

META-TURNAROUND CASE : A STUDY ABOUT THE
TURNAROUND STRATEGIES AND THE RELATED
DECISION STREAMS SHAPING THEM.

MBA THESIS

BY
TOLGA TÜZÜNER
SEPTEMBER 1995

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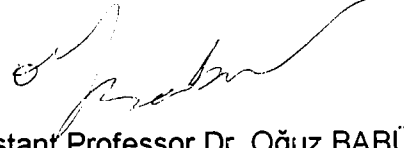
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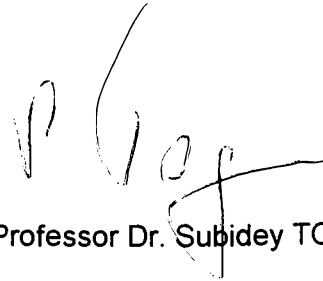
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ABSTRACT
METAŞ'S TURNAROUND CASE : A STUDY ABOUT
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BY
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SEPTEMBER 1995

Metaş which is the first private steel factory with arc furnace technology, begins to implement the "turnaround" strategy during the 90's. This case aims to determine the reasons that cause the turnaround strategy and the strategic decision streams through the turnaround.

Metaş could not succeed financially in the extensive competition of the 80's eventhough having better production techniques compared to it's competitors, having a company image accompanied by the "quality" concept, and sufficient social right given to its workers.

After the production was stopped it began to exercise turnaround strategy by the help of the funds that were injected by the government. Production started again and necessary structural changes were done. As during the privatization period the government gave way to survival by nationalization, this regeneration period has a special feature. Also it's importance comes from the fact that this case is a successful example of a turnaround that was done by a big scaled firm in Turkey.

In this case, the Metaş' turnaround is examined. Starting from the reasons creating crises together with the environmental conditions the case is set on the general turnaround explanations. In the research part, the chronological determination of strategic areas results in generic strategies. So by this method, the strategic ways reaching to turnaround strategies and the effects of turnaround strategy on Metaş' organizational life is examined.

ÖZET
METAŞ'IN TURNAROUNDU : TURNAROUND
STRATEJİSİ VE BU SEÇİMİ OLUŞTURAN
STRATEJİLERİN GELİŞİMİ HAKKINDA BİR ÇALIŞMA
TOLGA TÜZÜNER
YÜKSEK LİSANS TEZİ İŞLETME FAKÜLTESİ
TEZ DANIŞMANI : Doc. Dr. OĞUZ BABÜROĞLU
EYLÜL 1995

Bu olay çalışması ilk özel ark ocaklı demir çelik tesisi olan Metaş'ın 1990 yılı içinde uygulamaya başladığı turnaround stratejisini, kendini oluşturan nedenler ve sonucunda olduğu strateji akımları yardımı ile incelemeyi amaçlamaktadır.

Metaş birçok rakibine göre modern olan tesislerini, kalite kavramı ile birleştirdiği imajına ve çalışanlarına sağladığı sosyal olanaklara karşın seksenlerin getirdiği yüksek rekabet koşullarına ayak uyduramayarak zaman içinde finansal açıdan zor durumda kalmıştır. Firma üretimini durdurduktan sonra turnaround stratejisine girerek kendine gereken fonları devletten sağlamış, gerekli yapısal değişiklikleri yapmış ve yeniden üretime geçmiştir.

Metaş'ın yeniden üretime dönmesi özelleştirme döneminde yapılan bir devletleştirme işlemi olduğundan son yıllarda güncelliğini hiç kaybetmemiştir. Turnaround açısından ise büyük ölçekli bir firma için tam anlamı ile başarılı bir örnek teşkil ettiğinden önemlidir.

Bu çalışmada, firma içinde bulunduğu çevresel koşullar ve krizi yaratan nedenlerle birlikte incelenmekte, turnaround stratejisi kavramının daha önce pek de incelenmemiş yapısı tanımlandıktan sonra buraya "Metaş turnaroundsu" oturtulmaktadır. Bir inceleme olarak da firma için önemli olan stratejik alanlar belirlenmekte burada oluşan stratejiler zaman boyunca çıkarılmakta, bu stratejilerden de firmanın generic stratejilerine ulaşılmaktadır. Böylece turnaround stratejisine giden stratejik yol ve firmaya turnaround stratejisini uygulamadaki etkisi belirlenmektedir.

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PREFACE

Turnarounds are of increasing relevance. Global competition, technological turbulence, high costs of capital and other nettlesome factors will cause more and more businesses to face occasional hard times. Businesses in mature industries face particularly difficult turnaround situations. Demand is flat, customer loyalties are relatively strong and competition is generally zero sum.

The purpose in writing thesis about the Metaş' turnaround was twofold: To provide a group explanation of a turnaround strategy which is under the shadow of retrenchment strategy in the strategic management books, and to create a strategic decision stream towards the turnaround strategy.

This thesis includes four parts. In the first section, the general concept of the turnaround strategy was examined. In the second part of the thesis, Metaş is introduced with the environmental trends and the reasons causing the crisis. The implementation of the turnaround in Metaş is examined under the first stage's findings. In the last stage the strategic decision streams towards turnaround are considered. From functional areas to generic strategies every strategy evolution was examined in time; especially the appearance of the turnaround strategy is plotted on the time scale of the strategic flow.

The reasons for choosing Metaş as a model for turnarounds were the company's remarkable specifications. First of all, Metaş is attracting public interest from 1990 until now. And although it has been facing financial problems, it has been in Turkey's top 100 firms list.

Besides that the easy access to Metaş by the help of Oğuz Babüroğlu's project, the easily reachable information about the factory, and the public interest to the problem were the other reasons for selecting Metaş as a case study.

PART 1

“TURNAROUND” IN GENERAL

Turnaround strategies are designed to restore the health and viability of an enterprise following a period of decline. Retrenchment and turnaround are often linked since cut backs are usually part of an overall plan to improve organizational performance. Retrenchment differs from turnaround in that retrenchment is a pull back and leaning up in face of adverse conditions. The strategic posture of retrenchment is defensive. However retrenchment is considered to be a part of a turnaround strategy. Turnaround strategy's first phase consists of a defensive act like retrenchment but moreover it is followed by a steaming of the corporation phase.

Turnaround managers try to bring order to chaos, which usually means they must take control of every function in the business. They create budgets from the bottom up and strictly enforce accountability.

The amount of time required for a turnaround differs depending on the researcher. Hofler's research stated that the average time of a successful turnaround elapsed from through to peak was three years. The whole range observed was one to four years.¹ But the research of Bibeault's showed that the average elapsed time from beginning to end is four years. Bibeault also noted that the time required for a turnaround is a function of the size of the organization².

No matter what type of operating turnaround strategy is followed, the limited financial resources and time urgency associated with most operational turnaround situations require that particular attention be given to all actions that will have a major cash flow impact on the business in the short term.³

¹ Charles W. Hofer, "Designing Turnaround Strategies", *Managing Transition*, p.679.

² D.G. Bibeault, "Corporate Turnaround: How Managers Turn Losers into Winners" Newyork: McGraw-Hill, 1982, p.307.

³ *Ibid*, p.680.

There are two factors that are important in describing turnaround situations. They are the areas of organizational performance affected and the time critically of the turnaround situation.⁴

TYPES OF TURNAROUND STRATEGIES

There are two board types of turnaround strategies that may be followed at the business level;

- 1) Strategic turnarounds,
- 2) Operating turnarounds.

Strategic turnarounds are appropriate when the business is in a noncrisis situation but has lost position strategically.

In strategic turnarounds, the focus is on the strategy changes sought with the performance produced being a derivative of the strategy change.⁵ Strategic turnarounds are of two types; Those that involve a change in the organization's strategy for competing in the same business and that involve entering a new business.

Operating turnarounds are usually one of four types, none of which involves changing the firm's business-level strategy as in the strategic turnarounds. These are non strategic turnarounds that emphasize:

- a- Increasing revenues,
- b- Decreasing costs,
- c- Decreasing assets,
- d- A balanced combination of the three types.

⁴Ibid., p.683.

⁵Frank T Paine, William Naumes, *Organizational Strategy & Policy Text and Cases*, The Dryden Press, 1982, p.94-95.

In operating turnarounds the focus is on the performance targets, and the actions through which they can be achieved are to be considered whenever they make long run strategic sense.

Another broad type of turnaround can be specified as financial turnaround. In this kind the company restructures its financial operations. The objective is to utilize the financial strength of the business. The financial turnaround is seen as a part of operational turnaround by some of the authors.

STEPS OF A TURNAROUND

Five basic steps that are described for a turnaround by the researchers are: change in management, consideration, radical and urgent solutions, stability and streamlining.

CHANGE IN MANAGEMENT

Only 20 percent of business failures are caused by external elements. The other 80 percent are the result of mishandled internal elements. Management is the source, that drives the internal functions of finance, production and marketing/distribution, and yet these elements are the root of the majority of the business failures.⁶

The inability of upper management, not very experienced in turnaround management, to handle the situation is the first problem to be faced in a turnaround. An organization's managers often begin to believe that their management style and methods can not fail. Since what they have done in the past was successful, they tend to rely too much on past experience as a guide to future action.⁷ Management incorrectly assumes that business can continue as usual. Because the normal business practices have placed the firm in mortal jeopardy, they cannot continue. Long standing employees will need to be fired. Old product lines associated with the company name will

⁶ Scott P. Scherrer, "From Warning To Crisis: A Turnaround Strategy", *Management Review*, September 1988, p.30.

⁷ Arthur G. Bedeian, Raymond F. Zammuto, *Strategic Management Focus On Process*, 3rd Ed.: Mc Graw- Hill Inc., 1990, p.486.

have to be eliminated. Plants that are the keystones of local economies will have to be closed. Policies and procedures will need to be replaced. The people responsible for the past cannot usually bring themselves to make these types of changes.

Leadership of a turnaround, therefore is usually put in the hands of someone new, someone without a past (from the employees perspective). This person must have the needed freedom and ability to act. If he or she cannot act decisively and quickly, the turnaround is probably doomed.

It is a perception that in all successful turnarounds, the replacement of the current top management of the business is necessary. There is, of course no law written in stone that the firms current top management team can not supervise a successful turnaround. Usually however, the old management has such a strong belief about how to run the business in question, many of which must be wrong for the current problems to have arisen, that the only way to get a new view of the situation is to bring in a new top management. There will, of course, be some expectations to this generalization as there are to all generalizations.⁸ Accepting this comment, the researches of Kami and Ross (1973) and Schandel, Patton, and Riggs (1976) show us that 95 percent of the successful turnarounds had begun with a new management team.

It is foolish and needlessly expensive to replace an entire management. There must also be a link between the new turnaround management and the existing middle management and professional staff. This link should also be present between members of the previous management who are found to be competent and able to react to the changed circumstances.

CONSIDERATION

A turnaround has to start with an evaluation of the company's strengths and weaknesses in relation with the competition and the political interest groups. The other important issue is the decision of turnaround. Is the

⁸Hofer, op.cit., p.682.

company worth the turnaround effort? This is a fundamental question. The bottom line is the net present value of achieving the turnaround. The troubled company may be the victim of an industrial, technological or structural change, or it may be faced with a huge worldwide permanent capacity surplus in its industry. It may have many far larger and more capable competitors. It may be one of the participants that does not deserve to survive the shake out.

Before trying to decide the strategy for turnaround, three questions should be asked:⁹

1- Is the business worth saving? More specifically, can the business be made profitable in the long run or is it better to liquidate or divest now? And if it is worth saving, then.

2- What is the current operating health of the business?

3- What is the current strategic health of the business?

The types of turnaround strategy that should be selected by a firm will vary with its current operating and strategic health. Operating-Strategic or mix strategies can be selected by the management. Once the business has selected the type of broad turnaround strategy it should use, then it needs to select the more specific aspects of turnaround strategy. The details of these strategic action plans will depend, on the exact nature of the industry in which the business competes, its strengths and weaknesses and other competitors in the industry.

It is important to match the type of turnaround to the case of decline. If the underlying cause is a structural shift in markets, the response should be strategic turnaround, which involves changing the product/market mix. If the decline relates to internal efficiency, the organization should seek ways of increasing revenue, cutting costs and decreasing assets, i.e., engage in operating turnaround.

⁹Ibid.

Organizational survival has repeatedly been linked to effective strategy making "doing the right thing" in the face of competitive and market forces, and enabling the organization to achieve its objectives.

A strategy that makes good sense will be of no use if, for example, powerful interest groups are able to block it. Consequently, successful managers will be assessing the political as well as economic implications of strategy making. The business literature views turnaround primarily as an economic problem when it is, in fact, also a political problem. The turnaround process has a political dimension because of the various interest groups that have a stake in the rundown and recovery process.¹⁰

The turnaround leader will need to rapidly develop a strategic concept of the business. That is, he or she will need to define the corporate objective, a specific statement of business purpose.

Companies have stated a plan for all the various types of turnaround activities. The sum of the individual departmental or functional turnaround plays may be considered as a form of master plan. A hit or miss approach will fail because too many types of changes must be defined and implemented at the same time

RADICAL AND URGENT SOLUTIONS

In the case of turnarounds the implication of radical and urgent solutions to the problems is important. At this stage the management managed the business to produce immediate and certain results. They concentrate on the actions that are decided in the consideration stage that would have immediate impact. While implementing fast actions through the decided strategy, management must be careful not to handcut their future. This is the hardest stage of the process. It is one thing to maintain and increase

¹⁰Cynthia Hardy, *Strategies for Retrenchment and Turnaround: the Politics of Survival*, Berlin: Walter de Gruyter & Co., 1989, p. 136.

existing momentum; it is quite another to change direction and take steps necessary to reverse momentum when it is going against the company.¹¹

The case studies clearly show that success depends upon identifying the potential opposition groups and devising a strategy that deals with their concerns. In this way, conflict is preempted and the chances of successful implementation increased.¹²

The turnaround management faces a number of powerful constituencies that will have major effects on the key elements of the turnaround process. They are board of directors, lenders, government, labor unions and shareholders. As a rule, the approach the companies take in achieving a turnaround must be made known and sensible to these external groups. They have to be convinced that the proper actions, programs, reorganizations, and the like should be implemented. They must believe that their best interests are served by supporting the turnaround effort and that, within a reasonable period of time, the company will once again be viable. Banks, vendors, customers, board of directors and others who are affected by the decline of the business need to be made a part of the solution.

Turnaround will depend on the ability to maintain high level of morale, motivation and commitment which is particularly important when scarce resources escalate levels of political conflict.¹³

People are the heart of successful turnaround. The employees of a company must want the turnover occur and feel personally involved in achieving it. A sense of urgency, care, and participation must permeate the environment. Deliberate team building measures must be instituted to covert dispirited employees into believers, who are confident that the turnaround will succeed, that the company will survive, and that they will

¹¹ A.W.Clausen, "Strategic Issues in Managing Change: The Turnaround at BankAmerica Corporation": Strategic Planning, 1982.

¹² Ibid., p.137.

¹³ Bibeault, op.cit., p.309.

continue to have a future as employees. What ever company aches for it certainly will achieve through the actions of its employees, not just through the few in the upper management. Top management can not lose sight of this fact¹⁴.

In a turnaround management should constantly communicate about credibility, consistency, and confidence both inside and outside the organization. Immediately an employee communications program must be set up which makes the employees part of the effort to solve the company's problems. People need information if they are to respond appropriately and they should be properly motivated. All people fear unknown especially loosing their jobs. They need to know what is going on. How bad sales and loses are; what management will be doing to save the company; what they are expected to do. A sense of personal involvement and urgency in doing their jobs will exist only if the employees feel that they are the part of the organization. No corporate turnaround is a result of one individual work alone. Success is the result of melding and motivating a team.

Improving operations alone is usually not enough to achieve a successful turnaround. You must pay particular attention to cash flow. Cash generation is a need to overcome the rough spots, while cash demands have to be reduced.

STABILITY

In this stage organization can determine the further action impacts over the organization while current operations continue.

In stabilization firms maintain their sizes and current lines of business while organizational rebuilding starts. The human resource management, production management styles, information systems and like have to be reshaped for the organization's future. New technologies are searched for better production results. The coordination of the firm has to be increased. New management skills involving team work and total quality approaches

¹⁴Eugene F. Finkin, *Successful Corporate Turnarounds*, Newyork: Praeger Publishers, 1990, p.3.

have to be put in action. The most importantly, companies must streamline corporate decision making for reaching better solutions to the problems.

In stabilized companies managers may continue to manage as if the growth will continue in the near future. Encouraged by the progress, staff members will begin to become enthusiastic and start contributing with their own ideas and suggestions. The turnaround's chain reaction has begun. This is the beginning of the new corporate culture.

NORMAL GROWTH

Although the short term strategies focus on the urgent solutions like cost reduction or urgent strategic moves, longer run strategies may be aimed at growth or holding strategies.

This is the upturn phase of the turnaround. New growth strategies begin to implement. A growth strategy is selected to increase profits, sales (development of new products), or market share (new markets). Growth may be pursued to lower per unit costs or to satisfy managerial motivations.

The management has no choice but to reduce overall employment levels to cut expenses. The employees who remained with the organization during the implementation of turnaround must carry high responsibilities. The work that the employees do is valuable, and therefore, they should be compensated for this. In the last stage of turnaround, management must create a culture, based upon teamwork, that both recognize and reward employees for their efforts in implementing strategies that produce the desired results.

PART 2

THE COMPANY “METAŞ”

Metaş, one of the oldest steel producers in Turkey was founded by Raşit Özsaruhan in 1954 with the steel arc capacity of 15.000 tons per year. While the company’s principal production facility was located in İzmir, the other conversation and port facilities were situated in provincial cities. Metaş is the oldest private steel producer that uses arc ovens during production. Because of the Özsaruhan family’s management perspective, the factory was always open to innovations and employee development programs.

In 1989 Metaş had the third biggest industrial capacity after Tüpraş and Alpet in the region of Ege. Today Metaş is the 7th largest private steel producer in Turkey with a capacity of over 490.000 ton per year. It has integrated production of steel with two steel ovens and two steel mills. The company's product line is divided between semi-finished (blauum) and finished goods which consist of a variety of long products and also quality long products. (Exhibit 4)

Metaş was indirectly owned by Özsaruhan family in the beginning of the production stop. Moreover it is also 40 % open to the public and some well-known minor partners like Koç Holding and Türkiye İş Bankası were also in the partnership.

As being open to the public, Metaş obeys the rules of Securities and Exchange Commission that bring obligations as free information flow and detailed financial information.

Metaş is the first private steel producer who used the electric arc furnace technology. This technology uses electricity to melt scrap iron to produce steel blooms and has big cost advantages on the old coal furnace production technology. As a result of being the first in this area the factory has become a school for the new ones entering the industry. The new

openers generally attract workers and managers from the facility to set their production lines.

There are always good training programs and partnerships with European and Japanese steel makers for new production techniques that brings work satisfaction and dynamism to the working environment. Because of having qualified workers, the factory has generally paid above average salaries.

As it is located in the suburbs of İzmir, the company has always been a good choice for qualified workers and engineers. Metaş employs over 1500 people including its partnerships and has a good company recognition in the region.

Metaş is open to innovations that bring some useful investments and some unsuccessful attempts as well. There are four worldwide first applied renewals and twenty-four Turkey wide, first applied renewals made in Metaş.

ENVIRONMENTAL FACTORS

STEEL PRODUCTION SECTOR

STEEL PRODUCTION SECTOR IN THE WORLD

Iron and steel products are indispensable for key sectors which stimulate economic resurrection, namely construction, automotive and consumer durable industries. As such, the state of an economy is directly reflected on the performance of the iron and steel sector¹⁵.

There are basically two kinds of steel: long and flat. Flat steel needs a very expensive investment for production and used in industries like car making and long steel can be called as construction steel. The production technologies are so different that a factory producing long steel cannot produce flat steel and vice versa. The world production is divided into half and half for both kinds of steels. However the demand for the flat steel is

¹⁵ Interbank, Demir Çelik Sektör Raporu, 1994, p.6.

bigger than the long steel in industrialized countries and the reverse is true for developing countries.

There is a second differentiation in steel that may be called "normal and quality steel." Quality steel has some special production mixes and techniques that needs high quality scrap use during the production that can be produced by experienced workers. As this kind is used in high tech constructions and industries there is no seasonality in its demand.

Steel industry grew very fast in 1980s, because of the global trade due to the demand in the industrialized countries and the new capacity increases in developing countries. Besides this big growth with the beginning of the changes in the world trade policies, Eastern Europe's low cost steel exports created an over capacity in the global market. In addition to this, the demand decrease in the developed countries in the last half of '89 due to the economic shrinking appeared as a crisis in steel trade so in the sector of production as well.

Lack of demand has caused the steel producers to reduce production and led developed countries with high growth rates to increase their production share, improve their technologies and become self sufficient¹⁶.

Due to the cyclical nature of the industry the production at times rises in excess of the demand. This in turn forced steel producers to look for alternative markets to sell their products. However, in an environment where industrial nationalism was peaked and new technologies were being introduced by allowing more steel to be produced at lower prices, the world steel industry became very competitive. Moreover, Eastern European countries that were in desperate need for hard currency, were flooding the market with cheap steel products deepening the slump and making it longer lasting.

¹⁶ Tütünbank Menkul Kıymetler Araştırma, Erdemir Raporu, 1993, p.12.

Every nation's steel industry had governmental supports because it is considered as one of the core industries with huge employment potential. Therefore, every developing country wanted to have their own steel production to break the dependency to the developed countries.

In 1980s there was a concept of privatization in the developed countries for steel industry. The state owning was decreased from 31% to 25%. This was because of the EC's subsidy restrictions and big costs of the sector on governments.

STEEL PRODUCTION SECTOR IN TURKEY

Turkish steel industry is considered to be the locomotive sector of the Turkish economy. Currently there are more than 20 different companies in the sector four of which being state owned. After the developments in 80s, in line with the growing economy the production increased gradually. The production in 1994 was 12.5 million tons whereas in 1980 the production was only 2.4 million tons.

Turkey, with her 12.5 million tons per annum, ranks 15th in world crude steel production. Although the value added is in flat products which serve the automotive and durable industries, the incentive scheme designed for the private sector in Turkey has promoted long products making construction sector the major market. 31.2 % of total domestic production is realized by the public sector while the rest is covered by private furnaces. The global trend is toward integrated plants capable of producing flat products and all such plants are state monopolies in Turkey. In this context the wave of privatization efforts attracts considerable attention of the Turkish private sector that is aware of the need to undertake sizable modernization investments.

Domestic production of steel in Turkey is 15 % in flat and 85 % is in the long form (for comparison, EC figures are 65 % flat and 35 % long products). This in turn creates a structural imbalance as the domestic demand for flat steel exceeds the demand for long steel products. Moreover, growing

volume of steel imports is further aggravating the problem. As an outcome of this imbalance while the excess demand for flat steel has to be met through imports, long steel producers need to export most of their production.¹⁷ (Exhibit 3)

The industry has reached this situation because of government policies such as inappropriate production incentives, high tariffs and quotas. However in the government incentive programs of the coming years, policies seem to change : incentives regarding long steel will be for modernization and R&D, not capacity expansion, flat and quality steel production will be encouraged.

Survival of the sector largely depends on the success in the world market since the only solution seems to be exporting the slack production. The Turkish government provides subsidies in terms of freight premium ranging between \$ 20 to \$ 40 in order to aid exports till the beginning of 1995.

Since raw materials needed for steel production are not abundant in Turkey, steel producers need to import a relatively high proportion of their raw material requirements. Also, some non-integrated, rather small producers import steel in slab, ingot and scrap to deform them afterwards to final shape. The industry is dependent on external suppliers. The imported scrap metal that is used as the raw material in steel production accounts for 65% of the total production cost. The increase in import prices; however, is not reflected right away on the exported goods' prices. At this juncture, the government export incentives consisting of freight and energy usage premiums come into picture for being successful in global market.

China, Hong-Kong, USA, North Africa are the largest export destinations of Turkish iron and steel.

¹⁷ Devlet Planlama Teşkilatı, Demir-Çelik, Ankara, 1991.

Environment

Each organization exists within a complex network of environmental forces comprised of the national and global macroenvironment and the industry in which the organization competes. Because these forces are dynamic, their constant change presents numerous opportunities and threats or constraints to strategic managers.¹⁸

An essential part of company strategy is a plan for adapting company action to its environment. This is no simple matter because the environment is continuously changing. New technology, social shifts, political realignments and pressures, as well as the more commonly recognized economic changes, all create problems and opportunities¹⁹.

The environment affects both a firm's initial conditions and its managerial choices. It influences the ability of firms to carry out particular types of strategies, hence limiting choice.²⁰

The environment of an organization is generally divided into three distinct levels: the general environment, the operating environment, and the internal environment²¹.

GENERAL ENVIRONMENT

The general environment is that level of an organization's external environment made up of components that are normally broad in scope and have little immediate application for managing organization. Social, economic, political, legal, technological issues are the components of general environment²².

¹⁸Wright, Pringle and Kroll, Strategic Management Text and Cases, Massachusetts: Simon & Schuster Inc.1992, p.36.

¹⁹Newman, Logan, Strategy, Policy, and Central Management, 7th ed. Ohio: South-Western Publishing C., 1976, p.31.

²⁰Michael E. Porter, Towards A Dynamic Theory of Strategy, Strategic Management Journal, Vol12, No 95-117, 1991, p.97.

²¹Samuel C. Certo, J. Paul Peter, Strategic management Focus On Process, 3rd ed. Newyork: McGraw-Hill, 1990, p.32.

²²Ibid., p.33.

COOPERATION OF İZMİR'S BUSINESS ENVIRONMENT

Aegean district especially İzmir has a private place in Turkey's Commercial life by having %13 of Turkey's gross national product. This district has some special characteristic with its firms and executive profiles, with the businesses close to the families and the powerful bosses in the firms.

İzmir business life, holds the firms and businessmen closer to each other. Because of having a dependency to Ankara for governmental reasons and a dependency to Istanbul for financial reasons, the close relations inside the region and a notion of sacrifice is advanced.²³ In the times of crisis the region's business factors help each other.

İzmir's business environment is closer to the social events and they do not forget the humanitarian sides of the events. Furthermore the political vote potential reflects the importance of social thoughts.

THE STRATEGIC IMPORTANCE OF İZMİR BETWEEN POLITICAL PARTIES, PARLIAMENTARIANS AND VOTE POTENTIALS

İzmir has political importance in Turkey's political life. Because of being an industrialized region there is a high population with a big vote potential. Besides the political parties the lobbies inside the parties have big quarrels about this region.

As having qualified agriculture and sufficient industry, the region can be seen as one of the richest regions in Turkey. This welfare brings this region the upper requirement of the human needs so the social rights become more important support for working life. With the social needs the left vote potential increases and İzmir is seen as the left parties castle. However in the last years of 80's the ANAP governments' policies found support from the İzmir's trade life so the vote potential of this party also increased in İzmir.

In the last part of 1980's the vote potential and the increased political uncertainty created quarrels besides the political parties for the coming

²³ Talat Yeşiloğlu, "Ege'nin profili", Capital dergisi, Ocak 1995, No 3, p. 80.

elections. The left side parties wanted to protect their potentials and the new entree of ANAP wanted to increase its votes and wanted to have a big glory against the other.

Besides the quarrel in the political parties about the city there were inner party quarrels about İzmir and it's region. Because of being İstanbul's first rival in Industrial life, the city, had to face extensive lobbying activities for political selections. Having a relatively small lobby, the İzmir region has to fight much to gain some additional political choice.

Before the 90 elections the quarrels between ANAP Minister Işın Çelebi and Hüsnü Doğan's against Güneş Taner and after the 90 elections the minister Ersin Faralyalı against Ekrem Pakdemirli had similar reasons of inner party political conflicts.

PUBLIC IMAGE

The public image of Metaş's production stop and turnaround efforts were changing from the peoples' perspectives towards the phenomenon. There were five important areas that attracted interest.

- * The need of governmental help or from another aspect nationalization against privatization orientation in the government .
- * The public openness about Metaş and the loss of money among the single private share holders who has Metaş shares in İstanbul Stock Exchange.
- * The use of public privatization fund.
- * The worker activities against the shut down and these activities emotional effects among the interest groups.
- * The real value and production effectiveness of Metaş and inconsistent approaches to this issue.

These contradictive areas for the public create a public interest over Metaş case. Some of the society was against the turnaround that the others

wanted. This dilemma holds the Metaş case on the active side of public interests for two years.

OPERATING ENVIRONMENT

The operating environment is that level of the organization's external environment made up of components that normally have relatively specific and more immediate implications for managing the organization like suppliers, customers, competition and labor²⁴.

GOVERNMENT, METAŞ, UNIONS, OWNERS, BANKS AND SHAREHOLDERS INTEREST CONFLICTS

Having the mass public interest the conflicts between the interest groups in Metaş case were intense during the attempts of turnaround. We can summarize these groups and their opinions as the following.

SHAREHOLDERS

There are mainly two kinds of shareholders in Metaş. One was Özsaruhan family, as the owner. The family wanted to run the factory's production line with cash injection from the banks, government or foreign creditors. Against this injection the family was willing to give up some of their shares from Metaş. During Metaş's survival they also gave importance to the other group firms survival.

The other shareholders were the public who has bought the Metaş shares from İstanbul Stock Exchange. They were wanting the production start for having some extra value for their shares.

WORKERS

Workers were wanted to start production with the old conditions. They could give up some of their salary increases willingly and wanted to participate to the shareholder's equity with their retirement compensations.

²⁴Certo. Peter, op.cit., p.34.

UNIONS

Worker unions wanted their participants to have a secure job. The unions were generally in association with the reopening scenarios but sometimes they were in the search of worker rights and so the penalties for the company were forced during the crisis. They were also avoiding the excess demand in the steel worker market.

Employee unions and the sector chambers wanted a solution for Metaş which created a new governmental policy for steel all around Turkey.

BANKS

Banks were looking for a solution for their bad debts. There were 16 Banks related with Metaş group and they had different guaranties against their credits. Some of the secured ones wanted to liquidate the factory to take back their credits while the others wanted a turnaround policy for taking back their credits.

The banks were in conflict with each other for the real value of Metaş, especially the value of lands owned by Metaş.

The government was forcing the banks for reaching a solution. The government wanted a solution but all the alternatives must be approved by the banks so the relations of banks and governmental responsible created important turning points for the Metaş crisis.

The only thing that every bank agreed was not to invest more in risky Metaş.

GOVERNMENT

The steel sector provides the government high income by the way of taxes or electricity prices etc. With Metaş 's production stop the government lost this potential income and some worker activities began to force the government to take an action. The banks wanted from the government to put the needed money for the production process that meant nationalization, a government policy breakdown. But at the same time

government wanted to use Metaş as a weapon for the votes in the elections.

COMPETITORS

Competitors of Metaş wanted the shut down of the factory, claiming the steel sector's problems to government.

PUBLIC

Public wanted a humanitarian solution for the workers and shareholders, but they were also curious about the taxes that the government now wanted to use for Metaş.

INTERNAL ENVIRONMENT

The internal environment is that level of an organization's environment which exists inside the organization and normally has immediate and specific implications for managing the organization. Unlike components of the general and operating environments, which exists outside the organization, components of the internal environment exists within it.²⁵

COOPERATION OF EMPLOYER AND EMPLOYEE

The owner Özsaruhan family, was always known as advanced in providing social rights to his employees. Sufficient conditions were given to the workers for their working life and rewarding policy was used in the factory. The occurrence of production progress especially the production quantity increases were called record and rewarded.

Having good relations with the company, Metaş's employee had dedication to his factory. Turnovers are limited and the ones leaving the factory had to go to another similar factory with a promoted place and wages.

This dedication which was coming from the past became the origin of the turnaround actions. In the occurrence of production stop the workers clamped together with their managers with big sacrifices. Even though they

²⁵Ibid., p.35.

could find new jobs with their experiences in the two years time of production stop they only searched for temporary or part time jobs for being with their factory at least part of their time.

The Özsaruhan family also gave attention to this dedicated employee during the production stop and gave some of their wages and also some food aids. The sources for these payments were found out of the factory from the Özsaruhan family's other kind of monetary sources like real estate selling.

During the years of crisis Metaş employee set a representation group for working together with the managers. This group went to Ankara several times to talk with the governmental representatives and several worker actions were arranged by this group. Among these, two hunger strikes, a walk to Marmaris to President Özal's house and actions against ANAP election meetings in İzmir can be seen.

THE REASONS CREATING CRISIS

World steel industry had greater possibility of crisis than the other industries by having the specifications of small profit margins, governmental supports, the need of continuous improvements for competition, and continuous production needs. Besides, the world's turbulent steel industry, the Turkish producers faced rapidly changing governmental supports. As an outcome the factories of this industry constantly face the threat of crisis.

Besides the industrial factors that create crisis some other special factors affected the crisis at Metaş. These factors could be examined as follows :

PARTNERSHIP OF İŞ BANKASI AND İZMİR DEMİR ÇELİK

Steel factories need big amount of financial transactions like L/C's and export credits financing the production process. These transactions must be revolving for continuous production process that is vital for the factory.

Absence of an L/C can cause a lack of scrap iron which can stop the production process. This can harm the furnaces and cause financial losses.

As being extensive amounts, these credits should be given by financially strong banks or partially by small banks. Carrying big risks the steel factories generally have financial problems and difficulties for finding new credit lines. This creates alliances between steel manufacturers and banks. The relation can originate between the same group firms like YKB -- Çukurova Çelik, Çolakoğlu Demirçelik -- Türk Ekonomi Bankası or from the financial problems of a steel firm which is facing bankruptcy and living with the help of its creditors for the well being of the credits.

Türkiye İş Bankası has a special place for Metaş as the biggest creditor of the group and having a small partnership in the factory. In the '80's İş Bankası was the first bank of the Metaş group. As the risk being taken by İş Bankası, the other banks could also take the Metaş risk. However being in bad financial positions Metaş was obliged to give different credit securities to the banks against their credits that contained mortgages on Metaş group firms and joint guaranties of the firms to each other.

In September 1989 Türkiye İş Bankası had to take the control of İzmir Demir Çelik, another steel factory in İzmir because of the financial duties of the firm to the bank. This factory had a similar product mix with Metaş and having the similar location it was the biggest competitor of Metaş for district sales.

This turn over changed the realities for Metaş. Being the new competitor Türkiye İş Bankası refused to give another L/C line to Metaş and the other banks also refused to give the line. This created a scrap iron crisis in the factory that slowed down production. Two months later the bank took actions calling for its credits, after a few months these actions turned into sequestrating the other Metaş group factories and selling Metaş shares. This was a turning point for Metaş. All other banks started the legal actions to have some security on their credits. The joint guaranties which were

given by the Ege Yatırım Firms for the debts of the others created a chain reaction and all of the group firms faced bankruptcy.

INSUFFICIENT FINANCIAL STRUCTURE

Finance encompasses not only cash management but also the use of credit and decisions regarding capital investments. The various sources of capital used by a company make up its financial structure²⁶.

After the January 24, 1980 decisions, the interest rates and the interest expenses of Metaş increased. After this point the financial expenses item of the balance sheet became the important factor for Metaş. The profitability was highly affected by the sharp increase. The owner's equity was limited so production and investments were financed by the debts. The company's solution was opening the company to public. However the cash generated this way could not be sufficient solution for problem. Financial crisis deepened in 1990 that caused an important cash flow imbalance and desperate need of cash.

The balance sheets got worse every quarter with the increased financial debts and weak capital structure. The decreasing trend made the company more risky that caused an increase in the risk premiums of the banks for their credits and the need of the new credit guaranties. The increase in the interests had a direct effect on financial costs. Hence a viragoes cycle went on.

The joint guaranties, especially the imbalance between the guaranties that were given to the banks prepared Ege Yatırım Group's end. The more secured banks forced the Metaş group easily when the problems arose which created the chain reaction.

THE DUTY BROKE DOWN IN STEEL INDUSTRY

In the beginning of 1989 the Turkish steel industry faced a big strike wave especially in the public owned steel firms. This created flat steel shortage in

²⁶Newman, Logan, op.cit., p.304.

the steel based industries. To overcome this shortage and protect the steel based industries, the government decided to cut some of the steel tariffs and duties. These tariff cuts covered all kinds of steel also the long and quality types of steel, like the ones Metaş and the other private steel makers were producing. From that point on the steel could easily be imported by the importers.

These tariff cuts caused low prices in the industry which was a raw material price decrease in the other industries that used steel as a raw material. This low price policy was taken up seriously by the government because of the other industries' pleasure so it continued with further cuts although the strikes came to an end.

This new policy of the government brought Metaş some new competitive difficulties in the last year of the production before the production was stopped for the search of an initial solution.

CRISIS IN STEEL PRODUCTION IN THE WORLD

In the beginning of 1990 the steel production industry was in serious crisis. The prices fell all over the world from \$400 to \$250. In the industrialized countries there was an excess capacity because of the new production techniques and the demand decreased in the economies because of the stagflation. In the less industrialized countries however the reality was different, these countries needed more steel to build new buildings and so they had a big demand. Therefore they gave big governmental subsidies to the development of their steel industry that created a boom in production numbers.

At these days the world faced the low priced Bulgarian and Romanian steel sales. These countries were in the need of cash so they were selling their low quality steel for very low prices. These sales, made world steel market more competitive and price sensitive. As a result of geographical closeness, changes affected Turkey most. The competitiveness of the

global steel market increased and the cost wars started. The relative shares that were taken from the market decreased.

Metaş had an active export market in those days. The sales were made with little profit margin, despite the government subsidies. The biggest market was the Iranian market that provided cost advantages for Turkey. But suddenly due to the cash crisis in this country their demand stopped in May 1989 making the market conditions harder for Metaş.

OWNERSHIP OF BERLIN FACTORY

In 1988 Metaş decided to buy a factory in Berlin together with the government owned steel factory Sivas Demir Çelik and Etibank. This attempt was made for two reasons. One of them was to obtain an easy access to the European markets. The other was to have a lobbying partner in the government. As the government policies for steel was in the hands of the powerful lobbying steel manufacturers like Çolakoğlu or Çukurova, Metaş wanted to have some influence on steel policy.

This factory takeover was too costly for Metaş. Although the payment of 1.5 million DM was due two years later. Metaş was in deep financial crisis and very much in need of cash.

THE UNSUCCESSFUL KRUPP PROJECT

As a company open to the new projects, Metaş started a project with the German firm Krupp to create cost reductions in furnace heating prices. In this project the smokestack was reconstructed near the furnaces so they could give further heat to the process. But this project needed broad construction in the furnace and the production had to be stopped for five months.

Although this project was financed by the German firm, the time lag in the production due to one furnace production instead of two furnace production created financial loss for Metaş.

Krupp was an unsuccessful project and could not give any cost reductions to the production process. It was said by the engineers that further constructions were needed to have successful results. But the German firm Krupp went to Bankruptcy in that year.

The timing of the project was wrong for Metaş. The unsuccessful Krupp project in the beginning of cash crisis in 1988 Metaş faced production decreases which resulted with cashflow imbalance.

INCREASING RAW MATERIAL PRICES

The steel raw material prices increased higher than the steel prices. The factory modernization could give factories extra cost advantages but these were negligible compared with the raw material price increases.

The most important inputs for steel for electric arc furnace factories like Metaş was scrap iron and electricity. The scrap iron price fluctuated in the global market parallel to the steel prices. In the Turkish market the reality was different. The public producer had the opportunity to set prices with their big quantity productions and this pricing did not have a logical link with world pricing. In the case of electricity price there is not a consistency from country to country. The most expensive prices in Europe were in Turkey. This created price disadvantages for the Turkish producers. The prices for electricity increased 109 times in the last 10 years although the steel prices increased 20 times. (exhibit 5)

Turkey electricity prices were increased 180% during 1989 to 1990 when Metaş was in cash crisis. This increase can be seen as an important factor for the production stop.

THE FINANCIAL IMPROVEMENT AND CRISIS

BALANCE SHEETS INCOME RATIOS AND RATIOS

The heart of any company is the synergy developed between the efficient operations of its various departments. The pulse beat for that synergy is the financial statements. Business should stand on budgets and cash productions. Budgets are the foundation of cash statements, which reflect the success or the failure of the business.

Danger signals can be used by management to begin an internal corporate renewal. Many financial ratios are tip-offs to a downturn. Five ratios are useful throughout all phases of decline and turnaround process. These are:

- 1- Working capital to total assets,
- 2- Retained earnings to total assets,
- 3- Earnings before interest and taxes (EBIT) to total assets,
- 4- Market value of the equity to total debt,
- 5- Sales to total assets.

The ratios noted by turnaround managers generate a picture of the company. They indicate the ability of business to survive on its own.

The balance sheets of Metaş from 1986 to 1994 could be seen from exhibit one and the financial ratios could also be seen from exhibit two.

GRAPHICAL VIEW OF THE BALANCE SHEET

The observation of the ratios which are one of the signals of the turnaround, gives us the clues of such a trend in Metaş:

1- Working capital to total assets:

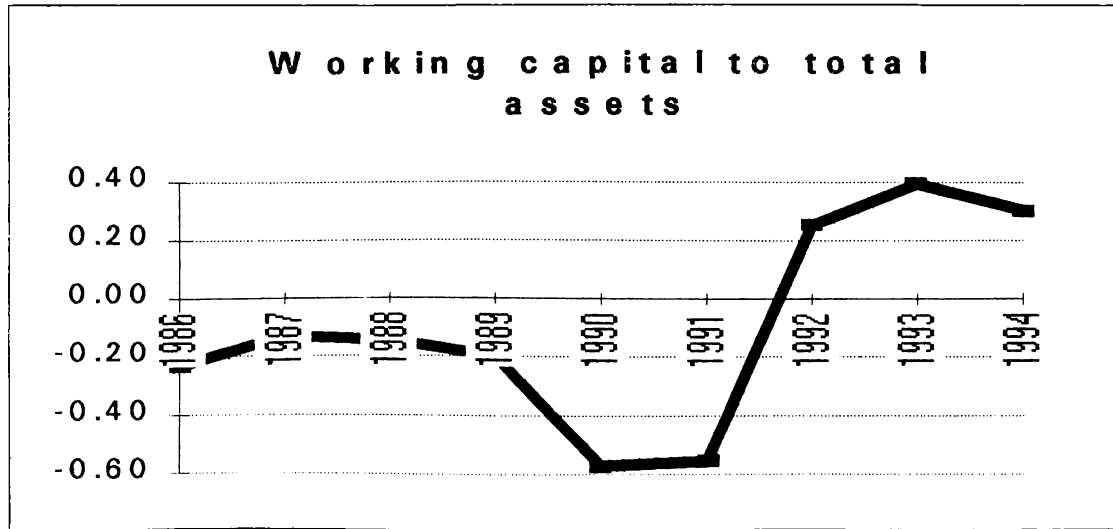


Figure 1 WORKING CAPITAL TO TOTAL ASSETS

Having negative working capital Metaş had insufficient working capital structure till the cash injection. The capital increase attempts and common stock issues in İstanbul Stock Exchange had so little effects in the company's working capital that after these attempts working capital couldn't be even positive.

At this graph the need of working capital increase and asset decrease seem to be an indicator of a turnaround need of the factory.

2- Retained earnings to total assets:

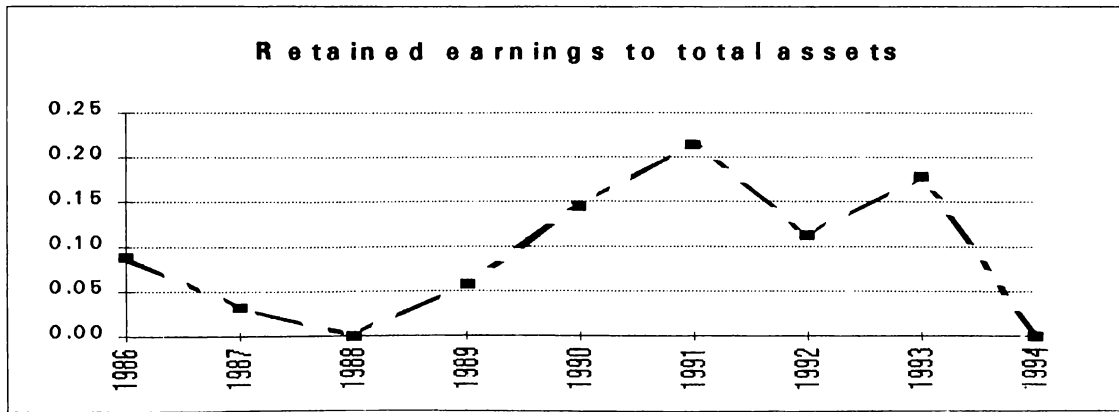


Figure 2 RETAINED EARNINGS TO TOTAL ASSETS

3- Earnings before interest and taxes (EBIT) to total assets:



Figure 3 EARNINGS BEFORE INTERESTS AND TAXES TO TOTAL ASSETS

The profitability of investments of Metaş can be seen from this ratio. The unprofitability is clear. Although the investments are increasing the earning were decreasing till the cash injection and financial cost decreases.

4- Market value of the equity to total debt:

The market value of Metaş is not a good indicator for us because of the shallow market of İstanbul Stock Exchange. The market value of Metaş fluctuates with the speculations. Although the firm was in a deep financial crisis it's market value could be doubled in a week in 1990 at the stock exchange.

5- Sales to total assets:

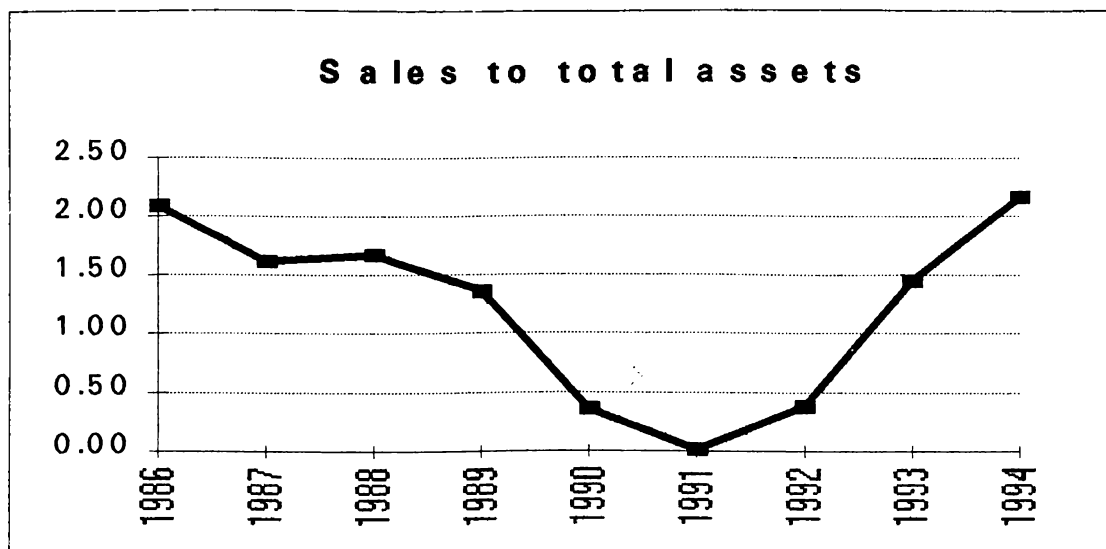


Figure 4 SALES TO TOTAL ASSETS

We can trace the decrease of firms sales against its assets in the times of crisis from this graph. The firms sales to assets ratio turns back to the same ratios of the profitable day's. This shows us the turnaround is successful and the firm can go back to the growth strategies.

OTHER USEFUL RATIO CHARTS

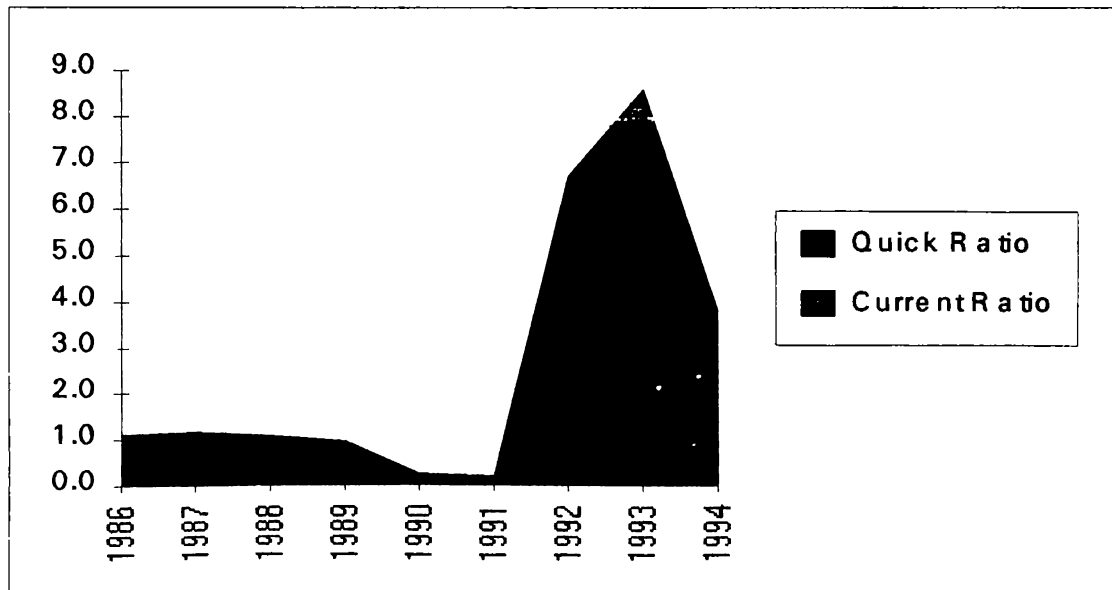


Figure 5 QUICK AND CURRENT RATIOS

Metaş's short run liquidity and debt paying ability was low till the cash injection. The change in inventory can be seen easily from the current and quick ratio differences. It is important to realize that the inventories of Metaş can't be sold easily in the times of cash need. At least fifty percent of it was raw-materials like scrap. It is important to have sufficient amount of raw materials in hand in continuous production processes like steel production.

The quick ratio of the factory is near .5 in the time period of 1986 to 1990 showing the big debt responsibilities of the factory.

The ratio increase in 1992 was because of the cash injection which was used for paying the debts. While the current liabilities are decreasing, current assets increase sharply and the ratio jumps to seven.

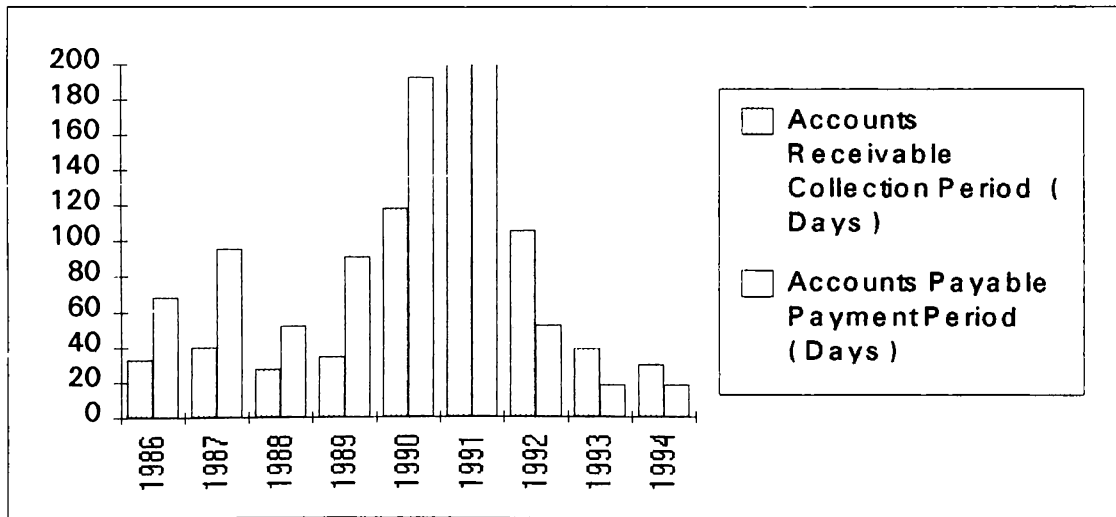


Figure 6 ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE RATIOS

This graphic is important to show the difference in Metaş's financial position. Although the accounts payable period was twice the accounts receivable before the crisis the payment period decreases after the financial operation and becomes lesser than the collection period. But if we look at the values except the crisis years and the following year the receivable periods are nearly the same.

This graph shows us the Metaş's payment ability after the crisis. But the early payment late collection balance creates a period needing to be financed and creates a potential risk for the future.

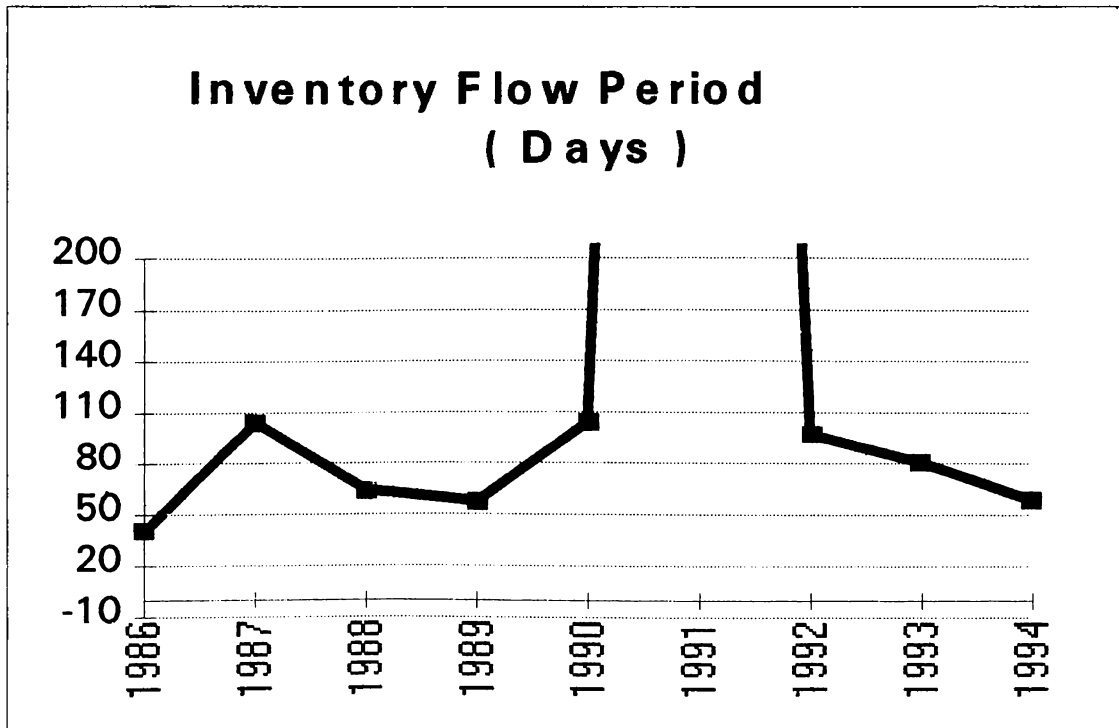


Figure 7 INVENTORY FLOW PERIOD

Except the years of production stop the inventory flow period was the same as of 50 to 80 days. With the effective inventory planning as a result of the turnaround and related cost cuts the inventory flow period was decreasing. Thinking that the quality steel production increase which needs a longer process the inventory flow period seems to be acceptable after the crisis.

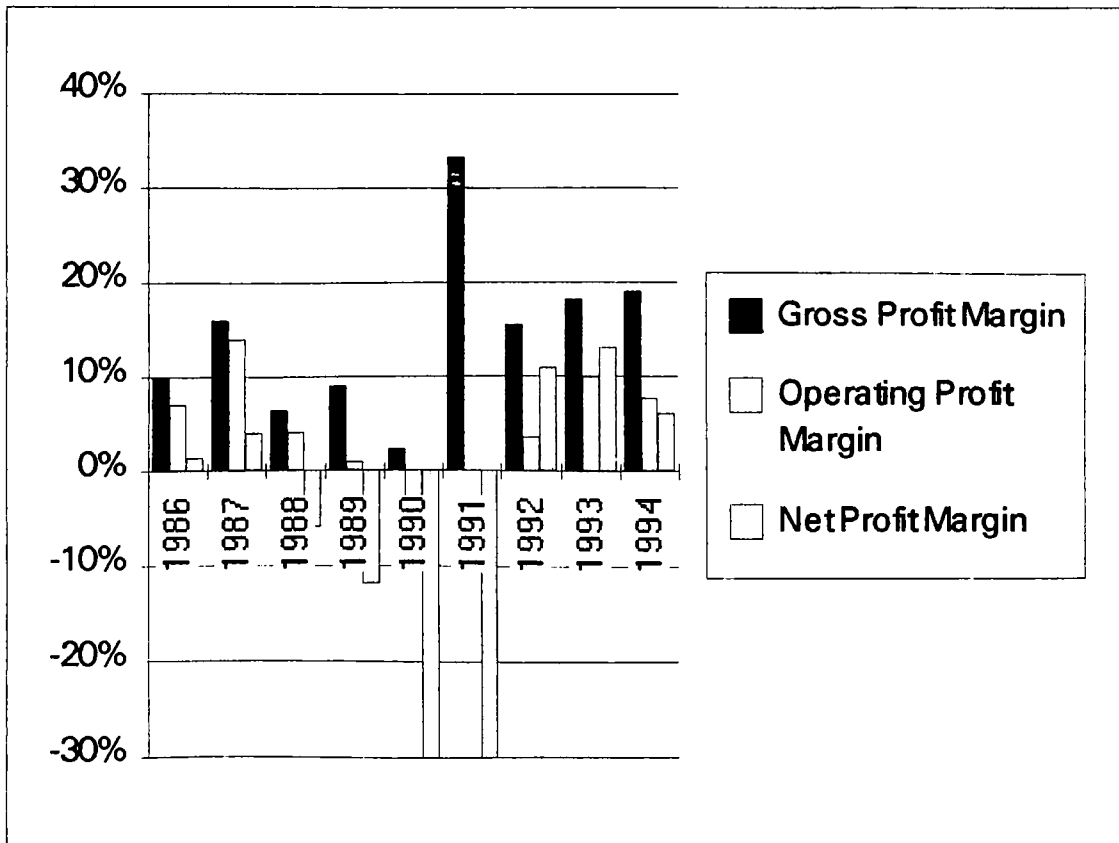


Figure 8 PROFIT MARGINS

Metaş's low net profit margin before the crisis is seen from this graph. The production stop and the turnaround's financial effects are obvious. But also from the operating profit margin increase and net profit margin increase difference after the crisis shows that some other factors are also effective in the net profit margin increase. This factor is the excess funds of cash injection which was used in Banks.

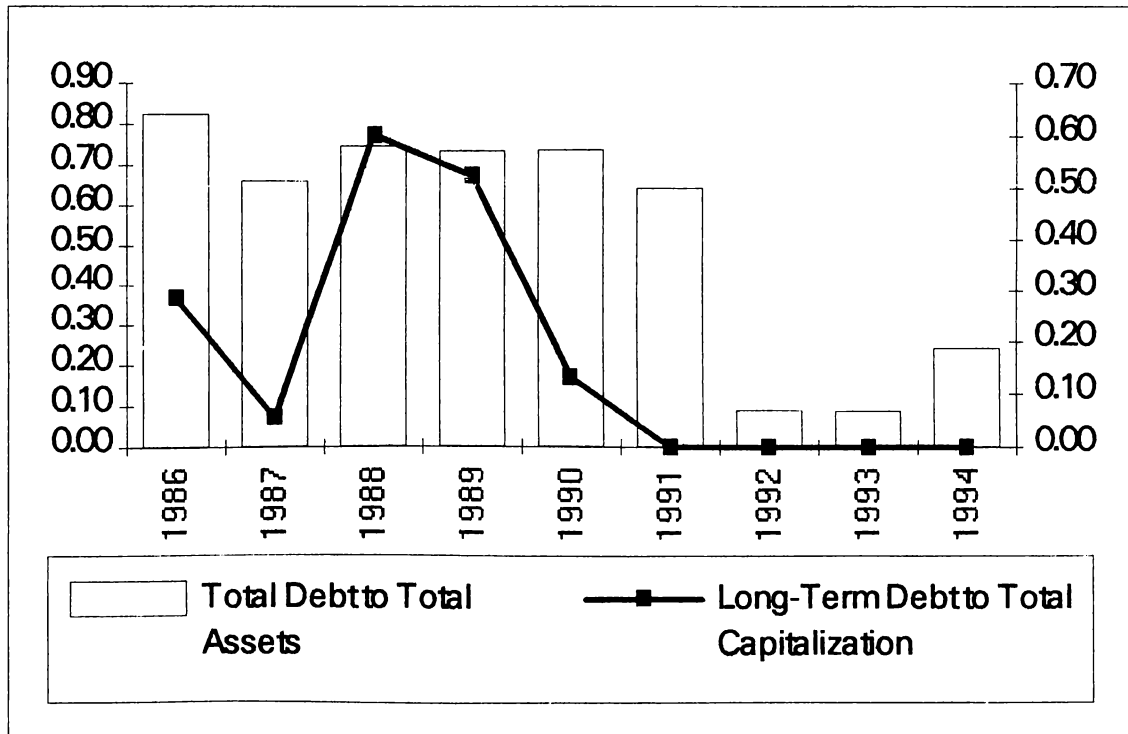


Figure 9 DEBT ASSET RATIO AND LONG TERM DEBT TO TOTAL CAPITALIZATION RATIO

Total debts to total assets ratio, compares total debt to the total value of all assets owned by the Metaş. Although being a steel factory Metaş had big amounts of debt before the crisis. After the cash injection the debt falls to the acceptable ratios.

Total debt to total capitalization indicates the percentage of the permanent or long term borrowed funds are of total permanently invested capital. From the ratios of Metaş it is seen that there was a use of long term loans after the production stop but after the reopening this kind of loans were not used by Metaş. This change is because of Metaş's sufficient funds in hand and lost image in the market because of the production stop. Also long term loans are used for investments. Metaş had investments before the crisis but after the turnaround activities the cost cuts became important and the investments were blocked.

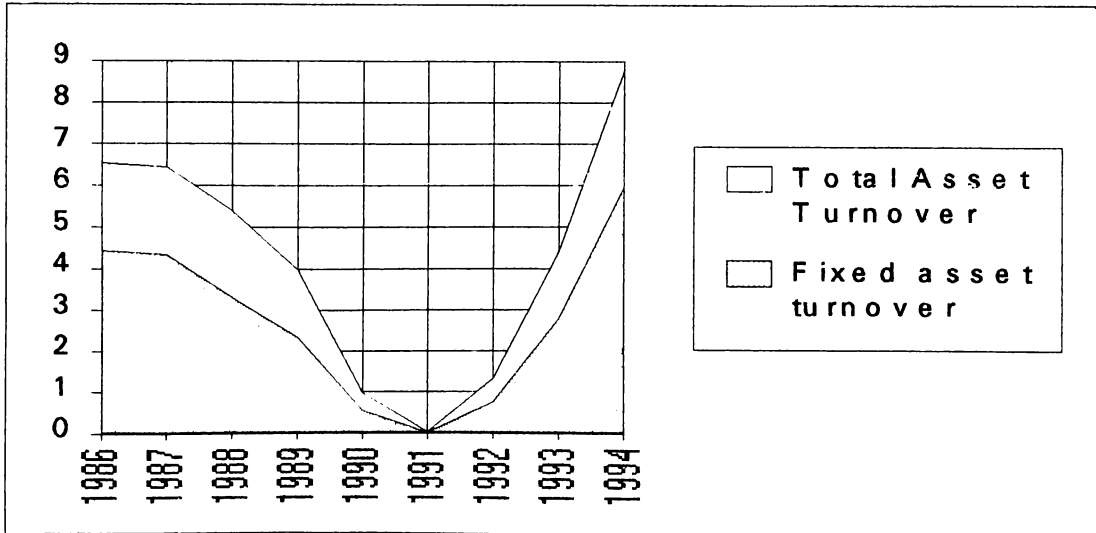


Figure 10 ASSET TURNOVER RATIOS

This ratio shows Metaş's declining position towards the production stop and rising after the turnaround activities. Metaş's fix assets and total assets efficiency in use could be seen from this graph.

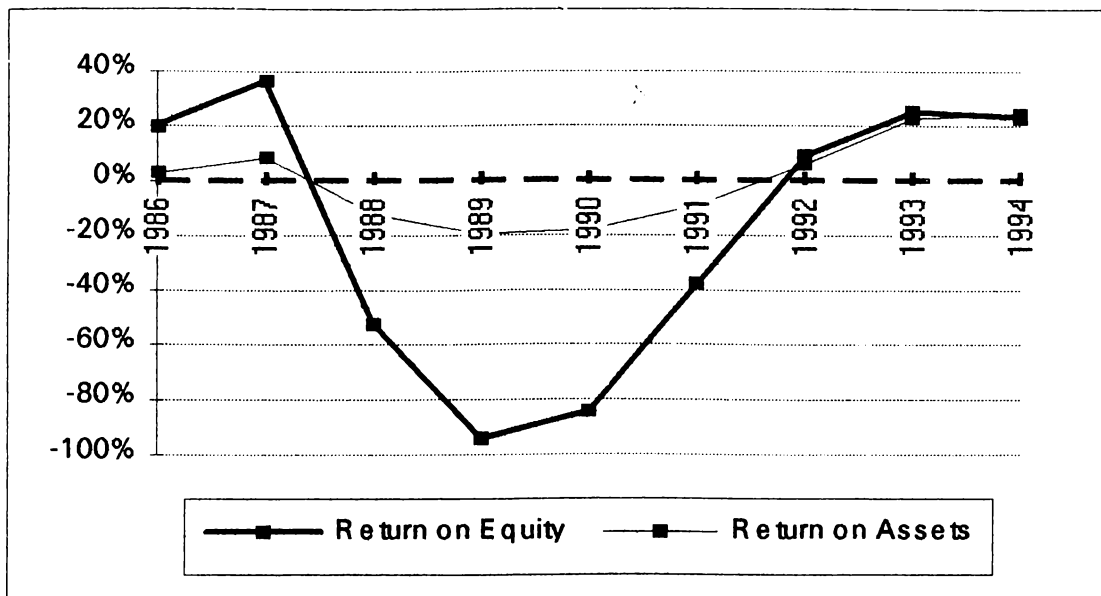


Figure 11 RETURN ON EQUITY AND RETURN ON ASSETS RATIOS

Return on equity ratio compares net income with the total book value of the shareholder's investment including both invested capital and earnings retained by the business. It is obvious that the investors of Metaş loses till the cash injection.

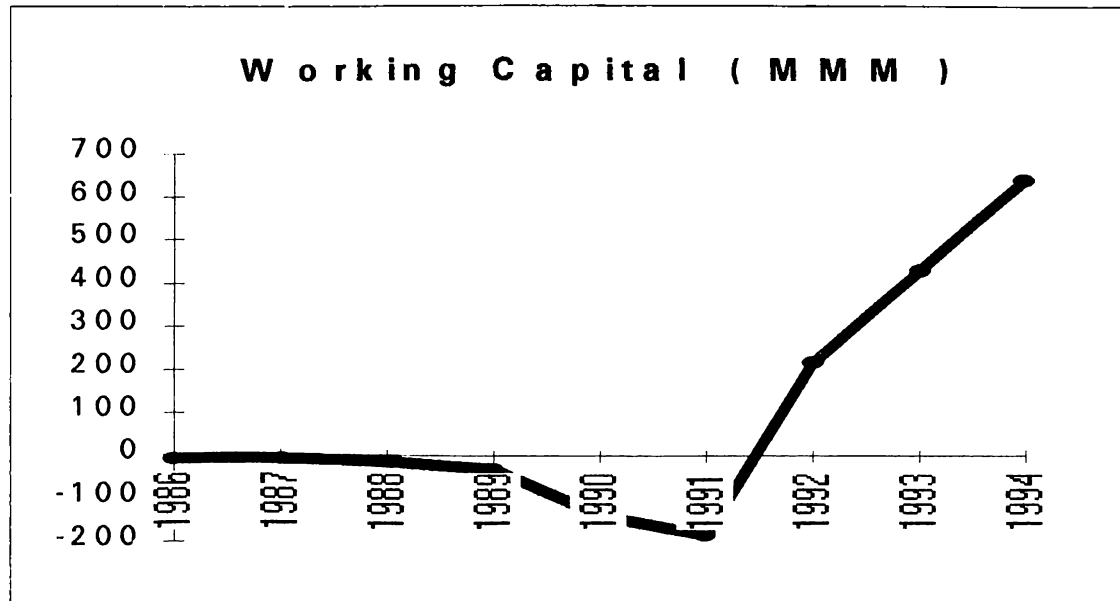


Figure 12 WORKING CAPITAL RATIO

The difference between the current assets and current liabilities is defined as working capital which is the basic problem of Metaş. The financial summary of the crisis and turnaround can be seen from the working capital structure of the firm. After the cash injection Metaş found sufficient working capital for it's activities and returns to profitability. But the steepness of the working capital increase is somehow misleading because of the inflation.

REGENERATION SCENARIOS

ÖZAL'S FIRST REGENERATION SCENARIO

The first regeneration project came from the President Turgut Özal one month after the production stopped. This project basically contained the partnership of Public Partnership Fund to the company for operating cash injection and the participation of the creditors to the shareholder's equity for their credits. With this project the new owners of the factory would be the

fund and the banks. Some time later after the new management and the normal production process the participation fund shares would be sold to the public. A similar project was put into practice in MAN a year ago.

This project was simply called as the first nationalization and then privatization but it became unsuccessful because of the rejections of Minister Güneş Taner who was responsible for the Public Partnership Fund and privatization. Güneş Taner rejected the nationalism in this solution and proposed a solution of turnover. For some time potential buyers were searched and serial meetings with banks and the government responsible were made for finding a solution but then it was taken out of the agenda of the government.

ÖZAL'S SECOND REGENERATION SCENARIO

The second regeneration attempt came from Mr Özal again. This time Mr Özal faced a responsibility to do something because of the employee cooperation and actions. The money that was needed for the operation start was planned to be injected as 100 billion TL from the Public Participation Fund or Turkey Development Bank that was not under the control of Güneş Taner. The Banks participation in the shareholder's equity was again a part of the project. This attempt brought some new responsibilities to the employees; Getting fixed wages for the first two years and having participation to the shareholder's equity with their retirement fees were proposed. This proposal was agreed by the workers. However this time the banks having sufficient credit guaranties in hand disagreed. More secured banks like Pamukbank didn't sign the agreement that banks wanted to sign between them.

Several meetings were made without a solution. At these days the election was coming soon so the public interest was busy with the political issues. Also the attempts were far beyond solving the problem and it was unsuccessful again.

DEMİREL'S REGENERATION SCENARIO

The successful regeneration scenario which was done by Demirel's government started the production of Metaş after the 2 year production stop. This scenario was not more complex or superior than the prior ones but it had the chance of implementation with the governmental support. The support to this project as a political choice was because of the Metaş employees supporting activities in the elections.

The solution was basically the same with the Özal's formula for Metaş. The main component was nationalization and this caused a contradiction with government policies. In consideration of this contradiction the regeneration project was always been argued by the politicians and the media.

Having a suitable structure for new debt facility, Limaş, Demaş and Aysan were structurally joined with Metaş at first. With this operation all of the debts were handled by Metaş and the security differentiation of the banks were eliminated. İş Bankası which has similar debt facilities in the past were selected as the director of this project.

Public Participation Fund was the financial supporter of Metaş's regeneration. 300 billion TL was given to the İş Bankası as a project credit for Metaş. This cash was used as the capital increase for Metaş and the equity was increased from 180 billion to 480 billion. As the security of the debt Public Participation Fund took 300 billion nominal worth Metaş share collateral.

After this cash injection the debts of the factory was paid. The taxes, SSK and TEK debts were fully paid (somehow the return of the governmental sources to the governmental institutions) . Relatively small amount credits were also paid back to the banks which did not want to participate the regeneration actions.

The banks that agreed the solution of the government, joined the second capital increase. They put their credits as capital to Metaş. Besides they agreed not to sell their shares before the Public Participation fund. With this

increase Metaş's equity increased to 800 billion which meant capital sufficiency for a steel producer.

As a governmental support the first financial transactions of Metaş were done by the public banks, especially by İş Bankası. Then Yaşar Holding, the biggest holding of the Aegean region, supported the factory by managerial assistance and gave financial support by the group's bank.

PART 3

METAŞ'S TURNAROUND

Metaş's turnaround case can be seen as a special case for turnarounds. All types of turnarounds operational, strategic, and financial (a specific kind of operational turnaround) have taken place at this steel manufacturer during the six year period among 89 to 95. All of these types, can be seen as the succeeding components of one general turnaround in Metaş.

Metaş's turnaround begins in 1989 when the company faced bankruptcy and production stop. The first turnaround was an operational one and contained two parts. One and the most important was the financial turnaround which was mainly about financial resources injection for financial cost reduction that is decisively dependent to the outside factors, banks and government. The second part was the simple operational turnaround that contained the actions of operational cost cut, and actions for improvement in revenues.

A strategic turnaround was joined to the operational one during the stabilization phase of the first. This turnaround was about a change in firms strategic product mix.

The phases and the actions in Metaş case can be summarized as:

NEW MANAGEMENT

The first phase of the turnaround, the management change, can easily be observed in Metaş case. A change in the management was taken place after the production stop and the turnaround actions were done with the new management.

Metaş case's management change was done inside the organization. That is different from the general turnaround concept of the strategy books which were generally starting a turnaround with a new management team coming out of the organization.

This change had some reasons. First of all the turnaround in Metaş began after the production stop and the actions that could be done after this point was limited. Radical solutions like firing the employees were already have faced by the company. The employees were almost unemployed and the work life was stopped. And also the changes that should be done, needed an extensive support.

Metaş's financial turnaround depended on the outside factors. Only a new financial resources injection could start the production and only then an operational effectiveness could be managed. This dependency could be broken with the employee support. While giving general management of the Metaş group to the Metaş employee based manager Aydın Telseren, the support was maintained for the turnaround activities from this stage.

CONSIDERATION

After the production stop, Metaş group faced the consideration stage of the turnaround. The decisions about the company's future were taken in this stage.

First of all, Company's financial health and the chance for the future success were determined. An answer to the question "Does it worth saving?" was searched. The answer to this question was positive so the management believed that the factory worth surviving and could have a competitive advantage with some cash injection to its financial position.

The financial inefficiency and the need of an external help were seen as the basic element of the crisis. To overcome this, the solutions that can create new financial sources were searched after the satisfaction of the company's productivity.

The operational turnaround strategy was chosen for Metaş's turnaround. It was seen as cost cutting strategy especially in financial costs. The way to Metaş's turnaround passed from the exterior factors acceptance. For that

reason, the real important factor besides the turnaround activities for Metaş was to have an agreement with banks for their debts and a new financial source that could restart the production process without any additional debt facility.

The relations with the interest groups became more important for Metaş management due to the need for support on the way to the turnaround activity's approval. In the consideration stage the interest groups were determined and their powers on the external factors were decided to be used effectively. Interest group's worked as pressure group over the debtors and the government. The communication for the support of these groups started at this stage.

The exterior dependency of the turnaround lasted its consideration stage longer than the usual turnarounds and created a transition period between the consideration and radical and urgent solution phases. That creates a discontinuity in the turnaround strategy stages of Metaş case.

An employee committee was formed to work with the management. They were assigned to join the visits of management for searching help for the turnaround activities and preparing worker actions. During this time the other interest group's key representatives were determined and the ways to attract their attentions were searched.

RADICAL AND URGENT SOLUTION'S

The radical and urgent solutions stage of the turnaround differently developed in Metaş. For that reason the two years time were passed with employee actions for attracting the public interest and the meetings with governmental responsible, and banks.

Metaş management with the support of its employee committee tried to show the turnaround solution's feasibility to the other opposition groups:

They tried to convince them about the financial cash injection programs and reorganizations and like, being implemented.

The most important activities in this stage were the communication activities. With these activities Metaş's case became İzmir's own problem or from another point of view this could be the poor public investors and employees' survival hope in the public's eye.

After the Demirel Government solution of cash injection plan by the Public Participation Fund, the real urgent solutions phase as is mentioned the terminology began for Metaş. With the bridge financing the factory was prepared to work again. And also by the real financing, the debt of Public Participation Fund created cost advantage for the factory. With this cash injection the reasons for the former cost disadvantages of the factory were eliminated. First of all the financial cost of production financing which was bigger than the companies' losses was reduced to minimal. The productivity methods that could create cost cuts were implemented in the production process.

The number of the employees had decreased from 940 to 630 during the two years of production stop period because of the Job changes, retirements, and with similar factors. Therefore the costs of over employment have already been eliminated and no further systematic action took place. Employees special supporting place in Metaş case also limited the actions against the employment costs. Although there was not a big resistance, the employees began working with low salaries than the industry average, in the first year of the reproduction. Also the ones that were retired during the crisis could not take their retirement fees for some time after the crisis.

During the radical and urgent solution's stage, several employee meetings were done in order to inform the employees about Metaş's current position. With these meetings several living aids were given to the employees also. Positive implication of these meetings on the company morale could be

seen easily and motivation of the company to the turnaround process increased.

STABILIZATION - THE BEGINNING OF A NEW ACTION

After starting the production, the short term aim of Metaş was to prove itself by getting significant revenues and reaching hundred percent production capacity. In the medium term their goal was to enlarge the operations for their group companies and expand operations by either subcontracting or importing. The first part of this plan contained the stabilization stage of the turnaround. During this stage the company tried to reach the past times success. The important point here for Metaş was to reach a steady production process with minimum problems.

In the stabilization stage management began to take strategic decisions about the Metaş group's future. The change process which was needed to shape the company for the future was started.

The orientation of the workers about their duties were maintained. They were motivated as to be the members of the Metaş family. The new production techniques were started to be implemented. The worker allocations and their duties were reshaped because of the thirty percent working force decrease since May 1990.

In the steel market the efforts of the company were focused on the reliability of the Metaş products and the image of high quality for the consumers. The entry to the export markets started. During that time the emergence of the huge China market for the steel was a big chance for Metaş for exports.

The relations with the board of directors were one of the important factors for Metaş. Due to the new loan facility, the Public Participation Fund and the Banks having members in the board had a big influence in decision taking. A new investment plan that was needed for the companies future

was prepared by the managers but the hardest part of that action was to take approval from the board. This approval and the implementation of the investment was done during the stabilization stage.

The stabilization stage contained the subordinating turnaround's consideration together with radical and urgent solutions and stabilization stages. A strategic turnaround was started to be implemented as to reshape the companies future. The factory's product mix decided to sift towards the quantity steel. Metaş perceived it's future in quantity steel because of these reasons.

- * There is a lack of quality steel producers in Turkey.
- * Metaş's production units are appropriate for this kind of production which has already done since 1964.
- * The workers are ahead in the learning curve for this kind of production.
- * The value-added of quantity steel is higher than the construction steel.
- * The demand for quality steel increased steadily with the increase of industrial production.
- * Since quantity steel was purchased by industry there were no remarkable fluctuations in demand.

NORMAL GROWTH - STEAMING

Normal growth stage of the turnaround stood after reaching the full capacity of production in 1994. The company proved itself as a profitable company so the control mechanism of the debtor banks were loosened. Quality steel production was increased as a result of the completed investments for reaching higher qualities.

Holding strategies were implemented at Metaş. The structural changes in the subordinating companies were done and management was gathered together under a holding management.

Metaş needed a stable owners equity for a normal growth and making true strategic selections besides the changing market conditions. (As the debtors control puts some limits to the clear decision making). The most remarkable action of this stage was a privatization of the Public Participation Fund's shares. With this liquidation the control of the factory passed to the Uzan Family which could prevent the real stability in Metaş. The financial investors left the company management and normal private control came back to Metaş.

Employers were rewarded with factory shares as a good will from the new owners and their efforts were appreciated by the management of the firm.

New growth strategies were implemented at the factory. The relations of the other Uzan Family companies were increased and new work alliances were conducted.

PART 4

STRATEGIC FORMATION TOWARDS TURNAROUND

THE FORMATION OF STRATEGIC AREAS

By the time, I was trying to set up The Metaş' Turnaround case I needed to formulate a strategy for the condition in hand. In research on strategy formation the reference point was the article of Mintzberg on "strategy".²⁷ The highlights, indicate that the needed data is easy to reach but wanted more analysis and interpretation.

According to Mintzberg article, the first stage is to gain an overview of the organization and its industry. So that means; to understand the organization we need to know the key strategy and the environmental areas and the result based dimensions. The secondary data (annual reports, catalogues, files), is needed to understand where the organization stands and to develop chronologies of decisions and actions and their results. The primary data should be collected to inform specific strategy areas. On the first stage, there must be on hand chronological listing of events, decisions, environmental events and their results.

In our case, the secondary data was reachable and I got a large overview of the organization itself and its industry. For developing chronologies of decisions, or to trace events I went several times to Metaş, İzmir. The needed primary data was collected by focus group interview for providing overall background information and strategy.

The results of the²⁸ collected data, facilitate the formation of strategy areas, and from each strategy area the needed chronology and related graphs could easily be drawn.

²⁷ Henry Mintzberg, Jim Waters, Steps in Research on Strategy Formation,; McGill University, 1982.

²⁸ Ibid, Mintzberg.

According to the article, the second stage is called the determination of the strategy patterns. In this stage the chosen strategies should be on the common time scale, where the important events for each strategy should be labeled. The aim is, here, not to form only the strategies or depict the time scale, but also emphasize and guide us to inform the characteristics and environment which surrounds that time period. The time scale, needs to investigate each period of the strategy and to understand and to bring up the forces that shaped it.

On the third stage a kind of exploratory research was done. Every strategy was examined with it's details. The underlying forces that shaped the strategies and the causes of the changes in the strategies were determined. During the exploration the interrelationships among the different strategies were also taken into account.

On the last stage, all the collected information was interpreted and the key strategy areas were converted into generic strategy areas till reaching the turnaround strategy. At the end I received strategy areas and related strategy streams which shaped the turnaround strategy.

TRACING IN THE KEY STRATEGIC AREAS OF METAŞ CASE DURING THE TURNAROUND

While examining Metaş Case some of the areas are separated as different strategic areas. The chronologies of decisions, actions, trends, events and environmental changes help us to determine the important areas, and related decisions that shape the firms future. These key strategic areas have their own strategic decision ways through the time and can be examined as separate entity. The consolidation of these strategic selections create the whole case's strategic decision stream.

Seven areas are observed as key strategic areas of this case and these can be summarized as : Production, quality, marketing, sales, finance,

research and development and human resource management. All of these areas have their own definite decision streams with related strategies through the time.

The key strategic areas of Metaş case contain a big resemblance with the definition of the functions of a business in management literature. It is because of the complexity of the case and Metaş's well settled firm structure.

	FUNCTIONS OF A BUSINESS	
Main Functions of a Business	<u>Operation Functions</u>	
		Production
		Quality
	Marketing	Sales
	Finance	
Supporting Functions	Research and Development	
	Human Resource Management	

Figure 13 FUNCTIONS OF A BUSINESS.

The selection of the areas as the "key strategy areas" had some reasons. First of all Metaş had viable strategies in these areas and changes in these strategies throughout the time. The environmental and industrial realities forced these areas to have specific strategies of their own throughout Metaş case. Some elementary changes could also be observed in these area strategies. If we look at them one by one the areas and the reasons for their selections can be summarized as follows :

Production :

- Production is the base of steel industry.
- As having a continuous production process every decision depends on the continuity of production.
- The main costs and the main problems to be solved depends on the production so the main aim of the Metaş' management is decreasing costs and increasing efficiency.

Quality :

- Quality is Metaş's image in the market
- The strength of the firm between it's rivals and it's qualified skills for producing qualified steels.
- Metaş was Metaş's target for the future.

Marketing :

- The general importance of marketing in management.
- Despite the limited marketing activities in the industry Metaş is ability to affect the product "p" of marketing by having quality steel production besides construction steel.

Sales :

- Importance of sales in a continuous production for the balances.
- The sales oriented marketing in Metaş till the crisis.

Research & Development

- The importance of developments for a steel factory.
- Metaş's pioneer position for the developments.

Human Resources Management

- The increasing importance of human resources management.
- The unusual employee-employer relations in Metaş.

KEY STRATEGIC AREAS & THEIR STRATEGIES

FINANCIAL STRATEGIES

(EXHIBIT 6)

The various sources of capital used by a company make up its financial structure. In establishing policy for obtaining capital, the overall general structure must be considered because the relative importance of one source will affect the desirability of the others.

The size of the company, the nature of its assets, the amount and the stability of its earnings, and the condition existing in the financial market at the time the capital is raised, all have an influence on the sources of capital used by the company. From time to time changes will be made, either because capital can be secured more advantageously from another source or because some lender decides to withdraw its capital. Expansion or contraction of the total amount of capital used will also affect the relative importance of the various sources.²⁹

Financially Metaş group was not very healthy all the time. In the first years of the production the group could stand with its own financial resources. As the production was mainly done for the group, the firms' needs and the quantities were small. Besides the Özsaruhan family, there were some other minor partners. The strategy of finance was using firms' own resources for its productions and having bank credits where needed.

This sufficiency in finance went on till the economic changes of 1982. The conditions of steel industry changed. The entry of foreign steel was eased, the export of steel which would bring new opportunities for steel producers was encouraged. Metaş increased its capacity rapidly with big investments to the steel ovens and mills. The quantities produced were increased so did the need of financing.

²⁹ William H. Newman, James P. Logan, *Strategy, Policy, and Central Management*, 7th Ed., Ohio: South-Western Publishing, 1976, p.304.

Metaş could not increase its capital rapidly as the needs of production and the dependency to the bank credits increased. At these days the finance strategy of Metaş turned to the debt financing of productions. But this debt financing was done from limited banks and in acceptable conditions.

The debt financing became more costly for the firm towards 1987. As the profit margin was very low the interest expenses created losses for the production. The strategic decision at this point was to decrease debt financing ratio for survival. It could be done by decreasing the debts or increasing the equity. Decreasing the debts in the short term were done by production decreases which was not the desired solution. For this reason two capital rises were done. They were unsuccessful because only Özsaruhan family put extra cash for the firm but the other partners rejected to join the equity increases. This cash injection were the last action that the family could do from their own financial resources.

After the insufficient equity increased attempts, the survival was searched from outside. The basic was the same, decreasing the debt financing ratio. But this time new partners were searched for the increase in the equity. As the steel industry was a problem in the global market no partners were found to pay the desired price.

Metaş chose the second way for finding new partners and for having extra cash, selling shares at İstanbul Stock Exchange. The desired permissions were taken and the shares were sold in the market in January 1989. The cash coming from this action was used for interest payments and new scrap orders. This cash entry was insufficient for decreasing the debts to a desired amount and only postponed the financial crisis for one year.

In the times of financial crisis from 1990 to 1992 the financial strategy of an increase in the capital by cash injection was stressing for implementation. The sources of that increase were changing because of the insufficiency of Metaş and government actions. Two capital increase attempts were done, the search for the potential buyers were always in the agenda and the

nationalization by cash injection were the preferred solution of the management.

After the cash injection the factory had the desired cash for controlling its financial position. Increasing the importance of the balance between the debts and equity, Metaş put the long range financial strategies on the agenda. The strategies of lowering the financial costs while minimizing risk were implemented. The debt financing was limited with the desired letter of guarantees. The financing costs were decreased with the cash contrary transactions while the extra cash of the firm gained value. The investment decisions which needed the financial actions were evaluated by financial authorities of the new management.

PRODUCTION STRATEGIES

(EXHIBIT 7)

The operations function had an important influence on the cost, quality, and availability of the Metaş's products. Operations strengths and weaknesses could have a great impact on the success of the Metaş's overall strategy.

Metaş was found for producing special type of construction steel. Strategies in the beginning years of the factory was over the self adequacy of the factory while producing the needed kinds of construction steel.

After the beginning of quality steel concept to the factory in 1964, the concepts of quality and dependability took importance in Metaş's production strategies. The strategies applied in the beginning of the quality steel production were producing construction steel while making some elementary productions for quality steel for increasing experience.

In the years of 70's the production strategies were mainly about the dependability of products and production increases by investments for better production. These strategies were selected because of the growing Turkish industry and the factory's emerging image as dependable and qualified.

The increase in the production quality, the experience increase of the working force and the adaptation of new techniques and innovations to the factory were the important additional approaches in the strategies of Metaş till the financial problems.

With the 82's economic changes Metaş's production strategies faced a big change. The concept of export with subsidies provided new challenges. So the rapid production increases were needed. The new financial conditions were hard so the cost efficiency concept also became important. The production strategies of these years were producing construction steel more with efficient ways. The quantity rewards which were given to the production quantity records were the symbol of this approach. Productivity based strategies were implemented.

The principle of productivity is to emphasize continuous improvement in finding better, more productive uses of labor and capital in ever-widening circles of investments, both inside and outside the firm. A productivity-based strategy means selectively and relentlessly investing against a criterion of creating higher value and eliminating waste.³⁰ Metaş had every criteria of productivity-based strategies. But the link between the productivity increase, investments, and financial conditions were missing.

With the production stop the strategies and their implementation were also stopped. After the beginning of production the strategies which were shaping Metaş's products were shaped in a search conference . And for the first time Metaş's production strategies were influenced by the other areas. Marketing and the financial responsibilities became more dominant than production. After the search conference, increase in quality steel production for better market conditions and increase in cost efficiency shaped the new strategies of production. Human oriented, knowledge based strategies began to be implemented.

³⁰Norman P. Smothers, "Patterns Of Japanese Strategy : Strategic Combinations of Strategies", Strategic Management Journal, Vol.11, 1990, p. 525.

QUALITY MANAGEMENT STRATEGIES

(EXHIBIT 8)

Quality means delivery of loyalty - producing products and services along all dimensions of quality with a single effort. The dimensions are seen as: Performance, a product's primary operating characteristic ; Features, supplements to a products basic functioning characteristics ; Reliability, a probability of not malfunctioning in a specific period ; Conformance, the degree to which a product's design and operating characteristics meet established standards ; Durability, a measure of product life ; Serviceability, the speed and ease of repair ; Aesthetics, how a product looks, feels, tastes and smells ; Perceived quality, as seen by a customer.³¹

Since the beginning, quality was an important factor for Metaş. The need of quality steel for producing columns which were not produced in Turkey in 1950's was the reason of Metaş's establishment.

Although quality steel is a name of a qualified kind of steel it also means a qualified production process. During the production there is a use of special elements with special timings and techniques for use which can be done by the experienced workers by supplementary machines to the basic steel ovens and mills.

Quality steel brings the quality dimensions to the steel. The use of quality steel is generally in the industries for producing specific steel parts or in the special constructions so it has the strict standardization. Features of the steel like reliability, durability and conformance becomes more important.

As being the first steel producer with special kinds of steel that were not produced in Turkey, Metaş created an image of quality. It's products were perceived as one of the best in the sector.

³¹ Randall S. Schuler, *Managing Human Resources*, 5th Ed. St. Paul: West Publishing Company, 1995, p.550.

The first strategy about the quality management was seen in 1964 with the strategy of entering the quality steel production because of the needs of the emerging Turkish industrial life. From 1964 to 1986 Metaş faced a learning process for quality. The strategy was sending workers and engineers to European and Japanese steel factories for internship and supplementing basic machines for quality steel production.

In the '70 the basic quality steel productions were done for decreasing seasonality effects of steel market on the production. Strategically the quality concept was seen as a secondary element and also the production of quality steel production was preferred when the market's demand for normal steel decreased.

After 1986 quality became more important. Because of the financial problems the importance of productivity increased. For achieving productivity the management styles of just in time and total quality management were basically beginning to be implemented in some of the divisions of Metaş. Quality circles were established between managerial staff. The activities for cost decreased because of less rework, fewer mistakes, fewer delays and snags and better use of time and materials were done. The strategy was obviously improving quality for reaching cost decreases in production process.

In the quality steel production side Metaş reached a sufficiency for the production of quality steels in these years. A big investment program started implementing. The strategy was investing on quality steel for the future besides reaching a steady percent of quality steel production which was easily marketable because of being no competitors.

After the cash injection, strategies forcing the quality management and quality steel production implemented. The future of Metaş was seen in the production of quality steel as there were no sufficient competitors in the Turkish market producing the steel that Metaş had the ability to produce. The value added to quality steel was higher than the normal steel and so the profit margin of quality production was higher. The industry was growing

and the need of quality steel was increasing. Strategies of increasing the quality steel production while investing on the quality were implemented. The goal was to reach %30 percent quality steel production

At this point Metaş was at the end of a financial crisis so it was very important to have a healthy operation. The strategy of the implementation of total quality management rules to the working life to have a better management quality were performed. The quality circles were increased, better time schedules were implemented for decreasing delays and the loses for bad productions were minimized compared to the past.

HUMAN RESOURCE MANAGEMENT STRATEGIES

(EXHIBIT 9)

As work is important to society, organizations that wish to have a strong, competitive work force must create certain working conditions for their employees. Progressive organizations consider human resources as their most precious asset. Consequently, personnel needs for customized fringe benefits, child day care, and social helps are given equal consideration with such traditional needs as training and development, job enrichment, and promotional opportunities.³²

Özsaruhan family was known as excellent employer for it's employees. So Metaş's human resource management was set on the employee needs. Although there were no modern approaches applied to the human resource management, employees were satisfied with their working conditions.

Till the capacity increases of late seventy's Metaş preferred the high waged employees with low turnaround ratios. High social rights were always satisfied for the pleasure of work life. The opportunity of training in European countries were given to the workers by the project of quality steel

³²Peter Wright, Charles D. Pringle and Mark J. Kroll, Strategic Management Text and Cases, Massachusetts : Allyn and Bacon, 1992, p.134.

production. The career paths of the employees and managers were set beforehand by the use of the same tracks and the career way of an employer was always visible. This human resource management strategy can be stated as humanitarian approach.

After the financial problems the cost consciousness came to the Metaş's human resource management. The humanitarian activities were done till the limits of financial resources. The strategies were revised in the last of seventy's for having less human resource costs. Although there were financial problems, the basic policies didn't change. The turnover was low, the worker numbers were quite the same and there wasn't a modern personnel management action in use. Some high performance rewarding mechanisms were in use. Strategically there was a cost conscious human resource management which highlighted the employee needs.

In the times of production stop the human resource management strategies faced a flux. Although the production was stopped there were human resources which were involving basically the turnaround activities (or the efforts of stating a turnaround at Metaş). This stage's strategies had share the cooperation for survival themes.

After the cash injection and the production start the most important thing for Metaş was the cost decreases with a healthy production process and management. For this reason the cost conscious approach came to the human resource management as a standing point. The new scientific approaches of human resource management started implementation for better management. The number of employees decreased, the wages were set near the industry averages, the programs were started to train new people for the ones who would retire soon. Policies that encouraged and rewarded teamwork were used. As it was obvious the strategy was a turnaround in human resource management by implementation of modern human resource management basics and decreasing costs.

RESEARCH & DEVELOPMENT MANAGEMENT STRATEGIES

(EXHIBIT 10)

Research and development starts at Metaş with elementary production control implementations. The strategies about this area consisted of only the production based control issues at first. However with the capacity increases the strategies which encouraged the workers to share their innovative suggestions for improved production processes were implemented.

With the technologic changes due to the production of quality steel the scientific research and development activities were implemented. With the use of scientific laboratories, the measurements were done with accuracy. The strategy of cost decreasing and quality increasing research while innovative development implementations were used.

Research and development became more important with the investment plans for capacity increases and quality steel productions of the early 80's. The plans of the investments and the communication with the producers of technology were done by this department. The electronic measurement machines and computerized management information systems (IBM AS 400) were used in research and development department of the factory. The resources of the factory were fully associated with the research and development department and the managers of this department were behaving as the production directors over the production process. The strategy for the research and development stressed both the improvement of the operating process with the implementations of new steel producing technologies, and satisfying optimum quality of desired kind of steel.

After the crisis the research strategy of the factory changed because of the financial problems and the control of financial resources by the debtor banks. The research and development lost it's aggressive approach inside the factory. The only involvement of this functional area was the quality steel productions efficiency and the vital investments for the production

quality increases. The strategy implemented was quality increase and cost decrease oriented research with preemptive approach. This was done by accurate measurements which could be done during the production process by the use of already owned resources. Planning of the cost minimized investments which could be agreed by the debtor banks have already been done.

MARKETING - SALES STRATEGIES

(EXHIBIT 11)

The role of marketing function is to profitability bring about the sale of products in target markets for the purpose of achieving the business's goals. Marketing strategies must entail four components : product, price, place and promotion.

Generally in steel industry, marketing activities were limited. The steel prices were set according to the governmental policies by the help of big publicly owned factories. The world market was also under the control of the governmental subsidies. The channels of distribution were few and there were problems about the new selections because of the products specialty of weight. Also few promotion activities were applicable to the industry.

The only variable that the factories could affect easily by their strategies were product component. Factories could produce different types of steel, with different qualifications and sizes.

Metaş's management gained the marketing concept in last five years. So the sales orientation has bigger impotence for the factory. Though the sales related marketing activities were examined under the marketing-sales heading.

Sales were seen as a strategic area besides marketing in this case. In consideration of the product specialties some of the marketing areas were influenced directly by the sales decisions and related strategies. Which made sales as important as marketing.

Metaş sold its products whenever they were ordered at the first days of the factory. The main production was for the need of Ege Yatırım Group's complementary productions like electricity columns. This stage's strategy was a geographic segmentation and it could be summarized as order oriented sales to the İzmir region.

After the first production increases in 70's the production efficiency needs forced the factory to produce more for having reasonable costs. This caused introductory selling activities inside the factory. A selling division was formed inside the company and several firms like Satmaş and Demir Ticaret were established inside the group whenever special selling activities were needed. The strategy about selling was not aggressive. The geographic segmentation was still in use with broadening its limits. Selling was wanted to be done by the orders of the customers inside the Aegean region. Group firms and already shaped relations were seen as potential buyers.

After the 80's the capacity of Metaş increased rapidly, the rivals increased and the export markets were opened. Metaş's first respond for these changes was the change in production strategies the second was the change in the selling strategies.

Having 400.000 tons per year production inspire 100.000 tons the factory started to sold its products all around the Turkey. Having qualified steels and good relations with the construction firms some of the important projects of 80's like Urfa Tunnel's and Fatih Sultan Mehmet bridge used Metaş steel.

The export opportunity was used by Metaş. The half of the production were sold to foreign countries. For this reason Meptaş was formed as a foreign trade firm inside the group.

The selling strategies became more aggressive but the use of marketing activities were limited. The geographic segmentation base was changed and the first applications of marketing mix strategy was shaped.

Strategically it was planned to reach new customers by the use of quality image and having % 50 export capacity.

After the crisis the marketing activities started with the modern approaches. Because of the lost market share and intense competition, the customer orientation became important. The sales office was moved to central İzmir from the factory building first. Istanbul and Ankara sales offices were opened six months later. For the foreign market new customers were searched. The quantity and the diversification of the foreign markets were the important points for Metaş after the crisis. The marketing view became more important than the sales from that moment on. Strategically we could say that the customer orientation, aggressive selling objectives and diversified market strategies were used.

After the Uzan family's turn over the place "P" of the marketing strategy was changed. The selling places of the Metaş steel were increased by the ways of distributors. Strategically the selling activities were tried to be done by the sellers of this kind of steel in spite of the factory itself.

GENERIC STRATEGIES OF THE METAŞ GROUP

(EXHIBIT 12)

Ege Yatırım group was concerning over 13 firms which were structured around the main business of steel. Metaş seems to be the center of the gravity between these firms. Özsaruhan family established firms whenever a new kind of job was to be done. In fact the establishment of Metaş has a similar reason; the need of a specific steel which could not be found easily.

The earliest stage of the generic strategies had the apparent strategy of vertical integration. The group was establishing subordinating firms in related areas. This strategy was used from the beginning of the group to the mid 80's.

Aysan, Demaş, Limaş, Meptaş, Tüstaş, Ege İnşaat, Edaş, Ebim, Betontaş were established in those years. They were producing steel springs,

electrification columns, cement and giving the subordinating activities of marketing, construction, computerization support and harbor activities.

The cement producer Betontaş was the only firm which had an indirect relation with the steel. All the other firms had complementary relations with each other. Betontaş's relation with the steel was coming from the construction industry. The ownership of this factory could be seen as a concentric diversification which causes a flux inside general strategic aim of vertical diversification. This deviation in the strategy was coming from the Özsaruhan family's business view. They needed cement for their productions for using with their steel and so a cement factory was constructed.

After the 80's the strategy of vertical integration began to loose it's clearness. The group was facing economic problems and solutions for this was searched. There was a flux in the strategies between the time period from 1984 to the production stop. Different strategic selections were made. The partnership of Sivas Demir Çelik had the specification of vertical integration, the ownership of Berlin factory could be named as joint venture strategy and the search for buyers for the firms and the search for a partner for Metaş had the signals of divestiture strategies.

After the production stop the clear turnaround strategy formed all the actions that were made for survival. All of the functional area strategies responded the cost conscious approaches of the turnaround. Functional areas also started implementing strategies which contained new managerial skills.

The specific holding strategies were beginning to be implemented after the survival. Some firms were closed and other management were connected to the general management of a holding.

CONCLUSION

Turnarounds are no longer special cases but an all too familiar part of the business life. With the increasing rivalry the factories facing decline will often face turnaround strategies. For the possible future turnaround strategy implementation, it can be vital for a company to create an organizational base.

The phrase said by the CEO of the GM corporation about turnaround is the best to define it. "Money becomes a substitute for innovation, past success turned into dogma and maintenance of the statuesque become the measure of success."

The turnaround that was done in Metaş was successful with the collaborative actions of employees, share holders, management, government and unions. The need of the external financial resources, involved the other factors in the turnaround process besides the management. Employees put their support to the turnaround and search for financial resources. Government gave money from the Public Participation Fund which was basically a nationalization despite the privatization targets. Unions made actions of support and banks join to the equity with their old debts given to the factory. All of these actions differ the Metaş case than the others because the solution and the application were done collectively. Metaş's case showed us a collaborative approach for a turnaround.

The search for the new financial resources for the Metaş took the priority from the turnaround activities that created a discontinuous turnaround process. Metaş's turnaround case is not a linear turnaround as it is mentioned in the terminology. The different turnaround types use at the same case created a combination of turnarounds and related stages. Besides this fact, due to the two year production stop the stages of the consideration and radical and urgent solution lasts longer than expected and mixed with each other.

In general, turnaround starts with a new management that is obtained outside the organization as having new management with the new perspectives and having facilitate the radical solutions by a management with no past. However in Metaş's case it was different from the formal application. The need for the employee support and the discontinuous turnaround process has created a management change that was done inside the organization. The success of the management which was originating from the factory engineers shows us that the new perspective of management could also be obtained in the organization while having sufficient employee support.

The use of search conference gives an extra importance to the Metaş's turnaround. By the help of search conference an evaluation of the turnaround activities and the ways to the future success were mentioned. This conference was important because of the steak holders' participation to the company's future strategies. With this search conference a strategic product mixes change and implementation of a related turnaround was decided.

Three main successful turnaround gestalts were mentioned; These are asset / cost surgery, product / market pruning and a piecemeal strategy. Beside these strategies Metaş case realized us that the humanitarian approaches on leadership, style, teamwork, and other "soft" factors are the most important details in turnarounds. Employees are the essential part of the restructuring plan. While the turnaround strategy's implementations highly affect them they are the key factors of the future success.

The Metaş case exemplifies the fact that for a successful turnaround some of the basic strategies that will be used in the future of the company must be harmonious with the strategies implemented during the turnarounds.

Using the correct strategy is part of the art of successfully turning around a company. But for the future success, the turnaround strategy should find an organizational base that the restructuring has to be built on. As the base is

formed by the past strategies, the strategic decision streams have direct effects on the turnaround's success.

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EXHIBIT 1

METAS BALANCE SHEETS									
(TL billion)									
ASSETS	34	62	103	155	243	331	864	1,096	2,106
CURRENT ASSETS	18	32	30	48	32	28	296	528	1,148
Cash & Banks	4	6	3	7	0	1	39	69	183
Marketable Securities	0	0	0	0	0	0	89	118	78
Short -Term Trade Receivable	8	7	13	20	12	12	98	107	505
Other Receivable	0	0	0	1	15	11	0	0	0
Inventories	7	17	11	19	5	4	70	215	365
Other Current assets	1	2	3	1	0	0	0	19	17
FIXED ASSETS	16	30	73	107	211	303	568	568	959
Long - Term Trade Receivable	1	1	2	2	3	3	4	3	0
Other Receivable	5	2	1	1	2	2	61	63	53
Financial Assets	3	4	5	9	9	10	149	176	176
Tangible Assets	23	47	112	182	271	365	528	810	1,649
Accumulated Depreciation	-16	-24	-47	-87	-148	-204	-308	-485	-920
Intangible Assets	0	0	0	0	0	0	0	0	0
Other Fixed Assets	0	0	0	0	74	127	134	1	1
LIABILITIES & SH. EQUITY	34	62	103	155	243	331	864	1,096	2,106
CURRENT LIABILITIES	28	40	46	79	171	212	78	98	508
Short - Term Bank Loans	14	18	22	27	107	112	10	0	168
Short - Term Trade Payable	11	21	22	47	45	44	41	65	161
Other Short - Term Liabilities	1	1	1	1	14	29	7	12	40
Advances from Customers	0	0	0	3	0	0	2	3	27
Provision for Expenses	0	0	0	0	4	27	18	17	112
LONG TERM LIABILITIES	3	5	38	44	19	36	51	73	100
Long - Term Bank Loans	2	1	32	36	8	0	0	0	
Long - Term Trade Payable	0	0	0	0	0	0	0	0	
Other Long -Term Liabilities	0	0	0	0	0	0	0	0	
Advances from Customers	0	0	0	0	0	0	0	0	
Provision for Expenses	1	4	8	8	12	35	51	73	100
SHAREHOLDERS' EQUITY	6	17	21	32	53	84	736	926	1,498
Paid - in Capital	6	12	15	30	75	75	705	705	706
Premium on Sale of Stocks	0	0	0	0	0	0	0	0	2
Revaluation Surplus	1	3	18	36	49	106	91	209	510
Retained Earnings	-3	-2	0	-9	-36	-71	-97	-195	0
Net Income	1	4	-10	-25	-36	-26	36	206	280

EXHIBIT 1

INCOME STATEMENT	1986	1987	1988	1989	1990	1991	1992	1993	1994
Net Sales	71	100	171	211	86	3	330	1,585	4,542
Cost of Goods Sold	-64	-84	-160	-192	-64	-2	-279	-1,298	-3,642
Gross Profit	7	16	11	19	2	1	51	287	863
Sell. Gen. & Adm. Expenses	-2	-2	-4	-17	-5	0	-39	-131	-514
Operating Profit	5	14	7	2	-3	0	12	156	349
Non Operating Profit / (Loss)	2	-1	-3	7	0	3	70	63	124
Financial Expenses	-6	-9	-14	-35	-15	-1	-3	-5	-63
Income Before Extraordinary Items	1	4	-10	-26	-18	3	79	214	411
Extraordinary Items	0	0	0	1	-18	-29	-43	9	-1
Earnings Before Tax (EBT)	1	4	-10	-25	-36	-26	36	223	388
Taxes	0	0	0	0	0	0	0	-17	-110
Net Income	1	4	-10	-25	-36	-26	36	206	278

EXHIBIT 2

Current Ratio	0.7	0.8	0.7	0.6	0.2	0.1	3.8	5.4	2.3
Quick Ratio	0.4	0.4	0.4	0.4	0.1	0.1	2.9	3.2	1.5
Working Capital (MMM)	-8	-8	-15	-31	-139	-184	218	430	640
Accounts Receivable Collection Period (Days)	33	40	28	35	119	3650	106	39	29
Accounts Payable Payment Period (Days)	68	96	52	91	193	9430	52	18	18
Inventory Flow Period (Days)	40	104	64	57	104	1643	97	80	58
Fixed asset turnover	4	4	3	2	1	0	1	3	6
Total Asset Turnover	2	2	2	2	0	0	1	2	3
Gross Profit Margin	10%	16%	6%	9%	2%	33%	15%	18%	19%
Operating Profit Margin	7%	14%	4%	1%	-3%	0%	4%	10%	8%
Net Profit Margin	1%	4%	-6%	-12%	-42%	-867%	11%	13%	6%
Return on Equity	20%	36%	-53%	-94%	-86%	-38%	9%	25%	23%
Return on Assets	3%	8%	-12%	-19%	-18%	-9%	6%	23%	24%
Tax Rate	0%	0%	0%	0%	0%	0%	0%	8%	28%
Total Liabilities on Equity	5.80	2.65	3.95	3.84	3.58	2.94	0.18	0.18	0.41
Short Term Loans to Equity	2.80	1.06	1.06	0.84	2.02	1.33	0.01	0.00	0.11
Long Term Loans to Equity	0.40	0.06	1.52	1.09	0.15	0.00	0.00	0.00	0.00
Total Debt to Owners Equity	5.60	2.41	3.67	3.56	3.38	2.52	0.11	0.11	0.34
Total Debt to Total Assets	0.82	0.66	0.75	0.74	0.74	0.64	0.09	0.09	0.24
Long-Term Debt to Total Capitalization	0.29	0.08	0.60	0.52	0.13	0.00	0.00	0.00	0.00
Working capital to total assets	-0.24	-0.13	-0.15	-0.20	-0.57	-0.56	0.25	0.39	0.30
Retained earnings to total assets	0.09	0.03	0.00	0.06	0.14	0.21	0.11	0.18	0.00
EBYT to total assets	0.03	0.06	-0.10	-0.16	-0.15	-0.08	0.04	0.20	0.18
Sales to total assets	2.09	1.61	1.66	1.36	0.36	0.01	0.38	1.45	2.16

EXHIBIT 3

TURKEY'S STEEL PRODUCTION

<u>YEARS</u>	<u>TOTAL PRODUCTION TARGET</u>	<u>TOTAL PRODUCTION</u>	<u>LONG STEEL PRODUCTION</u>	<u>FLAT STEEL PRODUCTION</u>
1963	617	547	547	0
1964	711	690	690	0
1965	805	833	675	158
1966	899	976	651	325
1967	993	1,120	674	446
1968	1,128	1,176	630	546
1969	1,243	1,232	663	569
1970	1,368	1,288	585	703
1971	1,493	1,344	856	488
1972	1,618	1,402	594	808
1973	2,206	1,502	930	572
1974	2,794	1,602	786	816
1975	3,382	1,702	870	832
1976	3,970	1,802	955	847
1977	4,560	1,902	1,279	623
1978	4,558	2,249	1,580	669
1979	4,556	2,596	1,722	874
1980	4,554	2,400	1,524	876
1981	4,551	2,500	1,698	802
1982	4,549	3,200	2,118	1,082
1983	4,547	3,800	2,367	1,433
1984	4,545	4,300	2,794	1,506
1985	5,136	4,950	3,469	1,481
1986	5,727	5,928	4,451	1,477
1987	6,318	7,044	5,528	1,516
1988	6,909	7,983	6,241	1,742
1989	7,500	6,934	5,006	1,928
1990	8,400	9,322	7,381	1,941
1991	9,300	9,335	7,474	1,861
1992	10,200	10,253	8,539	1,714
1993	11,100	11,385	9,780	1,605

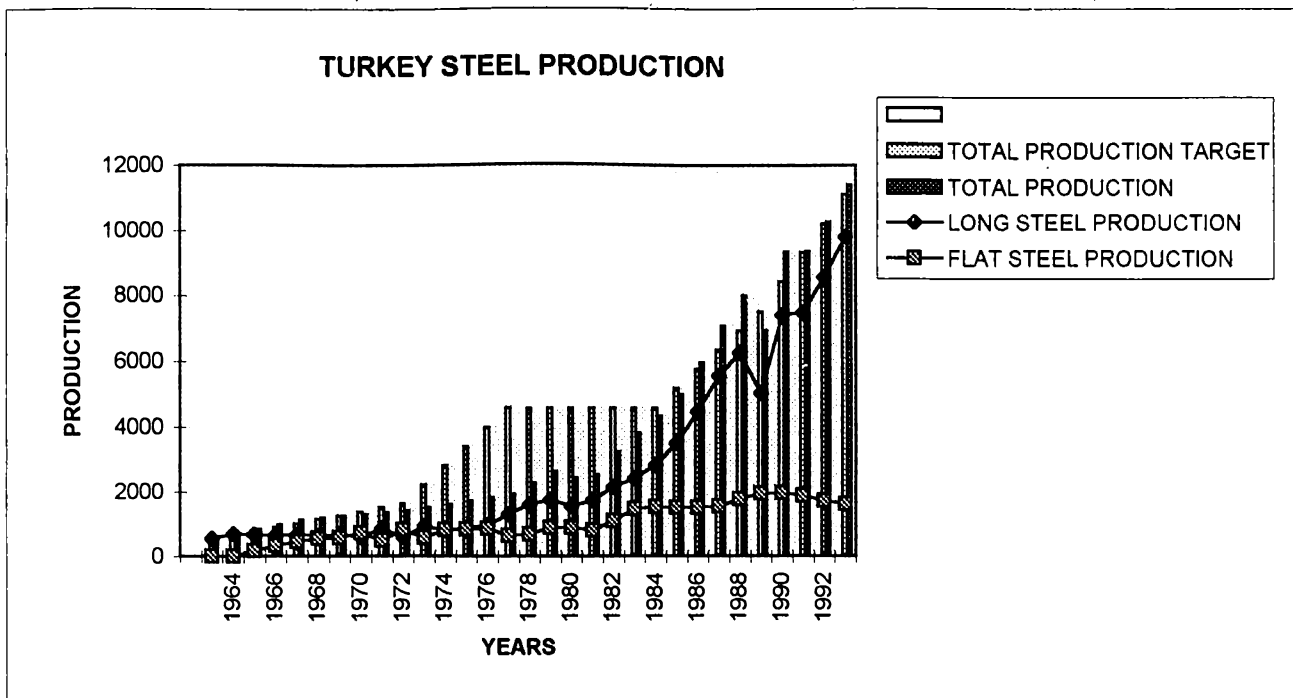
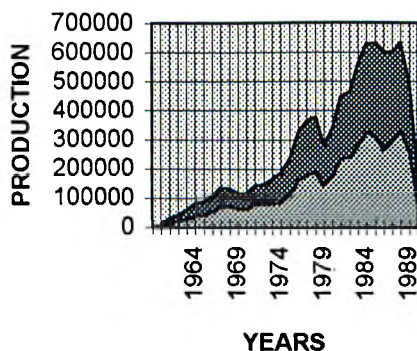


EXHIBIT 4

METAŞ STEEL PRODUCTION

YEARS	STEEL FURNACES			STEEL MILLS		
	UNIT 1	UNIT 2	TOTAL PRODUCTION	UNIT 1	UNIT 2	TOTAL PRODUCTION
1960			0	7,585		7,585
1961	14,771		14,771	15,999		15,999
1962	19,691		19,691	23,299		23,299
1963	25,028		25,028	34,875		34,875
1964	38,781		38,781	43,327		43,327
1965	41,746		41,746	43,820		43,820
1966	55,168		55,168	51,393		51,393
1967	68,127		68,127	66,732		66,732
1968	70,243		70,243	62,008		62,008
1969	60,588		60,588	55,551		55,551
1970	62,842		62,842	55,001		55,001
1971	76,984		76,984	65,626		65,626
1972	76,125		76,125	70,665		70,665
1973	82,539		82,539	83,789		83,789
1974	82,948		82,948	90,488	11,447	101,935
1975	82,026	27,879	109,905	96,121	28,903	125,024
1976	82,158	77,967	160,125	95,533	68,788	164,321
1977	76,328	103,099	179,427	97,725	87,225	184,950
1978	87,465	100,929	188,394	95,086	95,078	190,164
1979	44,482	101,072	145,554	45,538	87,086	132,624
1980	34,790	141,760	176,550	60,333	102,238	162,571
1981	49,917	185,304	235,221	62,958	150,357	213,315
1982	1,522	238,870	240,392	89,087	135,567	224,654
1983		277,835	277,835	102,356	182,014	284,370
1984		326,933	326,933	115,304	188,614	303,918
1985		310,481	310,481	109,213	211,239	320,452
1986		261,709	261,709	117,602	224,075	341,677
1987		293,357	293,357	113,492	193,204	306,696
1988		333,294	333,294	114,884	183,510	298,394
1989		250,484	250,484	38,621	200,702	239,323
1990		73,009	73,009	29,059	52,883	81,942

METAŞ STEEL PRODUCTION



■ STEEL MILLS TOTAL PRODUCTION
 ■ STEEL FURNACES TOTAL PRODUCTION

EXHIBIT 5

PRICE INCREASES BETWEEN 1980 - 1990

STEEL	20.71
COAL	27.86
CEMENT	32.5
AVERAGE SALARIES	43.84
PRICE INDEX	45.01
OIL PAINT	46.52
FUEL - OIL	47.92
WOOD	76.09
ELECTRICITY	109.68

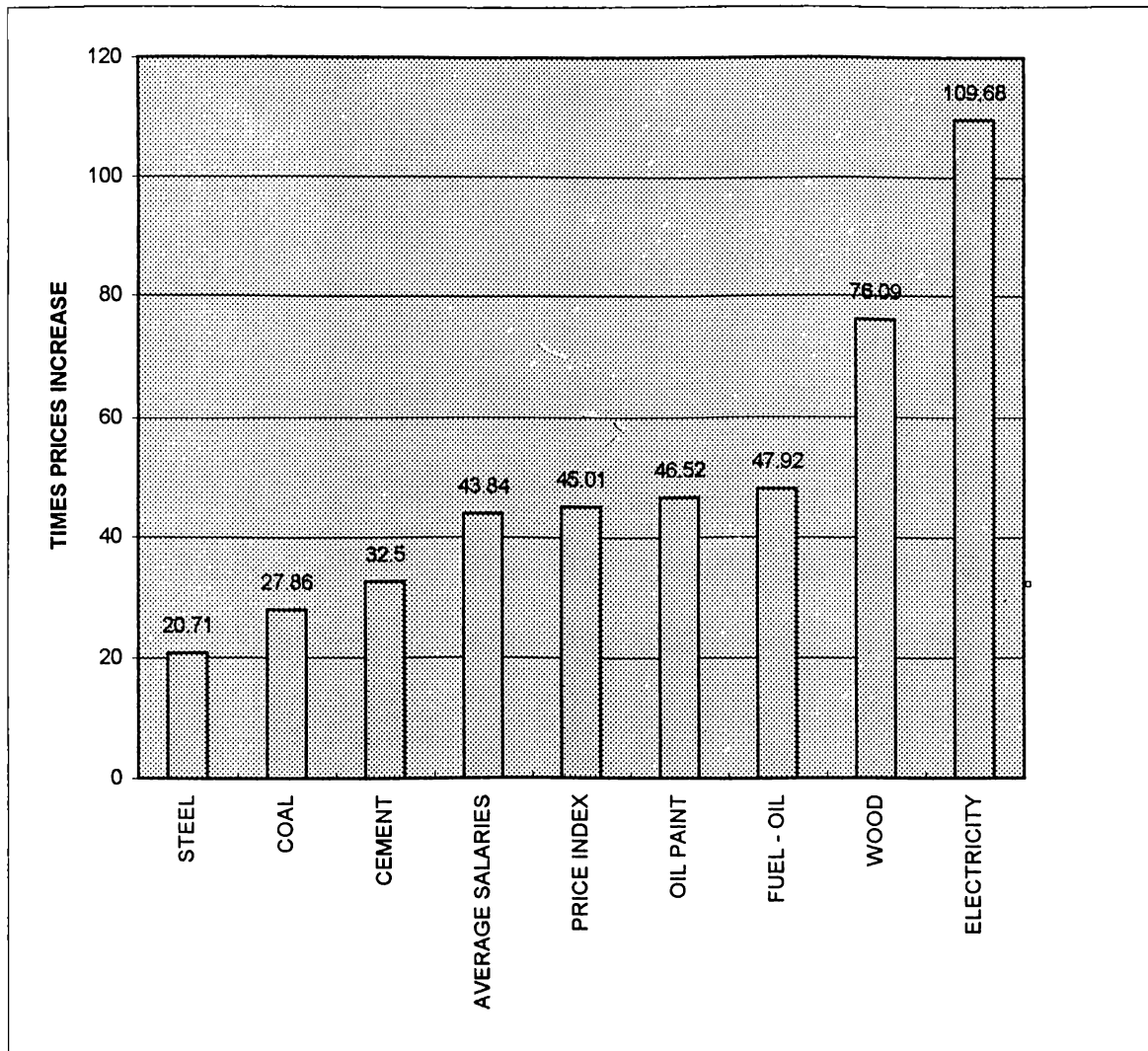


EXHIBIT 6

FINANCIAL MANAGEMENT

* Input prices increases higher than the steel prices so the gap between the production efficiency and the need for credits increases.

* As an industrial reality the companies must work with big loans.

	The use of company's own sources	The use of Bank loans Debt financing	New resources - New partners - Selling share	FLUX	Lower the financial costs. Long range strategies							
1980 Jan 24 1980 decisions	5/87 Increase in capital to 11 billion TL. Only Özsaruhan Family puts extra cash	9/87 Increase in capital to 15 billion TL Only Özsaruhan Family puts extra cash	8/88 Postponed in banks credit payments for one year	1/89 Selling shares in İMKB.	2-8/89 The search for letter of guarantee for Islamic Development Bank credit	1/90 Some legal actions on Metaş's group firms	88-90 125 billion interest paid for the loans	2/90 İş Bankası's credit line Cut	4/90 Production stop. Financial liabilities to the banks are 239 billion TL	6/90 Increase in owners equity 75 billion TL	5/91 Increase in owner's equity 450 billion TL	Working with Tütünbank and Finansbank against assurances
	Beginning of an investment program which will last in 1990	Increase in the number of workers		15 billion Worth share sell to public	Foreign partner fully sells his shares						Financial duty's current value should be 800 Billion TL	

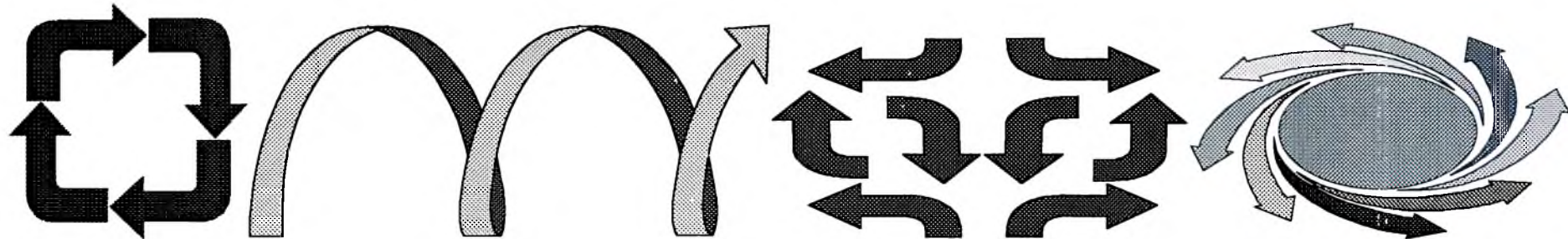


EXHIBIT 7

PRODUCTION MANAGEMENT

* Capacity 450.000 ton per year.

Experience based
Quality conscious
Production

Investing on Quality steel

Quality and cost conscious production

9 / 85
One
furnace is
closed for
renewal

1/1986
Investment
for Quality

8 / 86
Return to
the two
furnace
production

12 / 86
One
furnace
production

3 / 87
Return to
the two
furnace
production

1988
One furnace
production
because of
the Krup
Project

5/90
Production stop

90
New selling
offices in
İstanbul and
İzmir

1/93
New
investment
Project's
start

Uzan's search for
new selling points
all over the
Turkey

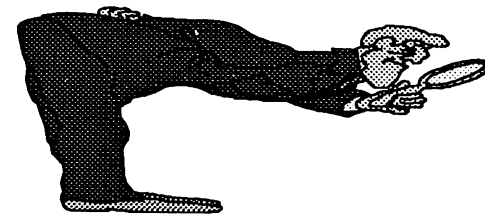
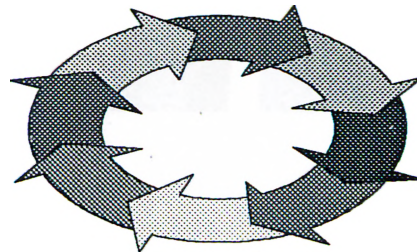
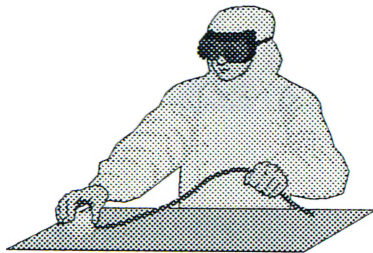


EXHIBIT 8

QUALITY MANAGEMENT

Learning

stability in sufficient production

improving quality

rapid growth

1964
Beginning in quality steel production

1986
Sufficiency in quality steel production

1986
Investment program for quality steel

1889
Higher tariff and duty decreases than the construction steel.

1992
Strategic change towards an increase in quality steel production

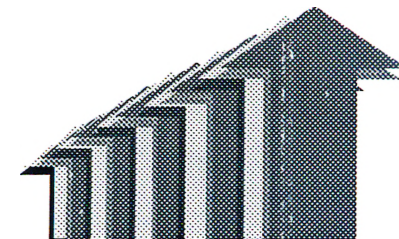
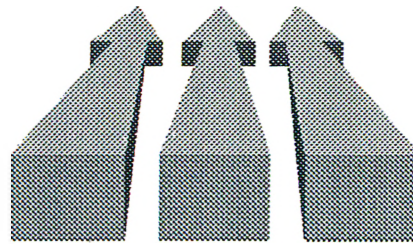
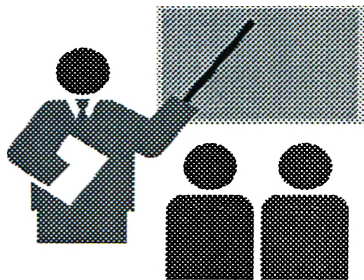


EXHIBIT 9

HUMAN RESOURCE MANAGEMENT

* 2.250 employee is working for Metaş group.

Humanitarian Approach cost conscious H&R management

Flux - survival themes

turnaround in H&R management with
implementation of modern techniques

1984
quantity rewards

12/90
Change in top
management

survival activities
from the employees

The average salary was 3.380.000 TL before the production stop
Sufficient social rights to employees. Training in other companies (Japanese- European) , Vacation facilities , sufficient salary , social helps.

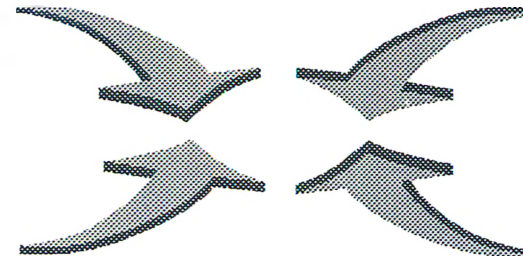


EXHIBIT 10

RESEARCH AND DEVELOPMENT

New innovation oriented research

Reducing operational cost

Reducing operational cost and quality conscious research

encourage innovation for research

investment for R&D

Investment evaluation
role to R&D

Cost Conscious week
R&D

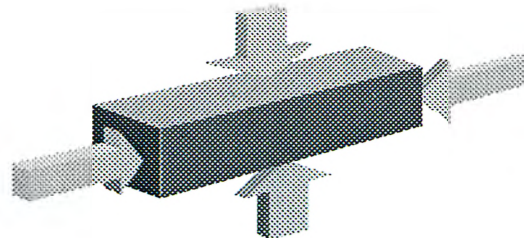
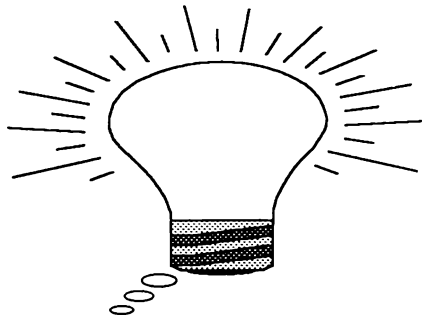


EXHIBIT 11

MARKETING AND SALES MANAGEMENT

- * Export Price : No chance to influence. Export prices are set in the world market. Turkey prices are set by the governmental producers for construction steel.
- * Product Mix Product : Product mix and specifications are variables for Metaş.
- Promotion : Limited promotion because of the market specifications
- Place : Limited chance to change the place.

No aggressive sales targets especially because of the easy conditions markets

Reaching new customers due to the increased competition

Sharp increase in sales by aggressive approach

Increasing exports towards diversified

Regional based sales to Turkey base and export sales											
1980	1985	5/1988	3/1989	5/1989	6/1989	8/1989	4/1990	5/1990	1992	12/92	1993
Reaching efficiency in export market	Decrease in exports	Romanian and Bulgarian low priced steel's entry to the world market	Decrease in tariffs because of the strike	Export stop in the Iranian Market.	Decrease in steel prices	Fully shout down of the tariffs and duties for steel	Production Stop	Increase in steel prices	Search conference	New sales offices in İzmir and Istanbul	Emerging Chinese Market

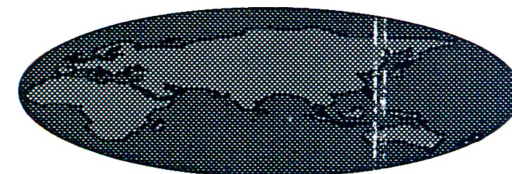
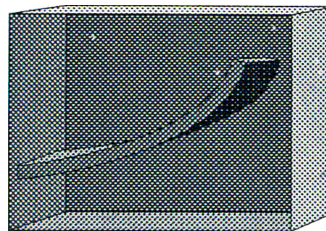
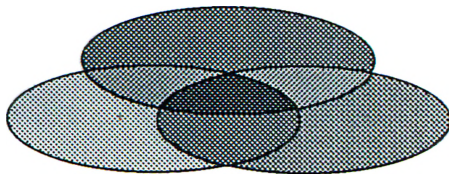


EXHIBIT 12

GENERIC STRATEGIES

- * Metaş
- * Betontaş
- Ege Demir Sanayii
- Satmaş
- * Liman İşletmeleri (Limaş)
- Ebim Elektronik bilgi işlem
- * Anadolu Yay Sanayii ve Ticaret (Aysan)

1960 - 1980

vertical integration

1982 - 1990

flux - vertical integration - joint venture - divestiture

- * Demaş Demir Mamülleri A.Ş.
- Metek Metal Teknoloji
- İtaş İzmir Teknopark A.Ş.
- * Meptaş (Demir Çelik Pazarlasma A.Ş.)
- Metar Denizcilik
- Tüstaş Sınayii Tesisleri
- Ege İnşaat Nakliye Ve Ticaret

DIVESTITURE

- Edmaş
- Emtaş
- Satmaş
- Çelik Ticaret
- Çelik nakliyat

1990 - 1992

Turnaround

1992 - 1995

Turnaround with Holding strategies with reshaping the groups structure

1960-1983
Establishment
of new firms

1988
Sivas D.Ç.
partnership

Berlin factory
ownership

5/90
Production
stop

1992
Search conference

1992
Divestiture of
some of the
non working
firms.

