RESTRUCTURING AS TOOL IN THE PROCESS OF MODERN ENTERPRISE DEVELOPMENT

Summary. The following article underlines the importance of restructuring as an organisational change. The author determined the prerequisites and the notion of restructuring, and put an emphasis on the significance of restructuring as a change of radical character. On the basis of his own experiences, the author devised and executed restructuring processes in companies. An emphasis was put on the importance of time management for corporate management.

Keywords: restructuring as an organisational change, the prerequisites and the notion of restructuring, restructuring types and scope.

1. Introduction

Restructuring is defined as a thorough and system-related reorganisation, modernisation, renewal or modification of the enterprise’s organisational structure and organisational rules, with the purpose of making them more adjusted to contemporary realities. Restructuring is of a complex, multi-dimensional and durable character [2, p. 253]. The success of the modern
enterprise depends on restoring the enterprise’s internal harmony and balance with the
environment, and consequently on improving its performance and boosting its market value
as well as competitive edge. In order to achieve this goal, the enterprise should boast the
following features:
− being flexible and lean: being able to make rapid investments,
− low overheads,
− being project-oriented and being managed by matrix structures,
− being co-operative: seeking co-operation instead of competition,
− concluding numerous agreements with suppliers and purchasers, and entering into
alliances with competitors to create a comprehensive offer,
− boasting intelligence, which is reflected by complex intellectual resources instead of
material ones, investing in employees and R & D, and having economic surveys at one’s
disposal [12, p. 27].

The Author’s scientific interests are connected to the issues within the restructuring
and management area, and particularly to problems and aspects of restructuring
processes, whose extrapolation, understood in the broad sense of the word, allows to
improve the effectiveness of the company’s operation. In the following article the
Author underlines the importance of restructuring processes in the company. The
Author also attempted to present his own view on restructuring process, on the basis of
the Author’s own experiences in execution of restructuring projects.

2. Premises and essence of restructuring

Restructuring can be perceived as a set of changes affecting each and every field of the
enterprise’s activity, introduced as a response to changes shaping its environment. The
willingness to solve problems before they ever occur should be the basic assumption of
restructuring [16, p. 152]. Restructuring is aimed at adjusting the enterprise’s operating rules
to the tricks of the trade binding in the environment, and at providing opportunities for
achieving the desired market position. Restructuring involves the adaptation of business
entities to requirements and conditions of the market economy. It is viewed as
a comprehensive undertaking destined for the improvement of the enterprise’s activity, with:
− restoration-oriented purpose: corrective restructuring covers an enterprise on the verge of
bankruptcy,
− development-oriented purpose: dynamic restructuring covers an enterprise in sound
economic condition [9, p. 142].

Restructuring in the above-mentioned context should be treated as a profound change of
organisational character, referring namely to the reorientation of goals and their
harmonisation with the organisation, economics, human resources and management techniques. Reasons for restructuring lie in the following principal factors:

− tensions and weaknesses in the enterprise’s management system,
− radical changes in the environment.

The analysis of successful enterprises shows that successes were a result of their focus on operational processes, adjustment of management methods to new conditions and effective management of the change process [11]. A problem of contemporary transformation process lies in selecting proper methods and in being able to precede changes.

New market space according to W. Chan Kim and R. Mauborgne means the market universe which consists of two oceans. Red oceans include all industries existing in the market space. On the other hand, blue oceans, analogically to the red ones, represent non-existing industries in the unknown market space. Red oceans have clearly defined borders, on the basis of which enterprises try to grab as much market share as it is possible. As the market space is becoming more and more crowded, prospects for profits and growth are being limited [4, pp. 18-21]. Blue oceans mean unused market space where competition is irrelevant, because rules of the game are to be set. Undoubtedly, red oceans are and will be an essential element of economic life. However, taking into account the situation where in a growing number of industries supply exceeds demand, competing on shrinking market will decrease and thus it will be insufficient for maintaining the enterprise in a good condition. Hence, one should go beyond competition frameworks to create new prospects for improving the enterprise’s effectiveness [4, pp. 21-44]. The process of enterprise restructuring is aimed at the achievement of goals and desired effects, namely [5, p. 5.2-5.6]:

− improved competitive edge of the enterprise,
− enhanced effectiveness and efficiency of actions,
− increased innovativeness and novelty.

Bearing the foregoing in mind, one should notice that there is a strong relation between goals of the enterprise’s activities and goals of its restructuring. In this context, the goals in question are characterised by remarkable resemblance, or even congruity. A need for restructuring has always had tangible (material) and/or personal foundations, being an essential consequence of the sheer process of the enterprise’s management.

One can distinguish a few phases of reacting to changes within the enterprise. At every phase, there may appear some disturbances which hinder or preclude shifting to subsequent phases. Thus, a crisis may occur or become accelerated (become more serious). Basic disturbances include [5, p. 5.4]:

− perception-related disturbances caused by a lack or limitation of a critical situation alarm system,
− decision-related disturbances being a result of a lack or limitation of readiness and willingness to change,
implementation-related disturbances caused by a lack or limitation of abilities pertaining to implementation of decisions just made,

− execution-related disturbances originating in ineffectiveness or reduced effectiveness of the means applied,

− disturbances related to reactions to changes, as a result of non-existent or weak control, or non-existent or weak controlling information, or a lack or limitation of executive feedback.

In the context of restructuring, a crisis situation in the enterprise takes place when [5, p. 5.5]:

− there occurs a considerable danger to the fulfilment of primary goals and functions,

− there appears a major feeling of uncertainty,

− response time is limited (‘time pressure’ accompanies making decisions and pursuing actions),

− there appears a feeling of surprise because of a given situation (subjective dimensions).

The cornerstone of the diagnostic method is the assumption that the management system, found within the organisation seeking to be restructured, may be rectified solely by means of identification, assessment and diagnosis of the current state, through detecting discrepancies, and designing and implementing a suitable solution. Here, one should mention that there is not one unique management system or one general method of analysing organisations.

K.J. Stachowicz claims that, „the goal of the enterprise’s restructuring is to improve its managing performance through redesigning of an existing economic structure in order to provide it with the features such as modernity, flexibility, innovativeness and adaptability” [14, p. 16].

Principal directional trends of restructuring cover:

1. To improve the organisation’s adaptability and flexibility through getting rid of an unnecessary ballast, namely reduction of the employment, elimination of unnecessary productive or non-productive assets.

2. To enhance competitiveness in the following way: to boost the product’s quality and attractiveness, to improve the flexibility of the production process, to diversify production.

3. To ensure maximum integration of actions. A higher level of integration is achieved by:

   − introduction of cost accounting (‘cost centres’), budgeting system, controlling systems (creating ‘business entities’ in the form of ‘profit centres’),
   − improvement of organisational structures,
   − improvement of managers notification systems.

4. To design a modern organisational culture and spread innovation fundamentals. A suitable level of the organisational culture and innovative thought is supposed to contribute to:

   − employees’ training, in particular of the executive and managerial staff,
   − supporting collectivity and independence in actions.
On the basis of the principles mentioned above, it is possible to outline basic trends for comprehensive restructuring of the enterprise. The key feature is the necessity to adopt an individual approach to a given company and put an emphasis on subjective dimensions of the process in question which manifests in restructuring of organisational aspects. While fulfilling restructuring goals, the enterprise should particularly avoid a danger of turning strategic transformations into inconsistent and mock decisions pertaining to changes of the organisational structure and to not entirely consistent policy in terms of selecting the managerial staff.

3. Restructuring as a change of radical character

Modern enterprises operate in the complex and highly volatile environment. The number of new enterprises is expanding, as well as there occurs a growing number of institutions which operate outside the economy, but which more and more often affect the enterprise’s operation. Most of all, any smooth adjustment to the environment’s conditions has not recently been sufficient to ensure future prospects. Since the environment may face tumultuous and dramatic changes, even a flexible organisation is not able to tailor its structures to the changes within a short time. If such a situation occurs, it is necessary to have recourse to step changes, particularly to restructuring which will allow the enterprise to reach a balance with the environment. During restructuring, there should occur such transformations which would provide the organisation with opportunities to develop itself, in a long-term perspective, as regards to tendencies for changes within the environment [5, p. 5.7].

Radical changes to be introduced are a reply of top managers to serious disturbances in the environment or the core of the enterprise. Premises for radical changes in question may include [5, p. 5.8]:

− inconsistencies within the institutional environment, caused by legal, political or technological changes,
− key changes to products’ life cycle or new products’ development, changes inside the enterprise.

Enterprises often face the situation when their efforts to adjust, on a permanent-basis, the organisation to the turbulent environment do not bring expected results, mainly due to dynamic and unpredictable nature of turbulence. In this case, it becomes necessary to take a step change which should restore a balance with the environment. Having undergone the process, the adjustment may again be performed by means of gradual changes. Taking into consideration numerous deliberations, discussions and an extensive bibliography pertaining to the notion of restructuring, the author of this dissertation permits himself to quote the following definition (by Z. Sapijaszka): “Restructuring of the enterprise is a change of radical
character in, at least, one out of three aspects of the organisation, namely: the scope of the enterprise’s activities, its capital structure or organisational structure within the company”.

Radical changes and the systems approach have a lot in common as to the way in which changes should be introduced within the enterprise. Radical changes are a reply of top managers to the changes taking place in the environment or the enterprise’s core [5, p. 5.8-5.9].

Radical changes cover the following undertakings:
- redefining its mission and strategic goals,
- changes related to the ownership and decision-making process [1, p. 34].

In order to ensure a growing level of the enterprise’s effectiveness, it becomes necessary to redesign its organisational structure and to shift focus to effective processes conducted by the enterprise. This approach manifests in the Business Process Reengineering (BPR). The BPR (coined by J. Champy and M. Hammer) advocates fundamental rethinking and radical redesigning of processes taking part in the enterprise. The process dramatically results in a breakthrough improvement in terms of contemporary and critical indices such as cost, quality, service and speed. The necessity to introduce radical changes causes that the restructuring process may cover two scopes of systems changes:
- viewed as transformations of technical and technological character, or related to product ranges – internal restructuring,
- viewed as transformations of legal, organisational and economic character – corporate restructuring.

Systems thinking was perceived by Peter Senge as a key discipline. It means the ability to discern mutual dependencies between elements of the organisation. The ability in question has been, for many years, a prevailing feature of top managers. Senge’s concept underlines that every employee should be aware that he/she is not just a mere element of the system, but the system’s reflection which may affect everything around him/her. The concept of the general systems theory introduces the following notions [5, p. 5.9-5.10]:
- subsystem: an element being a part of a whole. Nonetheless, every system can be a part of a greater whole, for example: a division is a subsystem of an enterprise, an enterprise is a subsystem of industry, etc.
- synergy: this notion means that the whole is greater than the sum of its separate parts. Particular organisational units co-operate with each other and with the environment, making the co-operation and interplay of separate departments within the organisation smoother and more effective, when compared to a department acting in isolation from other departments.
- open system: a system which co-operates with the environment.
- closed system: a system which does not co-operate with the environment.
− systems boundaries: boundaries of a given system separate it from the environment. The closed systems have fixed boundaries, whereas the boundaries in the open system are more flexible. For example, oil exploration and production companies must reckon with public opinion as regards to ecological losses.
− flow: it can be, for example, a flow of information, materials and energy which are engaged at the input to the system (e.g. as raw materials), transformed within the system and released at the output, in the form of finished goods or services.
− feedback: it is a key for system control. As the operation progresses, it transfers, by means of feedback, information to relevant people or to a computer in order to assess the actions being taken and to correct them, if such a need occurs.

Changes in the enterprise’s operational system involve a substantial amount of independence pertaining also to development decisions being made. However, in numerous cases, limited effectiveness of changes being introduced and of specialised instruments for boosting innovations gives rise to the enterprise’s reorientation.

4. Restructuring types and scope

The restructuring process in its starting phase should contribute to defining objectives of improvement actions taken, to outlining possible ways of the objective execution (change project), implementing designed strategies and checking the correctness of the process execution. The content of the general structure of the problem will stem from the restructuring scope, outlined by areas under restructuring. One should not ignore the fact that no matter which area is subject to restructuring changes, the area will always affect human resources within the organisation, which resources are an essential element of the process. Improper planning or a failure to take employees into consideration can cause high costs and be treated by employees as pointless actions, inciting but confusion and uncertainty [10, p. 209]. Restructuring may affect all areas of the enterprise, such as
− assets: restructuring of operating scale, diversification,
− capital structure: restructuring of the management system, financial restructuring,
− organisational restructuring, treated as rationalisation of actions and perfection of the enterprise’s operating rules in selected areas of its activity, namely:
  − marketing and sales,
  − production, technical and technological issues,
  − human, tangible, financial, organisational, informational resources.

Restructuring of the scope of activity (operational scale) contributes to improved performance of the enterprise, owing to configurational changes introduced within the scope
of production and service activities. The activities are executed by means of the development, purchase or implementation of the activity areas which can provide the enterprise with a competitive advantage, and by dismantling the activity areas which do not allow to achieve better results than the ones of competitors. The aim of restructuring in terms of the enterprise activity is to restore for the enterprise its internal balance, as well as harmony with the environment. Diversification reduces the business activity risk by means of activity dissemination; it helps to obtain a synergistic effect of the activity, through achieving an extraordinary effect consisting of different resources and skills combined together. Restructuring also covers numerous transactions which bring about changes to the scope or extent of the enterprise’s activity (sales of its part, acquisition of new activity areas, market expansion, activity reduction), changes to the capital structure by means of increasing the level of indebtedness, privatisation, and eventually changes to the enterprise’s internal structure. Designing and implementing the changes require an interference with the enterprise’s action strategy. What is also required is to change the enterprise’s goals, or even its mission, as well as to introduce thorough changes to the management system [5, p. 5.10].

M. Bratnicki maintains that the enterprise’s competitiveness in terms of strategic objectives results from tensions between resources which the enterprise uses and ambitions of the top executives. In order to defeat competitors, the enterprise should set itself significantly greater ambitions than the ambitions of its rivals. It corresponds to a seemingly reasonable assumption that it is necessary to purposely create strategic tension between resources held and extensive ambitions [3, p. 98-100]. Furthermore, difficulties can appear when participation of resources exceeds the level of knowledge of the enterprise’s strategic situation, notably of its customers and competitors, or development trends for the industrial sector. Equally important barrier is a too soft approach towards employees, and ensuing low level of expectations imposed on them by the executives. The lack of resources is not problematical; the truly burdensome factors are: too numerous priorities, inefficient tension, too little creative thinking.

Every scope of typical restructuring activities constitutes an important element in the process of the enterprise’s activity improvement. Indicated activity areas can be a foundation for developing a prospective organisational model of enterprises, including a model for hard-coal mining companies, which model is based on principles and activities related to the organisational restructuring. Organisational restructuring means, among others, improving structural solutions. It is a purposeful transformation of the organisational structure in order to adjust it better to new conditions for the enterprise’s operation, and to improve its performance. Earlier analysis and critical assessment of the current organisational model (‘organisational diagnosis’) are a premise for organisational restructuring. To the results of the restructuring process one can include describing the scope of necessary organisational changes. The changes determine an enhanced effectiveness of the enterprise, which is
a foundation for design works. Basic tasks connected with the enhancement of structural solutions cover [5, p. 5.12]:

- modification of the enterprise’s organisational model,
- improvement of the sensu stricto organisational structure of the enterprise.

Modern organisational structures should be developed in such a way as to reduce or completely eliminate unnecessary actions of managerial and hierarchical character. One should strive for reinforcing auxiliary functions of the management in the enterprise, taking into account economic rationality. The latter is a set of decisions and actions, owing to which the enterprise achieves an optimal economic effect, taking into consideration its own development track. Within the scope of organisational restructuring, one can also discern an approach pertaining to the enhancement of the enterprise’s organisational model. The said enhancement generally involves [5, p. 5.13]:

- reducing units, cells and organisational positions within the scope of rationalisation of production processes, or due to reduced scope of the enterprise’s activity,
- separating from the enterprise the organisational cells, whose activity does not directly affect the enterprise’s survival and development,
- separating from the enterprise’s structure the units and cells which can be transformed into individual economic entities: hierarchy-oriented structure (divisional structure), capital-oriented structure (holding structure), or fully independent structures.

If one adopts the restructuring scope as a criterion, then it is possible to distinguish the following types [5, p. 5.14]:

1. Corporate restructuring: it refers to economic and legal transformations.
2. Internal restructuring: it refers to changes of technical and technological character, or related to product ranges.
3. Corrective restructuring: it refers to enterprises on the verge of bankruptcy; most often the restructuring is needed because of the enterprise’s bad condition. It is aimed at improving unfavourable economic conditions and restoring solvency of the enterprise.
4. Dynamic restructuring: its foundation involves strategic decisions made within the enterprise; it refers to innovative and developmental actions. It lasts from 2 to 5 years [13, p. 128].

Among all types of restructuring, operational restructuring can boast its widest extent. This type of restructuring covers changes to the basic economic activity of the enterprise, determined by operational profits or losses, and also manifests in changes to the condition and structures of the enterprise’s assets. Hence, the restructuring can be broken down into the following types [5, p. 5.14]:

- marketing-oriented restructuring: aimed at changes resulting in increased sales, reinforced position of the enterprise, as a result of e.g. a flexible price policy,
− product-oriented restructuring: covering changes to the current product range of the enterprise,
− resources-oriented restructuring: involving enhanced effectiveness of tangible assets and human resources, in order to tailor them to the criteria in force on the market,
− technical and technological restructuring: combining changes to the enterprise’s offer and product manufacturing ways into one coherent process,
− employment restructuring: changes within the employment structure, which bring about cost reductions and its finest adjustment to the enterprise’s needs,
− organisational restructuring and changes to the enterprise’s management system: with the purpose of adjusting the enterprise’s internal structures in such a way as to make them compliant with the execution of adopted strategies,
− financial restructuring: covering activities in the material area, and in the areas of planning and finance management, the activities which result in the improvement of financial opportunities, or in case of its loss – in restoration of the enterprise’s liquidity. Financial restructuring comprises the following types of restructuring:
  − debt restructuring (debt removal): endeavours to strike a deal with a debtor and a creditor,
  − tangible property restructuring: through its sale, lease, or through implementation of a strategic alliance model in terms of a fixed flow of resources between partners,
  − capital restructuring: improves effectiveness of capital consumption [15, p. 138].

There is also a different classification according to which restructuring breaks down into four main types of restructuring [5, p. 5.14]:

1. Creative restructuring: embodies a process which involves bringing a change into existence within a certain time. It means that any effects of implemented changes can become noticeable after a certain time. If the company intends to introduce a new product on the market, then the company creates it.

2. Anticipative restructuring: consists of anticipations; it is mainly patterned on benchmarking. Enterprises often compare themselves with other companies of the same profile in order to absorb their market share and outshine them. The restructuring in question refers to the organisation of work, employment, financial conditions and marketing guidelines.

3. Adaptive restructuring: in a way, it can be regarded as a corrective action. It is useful when the enterprise is not able to achieve satisfactory results, i.e. the enterprise makes a minor profit or does not make any profit at all. This type of restructuring involves an immediate change to the enterprise’s activity and operation with the purpose of restoring stability within the enterprise.

4. Corrective restructuring: the changes being introduced are to mend the organisation and contribute, in a long-term, to the consolidation of the enterprise’s stance and to the
achievement of a positive financial result. This type of restructuring is the most difficult to conduct. The corrective restructuring embraces a concept known as a corrective strategy:

- narrowing strategy: it involves conducting a production analysis of the enterprise, as a result of which there appear products which do not generate satisfactory profits. Accordingly, a decision is issued to cease their production,

- withdrawing strategy: it involves conducting an analysis of the markets on which the organisation in question operates. Consequently, no-longer profitable markets are identified, and on this very basis the organisation decides to withdraw from the market,

- reducing strategy: a thorough analysis is conducted over the enterprise’s property, in particular over its fixed assets and strategy. The process of reducing means removing objects which are useless for the enterprise, e.g. computers, unnecessary inventory. It is difficult to put the strategy into practice as the strategy faces considerable and fierce resistance of either employees or the environment,

- trimming strategy: the only type of restructuring which can be really noticeable and which is the sum of all strategies mentioned above [15, p. 140-148].

The globalisation of the worldwide economy forces enterprises to change their management systems and rigid organisational structures, replacing them by more flexible ones. Organisational structures and the enterprise’s business profile, which have so far been viewed as the most favourable ones, should evolve into transparent structures with a small number of hierarchical layers.

Since numerous enterprises fail to adjust their organisational structures to the conditions of the market economy, restructuring processes are consequently postponed. Current organisational structures often have drawbacks which pertain to their surplus complexity and sluggishness, excessive number of hierarchical layers and inert decision-making process.

**Conclusions**

Changes taking place in the world economy force us to develop a model for restructuring of the enterprise. The said restructuring should bring about an ideal organisation: the organisation which boasts its effectiveness, flexibility, ability to undergo constant modifications of structures in order to improve its competitiveness. The process of restructuring should be preceded by an insightful diagnosis of key areas of the enterprise’s business activity. Every scope of typical restructuring activities constitutes an essential element in the process of improving the enterprise’s business activity. Indicated key areas of activity can be a foundation for establishing a prospective organisational model of the enterprise. A failure to tailor the
enterprise’s organisational structure to the conditions of the world economy may result in the delay of restructuring. Modelling of the enterprise’s restructuring process should be conducted in line with determined restructuring goals and anticipated scope of changes. The restructuring programme should be drawn up in consideration given to both external and internal environment of the enterprise.

Bibliography


Omówienie

We współczesnym świecie cele organizacji muszą być coraz bardziej złożone, dlatego mamy do czynienia z ewolucją przedsiębiorstw w kierunku automatyzacji i elastyczności. Ze względu na powyższe diagnoza stanowi punkt wyjścia do formułowania strategii rozwoju przedsiębiorstwa, toteż powinna być sporządzona przez interdyscyplinarne zespoły, składające się z kompetentnych profesjonalistów oraz doświadczonych praktyków, wywodzących się nie tylko z grona specjalistów danego przedsiębiorstwa. Ważne jest, aby w skład zespołów weszli eksperci mający wszechstronne przygotowanie nie tylko z zakresu organizacji i zarządzania, ale również innych dziedzin, potrzebnych przy sporządzaniu danej diagnozy. Zarządzanie i przywództwo w tym wypadku muszą dążyć do spełnienia wielu warunków, tak by możliwe było jak najefektywniejsze zrealizowanie celów. Kluczowe stają się tutaj relacje występujące właśnie między nimi. Każda organizacja powinna wiedzieć, co leży w kompetencjach menedżera, czym zajmuje się przywódca oraz jaki jest obszar wspólny dla tych dwóch ról.

Nie jest możliwe opracowanie jednego, właściwego dla wszystkich przedsiębiorstw modelu restrukturyzacji. Podczas przygotowania programu restrukturyzacji stosuje się jedynie podobne reguły postępowania, jednak szczegółowe rozwiązania zależą już od specyfiki konkretnego przedsiębiorstwa. Wymiary restrukturyzacji oraz jej zakres są zależne od wielu czynników, m.in. od rodzaju i siły potrzeb, które zdecydowały o restrukturyzacji przedsiębiorstwa oraz od zdefiniowanego celu. Restrukturyzacja może dotyczyć całego zakładu lub znaczej jego części, może być procesem złożonym i ciągłym, podejmowanym w celu odzyskania, utrzymania bądź zwiększenia przewagi konkurencyjnej przedsiębiorstwa na rynku.