

# An Investigation into Methods of Restructuring and Reorganizing Industrial Enterprises

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## SUMMARY

*Analytical research into existing methods of restructuring and reorganising industrial enterprises has been conducted. An original classification of methodological approaches, which can be used for enterprises emerging from the crisis, has been offered. A new direction for crisis management – reorganizational restructuring – has been proposed.*

## INTRODUCTION

The integration of Ukraine into the world political and economic structures requires the intensification of transformation processes. One of the most important tasks in this process is the renewal of the effective activity and the increase in the competitiveness of the base link of the economy – industrial enterprises, most of which are rapidly overcoming the consequences of the world economic crisis. Statistics testify that over 40 % of all the industrial production potential of Ukraine is made up of the machine-building complex. The crisis of the last few years has revealed that it was most sensitive to negative changes in the economic situation. Therefore, there is a real requirement to develop effective methods of rehabilitation (restructuring, reorganization, reformation, etc) for enterprises of the machine-building complex, and for the renewal of its economic potential.

Restructuring from positions of modern scientific research is one of the ways of enterprise restructuring. That is, if the reformation of enterprises has any possibilities of transformation and change, then restructuring is one of the concrete methods of reforming enterprise by the structural reorganization of its basic subsystems. In a number of cases, the term «restructuring» is interpreted ambiguously. Sometimes restructuring is understood as the simple division of a large enterprise into component parts: in other words, dismantling the structure and creating autonomous enterprises from the unique whole. A change of organizational structure, dismantling, division, and the selection of the economic personified subsections are only the elements of restructuring, but not necessarily its constituents or purpose. Organizational changes which

will be or will not be carried out depend on the aims of the restructuring and on those methods chosen to achieve this goal.

Examining the concept «restructuring», it is necessary to select a few constituents which determine its economic essence. In our view, firstly, it is the maintenance of the process of restructuring; secondly, the object of restructuring; thirdly, the reasons (factors) for restructuring; and, fourthly, the purpose of restructuring.

The research conducted provides evidence that, although the aims of the restructuring process of an enterprise can certainly differ, the basic ones tend to be:

- increase in financial firmness;
- increase in the competitiveness of products, production processes or the enterprise
- improvement of management and increase in production efficiency
- increase in the worth of the enterprise and growth of business value;
- change of property partition and control over activity of enterprise
- bringing in investments for production and an increase of the investment attractiveness of enterprise
- production of more modern products
- increase in efficiency of functioning; the exit of the enterprise from the crisis.

The aims mentioned can be achieved by enterprises both in normal and difficult (crisis) working conditions with the help of different types of restructuring and reorganization. To consider the increase in, and upgrading of, the analysis of restructuring questions in different aspects we have developed a classification of restructuring types (Fig.1).

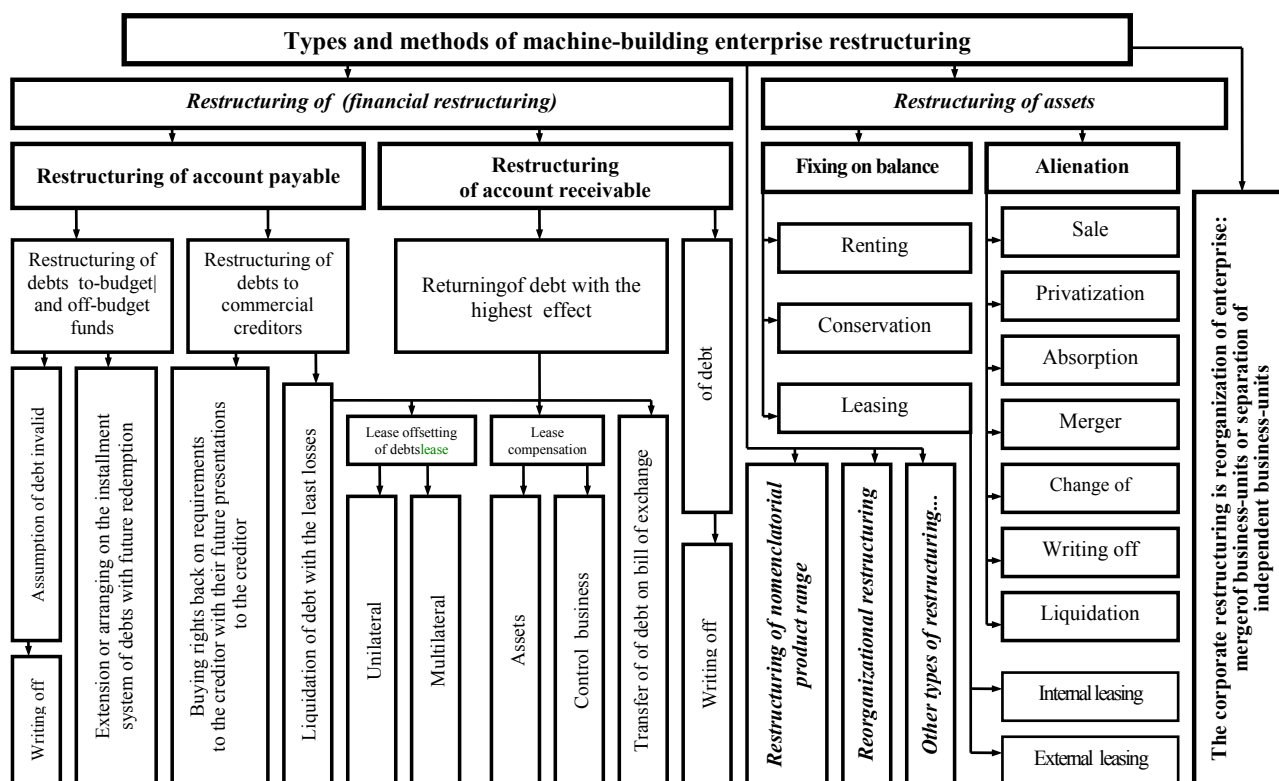


Figure 1. Classification of methods of debt-restructuring of machine-building enterprise (source: own development of author)

Research shows that the varieties of restructuring are not reduced to those which are indicated in Figure 1. To a great extent, the type of restructuring depends on

different factors (classification signs). Our suggestions concerning this are given in more detail in Table 1.

Table 1. Classification of types of machine-building enterprise restructuring

<b>Types of restructuring</b>	
<i>By terms of carrying out transformations</i>	
Strategic restructuring	Operative restructuring
<i>By scale of transformations</i>	
Partial restructuring	Complex (complete, global) restructuring
<i>By functional content of transformations</i>	
Production restructuring	Organizational restructuring
Staff restructuring	Financial restructuring
Marketing restructuring	Material and technical restructuring
<i>By directions of transformations</i>	
Legal restructuring	Economic restructuring
<i>By place of transformations</i>	
Internal restructuring	External restructuring
<i>By direction of external (corporate) restructuring (reorganization)</i>	
Nationalization	Partial or complete privatization
Mergers with other enterprises	Absorption of enterprises-debtors
Splitting of enterprise	Bankruptcy of enterprise
Joining of enterprises	Division of a large enterprise into parts
Transformation within the enterprise	Separation of subdivisions and non-core sphere (social and cultural services) from the enterprise

<i>Types of restructuring</i>	
<i>By direction of internal restructuring</i>	
Re-engineering	Change of structure of production technologies park
Change of product mix	Reorganization of production structure
Reorganization of management structure	Reorganization of social structure and organizational culture
<i>By models of conducting transformations</i>	
Evolutional restructuring	Revolutionary restructuring
<i>By objects of financial restructuring process</i>	
Restructuring of business	Restructuring of property complex
Restructuring of debt	Restructuring of property (equity)
Restructuring of production	Restructuring of organizational structure
	Restructuring of commodity nomenclature
<i>By financial and economical state of enterprise</i>	
Restructuring of crisis (insolvent) enterprise	Restructuring of normally working enterprise (corporate, stabilizing restructuring)
<i>By direction of crisis restructuring</i>	
External management	Reorganization
Financial improvement	Liquidation
Procedure in bankruptcy	World agreement
<i>By direction of restructuring of normally working enterprise</i>	
Merger	Joining
Division	Separation
Transformation	
<i>By impact on the object of restructuring</i>	
Restructuring of debt: sale of debt; converting; postponement; offsetting debts	Restructuring of assets: sale of surplus assets; acquisition of property
Restructuring of equity: sale of part of actions; emission of additional actions; splitting of equity	Restructuring of workings contracts: layoffs due to lack of work; temporal dismissal; voluntarily pre-schedule retiring
	Restructuring of business: expansion; reduction; transformation

In 1990, the second stage in the development of the concept of restructuring began. This was related to the expansion of the use of legislation concerning enterprises, which was mainly reduced to the use of traditional measures of anti-crisis management. Not long after, from the beginning of 2000, the third stage began in Ukraine: the restructuring of successfully working enterprises. This was considered as a necessary and effective means of increasing the competitiveness of enterprises. During this process, all the facilities presently used in the developed countries were implemented. Taking into account the aforementioned facts, we propose to name the modern conception of restructuring as the Integration-reorganization conception.

Basic pre-conditions of this paradigm of restructuring are:

- complication of market relations and strengthening of competition
- market globalization and development of new information technologies
- distribution of logistic approaches in the economy
- formation of clusters
- formation of new types of enterprises (extended enterprises, resource-saving enterprises, horizontal enterprises, flexible enterprises)

The distinguishing features of the modern stage of enterprise restructuring are:

- variety of forms of enterprise organization
- flexible structure, oriented to immediate reactions to changes in the external environment;
- development of horizontal corporations and network organizations; priority of external connections and the wide use of logistic principles of running businesses.

If the traditional approach to the restructuring of enterprises derives from an analysis of the cooperation of enterprises (internal environment) with their external environment, then the modern (Integration-reorganization) approach examines the co-operation of three interconnected components: the external environment; business-surroundings; and the internal environment.

The differences of the modern conception of restructuring from the traditional approaches concerning transformations in a machine-building enterprise in the author's interpretation are shown in Table. 2.

*Table 2. Difference of the modern integration-reorganization conception of restructuring from traditional approaches*

Criteria	Conception of restructuring	
	Traditional	Integration-reorganization
Purpose of the use	Reactive (response to changes which happened in external environment)	Preventive (reaction to predictable changes of external environment)
Object of restructuring	Separate objects, functions of the enterprise on the whole	Enterprise and its external environment (suppliers, sale, investors, shareholders)
Connection with strategic planning	Transformation on the basis of enterprise development strategy	Not only direct but also reverse connection with the strategic planning
Basic principle	Functional specialization	Horizontal integration
Competitive advantage	Material and financial assets	Personnel, immaterial (intellectual) assets
Leadership style	Authoritarian	Democratic
Role of personnel	Active – that of the administration. Passive and negative – of the rest of personnel	Active and positive of all personnel
Expectation of personnel	Satisfaction of needs	High-quality growth of personnel

Thus, within the framework of the internal environment of the modern enterprise, it is possible to select additional elements which have different functions. For example, in the structure of the enterprises of the machine-building business, the presence of the administrative kernel of the enterprise, and its basic and auxiliary business should be noted. A business kernel is, as a rule, a holding that fixes, directly or indirectly, the relations of property in a group. A company which manages is an organization or a group of organizations which carries out the operative guidance of the key enterprises of a group on the basis of the corresponding

agreement. The development, production, export and sale of products are referred to as the basic business of machine-building enterprises. The specialized repair, transport, service and other structures are classified as auxiliary business. The peculiarity of integration-reorganization restructuring in Ukraine is a combination of the development of flexible horizontal structures with aspirations to strengthen control over the business on the whole. The necessity of control strengthening is explained by the imperfection of legal forms of economic activity regulation and the absence of widely acknowledged rules of doing business.

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