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MARKET RESTRUCTURING OF COMPANIES IN CONDITIONS OF SYSTEMIC RISKS AND FINANCIAL CRISIS

Summary: *Due today's business conditions, systemic risks and financial crises are increasingly present, which further complicates the competitive position of companies. The aim of this paper is to define the strategy of market restructuring in the given circumstances and expand the existing theoretical knowledge using descriptive methods, testing methods - collecting empirical data on enterprises in Bosnia and Herzegovina, induction and deduction methods, ABC analysis and statistical methods, T-test to prove hypotheses. The contribution of the work stems from the research goal.*

Key words: *systemic risks, financial crisis, company, restructuring, market*

JEL classification: *G32, D4, E2*

INTRODUCTION

Companies are restructuring to increase value and market competitiveness. Restructuring includes measures of organizational, financial, production, technological and market restructuring. Some measures aim achieving efficiency, while other aim achieving effectiveness. In order to overcome the crisis in the company in 2019, an analysis of market restructuring of companies in Bosnia and Herzegovina was performed, during which 100 companies were sampled, out of which 64% belong to the service sector and 36% belong to the manufacturing sector. Given that there are more and more systemic risks in economies that are difficult to predict and control and so financial crises, the paper will try to make a theoretical contribution and expand the existing theoretical knowledge in this area. In accordance with the above, the following hypothesis is defined:
- In the context of market restructuring, manufacturing companies, more than service companies, are focusing on market development, stability and internal cost reduction.

1. SYSTEMIC RISKS AND FINANCIAL CRISES

Systemic risks can be caused by minor or major crises, wars, pandemics, changes in interest rates, currency fluctuations, and commodity price fluctuations. The consequences of systemic risks depend on the macro financial vulnerability of the national economy (Avramidis and Pasioura 2015). Systemic risks affect financial crises (Hellwig 2009). Combining national and global macro financial vulnerability indicators significantly improves the ability to predict systemic financial crises (Tudorescu and Zaharia and Zaharia 2010). Systemic risks affect future market conditions (Lo Duca and Peltonen 2013). Economic crises are reflected in the decline of macroeconomic aggregates, which is further reflected in reduced economic growth. Wars contribute to political instability, investment uncertainty, currency instability, prices, and interest rates, which further reflects on reduced economic growth. Pandemics reduce economic activity, divert investment to other sectors and researches to preserve health, which further slows economic growth. Increased interest rates affect the decline in investment activities and consumption, which further reflects on reduced economic growth. The depreciation of currencies increases exports in the short term, but if the country is import-dependent and gross domestic product is burdened with high external debt, domestic consumption decreases and economic growth slows. Mixed (consumption-cost) inflation is manifested in the way that inflation occurs because the sectors of the economy, towards which demand has shifted, raise their prices, while sectors with declining demand do not lower their prices. Another variant of mixed inflation sees causes in the disproportion of resources or in the cost of production. Since the growth of prices does not lead to a proportional growth of wages, demand decreases, which has a negative impact on economic growth. All systemic risks adversely affect employment and thus the decline in demand, which is not in line with the investment multiplier that is directly proportional to the propensity to spend. The financial crisis can affect the capital structure of companies in various ways. In times of crisis, as uncertainty and risk increase and expected returns on invested capital decline, both creditors and companies become less interested in concluding long-term loans (Demirgüç-Kunt et al. 2020). From the perspective of lenders, given the increased likelihood of inability to collect receivables, the extension of the interest payment deadline increases significantly during the crisis, making long-term borrowing less attractive than short-term borrowing (Gürkaynak and Wright 2012; Dick et al. 2013). In conditions of financial uncertainty and risk, some companies do not use borrowed sources of financing so the remaining equipment is retained and it is more difficult to apply modern techniques and technology. Investments are delayed, self-financing is insufficient source of financing leading to changes in development structure and disappearance of smaller entities. There is inflation. The regulatory role of monetary - credit and financial policy of the state is decreasing and economic growth is slowing down.

2. MARKET RESTRUCTURING AND ITS DIRECTIONS

In times of crisis, in order to survive, a company needs to focus its activities on achieving effectiveness, and only then efficiency (Thomson 1999; Mouzas 2006; Zokaei 2006; Bartuševičienė and Romerio and Šakalytė and Romeris 2013). In Bosnia and Herzegovina, an earlier survey of companies in crisis showed that market losses are the second-leading cause of the crisis (Duvnjak 2018, 202), which reflects on the inefficiency of companies. In Bosnia and Herzegovina in 2019, a survey of market restructuring of companies was conducted, during which 100 companies were sampled, of which 64% of companies belong to the service sector, and 36% of companies belong to the manufacturing sector. Market restructuring is redefining of target markets, rearranging of the supply structure, adjusting strategy to company goals, repositioning the role of marketing in the mix of marketing activities in order to gain and maintain competitive advantage and market attractiveness. Achieving the company's market goals implies greater effectiveness than competitors are creating, delivering value and communicating with consumers in the chosen target market. This concept has an external perspective and starts with a well-defined market. The concept focuses on consumer needs, and profits are made by meeting consumer needs. It may happen that the company defines the target market, but does not understand the needs of consumers (Domazet and Stošić 2013) or that the needs of consumers change due to systemic risks. In conditions of systemic risks, consumers can direct their demand towards satisfying basic needs due to the fear of uncertainty or reduced income.

Market orientation is the application of marketing activities to meet the needs of consumers more efficiently and effectively than competitors do. Market orientation can be manifested as the focus on both - consumers and competitors (Heiens 2000). A balance in focus is needed as market conditions are changing rapidly. Businesses in crisis are managing their markets and consumers in order to generate revenue and cash. The strategy for the company's exit from the crisis is "market manipulation", which means control over the company's markets. The process involves the selective development and sale of selected products and services in perceived markets while prices increase in other markets. This is a short-term strategy, which aims to create a basis for sustainable vitality with limited resources of the company in the conditions of sudden changes within the industry (Harker 2001).

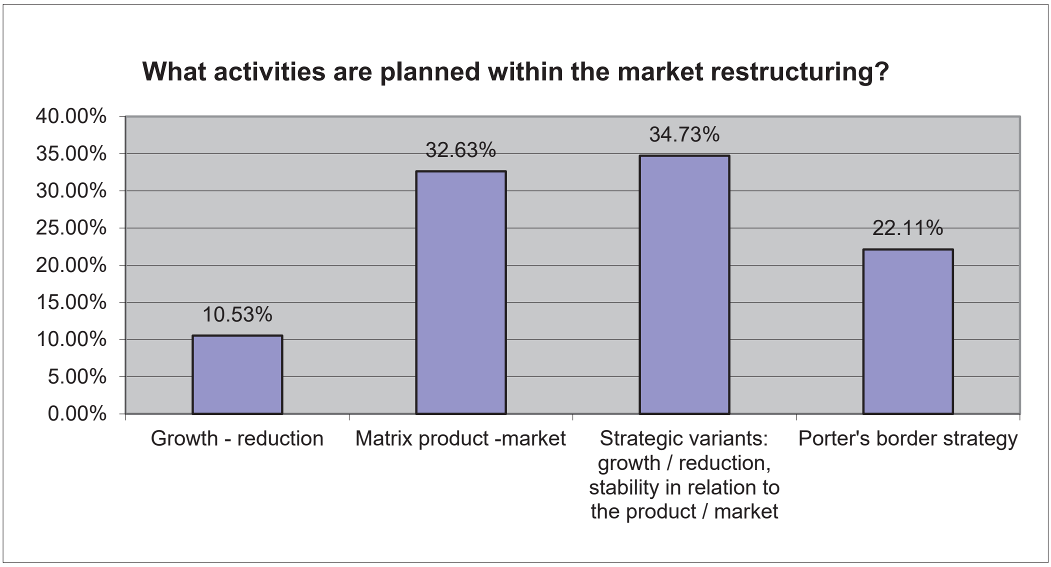
To assess the determination of market restructuring directions, the following areas need to be analysed:
(1)General macroeconomic environment (As macroeconomic developments are unpredictable and uncontrolled due to systemic risks and financial crisis, the company must observe and react to them);
(2) The financial position of the company (It is necessary to analyse the structure of the financial result and the performance of the balance sheet, profitability, indebtedness, liquidity and other indicators of the ratio analysis);
(3) Market, consumers, competition, distribution channels, suppliers and the public (Before establishing the direction of market restructuring, in order to determine the strategy, it is necessary to analyse the consumer market, customer behaviour and determine the goals of competitors. Competitors strive to maximize their profits. An alternative assumption is that each competitor has a mix of goals different in importance. In analysing competitors, it is important to find out how important current profitability, market share growth, cash flow, technological leadership and leadership in services are to the competitor. Knowing the competitor's goals, the company is able to conclude whether the competitor is satisfied with its current financial results and thus determines the direction of restructuring that would enable the company's readiness to respond to potential attacks. Research on distribution channels, especially due to systemic risks and the financial crisis, has an important role in restructuring because each individual channel creates a different level of sales and costs of the company);
(4) Marketing strategy.

Strategic market access can be classified into four categories (Pecotich and Felicity 2003; Duvnjak 2022, 119-120):
1) Growth - decrease. Reduction strategies indicate a decrease in a certain strategic position of a company, while growth means an increase, expansion or entry of a company into a certain strategic position.
2) Product / market matrix. The product and the market are given as two dimensions that provide an opportunity to define four strategic options: market penetration, market development, product development and diversification. Market penetration is based on existing products and markets. Business growth can be achieved through direct expansion (by increasing the budget for promotion, increasing production and / or increasing the volume of purchases) or by taking over existing competitors. Market development includes the promotion of existing products to new markets and increasing the volume of business. It is achieved by affirmation of the use of new products, new sales channels and geographical expansion. Product development mainly involves offering a new or modified product. Diversification can be concentric and conglomerate. However, it is realistic to expect that in the conditions of systemic risks and financial crisis, the company will show contractual behaviour in relation to the mentioned four positions. Contrary to expansion or market penetration, there is a harvest strategy or an attempt to sell a market position that leads to an increase in short-term income in exchange for a reduction in market share, thus reducing costs. Opposite of the development of the market is market consolidation, a strategy that reduces the

number of served market segments. Opposite of the product development is a rationalization strategy.
3) Strategic variants: growth / decrease, stability in relation to products / markets. There are four strategic options: stability, internal growth, external growth, and business downsizing. The stability strategy includes maintaining the current business by serving the same consumers with the same products in the same markets, focusing on incremental improvements in function, meeting the same goals, and business adjustment. Internal growth is based on the company's own capabilities, and external growth can be achieved through acquisitions, mergers and joint ventures. The dimensions of the reduction strategy are improving performance by reducing the level or scope of objectives, reducing costs and scope of activities through disinvestment and reducing the number of functions. An internal and external concept can be applied to these strategies. Internal reduction is essentially an operational shift that is reflected in cost reduction, revenue increase, asset reduction, and reorganization of markets or products to increase efficiency. External reductions include serious forms of turnaround such as divestments and liquidations.
4) Porter's border strategies. Acquiring and maintaining a competitive position is possible in three ways: by differentiation, direction and cost leadership. Differentiation encompasses a product or service with unique characteristics in the industry. Targeting strategy is the definition and fragmentation of markets, consumers or market segments. Cost leadership is about achieving lower costs than competitors and requires efficiency, control and minimization of costs such as research and development, sales and promotion. The choice of strategic market participation option can be determined by the product life cycle stage, the current position of the company and the aspirations of the company. The choice of competitive strategy will determine the position of leaders, challengers, followers or attackers that the company occupies in the market or market segment.

3. RELEVANT AREAS OF PERFORMED EMPIRICAL RESEARCH

Globalization through its two levels: technical and technological progress and market liberalization has affected the competitiveness of companies, so that consumers have greater demands due to greater choice, which has affected companies in Bosnia and Herzegovina in financial crises and exposed to greater pressures. Great competition has appeared in our region in all segments, which is often unfair, because goods that gain a competitive advantage due to economies of scale enter our area, as well as goods that are subsidized by home countries by destroying domestic production of our companies. Great competition has appeared in our region in all segments, which is often unfair, because goods that gain a competitive advantage due to economies of scale, as well as goods subsidized by home countries, destroying the domestic production of our companies, enter our territory. It should be noted that our state does not have any system of protection of the economy and companies, so they are very exposed to unfair competition. In line with the above, Bosnia and Herzegovina has a problem with a constant trade deficit. If systemic risks and the financial crisis are added, the loss of the market creates negative consequences both at the level of the company and the economy as a whole. The strategic approach to the market presented earlier (Pecotich and Felicity 2003) is classified into four categories which, according to the findings of the research in Bosnia and Herzegovina, are envisaged in the framework of market restructuring, as follows: growth-decrease 10.53%, product/market matrix 32,63%, strategic variants: growth/decrease, stability in relation to product/market 34.73% and Porter's border strategy 22.11% (Chart 1) (Duvnjak 2022, 306).



Graph 1. Market restructuring activities (Duvnjak 2022, 306)

Each of these strategies has its options.

Table 1. Growth-reduction (Author)

a) Growth - reduction 10,53%		TOTAL
1. reduction of strategic position	2. entry of the company on a new strategic position	
0	100%	100%

10.53% of managers opted for the growth-reduction strategy. This strategy includes two options. Reduction strategies indicate a reduction of a certain strategic position of a company and no company has opted for such a restructuring option, while growth means an increase, expansion or entry of a company into a particular strategic position chosen by all managers within a given strategy.

Table 2. Product / market matrix (Author)

b) Product / market matrix 32,63%			TOTAL
1. penetration with existing products into existing markets	2. growth - budget increase to promote, increase production and increase purchases, takeovers existing competitors	3. market development - promotion of existing products on new markets	
17,39%	23,91%	58,69%	100

32.63% of managers opted for the strategy of product / market matrices. This strategy includes three options. Market penetration is based on existing products and markets and 17.39% of managers have opted for this option. The growth of the company can be achieved through direct expansion (by increasing the budget for promotion, increasing production and / or increasing the volume of purchases) or by taking over existing competitors. 23.91% of managers opted for this option. Market development includes the promotion of existing products in new markets and increasing the volume of business. It is achieved by affirmation through the use of new products, new sales channels and geographical expansion. Product development generally involves offering a new or modified product. Most managers believe that the market development strategy within the product / market matrix will accelerate revitalization in 58.59% of cases.

Table 3. Strategic variants: growth / reduction, stability in relation to the product / market (Author)

c) strategic variants: growth / decrease, stability in relation to the product / market 34,73%					TOTAL
1. stability - focus on the same products and markets	2.internal growth- own abilities	3. external growth - joint ventures	4. internal reduction - cost reduction	5. external reduction - disinvestment	
32,65%	18,37%	12,24%	34,70%	2,04%	100%

34.73% of managers opted for strategic variants: growth / decrease, stability in relation to the product / market. This strategy has five options. The stability strategy includes maintaining the current business by serving the same consumers with the same products in the same markets, focusing on incremental improvements to the function, meeting the same goals and business adjustment, and 32.65% of managers opted for this option. Internal growth is based on the company's own capabilities and 18.37% of managers opted for this option. External growth can be achieved through acquisitions, mergers and joint ventures, and 12.24% of managers opted for this option. The dimensions of reduction strategies are improving performance by reducing the level or scope of objectives, reducing costs and scope of activities through disinvestment and reducing the number of functions. An internal and external concept can be applied to these strategies. The internal reduction option is essentially an operational turnaround that is reflected in cost reduction, revenue increase, asset reduction, and market or product reorganization to increase efficiency. Most managers believe that this option will accelerate revitalization, in 34.17% of cases. The option of external reduction includes serious forms of turnaround such as disinvestment and liquidation, and only 2.04% of managers believe that it should be implemented.

Table 4. Porter's boundary strategy (Author)

d) porter's boundary strategy 22,11%			TOTAL
1. differentiation of products and services	2. targeting specific markets or market segments, consumers	3. cost leadership over competitors	
48,48%	33,34%	18,18%	100

22.11% of managers opted for Porter's border strategy. This strategy has three options. Differentiation includes a product or service with unique characteristics in the industry and 48.48% of managers opted for this option. The targeting strategy represents the definition and fragmentation of the market, consumers or market segments, and 33.34% of managers opted for this option. Cost leadership refers to achieving lower costs compared to competitors and requires efficiency, control and minimization of costs such as research and development, sales and promotion, and 18.18% of managers opted for this option. It is believed that Porter's border strategy gives the best results of market restructuring and this strategy achieves effectiveness. Companies become recognizable because they differentiate themselves from competitors in products and services. Companies become recognizable because they differentiate themselves from competitors due to lower prices due to minimizing costs. Given the effects of the implementation of Porter's border strategy, a relatively small number of managers in Bosnia and Herzegovina opted for this strategy 22.11%. Given that the market is clearly defined and divided, it is considered that real chances for market development are not possible at the moment and that Porter's border strategy is a market restructuring activity that would have better results for companies.

4. HYPOTHESIS TESTING

As part of market restructuring, manufacturing companies are focusing more than service companies on market development, stability and internal cost reduction.
T-Test statistical significance of differences in the arithmetic means of service and manufacturing enterprises in terms of activities envisaged in the framework of market restructuring-independent samples. Null hypothesis: arithmetic means are the same. Alternative hypothesis: arithmetic means are different. The variable according to which it is tested are the reasons for entering the crisis. A test will be performed on whether service and production companies differ significantly in the arithmetic mean. The T test was used to test the hypothesis that market restructuring activities have a greater impact on manufacturing companies than service companies, and it was concluded that the activities are: market development - promotion of existing products in new markets; then stability - focus on the same products and markets; and internal reduction - cost reduction is more foreseen in the context of market restructuring in manufacturing companies than in service companies.
Service companies are mostly habitats for the distribution of foreign goods, so it is expected that manufacturing companies prefer to conquer new markets. Companies that are restricted by law are trying to keep existing consumers. Only due to irrational spending of funds, reduction strategies can contribute to the improvement of business, otherwise, companies need to focus their activities on growth strategies. Given that the market is limited and Bosnia and Herzegovina does not have any systems of protection of the economy and enterprises, especially in conditions of systemic risks and financial crisis, it is necessary to increase competitiveness in both domestic and foreign markets.

CONCLUSION

Systemic risks and the financial crisis are affecting the decline in the profitability and market competitiveness of companies, especially in countries where there is unfair competition and there are no systems to protect domestic production. Market loss is the basis for approaching market restructuring. The strategic approach to restructuring is divided into four categories with multiple restructuring options. A significant difference in the strategic approach between manufacturing and service companies was found in the category of market development-stability-internal reduction, while in other categories the difference is insignificant. Market restructuring requires financial resources so that the choice of an adequate strategy is important for the survival of the company.

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