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January 1993

25p.
tables
diagrams

FINAL REPORT

Contract No. 92/175

between

The United Nations Industrial Development Organization (UNIDO)

and

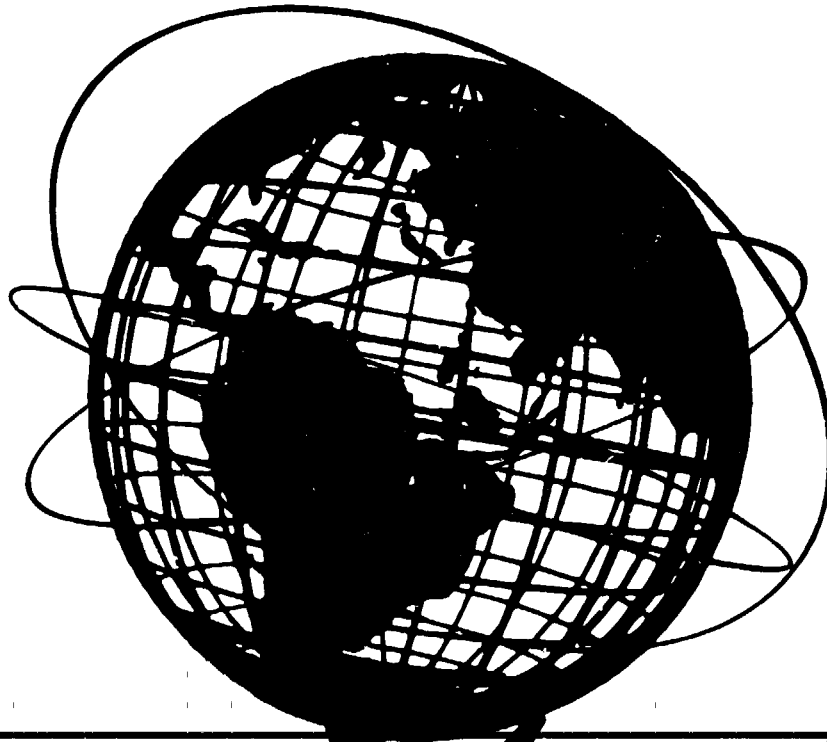
USX Engineers & Consultants, Inc. (UEC)

**"Restructuring of the CSFR Metallurgical Industry
in the area of Marketing in the Czech and Slovak
Federal Republic"**

UNIDO Project No. DP/CZE/91/012

Activity Code: J13210

UEC Project No. 4186



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**Prepared by: USX Engineers and Consultants, Inc.
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ABSTRACT

The purpose of this report is to present a description of training provided a select study group of CSFR managers in the areas of marketing and managing in a free market economy - along with the findings of the Contractor regarding present and planned marketing organization structures at three CSFR steel plants.

Recommendations are made regarding improvements to the plant organization designs as well as a model design which could be used throughout the CSFR steel industry.

Recommendations are made regarding further education needs in the areas of marketing and management.

Comments are provided by the Contractor regarding other areas of need observed during the study program at the Contractor's headquarters and during the Contractor's visit to the Czech and Slovak Republic.

INTRODUCTION

This final report covers the activities, conclusions, and recommendations of the Contractor in fulfilling the contractual obligations.

The report will assist in developing a basis for further action by the respective recipients of the report as well as the specific companies participating in this effort.

Sections 2 thru 6 provide the results of the study in which the Contractor performed the following services:

- 1.1 Designed a three week study program to provide the participants with the opportunity to learn free market economy marketing and sales theory and practice. Appropriate organizational and behavioral material was included to enhance the participants managerial skills.
- 1.2 Enlisted world experts, USX executives, and executive level consultants to conduct and supervise the program and to evaluate results both programmatic and individual.
- 1.3 Conducted the three (3) week study program at Consultant's headquarters in Pittsburgh, Pennsylvania, U.S.A. during the period October 30, 1992 thru November 19, 1992.
- 1.4 Prepared and submitted an interim report covering the study programme in December 1992.
- 1.5 Visited three (3) steel plants in CSFR during December 1992, met with representatives of four (4) other plants, and conferred with government and UNIDC officials.
- 1.6 Prepared this final report which recommends.
 - 1.6.1 Organization structures for marketing for each of the three plants visited (Section 2).
 - 1.6.2 A model marketing organization (Section 3).
 - 1.6.3 Conclusion regarding current marketing and managerial expertise (Section 4).
 - 1.6.4 Recommendation for continuing education (Section 5).

The report is presented in narrative style supported by charts, excerpts from faculty presentations, tables, and lists of personnel.

PROGRAMME

2.1 Objective

"To strengthen the managerial and marketing skills of CSFR steel industry management to assist in the successful transformation of selected steel plants to a market economy environment."

2.2 Three Week Study Programme

The detail of the programme is covered by the December 1992 "Interim Report". Excerpts from the report are cited below to provide context and continuity for the remainder of the final report.

2.2.1 The training design considers:

2.2.1.1 The potential utilization of program participants as trainers in their own company or in multi-company workshops.

2.2.1.2 The meaningful differences in business practices in free market economies vs planned economies.

2.2.1.3 A structured learning process; first week theory, second week process and actual practice, third week practice and selected managerial topics.

2.2.1.4 Applicable managerial and behavioral theory and practice.

2.2.2 The results indicated:

2.2.2.1 Substantive learning occurred.

2.2.2.2 The training design was appropriate.

2.2.2.3 Reinforcement of this learning and individual/organization development is desirable and necessary.

2.3 Contractor's Report of Visit to CSFR

A list of individuals interviewed at each location is included in the Appendix (Sub-Section 8.3).

2.3.1 Poldi - Kladno

Mr. McKee visited Poldi December 7, 8, and 9. The general plant layout was observed and a detailed tour

of Poldi \$2 - mills and finishing facilities was accomplished. The majority of the remaining time was spent with Marketing personnel gathering data regarding Poldi's present position in the market, its plans for organization change, reviewing possible educational initiatives, and discussing options and courses of action for the marketing function.

A. Findings

1. Poldi's shipments have shrunk from 950,000 tons in 1987 to slightly over 400,000 tons in 1991 and are headed substantially lower in 1992 (perhaps as low as 150,000 tons).
2. Most of the loss was in the home market (approximately a 65% loss) while Trinecke and Nova Hut gained market share.
3. Price competition, poor deliveries and service are the reasons given by Marketing for these disastrous results.
4. Unit costs are high; in some cases above competitive prices.
5. Quality is competitive.

B. Organization

A major organization change is taking place. Little detail was available to the Marketing staff other than it will apparently be a holding company-daughter structure. No reasons were given for selecting this direction.

The Marketing organization plan was undecided and changing during my visit. The last formal available to me is shown in the Appendix - Section 8 - Subsection 8.5.1 along with the current thinking for early 1993 Subsection 8.5.2.

C. Conclusions regarding Organization

1. The "Holding Company" organization structure has little merit in the Contractor's view notwithstanding some vague references to protection of property in the event of bankruptcy.

2. SURVIVAL is the single goal for Poldi and anything which diverts attention from this fundamental purpose needs to be corrected or discarded. This unnecessarily complex organization structure divides authorities and responsibilities, lengthens lines of communications and requires functional coordination at skill levels which are virtually unknown in Western companies.
3. The Marketing function and personnel are relatively new at Poldi which complicates matters.
4. The Model Marketing Organization (Section 3) should be adopted as an arm of the holding company. As a minimum some variation which brings together in a single organization; market planning, research, and pressing needs to be instituted promptly.

D. Education

1. The Marketing organization recommended a temporary halt to further Marketing training, workshops, etc. until privatization was completed and the proposed organization was settled in.
2. The Contractor received advocacy from the General Director for the Steel Management Institute (Section 5.4).

E. Recommendations

The Contractor agrees that Marketing needs to be acting rather than attending seminars, etc. and recommended the following courses of action:

1. General
 - a. Establish the #1 Priority for Poldi as SURVIVAL.
 - b. Focus on the available Market and its needs.
 - c. Find a buyer for Poldi #2.
 - d. Cut plant costs drastically - people, materials, fixed, etc. Not cosmetically

as the "Holding Company structure will do, but actually with Draconian measures.

- e. Hold Marketing accountable for the prompt development of realistic and specific market plans.

2. Marketing

- a. Develop a Presentation for the General Director and Board encompassing the following elements:

- Market Share Losses including comparisons of where we have been in recent years.
- Where we are now.
- Stress Rationalization as a means to SURVIVAL.
- Obtain agreement to the following:
 - Institution of a plant motivational program focused on SURVIVAL.
 - Push Export Sales.
 - Hold Domestic position.
 - Development in conjunction with Financial of several breakeven scenarios at different levels of annual shipments down to 150,000 tons.
 - Selection of a scenario to build a Marketing plan, institute a new organization structure and implement the required cost cutting measures.

2.3.2 Frinecke Zelezarny - Trinecke

Mr. McKee visited Trinecke December 9, 10, 11, and 14. Facility tours included the BOF, Bloom Caster, Billet Caster Site, Wire Rod Mill and Light Section Mill. The visit was well organized with key personnel interviews providing adequate time for personnel

interviews providing adequate time for data gathering, discussion, and exchange of ideas.

A. Findings

1. Plant operating level in terms of Steel Making was approximately 60%.
2. A small profit is expected in 1992 with a positive cash flow.
3. Future order bookings are doing well particularly in the Export market.
4. The Marketing organization is aggressive and sound as is the Sales group.
5. The Commercial Director is an excellent choice, proficient in Marketing and Sales and whose focus is outward.
6. The Marketing function in general has a clear picture on where they want to take the business combined with pragmatism about the obstacles to be overcome in getting there.
7. Plant Information System development is at a critical stage and would benefit from a professionally developed Integrated Computer System Master Plan such as is offered by USX Engineers and Consultants, Inc. Mistakes by Trinecke at this stage will be very costly.

B. Organization

A detailed history of Trinecke's evaluation, both facility and organization, was provided the Contractor. The last organization change was made effective 1-4-1992 and a chart is included in the Appendix as Section 8.5.3.

C. Conclusions Regarding Organization

1. The organization in place today reflects good positioning and structuring for the Marketing/Sales organizations. It is on a par with many Western companies.

2. The span of control is too broad. Seventeen (17) direct reports to the General Director are far too many and smacks of a compensation system based upon how many people report to you rather than decision making authority and financial responsibility.
3. The Chairman of the Board of Management, Dr. Raab; the General Director, Ing Hojdysz; the Informatics Manager, Mr. Pekar; the Commercial Director, Ing Dostal are progressive modern managers who are advocates of change and dedicated to a successful business enterprise.
4. The Marketing Organization and its leader, Mr. Dostal, in particular, are well organized and skilled in their Marketing and Sales efforts and are moving forward. Mr. Dostal, Mr. Sikora, and Mr. Szurman are movers and shakers.
5. The Contractor believes certain organization change is required to solve the span of control and to focus other functions. Accordingly the Contractor proposed to Dr. Raab, Mr. Dostal, and Mr. Pekar an advanced structure incorporating functional Western concepts in organization design for an organization involved in evolutionary change and recommended its adoption Section 8.5.4.
6. The Marketing & Sales Organization in the proposal is more advanced and broader based than in the Model Organization (Section 3) and could be considered as the next evolutionary step beyond the Model.

D. Education

1. Advocacy was obtained from the General Director, Board Chairman, and Commercial Director for the Steel Management Institute concept.
2. Mr. Dostal agreed that the "trainers have been trained".
3. Mr. Dostal advocated an educational program aimed at blunting the ecological criticism

aimed at the Steel Industry through accelerated institutional advertising.

2.3.3 Vychodosiovenske Zelczarne sp (VSZ) - Kosice

Mr. McKee visited VSZ December 14, 15, 16, and 17. Toured Hot Strip Mill, Continuous Pickle Lines, and 4-Stand and 5-Stand Cold Reduction Mills. The visit was well planned with well organized meetings with appropriate management.

A. Findings

1. Much current emphases on Strategic Planning.
2. Business is fair with major emphasis on export.
3. Hot strip mill needs some upgrading - gauge control improvements, strip cooling system, coilers, and identification system. Housekeeping was unacceptable.
4. 4-Stand and 5-Stand Cold Reduction appear to be competitive as do the Continuous Picklers. Housekeeping was excellent.
5. One of the cold mills was on a planned maintenance outage. Counted 64 people in the area; about half were working. Indication of overstaffing and potential cost savings.

B. Organization

1. Reviewed the organization structure in detail with the object of trying to comprehend the logic behind the "Holding Company - Daughter" structure and its extremely complex design. The specific reason given for this choice of design was "hedge against asset loss in the event of bankruptcy". In the Contractor's view this is a suspect reason for structuring a multi-fractured organization with duplicate and overlapping functions with tortuous lines of communication.
2. As near as could be determined, VSZ is composed of a Holding Company with 77 daughter companies of which 58 are 100% owned entities. The Contractor could identify only 65 companies from the data supplied which is

some indication of the organization complexity.

3. There is a Commercial Director for the Steel Company with a Marketing and Sales organization with certain export territories.
4. There is also a separate Foreign Trade Company which handles all other Steel Exports.
5. Other companies do their own marketing and sales, sometimes through agents.
6. At least one additional foreign trade company exists.
7. Although the company is clearly over-organized, action has been taken to restructure which is positive. The organization, which is relatively new, will shake itself out over time.
8. The current Marketing/Sales organization is shown at Section 8.5.5.

C. Conclusions Regarding Organization

1. In the opinion of the Contractor, a more appropriate design for the steel company would be patterned after the proposed Trinecke design (Section 8.5.5).
2. The Contractor believes an organization review
3. Decision making should be pushed down.
4. Information systems development is not a role for the Marketing Manager and the current direction of stand alone data bases and personal computing capability for all is not only incorrect but potentially very costly. Professional analyses and recommendations for overall corporate systems Master Plan of the type of services offered by USX Engineers & Consultants, Inc. is urgently needed.

E. Education

1. VSZ has a developed, functioning training center (ETC) which operates as a profit making center.
2. An ambitious education initiative has been developed by Ing Pullman and submitted to UNIDO for grant consideration.
3. The proposal envisions a continuing developmental effort for all VSZ employees using state-of-the-art educational processes.
4. If successful and sustainable the program would be open to other companies and countries on a profit making bases to VSZ.
5. The Contractor strongly advocates this program as an important and necessary process for change. The program concept and management is professional.
6. Upon the phaseout of Steel Management Institute concept (three to five years after inception) certain elements of its curriculum and perhaps faculty could fit into Ing Pullman's initiative.

2.3.4 Other Plants

On December 12 Mr. McKee visited OFZ at Istebne and enjoyed a business/social day with Mr. Svehla - Chief of Marketing. His advocacy for the Steel Management Institute was strong as it was for institutional advertising to combat negative ecological posturing by the government. His organization structure is appropriate for OFZ's specialized product lines.

On December 13 Mr. McKee visited Ostrava to meet with Mr. Zednik of Nova Hut and Mr. Ofler of Vitkovice. Both advocated the Steel Management Institute and the Model Marketing organization concept.

Mr. Ofler evidenced a strong interest in moving ahead in the information systems area in particular as it serves business and strategic planning. Mr. Ofler was referred to Mr. Zambelle of UEC for further discussion.

Mr. Zednik reported brick business at Nova Hut. First quarter of 1993 is sold out with little booking space left in the second quarter.

On December 16th Mr. McKee met with Mr. Miklosko - Manager of Marketing - Zelegiarne Podbrezova and provided counsel regarding selling in a less than capacity market and proposed organization design for Marketing.

2.3.6 UNIDO

Mr. McKee met with Mr. Noqueira, Mrs. Trkalova, Mr. Fealn, and Mr. Copak on December 18 at the Unido training center in Praque and provided the UNIDO officials with a summary of the visits to the various steel plants. Significant findings and recommendations were discussed as well as a design for marketing education at those locations not involved in the study programme or Mr. McKee's visit to CSFR.

Mr. McKee stated the final report would be unavoidably delayed due to a multitude of holidays occurring in late December and January but would make every effort to submit the report as early in January 1993 as possible.

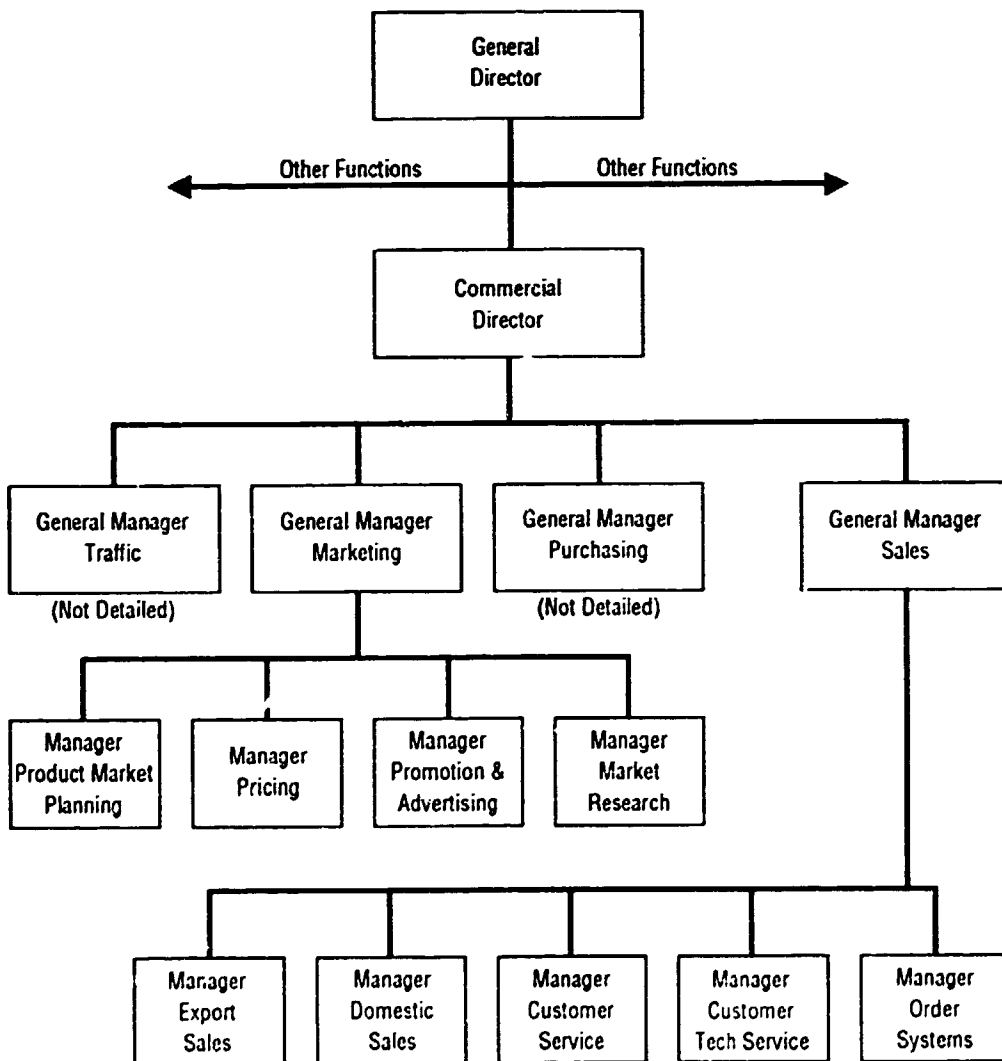
A tour of the Praque training center was concluded by Mrs. Trkalova.

A business luncheon was held where discussions of education and organization initiatives continued. This concluded Mr. McKee's obligation in CSFR and he departed for the USA on December 19, 1992.

**A MODEL MARKETING ORGANIZATION
FOR THE CSFR STEEL INDUSTRY**

3.1 Structure

The organization structure design recommended is shown below along with its positioning in the plant hierarchy.



The Purchasing function is included because trade 1 barter sales are predictable for several years in the future.

The Traffic function is included because it is vital to the Purchasing function and, most importantly completes the sales - production - delivery chain.

3.2 Lines of Communication

The Commercial organization is a three-level organization reducing layers and simplifying communications.

All marketing - sales functions for all steel products are included in this single organization, including all export sales, all customer service functions, pricing, and promotional activities.

The Commercial Director is a direct report to the Plant Manager (General Director).

The inclusion of Customer Technical Services for product development, problem and claim handling, and customer consultation is patterned after U. S. Steel's successful evolution of this function.

Similarly, the positioning of a single responsibility for order system development and management is a U. S. Steel copy.

3.3 General Role of Marketing and Sales

3.3.1 Marketing - (External focus)

3.3.1.1 Identify and recommends participation in products and markets with emphases on product-market combinations.

3.3.1.3 Translate the needs into an offer and the means for communicating to the customer(s), making sure the other functions of the business can and will support the offer.

3.3.2 Sales - (Internal focus)

3.3.2.1 Sales is to create effective, profitable demand, expand demand or control the rate of decline. The Sales Task is implementation.

3.4 Procedures

Marketing - Sales procedures are specific to the product - market combinations being served and are also strongly influenced by company size, structures and objectives.

It is more appropriate to present marketing roles and responsibilities around which company specific procedures can be developed locally.

Therefore the Contractor has included in the appendix selected excerpts from the three (3) week study programme as follows:

Section 3.4.1 - Notes from Dr. Rajev Ghandis presentation.

Section 3.4.2 - Complete Notes from J. U. Hudson's presentation of U. S. Steel Marketing.

3.5 Position Specifications

General Manager - Marketing

- 3.5.1 Directs Marketing Organization.
- 3.5.2 Evaluates individual and organizational effectiveness and takes action as required.
- 3.5.3 Assures continuing professional development of the organization.
- 3.5.4 Establishes product development, pricing, and promotional policies.
- 3.5.5 Provides product market research, market forecasts and plans.
- 3.5.6 Interacts with financial, operating, strategic planning, technical, and personnel functions and department heads to assure rationality of marketing plans and insure total plant support for initiatives.
- 3.5.7 Interacts with customers, trade associations, education centers, and appropriate governmental functions to maintain external view.

3.6 Personal Specifications

- 3.6.1 Educational back ground must contain Marketing, Business Planning, and Finance.
- 3.6.2 Knowledge of product lines required.
- 3.6.3 Selling experience is desirable.

3.6.4 Problem solver

3.6.5 Decision maker.

3.6.6 Good grounding in individual evaluation techniques.

3.6.7 Assumes responsibility for results.

The specifications for the other positions are similar,
tailored to the individual structure and position.

**CONCLUSIONS REGARDING MARKETING
AND MANAGEMENT EXPERTISE**

4.1 Poldi

4.1.1 Marketing

- 4.1.1.1 Just getting organized.
- 4.1.1.2 Specific marketing skills not yet visible.
- 4.1.1.3 Initial organization structuring indecisive.
- 4.1.1.4 Several of the marketing staff are yet to be named.
- 4.1.1.5 Wide separation of Marketing and Sales is a handicap.
- 4.1.1.6 Urgent need for Poldi decision makers to push for an effective marketing plan to be developed, communicated, accepted, and implemented.

4.1.2 Management

- 4.1.2.1 Morale not good in Marketing and Sales.
- 4.1.2.2 Great concern about the future.
- 4.1.2.3 No evidence of change taking place.
- 4.1.2.4 People are waiting for something to happen that will extricate Poldi from its threatening financial crunch.

4.2 Trinecke

4.2.1 Marketing

- 4.2.1.1 Clearly the most advanced in its understanding and application of market economy marketing policy and practice.
- 4.2.1.2 Marketing and Sales organizations understand their roles and objectives with clarity.
- 4.2.1.3 Results indicate acceptable performance in a free market economy.
- 4.2.1.4 The General Director and chairman of the Board of Management appreciate and support Marketing.

4.2.2 Management

- 4.2.2.1 Substantive change has taken place in the plant.
- 4.2.2.2 Change agents are at work.
- 4.2.2.3 The Commercial Director is exceptionally bright, pragmatic.
- 4.2.2.4 The Marketing Manager is seriously optimistic and highly effective and enthusiastic.
- 4.2.2.5 Export Deputy Manager is energetic, confident and impatient for change.
- 4.2.2.6 Certainly some of these people possessed these capabilities for some time and are properly positioned.
- 4.2.2.7 The Commercial Director can develop Business Planning and Systems functions.
- 4.2.2.8 This plant is on the move and deserves strategic and financial support.

4.3 VSZ - Kosice

4.3.1 Marketing

- 4.3.1.1 Difficult to evaluate because of fragmentation in structure and its newness.
- 4.3.1.2 The Commercial Director understands the principles and practices of marketing in a free market economy.
- 4.3.1.3 The Manager of Export Sales is aggressive and his leadership qualities show.
- 4.3.1.4 The Marketing Manager is a strong advocate of information systems development. He appears to rely upon consultants and publications for his marketing direction. His view is inward when it should be external. Probably an excellent systems development manager in the wrong job.
- 4.3.1.5 The ETC Director evidences strong support for marketing.

4.3.1.6 Strategic Planning is an ally but not sure of marketing's rate in the planning process.

4.3.2 Managerial

4.3.2.1 There is clearly change at work marked by the ambitious organization structuring even if overorganized.

4.3.2.2 Needs an integrated strategic and marketing plan.

4.3.2.3 The hot strip mill must justify upgrading.

4.3.2.4 The plant is geographically positioned well.

4.3.2.5 The aggressive approach evidenced in most managers interviewed and the sales successes to date would indicate a business worthy of strategic and financial support.

RECOMMENDATIONS FOR CONTINUING EDUCATION

It is clear to the Contractor that fundamental change is required in each of the companies visited with regard to the importance, role, and design of their respective marketing organizations ranging from minimum change at Trinecke to a complete rethinking at Poldi.

All managers at all plants must grasp the significance of "our most important product is our customer" as key managers at Trinecke and VSZ have done as well as the direction and intelligence provided by an effective marketing organization.

It is not just further education that is required, though it is vital and strongly recommended by the Contractor; Sections 5.1, 5.2, and 5.3 below.

In the Contractor's opinion what is most important for the CSFR steel industry is quick and affirmative behavioral change on the part of key managers. These managers must become change agents in order, by precept and example, to create an environment in which constructive change is accepted, encouraged, and institutionalized. See Section 5.4.

Looking at capabilities and needs more closely, these observations are made:

- A. The team members from UNIDO, the Ministry, Trinecke, Istabne, Nova Hut, Vitkovice, and Kosice have had their prior knowledge of marketing and selling in a free market economy enhanced and have clearly grasped the basics of theory and practice. The same is true at Poldi but the members are preoccupied.
- B. The team members can be used as trainers.
- C. The General Education of Management at all plant sites in Western techniques of marketing, sales, and management theory and practice is clearly needed.
- D. Some grasp of organization design principles is evident but extensive further development is needed.
- E. The basics of individual and organization diagnoses and development are not evident; what practice was observed was probably intuitive.
- F. The most pressing need is for the development of practicing change agents.

Specific Recommendations

- 5.1 At the local level, team members should organize short, single subject sessions for key managers on the general theories of marketing and planning. Minimal investment is required, space, duplication of materials, and perhaps some beer if evening sessions are planned.
- 5.2 For those plants who did not participate in study programme, a broader based program is recommended. The plan advocated comprehends a two week programme (Appendix Section 8.1 - 2 Week Education Programme) conducted by a single consultant at a plant training center. Such a programme could be conducted for \$25,000 or less dependent upon the Consultant's fee.
- 5.3 A different approach is envisioned in the VSZ initiative proposed by Mr. Pullman, head of the Educational Training Center and advocated by the Contractor. This is a General Management Development program and is on file with UNIDO. The Contractor recommends joint development by VSZ - UNIDO unless the costs prove to be prohibitive.
- 5.4 In the Contractor's opinion, the most needed short term educational program is comprehended in the Steel Management Institute concept. Its characteristics are as follows:
 - A. Its primary objective is to generate change agents.
 - B. It exists only as long as it takes for the number of change agents to reach critical mass (the point at which change proceeds without additional catalysts).
 - C. Based upon six three (3) week sessions per year, 12/15 members per class, critical mass point is estimated to be three (3) to five (5) years from the initial class.
 - D. The program should be conducted at a center of learning remote from any steel plant location.
 - E. Faculty should be recruited from Western universities and companies and impressed with the need to keep costs to a minimum.
 - F. Faculty should only be on sight when actually teaching.
 - G. The attendees must be the best and brightest from each plant, selected by a plant committee, approved by the Board of Directors.

- H. Upon selection each attendee should be behaviorally tested so that he/she understands:
1. Their own behavioral pattern and traits.
 2. That they are change agents and have the support of their top officials.
 3. How to make change.
 4. How to build their own confidence to effect positive change.
- I. The precise curriculum should be determined by a faculty committee of professional trainers and organized into an effective delivery system. Subjects should include as a minimum:

<u>Managerial</u>	<u>Technical</u>
Problem Solving and Decision Making	Finance
Quality of Worklife	Accounting
Counseling/Consultancy	Business Planning
Conflict/Stress Management	Marketing
Organization Diagnosis	Production Planning
High Performing Systems	Inventory Management Information System Organization Design Organization Development

SUMMARY

As indicated by interviews of the study team members by the Contractor during the three week study program and later during Mr. McKee's visit to CSFR it was clear that:

- A. Substantive learning occurred.
- B. The training design was appropriate.
- C. Continuing education is necessary.

A four programmed approach to education is advocated by the Consultant, the most crucial of which is the development of a delivery system to produce change agents through the Steel Management Institute concept.

With regard to Marketing organization designs in place in the CSFR, their effectiveness and completeness ranges from very good at Trinecke to fragmented at VSZ and undecided at Poldi.

The Model Marketing Organization proposed by the Contractors provides each plant with the option to choose all or appropriate parts of the Model design for their own use. The Contractor advocates adoption of the entire model or in the case of Trinecke, a step beyond.

CONTRACTOR'S COMMENTS

Several recurrent themes arose during the study programme and the Contractor's visit to CSFR and are discussed in this section.

A. Survival

A consuming issue at Poldi, of significant concern at Vitkovice, and a driving force at Trinecke, Nova Hut, VSZ, and Istebue.

The Contractor advised all team members this was the primary issue for the entire CSFR industry for at least the next two years (time estimated to clear the massive inventory overhang around the world and get some sense of stability into former COMECON country steel industries). Through this period CSFR will experience increased efforts by Western European countries to increase their imports into CSFR while limiting CSFR exports to EEC countries. Similarly former Eastern bloc countries, particularly Russia, will seek to raise their exports to CSFR. Price instability will continue so Draconian cost cutting actions are the watchword for CSFR steel companies.

B. One of the options which may impact survival opportunities is a marriage, either with other CSFR companies or foreign suitors.

At Poldi, foreign venture capital in exchange for ownership percentage and management influence may be Poldi's only chance for survival.

The proximity of Trinecke, Nova Hut, and Větkovice with each other, their overlapping product line, and complementary differences in technical capabilities each possess, along with a probable decline in the long product markets combined with their joint needs to reduce costs makes some type of merger attractive.

Many combinations are possible however a well thought out strategic plan at the federal level is a must to provide guidance for these separate companies. Such work has begun and needs to be expedited and based upon a sound secular survey conducted by a trusted consultant specializing in global markets and economics.

C. Information systems are at various stages of development in CSFR steel companies, non of which are very far advanced. This is a critical point in the decision cycle for information system development.

Strategic planning as to where to take the business is at a critical stage also.

Contractor strongly recommends that Trinecke, Vitkovice, Nova Hut, and VSZ consider the services of a consultant such as USX Engineer and Consultants, Inc. to assist in developing strategic direction for long term business planning and immediate assistance in information systems planning and implementation.

It costs far less with much lower risk of serious and costly errors for a Consultant to install a state-of-the-art integrated business and process control system than for a single CSFR company to develop it, let alone several companies working independently and simultaneously.

- D. Contractor believes there is a need for a flat rolled steel plant in the Czech Republic serving the construction, appliance, and automotive industries.

This is in addition to the VSZ plant in the Slovakian Republic.

The plant could take several forms; two being the most prominent:

1. A mine-mill paralleling the NUCOR plant at Crawfordsville, Indiana, USA utilizing a thin slab casting, close coupled strip mill process to serve the construction market.
2. or an automotive quality state-of-the-art plant to serve all three primary markets. If a thin slab caster is considered, it must be capable of producing deep drawing, superior surface quality cold rolled usable by automotive, otherwise conventional slab casting should be used.

A well thought survey of potential markets and the CZECH republics ability to compete in them should be made and in conjunction with the survey recommended in B. above.

2 WEEK EDUCATIONAL PROGRAMME

	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
W E E K 1	Free Evening Orientation Dinner	Marketing Basics Role of Marketing	Role of Marketing (Continued) Marketing Strategy Evening Discussion	Pricing Credit Quality	U. S. Steel Marketing U. S. Steel Sales Evening Discussion	Visit To Customer	Free
W E E K 2	Free Reorientation Dinner	U. S. Steel Order System Project	Plant Production Planning and Control Project	Business Planning Project	Customer Service Project	Customer Service Project	

Project = Develop an actual marketing strategy for the customer visited.

	<u>NAME</u>	<u>AFFILIATION</u>
CSFR	Milan Adelt	Poldi
	Antonin Holecek	Poldi
	Eva Marinova	Poldi
	Josef Dostal	Trinecke
	Jan Sikora	Trinecke
	Czeslaw Szurman	Trinecke
	Ladislav Tomica	Trinecke
	Jana Kaplanova	Nova Hut
	Mirko Zednik	Nova Hut
	Slavomir Ofler	Vitkovice
	Attila Chovan	VSZ
	Peter Krivos	VSZ
	Milan Poloncak	VSZ
	Peter Miklosko	Zeleziarne
	Andrej Svehla	OFZ
Milos Fiala	UNIDO/CSFR Joint Programme	
Karel Beneda	Federal Ministry of Economy	
Vasil Copak	Federal Ministry of Economy	
		<u>POSITION</u>
USX CORP.	Peter Mulloney	Vice President and Assistant to the Chairman- Board of Directors
USS GROUP	Roy Brown	Manager- Plant Business Planning Mon Valley Works
	Bruce Haines	Vice President-Sales
	Upton Hudson	General Manager- Marketing and Planning
	Lawrence Pecko	Manager-Business Planning (Headquarters)
	Stephen Powers	Business Strategic Planning Manager (Headquarters)
	Lawrence Schults	Controller

CONSULTANT

UEC	Peter Chomeyn	Managing Principal-The Allegheny Marketing Group
	Frank Fenton	Senior Vice President- American Iron and Steel Institute
	Professor Rajiv Grover	Joseph M. Katz Graduate School of Business/ University of Pittsburgh
	Stanley C. Marshall	President- Stanley C. Marshall, Inc.

CONTRACTORS

	Howard McKee	Project Director
	William O'Toole	Consultant
	Bruce Shields	Consultant

PRINCIPALS

	Regis Gaugler	Vice President-East
	Thomas Hunter	General Manager-Sales and Project Administration
	Alex Hutnik	Manager-Sales and Project Administration
	John Jaloski	Senior Project Administration
	Ted Smith	President
	John Zambelli	Director-Information Technology

APPENDIX

Personnel interviewed/contacted during Mr. McKee's visit to
CSFR - December 6-19, 1992.

(T) Karel Beneda - Federal Ministry of Economy
(T) Vasil Copak - Federal Ministry of Economy

Poldi

(T) Frantisek Vagner - Vice Chairman of the Board
General Manager
(T) Milan Adelt - Marketing Manager
(T) Antonin Holecek - Export Marketing
(T) Eva Marinova - Export Marketing
Petr Hammerbauer - Marketing, Foreign Section
Manager

Trinecke

Dr. Jaroslav Raab - Chairman of the Board of
Management
Gustav Hojdysz - General Director
Vlastimil Pekar - Information Systems Manager
Roman Lipka - Marketing
(T) Josef Dostal - Commercial Director
(T) Jan Sikora - Marketing
(T) Ladislav Tomica - Marketing
(T) Czeslaw Szurman - Export Deputy Manager

OFZ

(T) Andrej Svehla - Chief of Marketing
Jaromir Reha - Marketing

(T) = Study Team Member

Nova Hut

(T) Mirko Zednik - Export Marketing

Vitkovice

(T) Slavomir Opler - Senior Manager Business Strategy

Zeleziarne Podbrezova

(T) Peter Miklosko - Manager of Marketing

VSZ

Dr. Marian Sarissby - Vice President
Member of the Board

Ladislav Brunak - Director of Personnel Management

Ladislav Drabik - Director of Personnel Management

Milan Uhliar - Trade Manager

Josef Papcun - Director Strategic Planning

Pavol Sirola - Strategic Planning

Marcel Ondrck - Strategic Planning

Pavol Podhorsky - Strategic Planning

Augustin Pullman - Director-Educational and
Training Center

Julius Bacso - Commercial Director

Ladislav Varga - Sales Manager

Stefan Sklenar - Marketing Manager

(T) Attila Chovan - Marketing Manager-Foreign
Trade Company

(T) Milan Poloncak - Sales Manager Export

(T) Peter Krivos - Marketing Specialist

(T) = Study Team Member

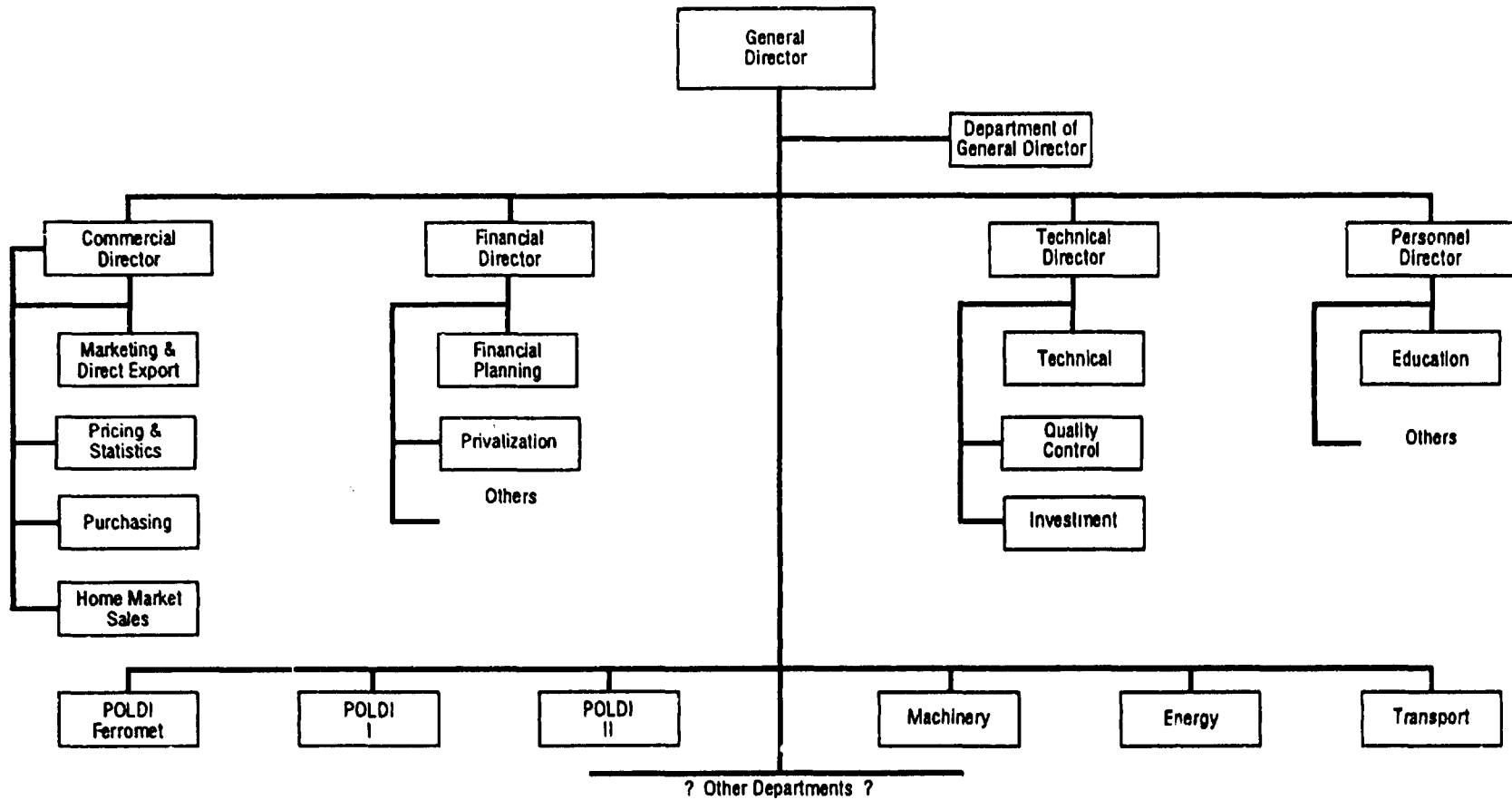
UNIDO Prague

Milton Nogueira Da Silva - Industrial Development Officer

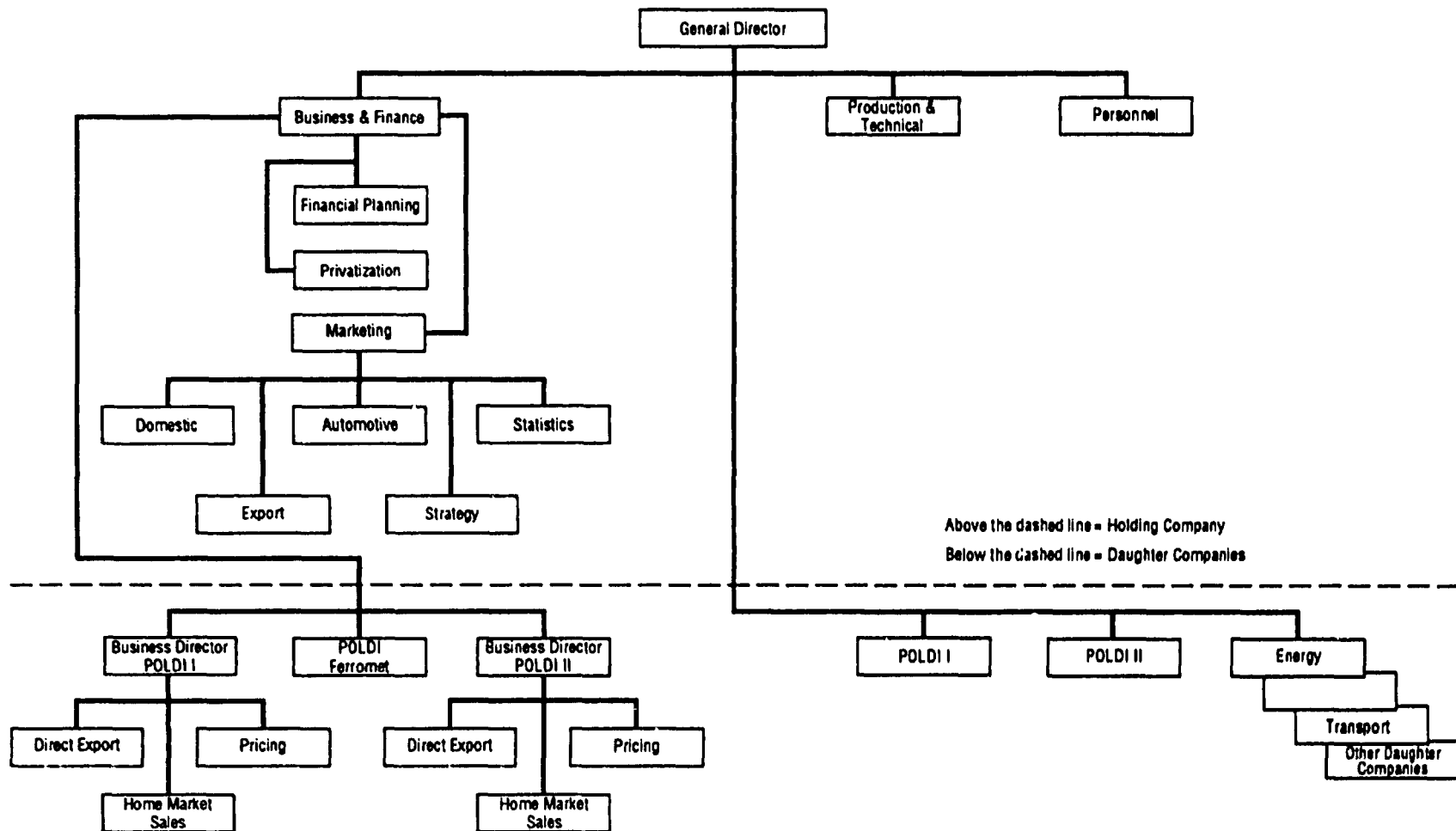
Dagmar Trkalova - Chief Executive
UNIDO-CSFR Joint Programme

Milos Fiala - UNIDO-CSFR Joint Programme

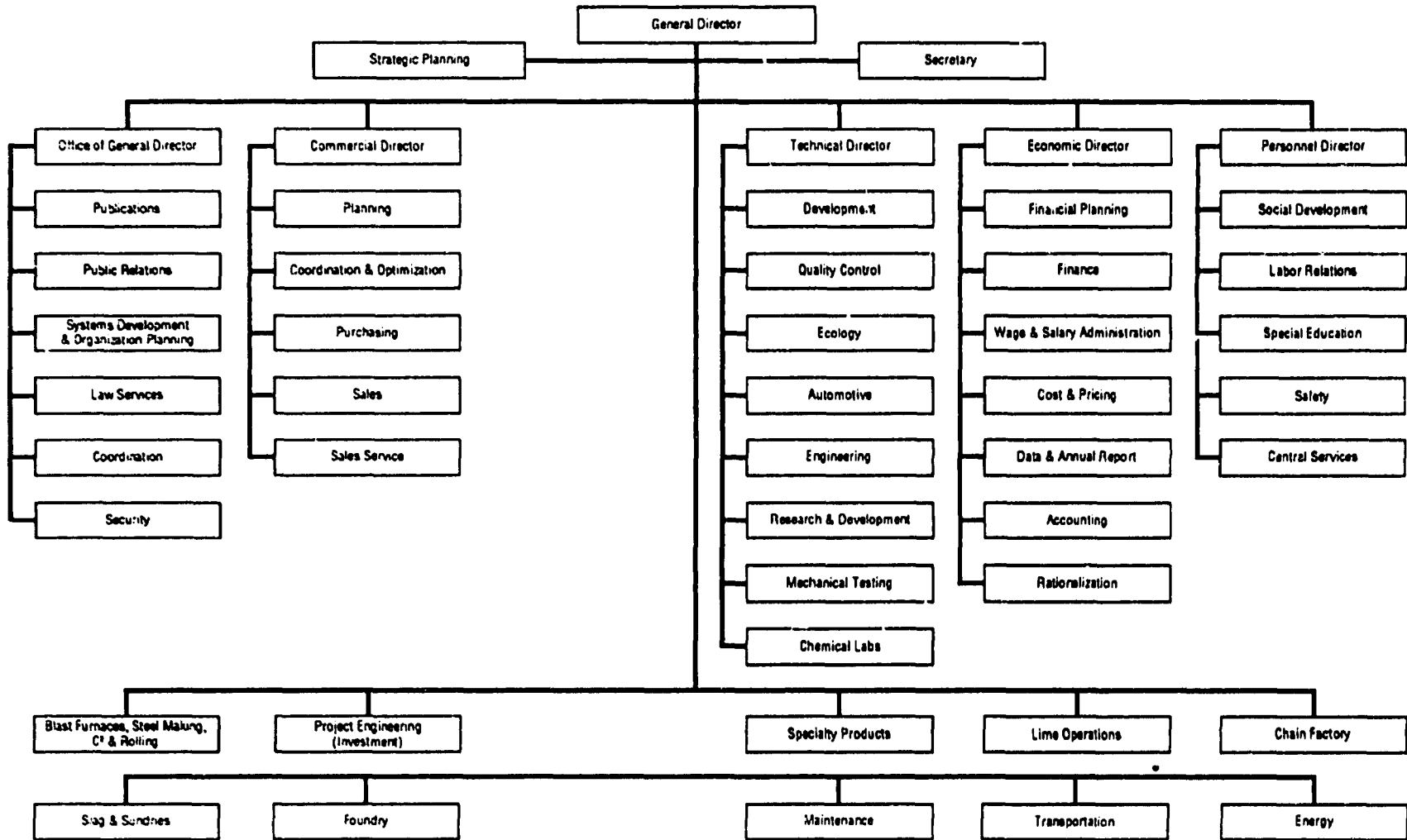
POLDI ORGANIZATION
As of 9-12-92



POSSIBLE POLDI ORGANIZATION January 1993



TRINECKE ZELEZIARNE
As of 1-4-92



PROPOSAL - TRINECKE ZELEZARNY ORGANIZATION

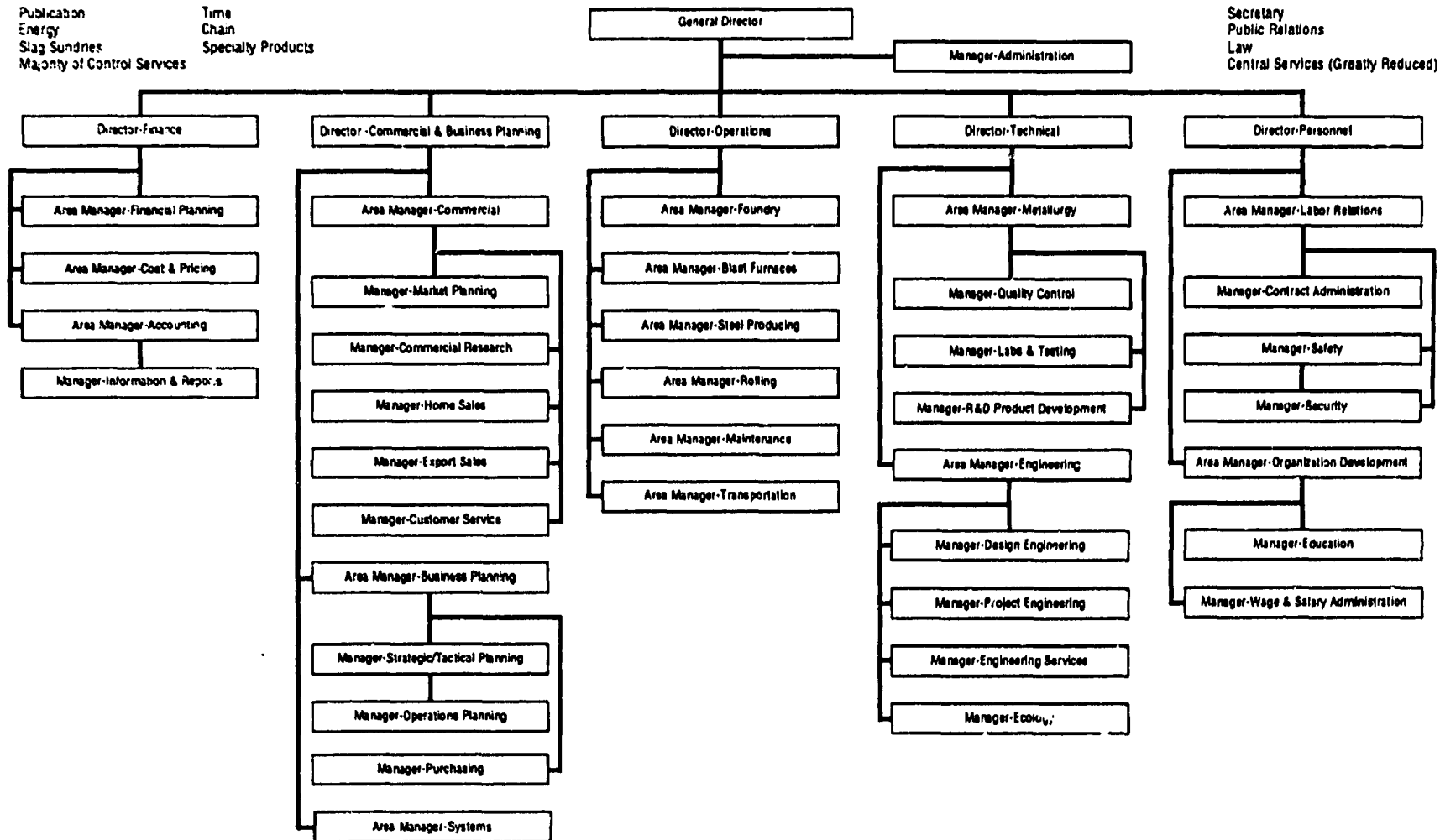
January 1993

Spin Off

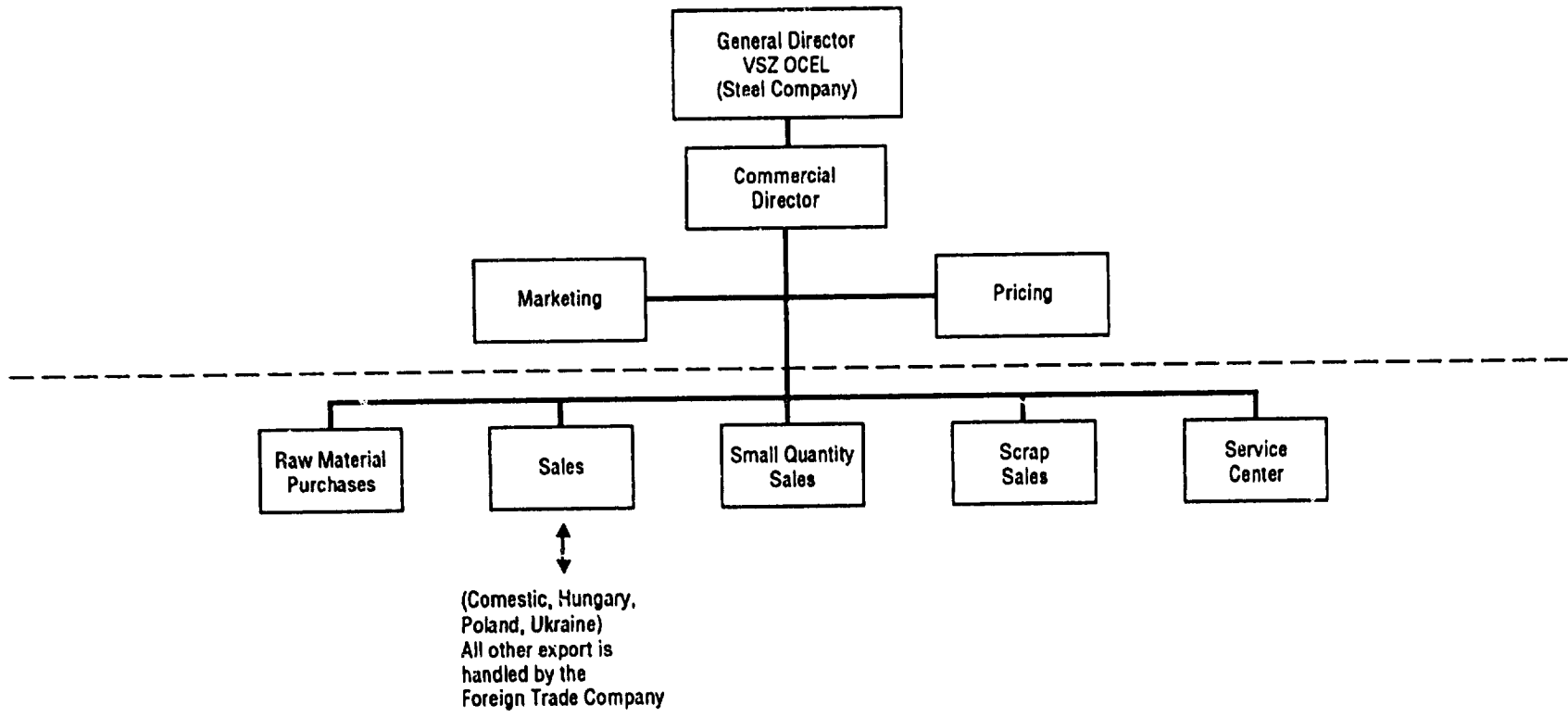
Publication
Energy
Slag Sundries
Majority of Control Services

Time
Chan
Specialty Products

Secretary
Public Relations
Law
Central Services (Greatly Reduced)



**VSZ
Marketing-Sales Organization
1-11-92**



Entities below the line are 100% owned companies