

## **THE CHANGE STRATEGY FOR A MINING COMPANY**

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In the paper the continuous need for changes in a company — especially in a mining one — was described. Possible interactions between a company and external environment were presented. The possibilities of designing and carrying out changes in a company, possible development strategies, implemented in the companies in the world, were presented. Special attention was given to mining companies and possibilities of their changes aimed at development.

### **INTRODUCTION**

Every organization is a group of people, who are linked by a lot of relations. In such a group making changes is difficult because it is not easy to change individualities who create this group. However, every organization — if it wants to survive (not mentioning development) — must change, it means also restructure. Restructuring — a derivative of a change — is a continuous, endless process. Quoting Heraklit we can say “Nothing is steady apart from a change”.

### **THE INFLUENCE OF CHANGES IN THE ENVIRONMENT ON A COMPANY**

In present economic conditions (in the market economy) a company — to achieve competitive advantage — must choose an appropriate development strategy. This is extorted by continuously changing internal as well as external environment. The changes in the environment stimulate appropriate reactions of a company, aimed at improving its competitive position. It creates conditions for development or — at least — survival on the market.

The above statements refer also (or maybe first of all) to the hard coal mining industry. Especially this sector because of its characteristics (specificity of production, seasonal character of consumers' demand on offered products, particular and unchangeable mining and geological conditions in which it operates and at the same time frequent political and legal and first of all economic changes — economic fluctuations on world markets and related changes of coal prices) should use strategies which amortize the negative impact of the environment and create opportunities for development [3].

The changing environment, also called stormy or turbulent, creates threats which are very difficult to predict, if it is possible at all. It refers to external as well as internal environment. Every organization, including a mine, operating in the particular environment is influenced by it. At the same time there is a feedback, which means that the environment is also influenced by the organization. The range of mutual relationships and interactions is dependent on potential of the company and the environment. The influence of the local environment on a global organization will be different that its impact on a small, family-owned business [4].

The internal environment is a component of a particular organization. It is made up by organizational culture, technology, machinery stock, finances, human resources. In case of the mining industry — also mining and geological conditions [4].

The external environment is the environment in which an organization meets its competitors as well as potential consumers. The external environment includes among others: suppliers, customers, competitors, social and political, legal, economic and international conditions. In economic sense the environment refers to the economic system in which a company operates — among others demand, supply, inflation rate, credit and deposit interest rates. In social — political and legal sense it concerns customs, features and values of the society, consumers' requirements and tastes as well as legal regulations concerning business activity and relationships between the economy and the state. In international sense it is among others the company's share in foreign markets and interaction of foreign companies.

The features of the business environment at present economic structure are high complexity, dynamics and a considerable level of risk. It is impossible but also unnecessary to analyze all its factors. The analysis should focus on these factors which are connected with development opportunities and threats for a company. It refers to the future and should be the basis for defining the development strategy.

While analyzing the environment from the point of view of necessary changes in a company, it should concentrate mainly on consumers (scale and rate of demand changes, market segmentation, price sensitivity), suppliers (structure, share in the market) and competitors. They create so called market environment. It is also necessary to remember about analysis of the technological environment (availability of present and future technologies) and about analysis of the economic environment (analysis of the national interest rate, tax, customs, exchange rate and industrial policy).

## **DESIGNING CHANGES AND DEVELOPMENT STRATEGY FOR A COMPANY**

Restructuring, which is a derivative of changes, cannot be realized (as a process of an enterprise's development) without critical reflections, without taking into account a whole as well as enterprise's components. In the work [2] 10 steps making up a process of change were proposed. In short, they can be presented in the following way:

1. Decode a vision of the future.
2. Analyze your business activity — identify its strong and weak points. Define the company's mission.
3. Determine the key areas for the company's results. Define goals. Work out and establish the company's strategy.
4. Work out the management philosophy for the new organization.
5. Design the organization whose activity will be effective and compliant with accepted philosophy, mission, goals and strategies.
6. Fill key positions in the new organization with competent, open to change and full of enthusiasm managers.
7. Control the new managers up to the moment when they understand and start to realize the company's conceptions, goals and strategies. Don't hesitate to spend time and money on training and improving qualities of your staff.

8. For every organizational unit determine the framework which defines expected key results (goals, strategies, an organizational chart, staffing).

9. Make sure that the people employed in the organization understand their role in the restructured enterprise.

10. Remember that every process of changes is a threat but should be realized according to the above procedure. It requires strong, centralized management and engagement of suitable resources.

A choice of an appropriate development strategy by an enterprise is one of the key factors of its survival on the market. In case of diversified companies (engaged in a number of different business activities) their development strategy should concentrate mainly on determining [5]:

- activities which the company will realize;
- markets on which the company will operate;
- the conception of competitive activities.

A company must individually choose a strategy, because of a variety of business activities (diversification) it is impossible to apply one universal model to different enterprises. However, in scientific works models of strategies were presented. For example H.I. Ansoff [1] recognized that a starting point were products offered by a company and the accompanied market conditions. According to his theory, there are four so called growth vectors:

- **Market Penetration** — expectations of product changes, searching for new buyers in the framework of the present market segment;
- **Market Development** — entering new market segments with the current product;
- **Product Development** — offering to groups of customers current products with new features or functions;
- **Diversification** — departing by a company from currently applied production technologies and current markets.

On the other hand, for M. Porter [6] the starting point in working out a strategy is competitive analysis, it means evaluation of probable strategies realized by competitors. Therefore, the most important is defining a goal, whose realization is dependent on company's potential but also on the market structure. Basing on these rules he defined three kinds of enterprise's change strategies:

- **Cost leadership** — means achieving costs which are lower than competitors' costs — introduction of this strategy is connected with considerable investments in new equipment and introducing cost control procedures;
- **Differentiation** — means that a company seeks to be perceived as unique by buyers; the strategy can be based on a product; distribution and customer service systems. It requires additional costs, which are compensated by prices which are higher than competitors' prices;
- **Focus on one market** — means concentrating on a particular group of consumers, products or the market and — by good quality of service — achieving competitive advantage. The strategy results in slower but steady growth, however in a period of economic downturn it makes business activity more risky.

The change strategies, if they are applied by a company, prove its expansive policy. The expansion means primarily:

- winning new markets;
- production diversification.

## THE CHOICE OF A CHANGE STRATEGY FOR A MINING COMPANY

Currently, most of mining companies concentrate on one business activity, i.e. extraction and enrichment of minerals. It means that they apply the concentration strategy, focusing on achieving one goal. In this way they reach a high level of specialization, which has a positive impact on costs of production and product quality. However, the concentration has some disadvantages and such companies to a considerable extent are dependent on the economic situation on the coal market and their growth rate is limited.

Currently, thanks to high coal prices on the world markets, mining companies achieve positive financial results. It influences their development strategies, which is reflected in planned, large-scale investments in mining companies. However, these investments are focused mainly on activities connected with coal extraction and are continuation of the concentration strategy. It will allow to increase output of coals which are most sought after on the market, i.e. mainly coking coal, and supply of so called ecological coal fuels, which will result in the maximization of profits.

Another method for survival on the market of a mining company is vertical integration strategy. In its highest form it means including a receiver or a supplier in the structure of an enterprise. In this case it means integrating a mining company — a producer of power coals — with a power station, or in case of coking coal producer — with a coke plant or a group of them, as a main receiver of its products. However, vertical integration results in decrease of a supplier's performance. Because there is a secure market for its products a producer is not interested in further improvements in this area.

Nevertheless, vertical integration is a good solution for mining companies because it ensures safety in case of demand fluctuations. It is shown by the examples of integration of The Southern Poland Power Company (pol. Południowy Koncern Energetyczny) with the Southern Poland Coal Company (pol. Południowy Koncern Węglowy) and the planned integration of Jastrzębska Coal Company Inc. (pol. Jastrzębska Spółka Węglowa S.A.) with chosen coke plants. It is also interesting that the concern Mittal Steel is seriously engaged in searching for possibilities of investing in developments of coking coal deposits in Poland in order to ensure supplies of the coal to the concern's coke plants.

Probably the best change strategy, which is possible to apply in the mining industry, is product and market diversification. It means diversifying production and services with simultaneous diversification of the output markets. The output markets are in this case independent so the risk connected with decrease of demand on one of them is limited. In general sense the purposes of enterprise's diversification are:

- creating better conditions for growth;
- better use of resources (generally) and improvement of economic conditions;
- higher financial safety.

Not investigating the classification of diversification in more details, which Ansoff [1] did in the 60s of 20<sup>th</sup> century, we can state that such factors as: worsening mining and geological conditions; related, unavoidable increase of extraction costs, more and more severe environmental regulations and international competition cause that further functioning of mining companies (concentrating only on extraction and selling coal) is becoming problematic.

Diversification of mining companies should proceed in a flexible way. It means from horizontal phase [5], in which the range of production of different classes and types of coal is extended, through vertical diversification (which means going beyond a current framework of the production process), concentric diversification, which enables to achieve a strong position in related industries (in respect of the market, research and technology) up to the conglomerate diversification, which means achieving a strong position in the industries which are completely different in respect of the market and technology or starting non-industrial business activity.

A conglomerate which gathers companies operating in different industries enables them to develop steadily. In this way the companies become independent of possible demand fluctuations on the market. The decrease of supply-demand relation on one market often results in its increase on the other one. Then the companies belonging to the conglomerate but operating in other industries can support the ones which experience difficulties. Such companies can cope with competition more effectively, waging so called price wars, because they dispose of not only their own capital but usually have at their disposal resources of the whole conglomerate. The experiences of Western countries, e.g. Ruhkohle AG in Germany, convince of such a model of a mining enterprise [4].

## CONCLUSIONS

The company's development depends on many factors, including reaction to the changing environment. It encourages continuous need for changes in a company — especially in a mining one. The influence of the environment and decisions made by a company's management decide about a choice of an appropriate development strategy. Choosing out of three main types of strategies, i.e. concentration, vertical integration and diversification, a company can match its model of functioning to present and — in an predictable period — future conditions.

In case of Polish mining companies, also an insightful observation of competitors is important for designing these changes. Apart from paying attention to domestic mining companies and foreign suppliers planning to enter our market, they should also observe potential suppliers of other power fuels (natural gas, fuel oil) and renewable energy. In the near future a considerable part of the energy used in Poland will be obtained from renewable sources.

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