

## ASPECTS OF ORGANIZATIONAL REPUTATION MANAGEMENT IN METALLURGICAL INDUSTRY FROM ROMANIA AND EU

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The purpose of this paper is to highlight the need for the applying a management system of the organizational reputation based on the analysis of the organization and correlations with external environment, at the level of enterprises from metallurgical sector in Romania and EU. It also aimed to identify the need to implement in metallurgical industry the organizational reputation management and the factors with direct impact on the performance status, the usability of production capacity and market trends under the impact of the economic situation.

*Key words:* metallurgical industry, reputation management, organization analysis, Romania, EU.

### INTRODUCTION

A strong industry is a key element for economic and competitiveness growth through both the correlations that it has with the rest of the economic sectors and the real contribution to GDP and employment insurance. In this respect, it should be noted that in EU, that is the second largest producer of steel in the world, working over 360 000 people, the output is over 177 million tonnes a year, accounting for 11 % of global output. [1].

Also, the research and innovation activity in the industry has a significant share in the private sector, and exports are mainly realized due to the products obtained in this sector. Major imbalances generated by economic and financial crisis that started in 2008 have highlighted the importance of a developed industry in supporting any economy. Although studies have shown that EU industry has shown a real potential in response to difficulties arising from economic imbalances, the effects of the economic crisis within the sector, are felt very strongly in present. Thus, in the European Union, after 2008, the number of jobs was significantly reduced (by more than 3 million), production and productivity enrolling on a downward trend.

Metallurgical industry experienced a significant reduction in production activity, which resulted in an extensive restructuring process and reduce the number of jobs. The reduction of investment and consumption, high prices charged at energy and the difficulties in procuring raw materials needed have significantly influenced the metallurgical industry [2]. Major difficulties in metallurgical industry are recorded worldwide. Thus, China, which is an extremely important competitor in the global economy, reported huge debts of companies from this sector in the years 2013 and 2014. In the EU,

the situation was similar, being very clear influence of the crisis in many countries.

A study made on a total of 52 large companies in the metallurgical industry in Romania has demonstrated the negative effect of the financial expenses generated by borrowing on financial results. [3]

Also, in Romania, the situation of bankruptcies recorded in the metallurgical sector amply demonstrates the difficulties caused by the worsening of the economic environment. Thus, if in 2008 it ranked 21 in top sectors affected by bankruptcies, between 2009 -2014 metallurgical industry ranked 11 [4]. This negative trend comes on a fund where the trust in industry in countries such as Germany, France, South Korea has declined dramatically in this period by more than 15 %. In a report published by the Reputation Institute in 2014, referring to the reputation enjoyed by the largest companies in the world

The metallurgical industry are not included in the top 30. The only exception is Germany, where ThyssenKrupp manages to keep on the rank 22 [5]. The same report shows that we live in a reputational economy in which both the relationship B2B (business-to-business) and the relationship B2C (business-to-consumer), the most important is how you are perceived as an organization and then what you sell.

It can be said that the reputation of enterprises is a foundation of the future value, being known that adding real value is an objective for any firm. In the metallurgical industry, improving the reputation can represent an determinant factor of development, in the context in which the request remains on a downtrend and the overcapacity is obvious. It should be based on an ongoing analysis of organizations and influence factors, external and internal, the relation that they have with each of the stakeholders.

Also, to reduce the negative effects of the economic and financial crisis is necessary to increase the the

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quality level of the obtained products and the maintaining of the production costs at a low level.

## THE ANALYSIS OF THE ORGANIZATION AND ITS INTERACTIONS WITH THE ENVIRONMENT, THE RELATION WITH STAKEHOLDERS

Management decisions should be based on the analysis of the state of the economy, the action environment of the organization, its characteristics, the relation with stakeholders, but also their desires in order to ensure a correct identification of influence factors and the directions of action, reputational capital that the company can rely on. Normally, the stakeholders can include categories in the organization: internal customers, management, employees, directors etc. or outside the organization: investors, customers, regulators, suppliers, partners, constituent parts, community groups and government organizations, pressure groups etc.[6] The necessity to identify stakeholders and their requirements, expectations and needs towards the organization to determine the responsible management to periodically review this issue and use all necessary means to meet their expectations. The difference between stakeholder expectations and the company's activities is called reputational risk and it represents during crisis periods a major threat, as reflected in Figure 1.

Analysis of the interactions between the organization and its environment in the metallurgical sector must be done in conjunction with its characteristics, which distinguishes it in the whole industry, represented by: are the most energy-intensive activities, along with construction materials; technologies and equipment used are complex; activity is performed by means of some continuous processes, with automatic regulation and permanent control over the technological parameters; cost of raw materials and energy has an important percentage in the total cost of production; is dependent in a significant proportion of the work done in other sectors (especially construction and infrastructure investment).

Activity in the industrial companies from metallurgical sector require identification of influencing ele-

ments both the external environment and internal environment. Whereas any industrial organization is an open system whose interaction with the external environment affects the condition and capacity to action, company analysis is performed on the following levels: macro-environmental of the company analysis, company environment analysis and internal analysis of the company. The relation with stakeholders is another important element, neglected by organizations from this sector, but important in the context of reputational economy. Companies should develop a thorough analysis of needs and expectations of stakeholders, and the relationship's state between them and the organization. For example, an European Commission study, realized in 2014, revealed the interest of stakeholders to strengthen the „Metallurgical Infrastructure” in Europe, amid innovation [1].

As a result, in each company of the metallurgical industry is necessary to develop the research and innovation activity, so as to obtain top products, in processes of energy efficient and low cost.

On the first point, it should be mentioned that the economic situation in a country is strongly influenced by the measures promoted by the authorities. In the period that followed the recession phase, the decision makers have taken a number of measures designed to mitigate the negative effects of the crisis on the one hand, but which led, on the other hand, at a strain on economic activities, at a limitation of the growth opportunities in economic domain.

In the European Union, there have been promoted a series of measures to implement an integrated industrial policy that allows enhancing the competitiveness and growth potential. Unfortunately, the mix of measures promoted in each country did not allowed the achievement of all objectives. An example in this respect is the situation in Romania, the most important measures with direct implication on the economy and therefore on industrial organizations which activates in this framework which have been taken concern on: increasing the value added tax (VAT) from 19 % to 24 %, which resulted in a general increase in prices, inflation and declining the purchasing power of population decline that affected all sectors of the national economy; implementation of minimum tax (based on the income earned in a period of boom economic and with serious distortions in the application), direct implications on bankruptcy and unemployment; lack of reaction of authorities to adopt strategies that sustain productive sectors. To these are added other negative elements such as: the national unemployment rate was 7,3 % in 2013 and 6,4 % in 2014; GDP per capita in Romania is the last but one place in the European Union; growth of 3,5 % in 2013 was followed by a slow-down, in 2014 registering a growth of 2,9 %.

All these factors have resulted in a decrease in the volume of business and implicitly to a decrease of markets and production. In these circumstances, a way to maintain market shares and sales volumes, was an adaptation of the organization's processes to new economic realities.

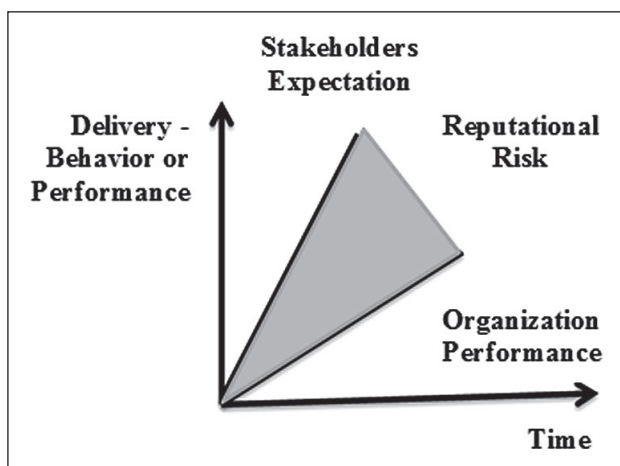


Figure 1 Reputational Risk [7]

The metallurgical sector from Romania have faced a number of difficulties, decrease of its activity generating negative effects on other sectors. Thus, at its level is a reduction of production capacity by one third between 2008 - 2013, production volume recorded a 15 % decrease in 2013 compared with the previous year (the largest decreases were in iron and ferro - 26,5 %, hot rolled products - 13,2 % and steel for continuous molding 12,5 %) [8]. Indicated situation is found in many countries with significant activity in this sector. Thus, in China, due to large subsidies granted by the state (the goal being the creation of jobs), there were built many steel works, and it reached at an excess of 300 mil. tons of steel (the metallurgy remain a sector with overcapacities). By the way, in China's steel industry the overcapacity as demand for 2015 was appreciated at 720 million tonnes. This is a reason for the initiative of this country, that was triggered in 2014, known under the name „One belt, one road”. The low degree of utilization of production capacity in this sector is a concern of specialists (for example, at worldwide in 2014, the capacity utilization rate of global crude steel was approximately 73,5 %). They believe that the desire to increase market share at the level of producers, amid the restart of capacities can generate an over supply, prices remaining low. It is considered that the problem of overcapacity it will gradually solve only in case of the obtaining of competitiveness products, with a high level of quality.

The emergence of new technologies, generators of trends, continuous technology development are, in the industrial sector analyzed, elements that directly affect the consumer, whose request becomes more demanding, but also its capacity to permanently adapt to demand and market competitiveness.

Development of communications at current levels led to a specialized demand, not only from specialists, but also from ordinary consumers, who through access to information, the ease with which this information circulates, they have now a different approach to product, the demand is now explicit and well-reasoned. The products, marketed by a company in the domain, must respond to a competitive market increasingly specialized and refined.

To identify how the industrial organizations compete within an industry and the elements that generate the level of profitability of the industry, it can be used the 5 Competitive Forces Model (Porter model) [9]. In line with this, the five forces of competition are: threat of new players, bargaining power of suppliers, bargaining power of buyers, threat of substitute products, and rivalry among competitor. At the level of metallurgical industry, imports from countries which have reduced prices (China for example) and the economic situation (the economic crisis has caused a significant decrease in external consumption with direct implications on domestic production) affected the margins of major manufacturers [10]. As a result, fusions remain a solution for ensuring the growth in domain. How-

ever, companies in the domain have opted mainly for restructuring, staff reduction, cost reduction or closing unproductive operations. The application of these measures resulted in a slight improvement of activity, reflected by the increasing of turnover by 9,1 % for total market (internal and external) in 2014 compared to the previous year [11].

At the same time, large sums were invested in research and development programs, in new equipment, to increase safety and to protect consumer health and environment. It is also followed to ensure that production processes in the metallurgical domain, and also their industrial applications should be automated, making it safer and more efficient [6].

The change of industries which are consuming ferroalloys reflect consumer trends. Given that there is a huge need of metallurgical products (in present, the world demand for steel is estimated at + 3,5 %), is demonstrated that there is great potential for the metallurgical industry that can develop greatly in the near future. Unlocking the economy and breaking the financial deadlock can be relaunch levers for this industrie.

## CONCLUSIONS

The industrial sector from the entire world was affected in a significant proportion by the economic recession. The metallurgic production had a clear tendency to decrease, the value recorded in 2013 being below that of 2008 (in 2014 was reported a slight increase in relation to the previous year, respectively of 4,4 %). The factors which determined the decrease of the performance are: rising commodity prices; reducing domestic and external demand; lack of liquidity and reduce bank loans; rising energy prices; exchange rate volatility in the context of dependence of imported raw materials; decreased activity in the construction sector; political instability etc. Their influence was enhanced by the drastic reduction of activity in other sectors, the domino effect is highly visible.

Thus, the decline in investment in infrastructure and constructions caused a significant decrease in the metallurgy. Another conclusion that can be drawn from the analysis is that the authorities in Romania have not adopted appropriate measures to support the metallurgical industry, economic operators in this branch of activity recorded significant reductions or even close the activity, amid lower demand for such products.

Regarding the importance that this sector have given to reputation management, the fact that in most of standings, it is not represented, raise a big question mark over the management of the metallurgical companies.

In this context, it is extremely important to strengthen the position of EU companies in the domain of advanced metallurgical processing and in surface engineering and promote top products so as to ensure a high level of competitiveness due to a very strong competitor registered worldwide.

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**Note:** The responsible translator for English language is Dicu Maria Camelia from Târgu Jiu