

**ECONOMIC CONDITIONS FOR RESTRUCTURING ENTERPRISES**

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**Abstract:** The uncertainty of the market environment, present today in the economy, requires multidimensional development of creative thinking in entrepreneurs, allowing them to forecast and make business decisions in a more effective way. Lack of analytical capacity may lead not only to the inability to achieve economic goals, but primarily to the inability to compete in the market. Dynamic changes in the market environment have undoubtedly impacted the direction of change in companies. Radical changes in economic conditions are therefore a key determinant in planning and decision-making processes in the enterprise. However, the ease of making decisions in times of economic boom, characterized by excessive optimism among managers, does not apply in times of recession or crisis, when the implementation of restructuring activities becomes necessary. The purpose of this article is to show the economic and social conditions for business restructuring in Poland.

**Keywords:** management, market environment, development, enterprise, corporate restructuring.

**Introduction**

In the broadest sense, restructuring can be recognized as a long-term plan of action, including in its scope all of the system elements of the enterprise. The broad definition of restructuring encompasses all areas of the enterprise: its objectives, functions, processes, resources, property; with the aim of maintaining and / or improving the competitive position of the company in the short and long term (Pomerleano & Shaw, 2005). In the narrowest sense, the definition is limited to the financial restructuring of the enterprise in the short term. A narrower understanding of restructuring dominates in specialized financial literature, focusing on the quantitative analysis of changes in assets and liabilities in the company during a given period (Blatz Kraus & Haghani 2006 pp. 32-33).

Not only is the timing of the decision to initiate the restructuring process essential for success, but also the chosen direction of change. Indeed, reconstructing is associated with a short period of time, with the goal of building a strong foundation for business survival and adaptation to the current situation in the environment (Czarniewski, 2014, pp. 22-28). Restructuring measures which are limited to the duration of financial crisis should be considered invalid in current

conditions. Choosing an accurate range of restructuring activities becomes crucial not only for the functioning of the company, but also for its future development.

### **Research Methodology**

Modern enterprises compete in many markets. Concepts associated with managing a company's economic resources in times of relative economic stability have been the subject of analysis in economics and management science for many decades. The number of scientific and practical achievements has been significant. The concept of resource management in times of dynamic change in the market environment (crisis or recession) has only begun to be the subject of analysis. There is a great gap in the adaptation of resource management, both in theory and practice. The author of this publication has set a target to fill, at least partially, this gap.

The subject of consideration in this article is the analysis of the current trends of corporate restructuring on the example of the Polish economy. This work presents the results of the author's own research concerning economic and social aspects of corporate restructuring. The author of this work conducted his research in Poland in 2014. The main results of the study are published in this paper.

Surveys were distributed among thirty companies during the period of May - June 2014. Within the surveyed group of companies, the level of employment was as follows: 15% - up to 9 employees (micro enterprises), 12% - from 9 to 49 employees (small enterprises), 25% - from 50 to 249 employees (medium-sized enterprises), 48% - more than 249 employees (large enterprises). The vast majority of surveyed companies (72%) have operated on the market for over 15 years and only 21% have operated for no more than 10 years. Moreover, 35% of surveyed enterprises conduct commercial operations (trade), 28% services and 37% other activities.

### **Main types of restructuring**

There are two distinguished types of restructuring: objective and subjective. The criterion for this classification is the direction of the major changes made, in the framework of a set of restructuring activities. Objective restructuring has the aim of making changes in the areas of product structure, in technical and technological spheres, and in the resources owned by the company. This kind of restructuring enables the company to modernize its assortment, thus increasing its competitiveness. Subjective restructuring focuses on changes in the ownership structure of the entity, in order to achieve present and future objectives planned by the company.

In the literature, some researchers distinguish between pro-development and repair restructuring. R. Borowiecki claims that pro-development restructuring is generally carried out in companies that are in good economic and financial condition. The main goal is to achieve higher efficiency and effectiveness in the management and development of the company (Borowiecki, 2003, p. 84). Repair restructuring, however, is implemented when there is a threat to the further effective operation of the enterprise. Its goal is to achieve the minimum level of liquidity of the company necessary for its survival (Rachoń, 2006, p. 20).

### Mechanisms of restructuring – analysis of results of own research

It seems that the division of restructuring into pro-development and repair is particularly important for modern enterprises. This division allows for the determination of the direction of implemented actions. Direction is determined not only by current needs, but also by potential development in the future, in times of an improved economic situation. Currently, the concept of dividing restructuring into two divisions is quite popular, and the author has done so in his own study.

Table 1, **Basic reasons for undertaking the restructuring process in Polish enterprises in 2014**

Reason for restructuring	Number of enterprises that indicated this reason	Percent of surveyed companies
Demand-side constraints (reduction in consumption, collapse of market - loss of key customers)	9	30,0
Changes in administrative and tax law	7	23,3
Increase in competition in a given market	6	20,0
Changes in price / exchange rates	4	13,3
New information technologies	2	6,7
Lack of satisfactory employees or managers (in terms of education, qualifications, skills or experience)	1	3,3
Changes in techniques and equipment (in production/ services)	1	3,3

Source: own research.

The majority of surveyed entities indicated that demand-side constraints (reduction in consumption, collapse of the market, loss of key customers) were the primary reasons for restructuring. Another important reason was changes in administrative and tax law. In third place, the managers of surveyed companies enumerated an increase in competition in a particular market

(Table 1). Other factors forcing the company to implement restructuring are less crucial than those mentioned above.

A particularly significant problem for companies is the purpose and the planning horizon of the restructuring process. In most cases, the target is considered to be the building of a competitive advantage in terms of quality, and improving economic and financial results in quantitative terms (Slatter, 1984).

Other goals often cited in the literature on restructuring include: increasing the company's value, improving organizational efficiency and reducing the number of people employed in the company (Stępnia-Kucharska & Stos, 2009, pp. 36-37). Repetition in economic cycles should prompt entrepreneurs to treat restructuring as a process of strategic nature, including within its scope a longer period of horizon planning than the balance sheet period (12 months).

When asked about the goals of restructuring among American enterprises, most managers answered that they sought to increase the company's value and make changes of a strategic nature (Table 2). The nature of these activities is rapid and radical, aiming to achieve quick results. It can be concluded that the aim of these activities is not only to keep the company in business, but also to build a successful future. In the case of entities surveyed by the author, only 62% of respondents indicated that the changes brought on by restructuring were of a strategic nature. This leads to the conclusion that Polish managers still view restructuring as a short term process rather than a long-term one, which is how it is viewed in the United States (Czarniewski, 2015, pp. 46-52).

Table 2, Comparative Analysis of Polish and American Approaches to Defining Corporate Restructuring

Features	American approach	Polish approach
Objectives	<ul style="list-style-type: none"> <li>- increase of company's value</li> <li>-restoration of a strong position for a weak company or increase of company's value in the case of a strong company</li> </ul>	<ul style="list-style-type: none"> <li>- fuller realization of company's objectives</li> <li>- increase in, or maintenance of competitive position compared to other market partners</li> <li>- ensure internal and external equilibrium</li> <li>- obtain concrete economic benefits</li> </ul>
Nature	<ul style="list-style-type: none"> <li>-building a strategy for the increase of company's value</li> <li>-strategic process</li> <li>- change in asset structure</li> <li>-rapid, serious and irregular nature of change</li> </ul>	<ul style="list-style-type: none"> <li>- multifaceted adaptation of enterprise to the conditions of the environment</li> <li>- reorientation of the objectives of the enterprise</li> <li>- response to signals from the environment</li> <li>- a form of independent, active "struggle" for strategic position</li> </ul>

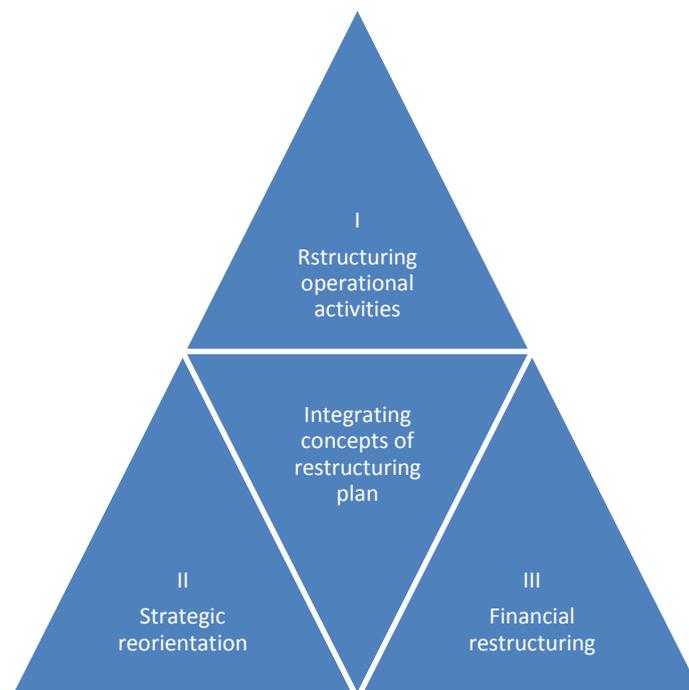
Source: own research based on Rachoń, 2006, p. 17.

R. Gulami, N. Noria and F. Wohlgezogen believe that the restructuring process should not only focus on repairing, but also on preparing the company to compete in the future (Gulami, Noria & Wohlgezogen, 2010, pp. 62-63) . These authors came to some legitimate conclusions that are based on the results of studies conducted among 4700 public companies during the last three global economic recessions (the crisis of 1980, the slowdown of 1990 and the crash of 2000). They argue that companies with good results after a recession are those that are able to balance cost reduction (for interim survival) with investment (for future growth). They claim that entities with the greatest chance of becoming leaders after a financial crisis are those that reduce costs by focusing on improving operational efficiency, and invest in marketing, research and development, and new assets to a greater extent than the competition. In other words, they use the optimal combination of both repair and pro-development activities (Bart & Turel, 2010, pp. 147-172).

This opinion is compatible with the so-called “restructuring triangle” created by experts at the firm Roland Berger Strategy Consultants (RBSC) based on 1500 examined cases (Blatz, Kraus & Haghani, 2006, pp. 32-33). The way to proceed in the restructuring process is shown in Figure 1.

Figure 1

**“Restructuring triangle” according to RBSC**



Source: own research based on Blatz, Kraus, & Haghani, 2006, p. 32.

The RBSC approach to the restructuring process in Western companies indicates that a mix of activities of operational, financial and strategic nature create the foundation for success in restructuring (Figure 1). RBSC consultants indicated that for restructuring to be successful, companies should optimize operating costs (reduce the number of employees, flatten the organizational structure, etc.) in order to eliminate short-term threats for the company.

The next step in this process is to rebuild the position of the company through strategic reorientation, allowing for the elimination of medium- and long-term existential problems of the company. The last element is financial restructuring, including recapitalization of the company, in order to consolidate the positive results of the designed process over the long term (Hernandez, 2012, pp. 172-193).

Table 3,

**Choice of activities in the restructuring process in Polish companies**

Type (nature) of activities	Number of enterprises that indicated this choice	Percent of surveyed companies
Activities of a preventive nature ( <i>e.g. reduction of personnel costs</i> )	20	66,7
Activities of both a preventive and a pro-development nature ( <i>mix</i> )	7	23,3
Activities of a pro-development nature ( <i>e.g. development of new products</i> )	3	10,0

Source: own research.

Activities of a preventive nature (66,67% of responses) dominate among the Polish companies surveyed. These activities focus on the current effects of restructuring (Table 3). Polish entities react passively to changes in the environment and do not try to foresee future changes. The activities of these entities, as indicated by the managers of these companies, have mainly focused on the reduction of personnel costs. A minority of enterprises chose activities of a purely pro-development nature (10,0% of responses), or mixed (23,3% of responses), preparing to strengthen their competitive position in the future.

Despite the preference for activities of a preventive nature, mostly having to do with reductions in personnel costs, the majority of the companies surveyed indicated that restructuring resulted in an improvement of their economic and financial situations - a claim made by 61,0% of surveyed companies. In addition, 72,0% of respondents indicated that the implementation of the restructuring process enabled the company to maintain its market position. Research among Polish enterprises did not show any differences in the assessment of positive effects of restructuring between companies that use restructuring activities of a preventive nature and those that use a mix

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of activities (preventive and pro-development). In both groups, the indicated level of success of implemented activities, in the form of improved financial condition of the enterprise, is similar: repair restructuring – 64,50%, "mixed" restructuring - 61,50%.

It should be noted that measurable economic effects of the restructuring process appear only after several years (Quinn, 2014, pp. 80-88). Thus, the evaluation of restructuring activities cannot be carried out prematurely.

### Conclusion

1. Strong and frequent changes in the economic situation in the current market economy generally force companies to implement the restructuring process. However, the choice of restructuring activities should not be based on planning limited to the duration of the crisis.
2. An important issue is the timing of restructuring in the company. Timing often determines the success of restructuring activities in the company. The experience of many companies show that a belatedly started restructuring process does not bring the expected economic results, and often such companies are not able to survive in the market in the long term.
3. Polish companies still view the process of restructuring through financial and short-term prisms. Furthermore, the actions of Polish companies are of an adaptive and passive nature; they do not try to foresee future changes in the environment. Restructuring is seen as a way to survive difficult times; companies do not seriously consider the need to build a foundation to help them compete in the future. Thus, restructuring is considered by Polish managers as a short-term process, rather than a long-term process as seen in the United States.
4. However, the process of restructuring should not only focus on repair, but should also prepare the company to compete in the long term and, not infrequently, in new markets.

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