debts and damage created in the past
- Transfer of miners to other jobs and restructuring of mining regions where coalmining as the core industry has been discontinued.

The general outlook for companies in the coal industry in the countries in transition remains uncertain. Much depends on the situation on the energy market, development of new technologies, new deposits of coal, oil and natural gas being discovered, etc. Irrespective of all that, however, the continuation and proper completion of the process of restructuring of coalmining companies is the necessary prerequisite for the companies in the coal industry to have a future at all. Our starting positions were fairly similar, and the end objective is also quite clear and common to us all. The only question is, how to go about achieving this goal, i.e. the selection of the appropriate strategy and optimal restructuring model that will enable us to achieve the desired result in the fastest and most efficient way.

Developing a model of restructuring of the companies directly or indirectly related to the coal industry, and determining its applicability

Developing a model of restructuring of the companies directly or indirectly related to the coal industry

The main purpose of transformation and restructuring of the coal sector in Slovenia (specially in Velenje Coal Mine) was based on the notion of gradual downsizing of the core business activity coupled with ongoing cost reduction including traditional outsourcing. By adopting the idea of cost reduction, coalmining companies opted for gradual divestment of all secondary services and operations not directly related to the core company business. Such business operations are transferred to subsidiaries, which are specifically established for that purpose as proprietary limited companies under majority[d] ownership of the coalmine.

The abovementioned restructuring in the coal sector did not unfold as a continuous process (as was the case of companies in other industries)[8] and ground to a halt in the mid-1990s. Among other reasons, this was also due to the following facts:

- The process of ownership restructuring had not been completed[e].
- Lack of clearly defined government policy in the power sector
- Resulting lack of clarity in the policies adopted by coalmining companies towards their subsidiaries.

As a result, the subsidiaries got 'stuck in the middle'[f] which meant that the process of restructuring and their preparation (adjustment) to the needs and demands of the open market had not been completed.

Our study and research in relation to the restructuring of coalmines and their subsidiaries, and the development of a comprehensive restructuring model, has been undertaken on a premise that it is presently possible, on the basis of

d Usually 100% in the first stage of restructuring process.

e It was successfuly completed in 2007.

f Harvard Professo.r Michael Porter argues that to be successful, a business unit must achieve one of »generic« competitive strategies. Otherwise, the business is »stuck in the middle« of the competitive marketplace with no competitive advantage and is doomed to below-average performance.

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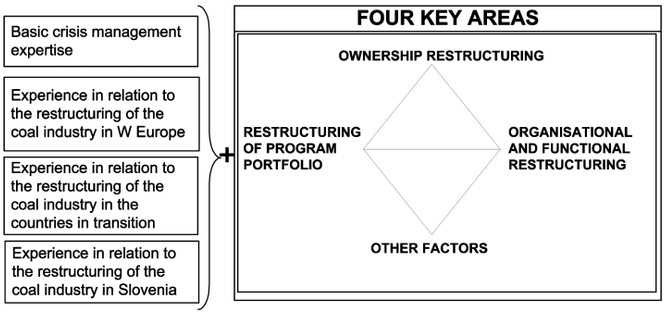


Source: Malenković, 2005, p. 210

Figure 3—Basic concept involved in the development of the restructuring model

theoretical insights and an analysis of cumulative experiences in other European countries, and by way of application of scientific methods, to develop and make a case for a model of enterprise restructuring in the coal industry (or another closed-type system). The main ideas involved revolve around the factors, which are deemed crucial and as such determine the success/failure of restructuring. Four such key factors have been identified and are shown in Figure 3.

Naturally, the factors outlined above are merely the 'tip of the iceberg'. There is no doubt that enterprise restructuring in the coal industry is far too complex to allow us to study it from the perspective of only four sets of factors. Nevertheless, the factors selected are those believed essential to the companies' ability to gain competitive advantage in the market and thereby find their way out of crisis. At this point it should be stressed that quality implementation of the restructuring process is not possible without a turnaround in company strategy[9]; it follows that the strategic aspect is inherent in all the factors identified. In particular, strategic aspects of restructuring have been considered in the analysis of other factors, i.e. those not included in the first three sets.

The development of a model of enterprise restructuring in the coal industry is an ambitious goal, which is reflected in the effort to integrate the key factors of the process. The development of our model was based on the following:

- Past positive experiences in the restructuring of the coal industry in developed European countries
- Problems and characteristics of the restructuring of the coal industry in the majority of countries in transition
- The specifics of our environment and practice in relation to restructuring of Slovenian companies in the coal sector.

Drawing on years of experience in the restructuring of the coal industry we can establish that we are dealing with a multifaceted process involving huge risks. The time available for restructuring is a key factor as has a vital impact on the selection of the appropriate strategy. In this context, internal and external factors play a major role.

Successful restructuring of the coal sector and all the companies directly/indirectly related to the industry requires a clear and unambiguous outline of the general government energy policy. Only clearly defined goals and strategies for energy policy make it possible to determine future prospects of coalmining companies and the sector as a whole. Since all these issues are directly related to energy supply, sources, etc. of strategic nature with the government as the competent authority, a general energy policy requires a broader consensus.

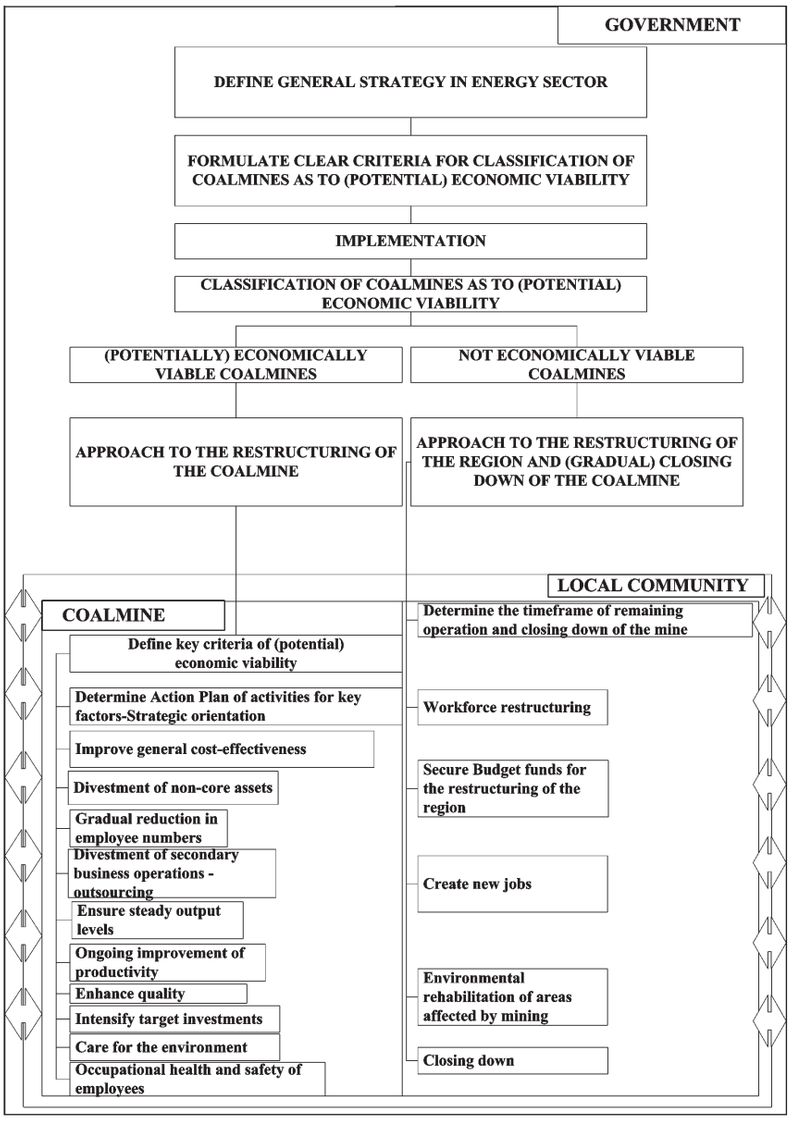
For that common platform to be effective, however, it is necessary to establish clear-cut criteria for the assessment of coalmines including a method of classifying coalmines into profitable ones, potentially viable ones and those not economically viable.

For coalmines classified as not economically viable all, necessary steps should be taken for the process of regional restructuring to be carried out and for gradual closing down of the coalmine. This process requires the drafting of cover documents and necessary legislation that will provide guidelines for its implementation. In that context, clearly defined common strategies are vital, as is a close working relationship between the government, the local community and the enterprise. When it comes to how things are working in practice in Slovenia (specially in Velenje Coal Mine), there is definite room for improvement. While cover documents, required legislation and budgetary funding for the implementation of this process have been provided, we can hardly speak of a systematic approach with active involvement of all stakeholders.

In our opinion, however, this approach is inferior to that taken by the majority of Western European countries, which has proven itself satisfactory in practice. Case studies have demonstrated that that approach enables maximum effectiveness whereas minimizing destructive aspects related to coalmine closure. Also, according to the way things have been done in Germany, France, Spain and some other countries, difficulties inherent in reaching agreement between the parties are substantially easier to overcome when all stakeholders are being actively involved in the process. On the other hand, the UK is a typical example of a destructive approach and intolerance between the stakeholders. It is our belief that such a scenario should be avoided.

In case of 'not economically viable' coalmines, key steps in the restructuring process can be broken down into the following stages (see Figure 4).

- Workforce restructuring
- Securing budget funds for the restructuring of the region



Source: Malenković, 2005, p. 231

Figure 4—Model of gradual restructuring of the coal industry (I)

- The process of creating new jobs or alternative jobs;
- Effective environmental rehabilitation of areas affected by mining
- The actual process of closing down the coalmine.

In terms of workforce restructuring, the key challenge is to find effective solutions for the people employed in the core business activity once the coalmine has ceased to operate. According to experience in Europe, this is a multifaceted problem, which needs to be approached from the perspective of employee age structure. In the case of all employees, whenever realistically possible, options for retirement should be considered. Available choices may include due retirement (age- or service-based), disability-based retirement and various forms of early retirement such as purchasing years of service to due retirement. In the case of younger employees, the problem increases in complexity. In our opinion the most appropriate approach is one based on professional development and reskilling. It is perfectly clear that this process can be successful only when coupled with other instruments designed to make the mining region more attractive to potential investors, which would result in the creation of new jobs. The role of the government in this process is vital as it can provide coordinating and promoting bodies to maximize the attractiveness of the region, thereby opening new possibilities for domestic and/or foreign investment. Also of vital importance is the role of various mechanisms designed to promote the creation of small and medium-sized enterprises by way of so-called 'spin-offs'. It should be stressed, however, that according to European practice such processes ought to be introduced well ahead of the actual closing down of the coalmine, i.e. 10 to 15 years earlier. In terms of fostering and promoting entrepreneurship,

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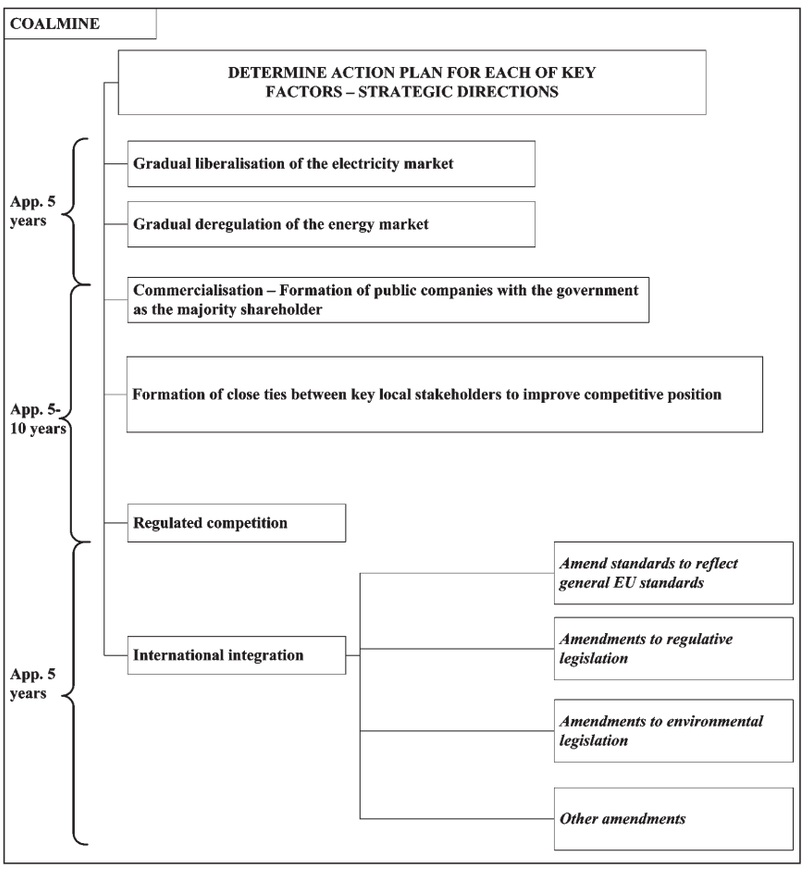
various forms of financial incentives to employees can be very important, including redundancy packages and low-cost finance.

In relation to workforce restructuring, it should be stressed that restructuring the education system is of paramount importance[10]. Educational institutions in mining regions are frequently (at least in part) tailored to the needs of the coal industry.

Also extremely important, in conjunction with the abovementioned processes, is environmental rehabilitation of the areas damaged by mining. It should be taken into account that coalmining, whether open cut or underground mining, is extremely destructive to the environment. The majority of coalmining related legislation in Europe decidedly provides for the rehabilitation of areas damaged by mining. When we consider that thermal power generation facilities are frequently located in the immediate vicinity of coalmines, we easily get the full picture of environmental distress. Due to the intensity of the problem, environmental rehabilitation becomes a complex and financially demanding project. In regions adversely affected by mining operations, experience in the world has shown that taking a professional and systematic approach can result in quality regeneration of degraded areas. Environmental rehabilitation of thermal power/heat generation facilities can be achieved by installing high quality equipment for the elimination or, at the very least, minimization of harmful impacts. Compliance with this type of requirements is not imposed only by the European environmental legislation but also by the Kyoto protocol.

The final stage of restructuring in case of 'not economically viable' coalmines involves the actual closing-down process. It should be stressed that the closing down of coalmines is a technically demanding, long and expensive process, which usually takes several years. Quality execution and supervision is mandatory and the only way to ensure a permanent solution.

The approach to the restructuring of potentially economically viable coalmines (see Figure 4) is somewhat different from that taken in the case of 'not economically viable' coalmines. First of all, it is necessary to properly identify the key factors of potential competitiveness. In this way we should determine key lines of action whereby, over a specified period of time, coal could become (at least potentially) competitive. The identified key factors of competitiveness then serve as the basis for the formulation of the action plan (see Figure 5). The action plan is based on the stages of restructuring of the coal industry that have yielded positive results in most countries in transition. The fundamental characteristic of this process is the liberalization of the electricity market and a gradual deregulation of the industry. In other words, this is the transition from a 'market vacuum' to conditions of at least potential competition. The



Source: Malenković, 2005, p. 233

Figure 5—Model of gradual restructuring of the coal industry (II)

purpose is to maximize the quality of services and achieve (at least) potential competitiveness for key stakeholders in the market. Our experiences indicate that we are dealing with a complex process, which requires coordinated action. In this process, partial change in the ownership structure can also be observed; however, (as a rule) the government wants to retain majority ownership.

Apart from those general activities, in order to achieve potential competitiveness, coordinated activities should be taking place concurrently at the microlevel i.e. in the coalmine. Those activities, too should be aimed at raising the level of competitiveness; the focus should be on improving cost-effectiveness, ensuring steady output levels, ongoing productivity improvement, care for the environment, and occupational health and safety of employees (see Figure 6).

Measures designed to improve cost-effectiveness include all measures aimed at reducing costs, in particular a gradual reduction of employee numbers, divestment of assets not essential to business operation, divestment of all operations not directly related to the core business, etc.

Achieving potential economic viability of operation is also inevitably subject to a close relationship between the coalmine and the relevant thermal power/heat generation facility. However, this is not enough. For successful operation of the coalmine it is essential to ensure long-term, (more or less) steady levels of output[g] and sales of coal. This necessitates a three-way agreement between the government, the thermal power/heat generation facility and the coalmine. A long-term agreement enables the optimization of planning and operation of the coalmine, resulting in a realistic potential for cost reduction. Cost structure in coalmines indicates that the goal of effective cost management cannot be attained without a gradual reduction of labour costs. In this context it should be pointed out that labour costs generally represent 50% to 65% of operating expenditure. In almost all cases studied we could establish the need for the process being implemented by means of socially acceptable measures. The first set of these measures involves employee retirement.

The second set of measures is focused on younger employees. In this segment, a major role is played by subsidiary companies whose growth should provide new jobs, good economic results and consequently enable the transfer of staff away from the core business activity. In practice, subsidiary companies in Slovenia have generally been unable to meet that goal (due to weaknesses mentioned above). The government and the local community play an important role in this process, as they have to create a favourable climate for entrepreneurial activity. Consequently, we can expect the formation of small- and medium-sized companies and investment to be expedited, and the (resulting) creation of new jobs and good economic results.

Apart from ongoing staff reductions, achieving a higher level of competitiveness of the coalmine is subject to strong investment in equipment and technology. According to experience in Western European countries and in the countries in transition that is the only way of ensuring steady output levels and resulting productivity improvement. The necessary sources of finance for the purchase of equipment and technology are mostly provided by funds generated through the sale of assets not essential to business operation or borrowings.

Irrespective of the factors listed above, the process of cost reduction and comprehensive restructuring of the industry and the region is essential for the creation of new jobs and a gradual transformation of large corporate systems into small- and medium-sized companies. Two approaches can be identified:

- The first approach in particular has been widely used in the Western European countries. In that case, the restructuring of the sector and the region was coupled with the process of closing down of the coalmine and the creation of a favourable climate in the area by accentuating the importance of entrepreneurship, making the region more attractive for investment, and adapting the educational system and other segments of society to new conditions. As a rule, this involved extensive coordination of activities among the government, the local community and the coalmine. Due to the pressing state of affairs, it was possible to obtain massive funding not only from the government Budget but also from various EU funds.
- The second approach has been used in Slovenia (specially in Velenje Coal Mine) and in some other countries in transition. It is based on achieving potential competitiveness of coalmines, including the process of cost reduction by establishing subsidiary companies (see Figure 6). This way it has been possible to obtain the benefits of traditional outsourcing; however, the aim was to gradually set up conditions for the creation of new jobs (through the process of generic growth of subsidiary companies), and promote entrepreneurial drive and transformation of large systems into small- and medium-sized companies.

The point is, which of the two approaches is more appropriate? It is difficult to provide a definite answer to this question. There is no doubt that both approaches have positive as well as negative sides, which have been exposed by the analysis of restructuring processes. We believe the optimal approach should integrate both methods (see Figures 4, 5 and 6). Essentially, we are talking about the approach to restructuring that has prevailed in Slovenia (specially in Velenje Coal Mine), coupled with accentuated importance on active involvement of the government and the local community.

The process of divestment and independent operation of secondary business operations by establishing subsidiary companies can be divided into three stages (see Figure 6). In Stage I the situation in the coalmine should be analysed so as to identify all operations, which are not directly related to coalmining and have a realistic chance of surviving in the market. All such business operations should be set up as companies in their own right. Along with the business, all workers employed in those operations at the coalmine should also be transferred to the new companies. This way an

g Output levels which are defined as 'optimal' according to engineering-technological criteria and economic criteria.

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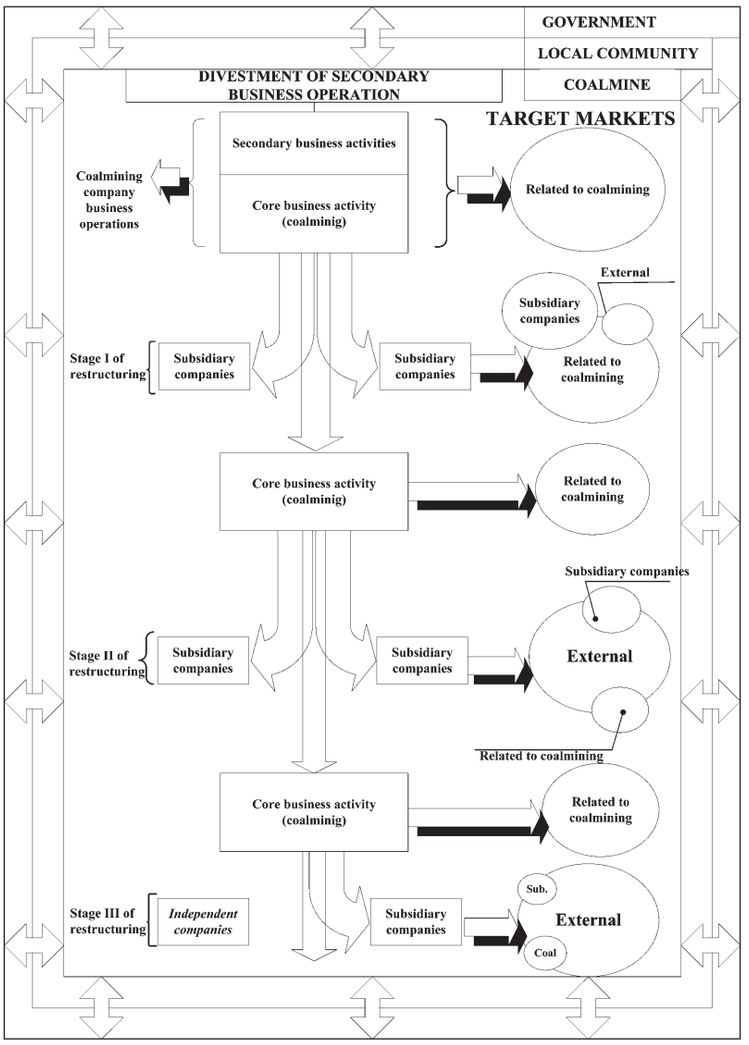
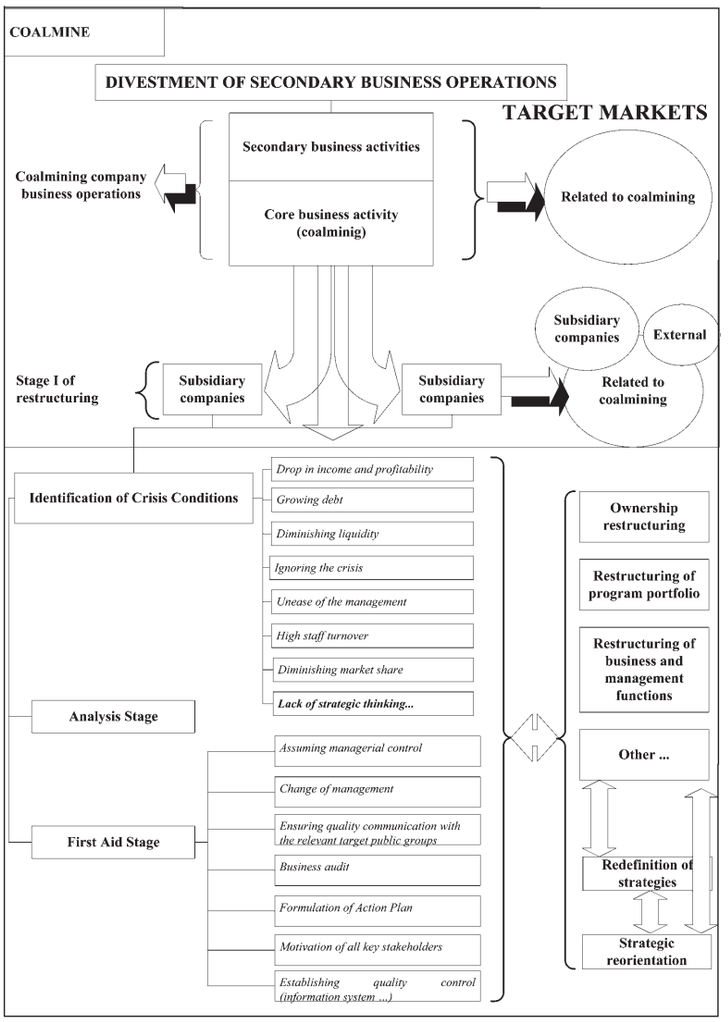


NOTE: The size of circles indicating target markets is proportional to their importance i.e. share in consolidated total revenue.
Source: Malenković, 2005, p. 235

Figure 6—Model of gradual restructuring of the coal industry (III)

adequate level of knowledge/skills is ensured for the business operations to continue at a satisfactory level. In the first stage of separation it is reasonable to expect that the subsidiary will derive the majority of its revenue from selling its products/services to the coalmine or other subsidiaries, and a comparatively small share of income will be generated in other markets. Consequently, after a comparatively short period of time the first signs of crisis can be expected to occur in the subsidiary company. Those signs will primarily include stagnation of the company, income staying more or less constant or even starting to decline, and fluctuation of business performance between loss and minimum profit. All these signs are characteristic of Stage II of restructuring (see Figure 7). Experience in Slovenia (specially in Velenje Coal Mine) has shown this to be the pivotal point of success or failure of restructuring for subsidiary companies. At that point the management of subsidiary companies play an extremely important role in stabilizing the situation and gradually leading the company out of crisis. Much skill and initiative is required from the management of subsidiary companies as the majority of the burden of implementing the changes rests squarely on their shoulders. As a rule it would be unrealistic to expect the majority owner (the coalmine) to play an active role in this process. The above clearly demonstrates that having experienced and competent managers in the subsidiary companies is vital. We believe such staff is hard to find inhouse when it comes to such a closed-type organization as a coalmine. The staff who have identified themselves with the core business activity over a long period of time typically display a lack of initiative coupled with resistance to change and a lack of experience in crisis management; clearly, it would be unrealistic to expect



NOTE: The size of circles indicating target markets is proportional to their importance i.e. share in consolidated total revenue.
Source: Malenković, 2005, p. 237

Figure 7—Model of gradual restructuring of the coal industry (IV)

such people to be able to implement the measures required to bring about the necessary turnaround. Consequently, it is our belief that quality managers should be brought in from outside the coalmine (managers with experience in crisis management and restructuring, i.e. so-called transformation managers.) or they should be insider experts with special knowledge and skills.

Rehabilitation of crisis conditions in the company can be broken down into two stages. Stage one undoubtedly involves measures aimed at calming the crisis. It is necessary to mention that in this stage a concerted effort of the management of the subsidiary company and the management of the coalmine is vital. It is our belief that quality and timely communication can alleviate crisis conditions and avert radical measures frequently characteristic of companies in crises.

Subsequently, in addition to relevant measures for the management of crisis conditions (see Figure 8), the management should focus on redefining strategies and establishing the bases for a strategic reorientation of the company. In line with the ideas outlined at the outset, we believe that in bringing about a strategic turnaround (in addition to clearly defined strategies), the focus should be mainly on ownership restructuring, purging and balancing of the products and services portfolio, restructuring of business and management functions and other strategic factors (see Figure 7).

It ought to be stressed that for the most part these activities are concurrent, not successive. Apart from previously mentioned 'internal' restructuring processes, 'external' processes should also be unfolding where the government, the local community and the coalmine itself play the vital role. These activities involve a general restructuring of the region and creating conditions for normal life and work once the traditional business is no longer there.

In the process of ownership restructuring in particular, active involvement of the majority owner is once again crucial, which is perfectly understandable. As already

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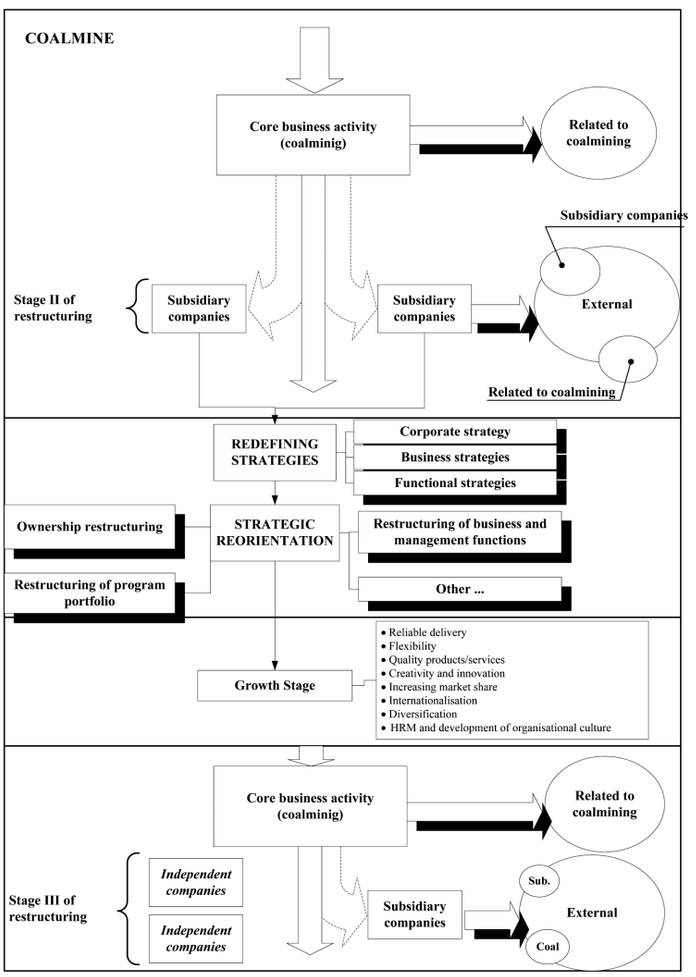
stressed earlier, the end goal of this process is to achieve the entry of active owners (strategic partners) and gradual sidelining of the coalmine in the company ownership structure. This would enable the company to gradually move into Stage III of restructuring (see Figure 8).

As to other stages of strategic reorientation (see Figure 8), the process rather depends on the rate of implementation of ownership restructuring. In case of swift completion of this stage (company transition into Stage III of restructuring), the implementation of the remaining stages of strategic reorientation will be coordinated with the new owners. Due to the emphasis being on the entry of active owners (preferably involved in a complementary business), it is reasonable to expect the following positive changes:

- In terms of products and services of the (previously dependent) company it is obvious that the new owners will seek to create maximum synergetic effects with their own products and services portfolios. This means that unmarketable products and services will be eliminated while the viable ones will be retained or even expanded; it is also reasonable to expect new lines of products and services to emerge, subject to increased capacity created by the elimination of unviable product/service lines.
- Similar changes can realistically be expected to occur in relation to business and management functions. Chronic weaknesses established in relation to different business functions (marketing, HRM.) will be alleviated or eliminated through the collaboration of the (previously dependent) company and the new owners. Centralized purchasing, established sales routes, own brand name, etc. are just a few outcomes of coordinated action. In addition, frequently present low skill levels will be balanced through the role of the new owners. Similar changes can also be expected in relation to management functions. A bottom-up approach will take place in relation to the implementation of planning, organizing, leading and controlling, which will be followed by their centralization and integration at the corporate level. It should be stressed



NOTE: The size of circles indicating target markets is proportional to their importance i.e. share in consolidated total revenue.
Source: Malenković, 2005, p. 238

Figure 8—Model of gradual restructuring of the coal industry (V)

that the integration of these functions is likely to present serious problems due to differences in organization culture, etc.

- In relation to other strategic factors, activities will also be managed by way of coordinated action of all parties.

The proposed restructuring model is comparatively complex as it involves interaction and the mutual dependency of numerous factors. For effective implementation of the restructuring process an appropriate control system is also required so as to ensure that the process is implemented consistently across the board.

Basically, the key to successful company restructuring is in redefining its corporate vision and strategy, and in consistent implementation of necessary measures. These factors draw on corporate vision, mission and strategy, and should be supported by measurable indicators of restructuring. The final level is represented by the 'traditional' balanced system of indicators. That level as well has to originate from the company's vision, mission and strategy[11].

Main empiric findings in terms of applicability of the proposed model and the restructuring process

In studying the process of restructuring in Slovenian companies in the coal sector in order to verify the applicability of the proposed restructuring model, we carried out a more detailed survey of the companies that are related to the industry directly (coalmines) as well as indirectly (subsidiary companies). The main problem of the analysis was in the comparatively small survey sample, which included two coalmines (Velenje Coal Mine and RTH) and 18 subsidiary companies.

The questions were designed so as to allow the best possible insight into the character of the individual company concerned and its specifics, and especially to enable an in-depth analysis of strategic factors of company business operation. To a degree that part of the questionnaire included the concept of surveys carried out in Slovenian companies between 1993 and 1996[12]. This made it possible to carry out (at least a rough) comparison of findings in relation to strategic factors of restructuring in Slovenian companies versus the specifics of restructuring in the Slovenian coalmines[13] and their subsidiary companies. Given the comparatively small size of the sample the application of statistic methods would be virtually impossible, i.e. unreasonable.

Arguments in support of the proposed model are derived from the theory of crisis management and restructuring, past positive experience in Europe and the findings of the survey, which involved interviewing leading executives in Slovenian companies with direct/indirect links to the coal industry.

The analysis and survey of key areas of restructuring in terms of applicability of the proposed model has revealed the following:

Ownership structure

- Retaining the dominant role of the government in the ownership structure of coalmining companies (in most European countries) makes sense and it would be unreasonable to expect dramatic changes in this area. This position is understandable given the strategic importance of coal in the country's energy supply coupled with the fact that coalmines in Europe can be only potentially competitive, i.e. when partly subsidized by the government.
- In such circumstances the role of coalmining companies as an attractive investment option for other investors is undoubtedly secondary.
- The situation in subsidiary companies (compared to coalmines) is exactly opposite. Their perspective lies in the markets outside the mother company and the group where the bar is being pushed higher and higher. This seriously undermines any chances of survival of subsidiary companies, and the onset of signs of business crisis can occur very quickly.
- In the light of our survey and our familiarity with the specifics of the environment in which these subsidiary companies operate, it is our belief that a change in the ownership structure of subsidiary companies is a prerequisite for their survival and perspective. This implies a complete (or an almost complete) withdrawal of the passive shareholder (the coalmine) from the ownership structure of subsidiary companies almost immediately. Instead, the subsidiaries should attract active owners who would be instrumental in eliminating or alleviating their key weaknesses. The appeal of subsidiary companies to active partners lies in their comparatively large (existing) market, which should be maintained also in the future by signing long-term agreements with the parent company and other subsidiary companies.

Products and services portfolio

- The products and services portfolio of coalmining companies has a single (dominant) focus. The strategic orientation of coalmining companies is to ensure the following: mining of coal at the lowest possible price with good economic result; occupational heath and safety; and (together with the nearby thermal power/heat generation facilities) compliance with the highest environmental standards.
- Any expectation of a radical change in the existing strategy of coalmining companies, such as diversification of business operations, would be unrealistic.
- The situation, however, is different in case of subsidiary companies. The survey has delivered the following findings:
  - Products and services portfolios in subsidiary companies are too limited (not enough new lines of products/services)
  - Companies continue to rely on old product/service lines present at the time of their inception
  - A vast majority of subsidiary companies are orientated towards their local markets. Their presence in other parts of the country is negligible, and internationalization of business operations is practically nonexistent
  - Revenues from core product/service lines are stagnating or even diminishing, which is a clear indication of the stage reached in the life cycle of the product/service concerned (maturity or even decline)

- Low value added of most products/services in products and services portfolios
- Certain efforts could be identified in terms of new product/service lines being introduced. Generally such attempts have not yielded expected results
- Poor innovation in just about all subsidiary companies, which directly results in a lack of new product/service lines. 'Undercapitalization' of human resources could be noted in most companies surveyed, at the top management level as well as at all other levels. In other words, there is an huge need for skilled staff; however, the companies have difficulties attracting competent applicants.

Business and management functions

- Business functions in the companies under consideration present the picture, which is the result of the formation of subsidiary companies.
- Financial, production/services and technology substructures can be described as comparatively sound.
- By comparison, marketing, R&D, HRM and organization substructures are extremely weak or even completely undeveloped. The situation is particularly alarming in relation to marketing and R&D.
- The situation described above is fairly logical as it is the result of the way coalmines operate (secure customer base) and their outlook. However, the situation in the subsidiary companies is alarming by comparison and represents an important factor accounting for their poor performance.
- For subsidiary companies, the way out of crisis is necessarily subject to the elimination or alleviation of the problems described, which is essentially a question of attracting skilled and competent personnel.
- There is no doubt that numerous changes should be instituted in subsidiary companies. Top management plays a crucial role in this respect. Present top executives (generally) come from the core business activity of the parent company and lack experience in company operation in the open market; their vision is also limited by the factors characteristic of the operation of the mother company. The way out for crisis for subsidiary companies is essentially a matter of involving experts skilled in crisis management who possess sound working knowledge of restructuring processes and are capable of turning companies around.
- The situation in the coalmines in relation to managerial functions of planning, organizing, leading and controlling is comparatively sound and adapted to the needs of company operation.
- In case of subsidiary companies we are looking at a different situation. Changed conditions reflected in intense (unavoidable) focus of operation on other markets have exposed the need for subsidiary companies to change their respective visions, missions and strategies. The situation is particularly troublesome in relation to strategic planning. Our interviews have revealed that it is imperative to ensure transparency of operation and (above all) effective control and timely intervention.

Other strategic factors

- It is vital to intensify the importance of subsidiary companies becoming more market orientated.
- Also vital, in the medium term, is to bring to the fore the inevitability of internationalization of business operation.
- It is mandatory and essential to achieve a gradual withdrawal of coalmines in terms of their direct/indirect influence on the subsidiary companies.
- Without a strategic reorientation of the subsidiary companies, the latter have no chance of surviving. The analysis of key strategic factors has shown that the subsidiary companies are presently in the situation in which Slovenian companies found themselves before or at the start of the restructuring process. Essentially, we are talking about at 15-year time lag.
- The analysis of the priorities as identified by the managers of subsidiary companies suggests a certain mix, which can be compared to the positions of managers in other Slovenian companies in 1996 (start of restructuring) and 1996. In particular, differences in views are apparent when it comes to issues related to corporate priorities in terms of business operation. Managers in subsidiary companies put an extraordinary emphasis on social issues, frequently at the expense of company performance. Such positions are a direct result of the fact that the top executives originally come from the core business activity (coalmining), along with associated values. Since social issues frequently clash with effective performance of the company in the market, it becomes clear that efficiency of operation and sound business performance of the subsidiary companies become extremely hard to achieve.

Conclusion

Our analysis of enterprise restructuring in the coal industry in Europe confirms the demanding nature of restructuring processes, which is further exacerbated by the fact that we are dealing with a sector subject to government regulation. Similarities as well as differences exist between the concepts applied in developed Western European countries and those taken by the countries in transition. In Western Europe, the restructuring process has been completed or is about to be completed. Given the short period of time since completion, it is hard to make a realistic assessment as to the success of the exercise. Some approaches have proven to be good while others have been judged less effective.

By comparison, the restructuring process in the countries in transition has been more difficult due to the accompanying (major) political and economic crisis occasioned by the change in their political and economic systems. Such conditions do not constitute a favourable environment for the implementation of such complex processes as coalmine restructuring. Due to the circumstances described above there has also been much less coordinated action between key stakeholders than has been the case in developed European countries. On the other hand, we saw the emergence of certain new concepts based on past experience and modern

insights in managerial science. Among them we also find the concept of restructuring of the coal industry that has been adopted in Slovenia and which is essentially a hybrid of different concepts.

The principal objective of this paper is to present a comprehensive model of coalmine restructuring. Essentially, it is based on positive practice of the restructuring of the coal industry in Europe. In terms of approach it can be split into the global part and the local part. The global part focuses on the importance of harmonized and coordinated action by the government, the local community and the enterprise itself (the process characteristic of Western European countries). This approach is important not only due to the fact that coalmines are frequently owned by the government and that we are dealing with a (partly) regulated industry. The fundamental importance of such an approach lies in the fact that, as a rule, restructuring of the coal industry does not affect merely the enterprise concerned but has a much broader, regional impact. For this reason the search for optimal solutions never has and never should put partial interests ahead of the greater good. Also, we should not overlook the importance of social partners reaching a broader consensus, which is easier to achieve in case of active involvement of key stakeholders. Compared to the global part, the local part focuses on the internal operation of the enterprise in order for the coalmine to achieve the most effective and efficient utilization of available resources and become at least potentially competitive (the process characteristic of certain countries in transition, e.g. Slovenia). In that context, promotion of entrepreneurship within the enterprise, also by way of establishing subsidiary companies and creating new jobs with the aim of counterbalancing the decline of the core business activity, becomes an interesting option. In that light, experience in Slovenian coalmines yields some valuable insights. The fact that subsidiary companies created in that fashion were not a result of a business opportunity identified in the market makes their surviving in their own right an even bigger challenge. In the first stage of setting up separate businesses it is reasonable to expect that these subsidiaries would derive the majority of their revenue from business dealings with the mother company or other subsidiaries. In that initial period it is also realistic to anticipate the onset of the first signs of crisis. For that reason it is necessary that all measures designed to manage the situation be carried out at the same time. This time should be spent implementing the key measures in terms of ownership restructuring, improving the quality of the products and services portfolio, improving the quality of business and management functions as well as other strategic activities in order to create the conditions for strategic reorientation. A very important role in this process is played by the management of individual subsidiaries who should have the knowledge, experience and qualifications required to turn the company around. This way, over a period of time the company can be expected to gradually emerge from the crisis. Lack of clarity when it comes to setting key objectives for subsidiary companies tends to prolong the problems, which can culminate in an insurmountable crisis and company liquidation.

Ideas outlined in this paper enable the continuation of research in relation to the study of strategic factors of enterprise restructuring in closed-type organization systems. Such organizations have numerous particularities, which require an in-depth analysis and methods aimed at achieving a strategic turnaround. The proposed model needs to be verified in practice. We firmly believe that the model has a realistic chance of being a success as it is based on successful practice and contemporary insights in management and organizational science. In that respect we believe that, subject to appropriate modifications, it could also be applied in the restructuring of other large and government-regulated sectors such as the steel industry, power generation, railways, etc., which further contributes to its importance.

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