

Restructuralization of the Companies in the Conditions of the Slovak Republic

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Abstract: The article is focused on business crisis and the restructuralization of the companies. The business crisis is an inherent part of company's life cycle. The economic, technical, social, environmental and others problems occur in every company soon or later. According the statistics, each company achieves crises approximately every five years. Article is discussed about reasons of business crisis and the restructuralization process, which can improved the financial indicators of the company.

Keywords: *restructuralization; crisis management; company's crises.*

1. Introduction

Every enterprise exists in a particular business environment, which can be considered as adequate if a real working market mechanisms are functional and on the basis of a supply and demand as well as on the economic policy of an economic center, the production factors are efficiently appreciated. If such a status is disrupted, it can result in a variety of problems and a subsequent crisis.

The number of enterprises that take the advantage of the restructuring to reverse its adverse developments constantly grows. The restructuring process is generally understood as a specific methodological approach to the enterprise resource reallocation. As one of the possible ways in which the company management changes, it contains the rights, responsibilities and relationships of all subjects' corporate activities. In general, we can say that the optimization of these elements is the basis of any of internal and external restructuring efforts.

2. Crisis as a Natural Phenomenon of Enterprise Existence

Every business goes through several stages of development since its inception. The existence of the business as a business entity is limited in the beginning and the end of the business. The life cycle of enterprises can take decades, centuries, and eventually it does not have to end in its elimination, or, it can take only a couple of months, at most, a couple of years' time can between its origin and elimination. There are few theoretical views of the existence and development of an enterprise. The best approach to the development of the enterprise is the enterprise life cycle curve.

In 1991, Lagadec [12] defined the crisis as a result of chance, unexpected events and destabilization. The crisis should *be of exceptional, acute, urgent and dramatic nature* for the enterprise, whose task was to overcome the adverse and critical events for the enterprise. Crisis management has an important place in enterprises. A number of streams of crisis management, all of which have sought to provide solutions to the same problems:

■ *to understand why it is difficult to predict the crisis,*

- **start real efforts to prevent,**
- **to regain control over the activity of the enterprise.**

Practicing the crisis management has been focused on the implementation of the priority risk-analyses, the creation of plans how to proceed in emergency, prepare and train managers to carry out simulation exercises, undergo masmedial training and practice communication techniques.

The nature of crises has changed. The crises of today are different from those of the past. So far the practices used by the organizations to deal with the crisis are intended for the crisis of the previous generation. In many cases, traditional techniques are inadequate and unable to cope with the crisis situation. New forms of crisis managers often surprise, cause chaos, uncertainty and helplessness.

Institute of Crisis Management defines the business crisis as: „A significant corporate breakpoint, which stimulates the extensive media attention.“ The resulting monitoring of the company affects its

normal activity, and may also cause political, legal, financial and governmental influences on the business.

The majority of businesses are still influenced by the combination of all the possible internal and external causes and it corresponds to the current status. The primary symptom of a crisis, such as a decrease in profitability, productivity and others are paid not enough attention and the crisis in enterprises gradually deepens.

The most common causes of corporate crises, according to the Institute of Crisis Management are given in Figure 1, where each of the crises causes has been allotted a percentage of the total number of crises in the given year.

The most common causes of corporate crises during the last years van are represented by embezzlement, fraud, a class action and claims, as well as mistakes in the management of enterprises, or violence in the workplace.

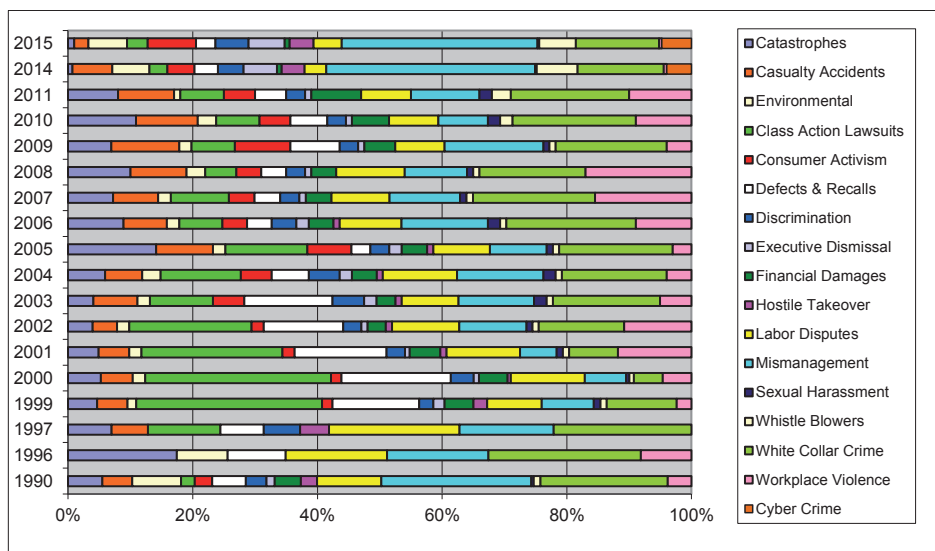


Fig. 1: Causes of crises in 1990 – 2015 [2].

In 2005 the most important changes in the causes of the crisis were natural disasters, in 2003 violent takeovers and in 2001 violence at the workplace.

In the year 2008 changes in eight categories of corporate crises causes occurred against the previous year, higher than 18%. Natural disasters have contributed to the formation of only 3% of all corporate crises, but their number has increased year by year by 48%, representing an increase of 305 corporate crises. The second most significant

increase of 44% was experienced due to disruption and complaints. The large increase in the years of 2006 and 2007 was due to the violence at the workplace, which in 2008 increased by 18%. In 2014 occurred the new type of crises the cyber-crime crises.

3. Restructuring

Extent of restructuring benefits in Slovakia depends not only on the form of the ownership structure, but also on the structure of the logistic control of a business activity and in particular on

the availability and cost of the funds determined for business. Not all the subjects involved in the ownership of enterprises have the potential to start a deep restructuring. Frequent lack of the access to finances, market, expertise and also often to the internal management structure.

Restructuring projects in the Slovak companies are apparently under strong social pressure and the phenomenon of employment. Many of the businesses still suffer from the lack of capital, unsuitable enterprise deployment and lack of management skills, which reflect the new, more demanding criteria of the European and world markets. There is a need to enhance the ability of managers in the preparation of strategic plans, determining the market potential of products in terms of costs and sales, as well as more operational production planning and logistics. This is carried out in the course of preparing the businesses for potential capital investors, in convergence of accounting practices to the European standards, as well as in the adaptation of management structures to new business conditions.

The restructuring is an important attribute of the transformation of the corporate sector. In the broadest sense, it includes policies and economic processes that enhance the performance of the economy as a whole and within particular business sector. In a closer sense, the restructuring of the corporate sector adapts to the new conditions in all directions, such as to the change of ownership, size structure and sectoral composition.

Synek [18] defines the **restructuring** as a change in the structure of a particular organism. The restructuring can be implemented on the structure level of the individual branches of the economic sphere or via the changes in production or business activities.

The European Parliament defines the restructuring as one of the special forms of industrial transformation. Typically, it is a sudden and often forced adaptation to the new company claim in the economic context, in order to regain the competitiveness.

Depending on the extent of restructuring changes we can distinguish:

- **Macroeconomic restructuring, which represents the change in the structure of each sector of the economy.**
- **Microeconomic restructuring, in which there is a change in the company structure. Restructuring may take various forms.**

It may be:

- ✓ **voluntary and controlled process that is consciously controlled by the owners and managers of enterprises,**
- ✓ **compulsorily controlled process that is caused by a state of the enterprise, and is modified:**

- ▶ *in general legislation (Commercial Code),*
- ▶ *in special legislation (Act on Bankruptcy and Restructuring).*

In the restructuring it is necessary to leave the well-established business practice of partial solutions and focus on complex solutions based on corporate management. The issue of restructuring is primarily a matter of the authorities' decision regarding its implementation and is also closely linked to the effectiveness of the business activity of economic entities in the economic environment given.

4. Macroeconomic Restructuring

Complete picture of the future structural changes in the economy requires the definition of the following:

- **role of state in their implementation,**
- **role of corporate sector in this process.**

For the formation of the parametric environment for the business community orientation in their own business it is necessary to process the set of system measures based on the action of financial and economic tools. The role of government in the process of business restructuring is associated with the establishment of an appropriate legislative framework for some important issues, which mainly include:

- **definition of the position of minority shareholders, in terms of increasing complexity of processes of the ownership assertion,**
- **analysis of legislative changes related to some segments of corporate administration,**
- **mergers, acquisitions, involuntary takeovers and defense mechanisms against them.**

According to the form of action, the system measures focused on supporting the restructuring of the economy can be divided into two groups:

- **Measures those are active in term of the behavior of economic subjects. That is, they support the activities focused on structural changes.**
- **Measures that prevent the emergence or persistence of negative effects. These measures are more punitive in nature. They complement the first group of measures.**

Economic systems of each country are based on a number of cultural, historical, social and economic differences. This has also led to specific models

of restructuring, and corporate management. Historically, two basic models of corporate management have developed:

- **external model,**
- **internal model.**

In the past, there existed significant differences between these models, but in the context of internationalization and globalization of business it came to the interconnection of some characters as well as to a specific convergence. According to the results of international research organizations, in practice, it is now possible to distinguish four basic models of business restructuring and existing systems of corporate management:

- **English used by 18 countries,**
- **German used by 6 countries,**
- **French used by 21 countries,**
- **Scandinavian used by 4 countries.**

It is difficult to precisely assess the viability of each model. Each model has some advantages and disadvantages. One system strengthens the mechanisms to facilitate the position of creditors, the other tries to give preferences to the shareholders in their efforts to vote and leave the company, when the enterprise management does not behave accordingly.

Choosing the right model of restructuring is affected number of factors:

- **geopolitical differences,**
- **achieved level and level of economic development,**
- **structure and state of banking,**
- **national legislation,**
- **social security systems,**
- **different position of the enterprises' relationship and banks in economies,**
- **willingness of people to invest their funds in securities.**

The OECD is one of the institutions, which is currently developing a program dedicated to corporate restructuring and administration. It presents a set of regulations, which companies should voluntarily follow. The regulations are based on the assumption that there is no single model that is clearly appropriate for the administration and corporate management. OECD principles, therefore, are not binding and do not provide detailed instructions for the national legislation of the Member States of the organization. They are assumed to be evolutionary in nature, i.e., they should be developed and used with respect to the overall design of the businesses operation support.

The approaches to existing and future structures and integrated national economies change qualitatively. Due to the globalization it comes to clustering and forming of large international groups, and therefore, the European Union efforts to support the enterprises not only on the national levels, but on the European level as well.

The European Union, as the initiator of the international market opening, provides the necessary funds to support the restructuring and its social and environmental consequences. Restructuring shall not constitute a step backwards in the social area and cause economic losses. Public authorities can help ensure that restructuring takes place under normal conditions.

Stable, predictable and coordinated macroeconomic conditions in Europe are an important basis for successful managing the restructuring measures. The local conditions in which restructuring take place are crucial and must be part of the policy.

The measures to be taken on the European level have to meet four requirements:

- **Requirement of coherence of individual policies necessary for the growth and restructuring, which are contained within, do not lead to the extinction of the human capital.**
- **Requirement of long term perspective of individual policies, which must be able to anticipate, and thus provide the space for the reaction of economic and social subjects.**
- **Requirement of social partner's participation in individual policies. The enterprise restructuring is associated with very high costs, not only for the workers but also for the local and regional economy. Preservation of social cohesion, which is a distinctive feature of the European social model, requires the introduction of accompanying policies designed to minimize the social costs and promote variable sources related to the jobs and income. The essential role is played by the sectoral social dialogue and European work councils.**
- **Requirement to consider the geographical coverage, since mainly on the local level the anticipation of changes is the most effective. Regional policy and cohesion policy of the European Union acts as a catalyst.**

Retaliatory industry can be divided into traditional and modern. Within the European Union distinguishes three groups of classes:

- **Existing attenuation industry, which must reduce its activity due to lower sales and increased competition – metallurgy, textiles and shipbuilding.**
- **Existing competitive industry, requiring significant investment to maintain existing growth rate – automotive,**

aerospace and chemical arts.

■ ***New industries based on the latest trends in scientific and technological development.***

The European Commission, as the main reasons for restructuring, provides:

■ ***development of the single European market and the opening-up of economies to international competition,***

■ ***technological innovation,***

■ ***development of the regulatory framework,***

■ ***changes in consumer demand.***

The Slovak economy is small and significantly open economy. The small internal market requires businesses to succeed and gain positions on foreign markets where they are able to compete and where they can place their production outputs.

The management of enterprises must identify the needs of the world market and properly adapt technological equipment and skills of its staff. The ability of Slovak industry to succeed in mastering these new demanding requirements influences its competitiveness and future success of the whole Slovak economy.

5. Restructuring of the Company

Enterprise restructuring is based on the changes that affect all areas of business life. Restructuring represents a principle remodeling of business strategies, structures and processes and their alignment with the new reality of living. It relates to the modification of manufacturing, enterprise resources, their interdependence and their use and may be also associated with the changes in the organizational architecture. It is a process of source protection, innovative changes in the design and mutual harmonization of the structures of the production program, production and technological, functional and organizational structures, personnel structures and other special-purpose structures, in order to ensure the efficient and effective functioning of the reproductive process.

Sometimes the term enterprise restructuring refers only to the changes in assets and company capital structure or in its strictest sense; it is only the change of ownership relations of the enterprise.

Restructuring measures may be implemented at each stage of the business life cycle, beginning from its inception, through growth, stabilization, crisis and the collapse. The restructuring is a necessary and sometimes existential phenomenon in the life cycle of a business. It is implemented because

of the need to ensure further development of the enterprise, in order to ensure the future existence of the company.

In addition to the traditional understanding of the relationship of corporate crisis and restructuring it should be emphasized that the restructuring may not be associated only with the crisis in the company. The restructuring processes can be carried out even in companies that have no problems, but respond to the changing conditions and strive to constantly improve their competitiveness. Ideally, the restructuring is implemented as a precautionary measure, and the company receives a competitive advantage.

To begin the process of restructuring the enterprise may face a number of reasons, which can be divided into four groups:

■ ***crisis requiring a radical solution because it threatens the prosperity, stability and future existence of the company,***

■ ***issues that are less urgent and stressful situations and conditions that arise in the course of the company existence and could lead to the situation such as crisis,***

■ ***prevention, which represents the company's efforts to prevent potential problems in the future,***

■ ***opportunities that allow getting ahead the competition and consolidate the leading position on the market.***

The reason, due to which the company carries out certain restructuring measures, determines the nature of the restructuring process and applied restructuring measures. Depending on this there are (Figure 2):

■ ***Strategic restructuring that lies in the implementation of strategic interventions and long term measures. The strategic measures are associated with the development stage of the company life cycle, and the companies use them as a precautionary measure and utilization of opportunities. They are also useful in the crisis management when strategic actions follow the operational measures.***

■ ***Operational restructuring, which is based on the implementation of operational, short-term interventions and measures. Operational restructuring measures are implemented in order to solve the crisis or problem situations and conditions. For this type of restructuring, the term corporate revitalization is used.***

The optimal decision is the matter of knowledge, experience and preparation to possible emergencies. The methodology of corporate restructuring is based on this finding, which forms the starting material for the application of restructuring on the Slovak enterprises.

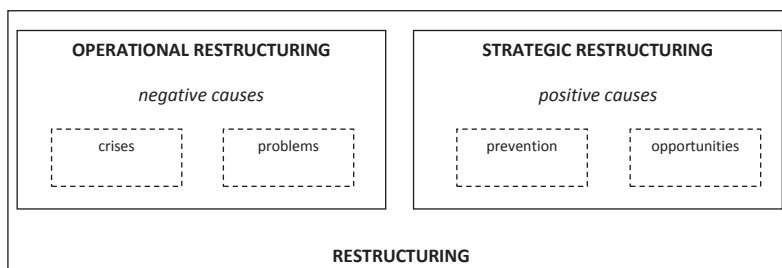


Fig. 2: Operational and strategic restructuring.

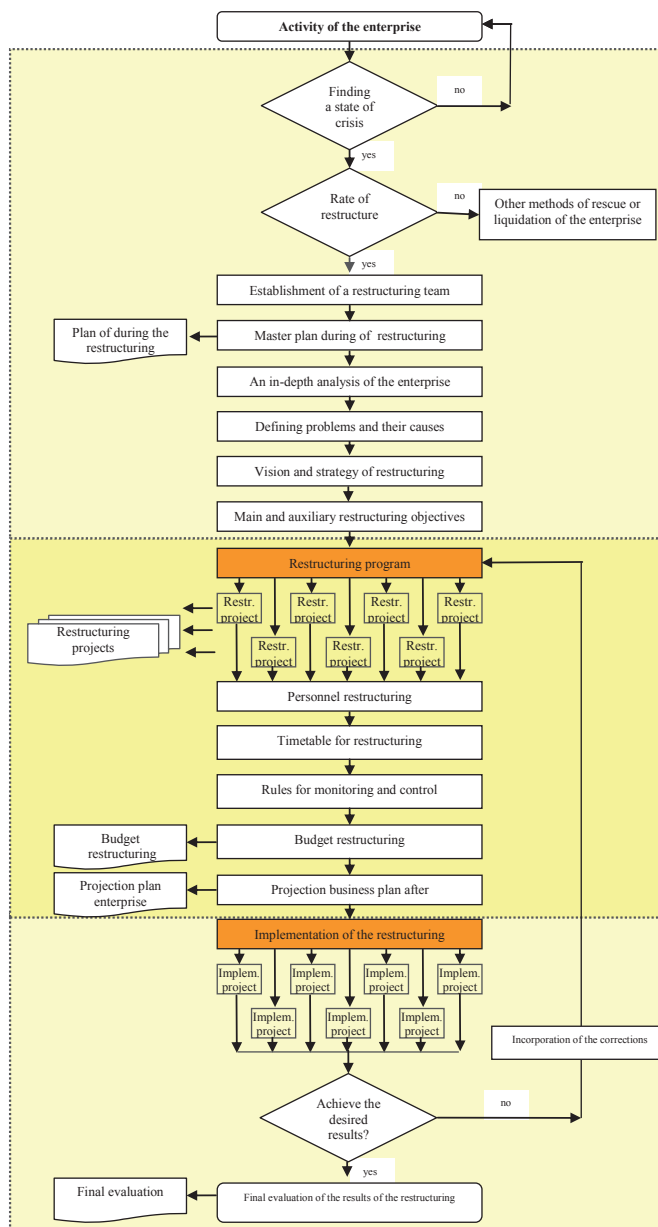


Fig. 3: Model of enterprise restructuring [9]

It is optimal to execute the company restructuring via the basic steps in the following sequence (Fig. 3):

1. Find the crises state of enterprise.
2. Determine the extent of enterprise restructuring of.
3. Build a team responsible for enterprise restructuring.
4. Elaborate a framework plan of restructuring.
5. Elaborate thorough analysis of enterprise.
6. Define problems and their causes responsible for the existing situation.
7. Define the vision and strategy of enterprise restructuring.
8. Define the main and auxiliary objectives of restructuring.
9. Elaborate the restructuring program:
 - ✓ Development of restructuring projects for areas, in which the changes will be implemented with the identification of measures to be taken.
 - ✓ Appointing the personnel for restructuring.
 - ✓ Establishment of a timetable of the restructuring implementation.
 - ✓ Definition of rules of monitoring and control.
 - ✓ Preparation of budget of restructuring with the determination of financial effects and restructuring costs.
 - ✓ Building the business plan projections after restructuring.
10. Execute the restructuring according to program.
 - ✓ Implementation of restructuring projects.
 - ✓ Continuous controlling of tasks and compliance with the timetable of restructuring.
 - ✓ Incorporation of corrections to the restructuring program, if necessary.
11. Prepare the final evaluation of the results of restructuring achieved.

Content of individual corporate restructuring steps is described in the table in detail. To implement the company restructuring we can follow the model shown in Figure 3.

6. Restructuring Program

Restructuring program modifies the course of restructuring, both in terms of content and chronology. According to International Accounting Standard IAS 37, based on the idea of the concept of crisis restructuring, the parts of the restructuring program are:

- identifying the areas related to the restructuring,
- determination of the measures of planned changes,
- ensuring the personnel changes implemented,
- determination of location, functions and number of workers who will be given compensation for their employment termination,
- statement of financial effects and determination of the costs incurred,

- timing of the implementation of the restructuring,
- rules for monitoring and control.

The restructuring program is elaborated in detail into individual restructuring sub- projects, usually by type of the business activity. The changes that take place in the enterprise are usually aimed at various business areas. Nevertheless, individual changes do not operate in isolation, but are closely linked with interactions and bonds among them.

Corporate restructuring is based on the changes that may relate to any aspect or factor of the enterprise. Respective areas and measures of restructuring changes are determined by the nature of the restructuring process. The nature of areas and measures for restructuring changes are determined also by the nature of restructuring.

The process of corporate restructuring in the comprehensive meaning affects all business activities and includes financial, production, trade, information, ownership, organizational and personnel restructuring (Figure 4), which form the core areas of the corporate restructuring. For each area of corporate restructuring a specific restructuring project is developed.

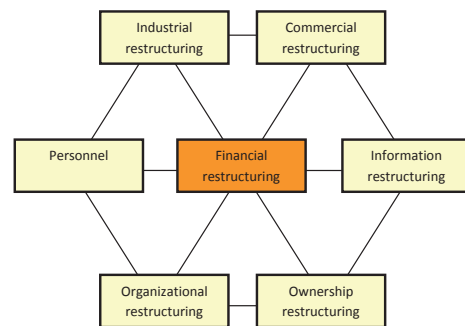


Fig. 4: Fundamental restructuring projects [9]

In the process of corporate restructuring the financial restructuring of the key role which arises from the following facts, is met:

- ultimate aim of the restructuring process is represented by the objective that is of financial nature,
- implementation of the restructuring program requires a significant amount of funds,
- financial instruments and measures are applied in each of the areas of restructuring changes.
- implementation of restructuring measures in different areas of business activities always entails some financial implications.

7. Conclusion

The number of enterprises which in case of bankruptcy occurrence, i.e. increasing or insolvency make use of the extension of the judicial institute, which, unlike the bankruptcy restructuring, allows the company to continue in their activities also gradually increases.

Termination of the enterprise, which may be due to the failure to deal with the corporate crisis, brings not only the loss for the enterprise owners, but is an economic loss to the national economy as well. The dismissal of employees of the unfunctional enterprise increases the unemployment and spent resources in the form of deposits quit to be appreciated. There are losses for the business partners, banks, shareholders and the cities lose the local taxes and fees, and development in the form of sponsorship.

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