

THE OBJECTIVES OF CORPORATE RESTRUCTURING IN DYNAMIC AND TURBULENT MARKETS

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Abstract

Background. The article discusses the problem of making effective restructuring measures, which at times of dynamic and turbulent changes, including those caused by the economic crisis, are considered an important element in achieving and maintaining a strong competitive position. This issue particularly affects Polish enterprises that are forced, beyond competing in local markets, to adapt to the new conditions resulting from the ongoing globalization process. In this article are presented different types of restructuring, both at the micro and macro scale and also the most important stages of restructuring are discussed, bearing in mind that the choice of the type of restructuring strictly determines the scope of the restructuring measures, which the enterprise should apply in order to achieve its target. Apart from that, each restructuring decision should be preceded by a detailed examination of the potential results that will bring this type of action.

Research aims. The aim of the research is to identify the approach of Polish companies to the restructuring process.

Method. The authors conducted a literature review and a survey among Polish enterprises. The survey was conducted in 2012 among 50 Polish companies.

Key findings. The results obtained by the authors of the studies in the field of restructuring directions indicate that the choices made in relation to the restructuring activities should not be limited only to the period of economic downturn and the crisis, but most of all foresee the future. As a result, it is necessary to change the attitude of Polish enterprises to the process of restructuring just in order to be considered in the category of development activities and not remedial.

Keywords: Objectives, Enterprises, Corporate restructuring,

INTRODUCTION AND BACKGROUND

Previous business practice has shown that restructuring is a crucial corporate process in dynamic and turbulent markets. If it is undertaken at the right moment, it can be an important condition in reaching and holding a competitive position. This problem especially concerns Polish companies, which have to not only compete for their market position with local competitors (which are sometimes more effective and a better fit with capital foreign subsidiaries), but also cope with the rapidly progressing process of globalization.

However, it is not only the timing of the decision to commence a restructuring process that is essential for its success, but also the extent of

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the undertaken changes. Commonly, restructuring is seen to be associated with a short period of time, aimed at sanitation and company adaptation to the current business environment. However, these assumptions must be changed in order to exhibit the correct long-term perspective on this concept, based on scientific studies.

The Theoretical Concept of Corporate Restructuring

Generally, restructuring is considered to be a specific modification of enterprise, which is associated with a “change of orientation” of an enterprise to maximize the volume of production and to maximize profit. In addition, we can notice that in the professional literature, the concept of corporate restructuring is rather well identified and has been deeply examined but this does not mean total unanimity among scientists in relation to the characteristics of the concept of restructuring and its definition. The large number of definitions makes it necessary to carry out careful examination of the concept. *Prima facie*, we can distinguish two dimensions: restructuring in the wider sense, as a process, procedure, system and action plan, including its scope and each element in the enterprise; and in the narrower sense, through the prism of financial matters, limited to the restructuring of the company’s assets and liabilities.

The first (wider) approach to the concept of restructuring – which prevails in the present literature – can be seen in scientific papers of Vance (2009), Blatz, Kraus, and Haghani (2006, p. 6), Hall (1991, p. 2), de Caires (1990, p. 1), Stabryła (2000, p. 251), Sapijasza (1996, p. 30) and Suszyński (1996, p. 41). This approach to the definition of corporate restructuring shows a schematic system of procedure in the following areas of enterprise: objectives, functions and processes, organizations, resources, property, seeking to maintain and/or improve the competitive position enterprises in the period prior to internal changes in the environment. The restructuring process aims to adapt the organizational structure and economic, financial and technical enterprises to the level best suited to the selected goals.

The narrow notion of restructuring dominates here, whereas specialized financial literature by its nature focuses on quantitative analysis of changes in assets and liabilities limited to the short term – in most cases, one financial period.

In general, in the case of restructuring, we can talk about two views (Karpinski, 1986, p. 19):

1. Micro-restructuring (on the micro scale), which is related to business units and is based on changes in the product mix or production profile. These changes are associated with the replacement of obsolete products or technologies by more modern ones which better meet social needs, to encourage better economic perfor-



mance and finally lead to an improvement in the economic performance of the company;

2. Macro-restructuring (on the scale of the national economy), which is related to activities of the state, leading to an acceleration in the development of products, groups of products or sectors of the economy at the expense of others, in order to increase competitiveness on the global market.

These two types of restructuring should not be treated separately, because there are important links between them which cannot be ignored. As we can see, the most important role in the process of structural change is played by restructuring at the micro level, because the changes taking place in enterprises are the basis for formation of size effects at the level of the whole economy. And restructuring on the macro scale only speeds up and completes the process of obtaining the correct results.

Restructuring is usually very costly and in many cases requires significant investment to improve the efficiency of existing equipment, staff training and the involvement of external consultants. Each enterprise requires an individual approach to this, because we will not find two identical companies. However, despite this, the following helpful steps must be included in each restructuring programme. According to Behrens and Hauranek (1993, p. 50), the most important stages of restructuring are:

1. Stage prior to diagnosis – at this stage it is necessary to select the companies or areas to be restructured;
2. Diagnosis stage – during which it is necessary to identify the weaknesses of the company and the manner of liquidation. It is also necessary to develop medium and long-term detailed plans for restructuring, taking into account all aspects of the business, including management, energy use, environmental impact, marketing, technology and equipment;
3. Stage of short-term corrective action – associated with short-term reorganization and restructuring processes in areas such as financial management, inventory control, quality control, and so on, that do not require large capital expenditures;
4. Stage of evaluation and funding – during which the company must be assessed and approved by the investors or financial institutions, if it is necessary to incur loans;
5. Stage of restructuring – this phase ends the process and can include a wide range of activities, such as technical and technological modernization, new investments, cessation of training, further restructuring and improvements to management, consulting and strategic planning.

The decision on restructuring should be preceded by a detailed examination of the expected results of this action. Therefore, at the stage of



diagnosis, it is necessary to prepare a complex study of restructuring which will examine the costs and compare them with the expected benefits for the entire duration of the programme. Finally, only by obtaining positive results in the light of conducted studies will we make sure that the genesis of the restructuring is justified.

In the classical literature, we notice a conservative approach to restructuring based on prevention (recovery). This approach is associated with "survival" restructuring. The second type of restructuring – pro-development restructuring – begins to emerge in the literature around the end of the past century. The differences between these concepts are mainly due to their different planning horizons: the first should be regarded as short-term and the second as a process of a long-term nature. On the other hand, according to Lachiewicz and Zakrzewska-Bielawska (2005, p. 29), pro-development restructuring is often defined as a cycle of long-term changes of a strategic nature, covering a period of between two to five years, and the aim is therefore to provide business development through long-term planning. However, Hall (1991, p. 1) notes that US managers have also shortened the corporate restructuring process to reach a magnitude of positive results (profits).

In turn, survival restructuring is implemented when there is a threat to the further effective activity of a company; the goal of such restructuring is to achieve a minimum level of liquidity in the company, allowing it to survive (Rachon, 2006, p. 20).

According to the authors of this study, the division of restructuring into pro-development and survival is appropriate for both theory and practice. It determines in a clear way the direction of the possible range of implemented actions by specifying not only the survival of the company, but also its potential future growth in periods of economic upturn. This division is widely used and has also been adopted in the authors' survey described in this article.

Objectives of the Process of Corporate Restructuring

The classic approach to corporate restructuring suggests that the primary objective of a restructuring programme should be to ensure the survival of the company by overcoming its financial crisis. The above mentioned primary objective of the restructuring process has dominated the subject literature for some time. This concept of corporate restructuring has been well known by Polish entrepreneurs since the end of last century. At that time, the concept of restructuring mostly concerned the narrow definition described above, based on a financial perspective which was focused on the restructuring of assets and liabilities, with a short-term planning horizon. It is fortunate that this concept of the restructuring process cannot be applied any longer, since it will not bring a company success, especially in



dynamic and turbulent markets. First of all, the actual corporate objective has to be developed in different dimensions. A narrow financial approach to restructuring represented mostly by a downsizing strategy is not effective in relation to the long-term criteria (Rogovsky, 2005, p. 2). Taking this into account, in the professional literature, a revised approach to the restructuring process can be seen, which includes a time schedule for successful corporate restructuring. Stone (2002, p. 14) even suggests that the successful completion of corporate restructuring can take a minimum of five years. Moreover, as mentioned above, the primary goal should be considered as a scope of many sub-objectives, not only ensuring the company's survival. In the opinion of Gulami, Noria, and Wohlgezogen (2010), the corporate restructuring process should not focus exclusively on downsizing activities, but should also consider preparing the company to compete against its market rivals in subsequent periods. These authors rightly argue, based on an extensive study of choices of research strategies and business performance undertaken by 4700 public companies during the past three global economic recessions – the crisis of 1980, the slowdown of 1990 and the crash of 2000 – that good results after a recession are achieved only by firms which are able to maintain the delicate balance between cost reduction (supporting the current activity) and investment (influencing future growth) (Gulami et al., 2010, p. 62).

The same point of view is put forward by Roland Berger Strategy Consultants (RBSC). On the basis of many cases studied since 1990, RBSC created the so-called “RBSC restructuring triangle”, which determines the procedure for a successful restructuring process (Blatz, Kraus, & Haghani, 2006, p. 32). The above presented approach to the restructuring process indicates, that we have to deal with a three-dimensional process of restructuring – a so-called ‘mix’ of financial, operational and strategic activities – which, collected together, become the foundation for the success of this process.

METHOD

The subject of the research project was to observe the restructuring activities and the process of carrying them out in practice in Polish enterprises in order to identify the approach of Polish companies to the restructuring process. The authors conducted a literature review and a survey among Polish enterprises. The reviewed literature has focused on clarifying the universal concept of restructuring in terms of both traditional and modern, and on the classification of the purposes of the restructuring process, which accounted for the enrichment of these studies. The survey was conducted in 2012 on 50 companies. In this survey, the authors classified as “Polish” all companies with legal registration in Poland. Most of the



surveyed companies (67%) had been operating in the market for more than 20 years, and had experience in responding to changes in the economic situation. In addition, the survey was dominated by companies employing more than 249 people (almost 60%), 50–249 people (22%) and others (only 18%).

As part of the survey process, first was conducted a trial pilot study involving five Polish companies. The final version of the survey was prepared after taking into consideration comments from the surveyed companies and with having questions about the directions and the effects of the restructuring process in the company. The survey was carried out with substantial support from The Industrial Development Agency, which made it possible to reach those companies with a wide-ranging restructuring process. In the final stage of the research project, the authors proceeded to verify the data and interpret the achieved results in order to prepare conclusions concerning the restructuring process among Polish enterprises and refer them to the results of other studies, in particular conducted among Western companies. Such studies have determined the closed research process thus enabling us to work out specific recommendations for Polish companies on this topic.

RESULTS

For these surveyed Polish companies which have had long-term experience of competing on the Polish market, one can sense, in a fairly accurate way, the moment when the process of restructuring should begin in the company. The fact that as many as 42% of companies rated the commencement of the process of restructuring in the company as accurate should be assessed very positively and they should be recognized as adequately managing the current market conditions (Table 1). On the other hand, as the 33% of surveyed companies underline, the process of restructuring was begun too late in relation to the observed signals of crisis in the company or in the environment.

Table 1. Assessment of Deadline for Undertaking the Restructuring Process in Polish Enterprises

Do you think that the process of restructuring of the company has taken place at the right time?	Responses (in %)
Yes	42
No	25
Too late	33

Source: based on the author's surveys.

However, selecting the right moment to implement the restructuring plan is not the only essential factor for success. The problem particularly



important for companies in this area is that of the purpose and planning horizon of the process. In most cases, the primary goal is to build a competitive advantage and to improve the quality of economic and financial results in quantitative terms. The next most important restructuring objectives often cited in the literature are: increasing the company's value, improvement of organisational efficiency and "slimming" the company. Repeatability of economic cycles should encourage entrepreneurs to treat the process of restructuring as a process of a strategic character, which means including in its scope a longer planning horizon than the balancing period (12 months).

The interesting fact is that the companies in the restructuring process quite quickly take action in the direction of a strategic reorientation. Thus, 56% of them have taken steps to change their business strategy in the current crisis, according to the observations of the market and changes in the rate of sales (Table 2). On the other hand, only 44% of companies did not take any action in this field in times of strong and dynamic changes.

Table 2. Strategic Reorientation of the Surveyed Companies in Times of Current Crisis

Has your company made changes to its business strategy in the current crisis?	Responses (in %)
Yes	56
No	44

Source: based on the author's surveys.

All changes in the business strategy of the surveyed enterprises should be considered in conjunction with personnel changes in the management of these companies. In the presented survey the rotations in the management of enterprises that took place in the process of restructuring were also examined (Table 3). It was found that most of the surveyed companies (56% of the total) did not make any changes in the management, and only 44% of respondents were issued with such a necessity in the process of restructuring.

Table 3. Changes in the Management of Enterprises Under Restructuring

In times of crisis (during the last 3 years) has there been a change of Management in the enterprise?	Responses (in %)
No	56
Yes, only once	22
Yes, many times	22

Source: based on the author's surveys.

In the case of authors' studies concerning the restructuring activities preferred in Polish companies, we have to point out the dominance in restructuring activities of a preventive nature (62% of responses), which



are focused on the current effects of restructuring, such as downsizing. Polish companies react rather passively to changes in the environment and do not concentrate on them earlier, which should be defined as a relatively '*passive*' wait for changes. The activities of these companies, according to indications in questionnaires, focused on reducing labour costs (35% of responses) and other costs (34% of responses).

Table 4. The Restructuring Activities Preferred in the Polish Companies

Preferred activities	Responses (in %)
Activities of a preventive nature (e.g., reduction of personnel costs)	62
Activities of pro-development (e.g. development of new products)	12
Activities of both a preventive and pro-development character (mixed)	26

Source: based on the author's surveys.

Other companies, who completed the survey, preferred purely pro-development activities – 12% of responses or mixed activities – 26% of responses, mainly in order to be prepared for future competition. In this group, the types of activities frequently indicated were development of the product – 41% of responses, diversification – 32% of responses, investment in new assets – 19% of responses and development of markets – 8% of responses.

Unfortunately, the survey undertaken by the authors indicate that there are significant differences between Western and Polish companies' approaches to the process of restructuring and in directions of restructuring. The fact is that during the restructuring process Western companies concentrate on those objectives which primarily ensure its development and changes of a strategic nature. It can be concluded that these activities allow Western companies not only to survive in a violent environment, but also to prepare themselves for future long-term market success.

Outcomes of the Corporate Restructuring Process

Despite this preference, in the process of restructuring the surveyed entities, downsizing actions, including reducing labor costs, the majority of companies (56% of respondents) showed that the process was completed through the improvement of the financial and economic situation (Table 5).

Table 5. Evaluation of the Effects of the Restructuring Process by the Criterion of Maintaining Market Position

Has your company maintained its market position of pre-economic downturn after the implementation of the restructuring process?	Responses (in %)
Yes	70
No	30

Source: based on the author's surveys



In addition, 70% of respondents indicated that the implementation of the restructuring process had enabled the company to maintain its market position.

On the other hand, the companies did not indicate improvement in the volume of sales at the end of the restructuring process, because in response to a question about the increased sales opportunities after the restructuring process, as many as 55% of the surveyed companies gave a negative answer (Table 6).

Table 6. Prospects for Increased Sales Opportunities at the End of the Restructuring Process

Is your company achieving higher sales after the implementation of the restructuring process?	Responses (in %)
Yes	45
No	55

Source: based on the author's surveys.

This survey of Polish companies also showed no differences in the evaluation of the positive effects of the restructuring process of the group implementing the restructuring action of a survival and mixed character (survival and pro-development). In both groups, indications of the success of the measures implemented in the form of achieving improvements in the company is at a similar level (restructuring Repair – 61%; restructuring "mixed" – 62.5%). However, it is too early to evaluate the effects of the restructuring, which should be studied in the next few years.

At the same time, in the group of surveyed companies most of them positively assessed the role of innovation in the process of healing the situation in the company (Table 7). Nearly 55% of companies responded that they have introduced innovative products to its assortment, and only 45% replied in a negative way.

Table 7. Expanding the Range of Innovative Products as a Result of the Restructuring Process

Has your company introduced any innovative products to its assortment in the process of restructuring?	Responses (in %)
Yes	55%
No	45%

Source: based on the author's surveys.

The high level of this ratio may be explained by a very high proportion of companies employing more than 250 people and the wider recognition of innovation in the enterprise. However, the high proportion of companies that seek to extend the range of innovative products or services should be regarded as a proper approach to the role in which entrepre-



neurs can meet innovation in the restructuring process especially in periods of very dynamic changes in economic conditions.

In conjunction with the response to the effects of corporate restructuring in terms of maintaining market position, higher sales volume or innovation the above responses must be considered as clear expectations of entrepreneurs about the deepening crisis in future periods. Therefore, we should conclude that the restructuring processes were also carried out to prepare the company to survive the crisis, which also must be considered in some sense as a phase of adaption to the market situation in the future.

DISCUSSION AND CONCLUSIONS

Strong and frequent changes in the modern economy become a constant challenge for companies. These changes affect companies' business activities and they must take into consideration a broader spectrum of factors, especially those which influence their competitiveness in the market. What is more, these changes result in challenges that are not only existential but also developmental. Of course, challenges in the scope of development refer only to companies which are able to undertake such activities during the crisis, not only ensuring their survival in the time of crisis, but also preparing them to achieve success in the next economic boom. Choices undertaken with regard to restructuring should not be limited solely to the duration of the crisis, but must be considered in a long-term timeframe and take into account the implications of the restructuring activities in the future. The study also reveals that while Western companies are perfectly prepared to plan restructuring activities over a longer period, Polish companies consider the main objective of a restructuring programme to be the identification of corrective measures aimed at surviving the crisis and ignore development and planning for the period after crisis. Only Polish enterprises' adoption of a modern approach to restructuring will make it possible to achieve better results and market success in dynamic and turbulent markets in the coming years.

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CELE RESTRUKTURYZACJI PRZEDSIĘBIORSTW W DOBIE DYNAMICZNYCH ZMIAN RYNKOWYCH

Abstrakt

Tło badań. Prezentowany artykuł porusza problem podejmowania skutecznych działań restrukturyzacyjnych, które w czasach dynamicznych i burzliwych zmian, w tym wywołanych kryzysem gospodarczym, uznaje się za istotny element osiągnięcia i utrzymania silnej pozycji konkurencyjnej. Temat ten w szczególności dotyczy polskich przedsiębiorstw, które poza konkurowaniem na rynkach lokalnych, muszą także przystosowywać się do nowych warunkowań będących następstwem postępującego procesu globalizacji. W artykule zaprezentowane zostały różne ujęcia restrukturyzacji, zarówno w skali mikro, jak i makro, omówiono też najważniejsze etapy restrukturyzacji pamiętając, że wybór rodzaju restrukturyzacji ściśle determinuje zakres działań restrukturyzacyjnych, które przedsiębiorstwo powinno aplikować, aby osiągnąć zakładany cel. Dodatkowo, każda decyzja o restrukturyzacji powinna być poprzedzona szczegółowym zbadaniem potencjalnych wyników jakie przyniesie tego typu działanie.

Cele badań. Celem pracy jest identyfikacja podejścia polskich przedsiębiorstw do procesu restrukturyzacji.

Metodyka. Autorzy przeprowadzili analizę literatury przedmiotu oraz badania ankietowe w 2012 w 50 polskich firmach.

Kluczowe wnioski. Uzyskane wyniki badań w zakresie wybieranych kierunków restrukturyzacji wskazują, że wybory podejmowane w odniesieniu do działań restrukturyzacyjnych nie powinny ograniczać się wyłącznie do okresu dekonunktury gospodarczej czy trwania kryzysu, ale przede wszystkim wybiegać w przyszłość. W rezultacie konieczna jest zmiana w nastawieniu polskich przedsiębiorstw do procesu restrukturyzacji, po to aby był rozpatrywany w kategorii działań prorozwojowych a nie naprawczych.

Słowa kluczowe: zadania, przedsiębiorstwa, restrukturyzacja przedsiębiorstw

