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CHANGING MANAGEMENT IN CRISIS SITUATIONS

ABSTRACT OF /PHD/ THESES

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1. Aims and Hypothesis of the Research

The choice of this subject was influenced by the fact that during my work I faced the crisis of Bábolna Rt. My aim was to point out the problem solving methods so that other companies could avoid similar situations.

In my opinion the present crisis of the company can be traced back to several causes.

While the company was working, several important questions were not taken into consideration and were not answered.(e. g. making loss, market failure, and loss of means). No suggestions were made to improve the situation of the company. Also the concealing of losses and the management and owners' joint interest should be traced.

Research on the subject revealed those elements, which caused the crisis and influenced the functioning of the company. I would like to give advice to the companies on, how to realize the positive functioning, to resolve the crisis situations, and to refine the strategy aims.

On the one hand comparative analysis is used to prove the following facts:

- The importance of the owner
- The influence of surroundings, especially political background and laws
- The reality of company's strategy
- The applying of strategic means, the importance and problems of their regional divisions
- The division of resources and the capital
- The importance of human resources

On the other hand, the need for strategic means, the emerged problems, and the probable reasons for lack for success are proved on a comparative basis /Balanced Scorecard-BSC/ at:

- state-owned companies
- national private enterprises
- companies having foreign and/or foreign and national capital

In the case of the companies with a similar and special profile (e. g. companies working in livestock breeding or working in the poultry industry) the results of the research proved how important the own capital or the loans are.

More suggestions are needed for companies in crisis and to show them how to resolve crises. Furthermore, more research is needed on what management should do in order to save the company from bankruptcy.

I made a comparison between the problems of Hajdú-Bét Rt. and Carnex, companies of similar size and organization. Both companies flourished between 2002 and 2004, at a time when most companies were successful. The thesis analyses only the crises at Bábolna Rt., its main events, the events of final accounts and the company's present. I attempted to prove my hypotheses concerning the strategy and functioning of this condition with this project.

Hypothesis

1. Not only the owner, but also the level of international integration, is a determining factor of being successful for globalized poultry industry
2. The Hungarian poultry industry is not represented internationally. Companies, working recently in the poultry industry are not able to handle the changes because of lack of resources.
3. If a company wants to be successful in changing management, both well thought-out plans and human resource are needed.
4. It is impossible to manage changes when the owner delays decision making, which is typical of state owned companies.
5. Strategic systems and strategic way of thinking did not develop at Bábolna Rt.

2. The Methodological Summary of Researches

During the research and analysis the following methodological approaches were used:

- a.) In accordance with the character of the research the national and international methods and experiences were surveyed with the help of national and international specialized literature.
- b.) Primary and qualitative research was made to reveal factors that influenced the crisis. Interviews were made and questionnaires were filled out by the employees and past employees in the middle management.
- c.) The scored questionnaires, which used the 'PEST-model', were classified according to subjects and are graphically represented.
- d.) To prove the main points of the thesis research was made according to a model of Balance Scorecard and applied matrix elements. Corporate SWOT analysis was made to present the influences and dangers of the outer environment and the inner strengths and weaknesses.
- e.) The main participants of the national poultry industry were introduced so that the immediate business environment, market conditions, and their structures could be examined. You are also informed about the capacity, market activity, characteristic qualities, and the compared sizes of the different companies.
- f.) During the comparison the result of earlier, secondary research is also presented, which was made on the realization of strategy and effectiveness of the national poultry industry.
- g.) Interviews made by Sonda-Ipsos Rt, ordered by Bábolna Rt., are presented as secondary research materials and are focused on special groups.

3. The Results and Statements of the Research

During the analysis at Bábolna Rt. the following problems emerged as the cause of the crisis at the companies:

After the 60s Bábolna Rt. joined the international market and followed the market policy of developed countries. After the change of regime the above mentioned period came to an end. While world leading companies made serious changes in their profile, Bábolna Rt. started programmes connected to different kinds of animal breeding and animal keeping, causing losses for poultry breeding. Investments and innovations were stopped in poultry breeding.

According to the above mentioned facts, Bábolna's sudden stop and dropping out of the international economic system started at the beginning of the 80s and ended in crisis in the 80s. Neither Bábolna nor the other companies with similar profiles took globalization into consideration while reorganizing. The change of ownership was not followed by basic reorganization or a step in the right direction. This was the reason of the liquidations. Bábolna was not able to adapt to globalization in the 80s or 90s, and the innovation was managed in the opposite direction of development. Bábolna had always been strictly directed by its only leader and after the change of regime, when the inner balance stopped working spontaneous privatisation started. More than 40 companies were established where the former managers became the owners. It was the turning point when the company lost its chance to return into the competitive market.

According to records, adjustments to changes were only verbal, for thirty years. Earlier, when the company

concentrated on the poultry industry, it played a leading role in the world. Later, when resources were invested into pig, cattle and sheep breeding rather than into genetic development and marketing in the poultry industry, innovations and new investments into the poultry industry stopped. At the change of the regime the company became weak but still had enough capital. The managers and employers generally were not able to participate in the innovations, as those who were fortunate took part in privatization, weakening and disintegrating the company. The former managers, who were aware of the strategy at Bábolna, were later working with competing companies. Instead of copying imported methods while at the same time taking our national characteristics and culture into consideration, the requirements of globalization should be followed. The rules of liberal economic and social theories cannot be used at those companies which neglect their own specialities and aims.

It is obvious that only those companies which are able to adapt to the global economy, can compete and make changes. These firms are also prepared for regeneration, changing situations, and are able to reconcile national characteristics with global challenges while keeping up with innovations.

The branch of the Hungarian food industry which is the subject of this research got into the international market without a private or national strategy. Only with state support was it able to survive ten years. After joining the European Union not even one of the branches of poultry industry could be maintained in its existing form regardless of the owners. The first new owners came from the employees and the management of Hajdú Bét, Carnex, Hercsi Hús, Sága etc. It also meant that they insisted on their traditions and attitudes. Cooperation at the market

economy did not come into existence. In Budapest, in 2003 October Bábolna Rt initiated a conference for the managers and owners working in the poultry industry. About 75% of the owners were present. The state was represented by ÁPV Rt. In this conference it became evident that, because of grievances and personal interests, they would never have a chance for a healthy cooperation in the Hungarian poultry industry. They cannot fend off the challenges of hypermarkets and solve the problems which came up after joining the EU. It was the only conference which could have led to cooperation in the market in the future, but it failed. (Interview 2007, Velez Z.) After joining the EU, the only Sága Ltd. survived because it was integrated into the international market by the English Mac Ltd.

While Bábolna Rt. was working successfully, it was unable to avoid political influence (though this question had been disputed several times). Directing without political influence is not possible if the whole system is based on politics. The long-lasting and delayed privatization and its motives came from the above mentioned problem. At most state-owned companies, political interference is one of the tools to reach a special aim. At the same time the privately owned companies are struggling with similar problems and because of similar unresolved questions. Following the political transformation (the activity cannot be called managing). The distribution of government property was dependent on two factors:

- the circle of people who were made to get a part of the government property
- giving proper positions of predominant clients.

The two interests mentioned above have made it impossible to manage the market economy property management.

Solving this problem is independent of any law or political party. Rather it is dependent upon the political culture ruling the country, when looting is more important than the perspective managing. The frequent changes in the management at Bábolna Rt. were made to implement the new owner's political view.

On the basis of this research, it is obvious that there are some unwritten rules which have to be followed to support the successful changing of management. Along with the changes, the company's culture must be realized. Inside of a company there are some rules, behavioural patterns, general methods, and procedures which determine the company's culture. Strategy harmonizing with a company's culture is the main factor of stability in the future of a company. The company's culture plays an important role in such changes as reorganizing, changing of the strategy etc., which are in progress at Bábolna Rt.

Comparing the researched Hungarian companies (Hajdú-Bét Rt., Carnex, Bábolna Rt.) it can be concluded that they were at a disadvantage in every respect. Their financial situation, expenses, and revenues of the integrated poultry industry have gradually been getting worse in the recent years, and most companies had to be liquidated. The input became too high and the producers were not able to decrease it. The processing industry could not take advantage of its capacity, and its reserves were lost. We can draw the conclusion that the poultry industry in Hungary has been in a recession in recent years. However, the Hungarian poultry industry could be successful in the EU if changes in its structure and improvements in its competitiveness are carried out. It follows that it is practical to define the challenges of companies working in the poultry industry. The strategic aims can be reached by environmental scanning, defining challenges, and the knowledge of the direction of innovation

at the company. The definite strategic aims and their realization will lead to further possibilities for the participants and a competitive, successful future for the industry.

In the case of privatized companies working in the poultry industry, the only recent change is that the acquired sources were not placed into national sources, but into private sources. In many cases the owners tried only to cover the losses which stemmed from the lack of effectiveness. The privatisation of the Hungarian food industry is not carefully considered, but it is believed that when something is privately owned it is better than if it is owned by the state. Consequently, the agricultural strategy and efficiency was not taken into consideration. With the example of the privatisation of the Hungarian food industry it is also evident that the privatisation itself does not guarantee the effectiveness of the company and competitive market. Because the privatization was short of capital, the new owners had to compete with the national companies to get subsidies. Consequently, the new owners were not able to form their joint organizations in order to protect their market. Furthermore they were not able to compete with the multinational companies due to the law of competitions.

In the case of the poultry industry there is not a kind of openness to making changes because they have no proper means for tolerating the economic consequences stemming from the changes. To finance the changes, the capital should be raised or further loans should be aquired.

Changes cannot be managed properly when decisions are delayed on all levels as it happened at Bábolna Rt. First suggestions were judged by the management of the company. Then they were passed onto the higher organization responsible for agricultural portfolio at ÁPV Rt. Then, further submissions were made related to the

given case, including the management of ÁPV Rt., the higher management of ÁPV Rt., the Ministry of Finance, the government, and even the Parliament itself. Within such a bureaucratic and time consuming decision making system, fast and effective managing cannot be realized as is required by the changing management

The annual or more frequent fluctuation in the management of Bábolna caused rather the delaying problem solving and the failure to draw a realistic picture of the company. The company's brand name and its image did not make it possible to manage the company rationally. There was no chance to develop the strategic way of thinking within the company because it was managed by the politics which hid its losses and serious problems. There was no interest in organizing the company's strategy, questioning its employees, or measuring its accomplishments. The owner lost his/her liability and wanted to have his/her own way. Taking into the consideration that the owner always was a changing organization, the personal interests and aims from the owner's interests and aims can hardly be identified, or distinguished.

From comparing Bábolna Rt. with other companies working in the poultry, industry it can be stated that the problems are similar and new scientific researches were proved.

4. New Scientific Results and statements

1. The results of research on ‘ Changing Management in Crisis Situations ’can be shortly summarized as follows:
2. Not only the owner but also the level of international integration plays a significant role in the integrated and globalized poultry industry.
3. There is not even one Hungarian company working in the poultry industry which would be competitive in the international market. Nearly all of the working companies struggle with similar problems, namely the lack of enough capital, the lack of size competitive enough in the market, the lack of finance for integration, and the lack of reserves.
4. Changes cannot be managed properly when decisions are delayed within such a bureaucratic and time consuming decision making system which characterizes public corporations.
5. The success of changing management comes with well thought-out planning and all the necessary means and tools. Consultations are needed with employees and human recourses have to be treated as the key. It will mean the promoting future of the company.
6. Bábolna Rt. was not able to realize the strategic system and strategic way of thinking making the experiment of changing management impossible and leading to a serious crisis.

5. Suggestion about Further Researches

The thesis offers methodical support and not general problem solving means. It gives some advice on how to find solutions for problems outside and problems existing inside of a company, which threaten the competitiveness and strategy of the firm. More research is needed to give clear problem solving suggestions and to show special methods to avoid or manage crisis situations. In case of delayed decision making these methods should be used because they offer more opportunities for the changing management to obtain its strategy.

6. Publications

Articles

1. Introducing of Vertical Integration with the Example of Bábolna RT. Magyar Mezőgazdaság 2002/44. 4.
2. Ideas about a New Agricultural Strategy, Magyar mezőgazdaság, Melléklete 2004/53. 4.
3. Changing Management, its System and its Motives, Jászkunság, a Magyar Tudományos Akadémia Jász-Nagykun- Szolnok Megyei Tudományos Egyesület folyóirata 2007. 3-4.
4. Die Bedeutung des Verwandlungsmanagement is der Lebenvon der AG. Bábolna (Schweiz)
5. Verwandlungsmanagement und Kontrolling in Ungarn (Németország-Ausztria)
6. Changes and Modifications at Bábolna Rt .from the Management Point of View Múlt-Kor Történelmi Portál e-folyóirat 5 évfolyam 4. 2008.
7. The Importance of the Changing Strategy and its Connection with the Controlling Economica, Szolnoki Főiskola Tudományos Közleményei, 2008. május 1.

Lectures

1. The Recent Tax Surrounding of Agricultural Enterprises in Hungary. The Challenges of EU Integration (Dr. Vágyi Ferenc Róberttel közös előadás) – „Az Európai integráció – a csatlakozás kihívásai” c. Kodolányi János Főiskola Conference, Siófok, 2002.
2. Types and Methods of Assessment and their Methodology Magyar Adótanácsadók Országos Egyesülete Conference, Lillafüred, 2003.

3. Vertical Integration and Regional Development in the Agriculture. Vertical Integration and Regional Policy in the EU. NYME Európai Unió Oktatási Központ Conference, Mosonmagyaróvár, 2003.
4. Harmonizing Taxes. Joining the EU. Austria in focus (Dr. Vágyi Ferenc Róberttel közös előadás) - Ph.D.-conference, Szent István Egyetem, Gödöllő, 2003.
5. Operative und strategische Planung und Kontrolle vs. steuerrechtliche Denken – Magyar Adótanácsadók és Könyvviteli Szolgáltatók Országos Egyesülete Conference Keszthely, 2005.
6. The Future of Sustainable Agricultural Development - Magyar Agrárkamara Komárom- Esztergom Megyei Közgyűlés Tatabánya 2006.
7. Alternative Energy Recourses and their Utilization Nyugat Magyarországi Egyetem Közgazdaságtudományi Kar Conference 2006.

Studies

1. About the Auditing of Branch Co.(Bábolna Rt.) in Békéscsaba, ÁPV Rt., 2002. augusztus
2. About the Management of Branch Co. Poultry Industry in Kecskemét, ÁPV Rt., 2002. szeptember
3. Suggestions Connected with the Privatization of Bábolna Rt., ÁPV Rt., 2002. október
4. Bábolna TETRA Kft., ÁPV Rt., 2003. április
5. The Situation and Possibility of Bábolna Rt. on the Verge of Joining the EU., ÁPV Rt., 2003. október
6. Bábolna TETRA Poultry Breeding and Marketing Co. ÁPV Rt., 2004. március