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ANALYTIC STUDY OF THE CAPITAL RESTRUCTURING PROCESSES IN METALLURGICAL ENTERPRISES AROUND THE WORLD AND IN POLAND

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The article presents the most common directions of changes in capital groups in the sector of metallurgy around the world and in Poland. During the observation of the restructuring activities in metallurgy the attention was turned to the integration of the capital groups, capital outsourcing and contract outsourcing, creation and the take-over of the dependent companies. The meaning of the capital consolidation was underlined on the global metallurgy market in order to gain competitive advantage through the increase of manufacturing capacity. The overview of the rating of the global steel producers in years 1989-2009 was conducted with this article in mind and it has shown the changes in the participation of particular capital groups in the world production of steel.

Key words: metallurgical enterprise, steel, capital restructuring, consolidation of capital groups

Analički studij kapitalnog restrukturiranja procesa metalurških tvrtki u svijetu i Poljskoj. Članak iznosi najvažnije zajedničke putokaze izmjena glavnih skupina proizvođača u metalurškom sektoru u svijetu i Poljskoj. Tijekom motrenja restrukturiranja aktivnosti u metalurgiji, pozornost je usmjerena na integraciju glavnih skupina i međusobnih ugovora, zatečeno stanje zavisnih tvrtki. Nakana glavnih konsolidacija je bila podređenost globalnom metalurškom tržištu sukladno konkurentskim prednostima kroz povećanje kapaciteta proizvodnje. Glavni pogledi na procjenu globalnih proizvođača čelika u godinama 1989.-2009. su pokazani u ovom članku uz ponašanje i izmjene sudjelovanja pojedinih glavnih skupina u svjetskoj proizvodnji čelika.

Ključne riječi: metalurške tvrtke, čelik, glavno restrukturiranje, konsolidacija glavnih skupina

INTRODUCTION

Maintenance of the required competition level is impossible without the conduction of subject restructuring which involves constant changes in the business activities of the enterprises. Conduction of the restructuring processes became an obligatory activity of the enterprises in the changing conditions of the environment. In order to follow and assumptions of the object restructuring (employment, property, technological, product, organisational, ecological changes etc.) the enterprises must possess capital enabling them for constant development. In modern economy the process, which did not exist before, appeared and is called capital restructuring. The main drive of such activities is the developing globalisation of the markets which forces the companies to use complex strategies of changes [1,2].

Capital restructuring involves two groups of issues: restructuring of the capital group and, resulting from the first issue, restructuring of the enterprises functioning in the group [3]. The directions of capital groups restructuring may refer to the size of the group (enlargement, size reduction), the diversification of the activities (re-

lated and unrelated diversification), the degree of integration of the activities (increase or decrease of integration range, forward or backward integration), change in the autonomy of the participants (centralisation, decentralisation) location (liquidation of existing locations and creation of new locations) [4].

Particular directions of changes may be realised with the use of different undertakings. One of them is consolidation. The process of consolidation is very important for companies because in this way they can increase their resources and financial capital [5,6]. In global metallurgy sector consolidation was initiated by the merger of Krupp and Hoesche started in the 90's of the previous century. In Poland, an important merger of metallurgical enterprises occurred in 2002. Four steelworks, Katowice, Florian, Cedler and Sendzimira merged to form a syndicate called Polish Steelworks. In 2004 the enterprise was bought by the British strategic investor Ispat. Since 2006 it has been functioning as ArcelorMittal Poland SA and converges about 70 % of the Polish steel market [7,8].

CONSOLIDATION ON THE GLOBAL STEEL MARKET

Consolidation of the capital groups in metallurgy results from the necessity of adjustment of the enterprises

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to the changing conditions and requirements of the surrounding. The owners of the capitals reach a conclusion that the existing structure of the group is not able to realise the assumed development strategy on the global market. As it was mentioned above, the consolidation of the global metallurgy sector started from the merger of Krupp and Hoesche in the 90's of the previous century. In the 90's in Europe there were over 120 transactions of consolidation on a smaller scale and only in 1997 there were 5 of them [8]. As a result of consolidation such concerns as Corus (merger of British Steel – UK and Hoogovens – Holland), ThyssenKrupp (merger of Thyssen and Krupp), Arcelor (French Usinor, Luxembourg's Arbed and Spanish Aceralia) were created. Consolidation processes occurred also in Northern America and on the wave of the bankruptcies of many small steel producers a group called International Steel Group (ISG) was formed and in 2006 was taken over by Mittal Steel. In Japan, due to the merger of Kawasaki Steel and NKK a concern called JFE was created in 2003. In 2006, the British Corus was taken over by Indian concern Tata Steel. The most important consolidation event which changed the structure of the global steel market was the merger of Arcelor and Mittal Steel to form a group Arcelor Mittal. The production potential of the new entity is over 120 million tonnes of steel per year, which makes the group the leader of the global steel market. Before that transaction, Mittal group became a strategic investor of the biggest steel producer in Poland, the concern Polish Steelworks SA [9]. In 2009, according to the data of World Steel Association the capital group Arcelor-Mittal was on the first position in the rating of steel production (77,5 million of tonnes). Baosteel (China) was second with production of 31,3 million tonnes of steel. Number three was POSCO (Korea) which produced 31,1 million tonnes of steel (Figure 1).

After a comparison of sizes of steel production on global market in 2009 (after consolidation) to the situation from 1989 (before the consolidation) – Figure 2 – the following conclusions can be drawn:

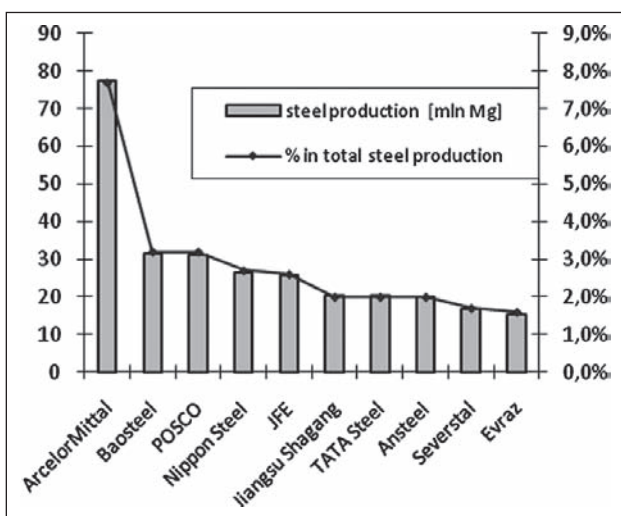


Figure 1 Ranking of 10 biggest steel producers in 2009 [10]

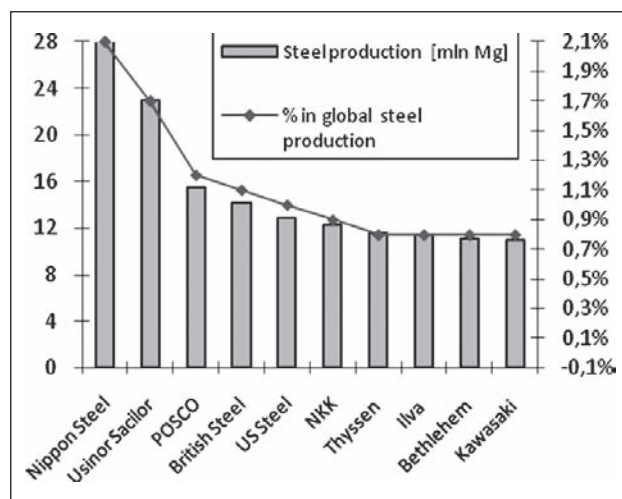


Figure 2 Ranking of top 10 biggest steel producers in 1989 [10]

- top steel producers (10 biggest) in 1989 manufactured about 13 % of the world steel production and in 2009 the top 10 biggest producers manufactured over 30 % of the global steel production,
- Nipon Steel from Japan was considered the biggest steel producer in 1989 and manufactured 28,4 million tonnes of steel then and in 2009 the biggest steel producer was capital group ArcelorMittal with the production of 77,5 million tonnes of steel,
- before the consolidation there was no significant diversification in the world top steel producers, the entities produced from 11,0 million tonnes to 28,4 million tonnes of steel, whereas after the consolidation of the capitals a major difference occurred between the sizes of production of consolidated companies and other entities in the ranking. The top tenth steel producer is Evraz with the production of 15,3 million tonnes of steel, which is only about 2 % of the global production of steel, whereas the capital group ArcelorMittal produced 8 % of the world steel production.

ENTERPRISES CONSOLIDATION ON THE POLISH STEEL MARKET

The consolidation of metallurgical enterprises in 2002 was a major event on the Polish steel market. Four steelworks: Katowice, Sendzimira, Cedler and Florian were combined into a syndicate called Polish Steelworks. On 5th March, 2004 the enterprise was bought by British strategic investor and an enterprise called ISPAT was created. Since 2006 the enterprise has been functioning as Arcelor Mittal Poland SA. Besides L.N, Mittal there were other steel concerns which took part in privatisation of Polish metallurgy. The Spanish Celsa (27th position in the international ranking of steel production with 7,8 million tonnes in 2009) became the owner of Ostrowiec Steelworks, the American CMC (47th position in the international ranking of steel producers with 3,0 million tonnes in 2009) bought Zawiercie Steel-

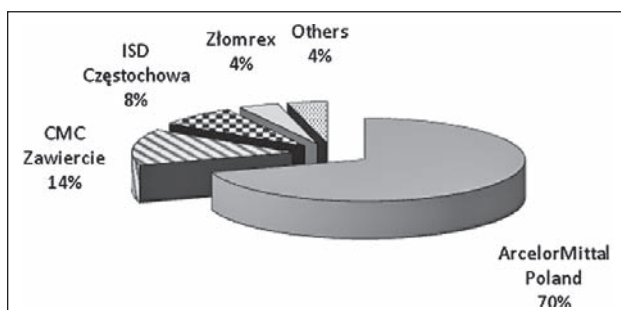


Figure 3 Structure of the Polish steel market after consolidation and take-over by the foreign capital [11]

works (producer of ribbed rods) and Ukrainian Donbas bought Czeszochowa Steelworks, the biggest producer of naval metal sheets. The mentioned concerns form 85-90 % of Polish steel market, including the biggest steelworks [9,11] – Figure 3.

CONSOLIDATION OF THE DEPENDENT COMPANIES

Polish Steelworks Concern had a wide range of dependent companies, affiliated companies and ones with minority interest expense. Together it was 73 dependent companies and affiliated companies and 65 with minority interest expense, operating in different branches such as industry automation, service and production maintenance, transport, waste management, trade, social activities and other. In the concern there were companies which had the status of public companies, being in the process of going bankrupt or in liquidation as well as those which have not started their activities yet. All dependent companies could have been divided into three groups:

1. Connected with the basic activity of the concern – entities providing service assigned by the Polish Steelworks.
 2. Entities not directly connected with metallurgy which could provide services outside metallurgy.
 3. Not directly connected with the economic activities of the concern, created as a result of various treaties and agreements where the steelworks from the concern was the party of the agreement.
- Polish Steelworks had minority block of stocks and shares.

Due to the fact that Polish Steelworks were independent entities before the formation of the concern, each of them was similarly restructured by excluding to the outside all the companies which were not directly connected with the core business. Newly formulated companies were initially forced to compete with one another but later on they formed bigger entities (the biggest number of consolidations occurred in 1992-2003). The consolidation process of the branch of companies was conducted in the following segments:

- merchandising – the necessity to form distribution network within the concern,

- service and production maintenance – specific competences directly connected with maintenance of technological cycle of Polish Steelworks,
- automatics, telecommunication and power engineering – specific competences directly connected with maintenance of technological cycle of Polish Steelworks,
- product-processing, which are dependent steelworks, companies dealing with scrap and cocking plant.

The remaining companies were treated as entities with strategic meaning for the concern and were either sold or liquidated.

OUTSOURCING IN METALLURGY SECTOR

Outsourcing may be presented as resigning from one or more kinds of internal activities by the company and turning to the use of services of outside contractors. R.C. Feenstra and G.H.Hanson define outsourcing as “fragmentation of the production process into separate activities which are located in different countries” [12]. Within restructuring actions of capital groups there are two types of outsourcing – the capital outsourcing and contract outsourcing. The first is about allocation of particular activities from the structure of the enterprise to daughter-companies. Second refers to assignment of the allocated activities to independent transactors [3,4].

In the restructuring process of Polish steelworks one of the classic actions was exclusion of processes which were not their main activities. It referred to such areas as protection of possessions, production maintenance, medical services, transport, accounting and other. Such decisions referred to all the steelworks. The factor which was different in each case was the scale of outsourcing activities and the range of actions excluded from each of the steelworks. In Katowice Steelworks (in 1991 it became a company wholly owned by State Treasury) the first divided areas were production maintenance, rail transport and car transport, automatics, service, widely understood services such as cleaning, security, water management, medical services. The majority of the restructuring actions in Katowice Steelworks with the use of outsourcing were conducted between years 1999 and 2001. Similar restructuring methods with the use of widely understood outsourcing were applied in the second biggest steelworks in Poland, in Sendzimira Steelworks. In the 90's of the 20th century on the basis of its estate a number of entities were formed: Medical Centre, Fireproof Materials Enterprise, Car Transport Enterprise. Initially, zones such as internal and external transport, renovations, cleaning and social service were divided. Then the outsourcing also began to take over the production sections [13].

Outsourcing in practice of metallurgy meant that new separate legal entities were created on certain separated zones. The control of the owner in each of the steelworks over those new entities differed significantly.

In initial stage, the steelworks were owners of the divided companies in 100 %. But later on, in the course of their activity, it often occurred that the new shareholders were outer entities, often from abroad and ones who were leaders in the business branch (for example ABB or Air Liquide in Katowice Steelworks) and they were situations where such foreign partners became the majority shareholders of such entities. Such network connections occurred in most of the steelworks. Such organisational restructuring in metallurgical enterprises positively influenced the possibilities to gain foreign capital and for the separate entities it was easier to find an investor [13].

Generally, after the take-over of the Polish metallurgical enterprises by the foreign capital (ArcelorMittal, CMC, Celsa) the concerns applied one of two strategies of action: strategy of inclusion of the divided companies to the main structures of the steelworks or strategy of leaving the companies outside the structure [13].

CONCLUSIONS

The restructuring process of the capital on the global market is conducted in order to increase the manufacturing power of producers and in order to achieve bigger participation in the world production of steel. In Poland, the consolidation of manufacturing metallurgy enterprises was caused by the need of system transformation, the crisis in enterprises which occurred in the years 1998-2000 and also as a result of unfinished repair programs of the steelworks. Taking into account the specifics of the world economy (globalisation) and conditions on the Polish market of steel it should be pointed out that the process of capital restructuring does not have a universal character but the development of new capital structures around the world positively influenced the development of steelworks in Poland (the biggest producers were taken over by the strong foreign capital). After 2003 new metallurgical enterprises were formed on the Polish market and their value is being built on the position of foreign capital which is the owner of the Polish steelworks. The new companies realized

the sustainable strategy to be better in global market. The model of sustainable enterprise is created. The company invest in innovation management. In the world the process was realized earlier [14] now companies in Polish market adopt to new dynamically-competitive environments.

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Note: The responsible translator for English language is D. Grochal, Katowice, Poland.