Specific Terms and Processes of Corporate Restructuring

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Abstract

The current state of the economy aggravated by instability, coronavirus waves and new digital challenges has caused large-scale changes in business, the public sector and the non-profit sector. As a result, organizations are trying to optimize their assets, and the main universal tool in this process is restructuring. This article dwells on methods, tools and directions of restructuring and its new forms. The proper application of the recommendations developed by the authors will increase the efficiency of restructuring.

Key-words: Management, Business, Property, Intangible Assets, Methods and Tools.

1. Introduction

Outside of Russia, restructuring has long ceased to be associated only with an insolvent enterprise and the need to stop pre-bankruptcy procedures. Many issues of production development are resolved through certain restructuring methods, forms and tools. Russia utilizes approaches similar to foreign. In particular, restructuring can be caused by the following reasons: the lost attractiveness of long-term prospects for the development of an enterprise and its business areas; the formation of new technologies and goods/services; slowly developing or non-competitive activities in the company portfolio; the decision to reconsider the existing strategies (Mazur; Shapiro, 2001; Alferov et al., 2016; Belykh, 2012; Chapkina, 2007). However, many economists still connect the process of restructuring with the need to get some enterprise out of a difficult situation under the influence of changed internal or external conditions, including: ineffective management systems; the low responsibility of managers to shareholders; the desire to preserve and efficiently use property, financial and economic results; no unity within an enterprise as the property complex; no reliable information about the state of an enterprise (Yun, 2004, pp. 335-336; Reznik et al., 2014; Gurzhiev et al., 2014; Poletaev, 2016).
comprehensive study of specific terms and features of restructuring allows determining new directions for improving this process.

2. Methods

The theoretical and methodological foundations of this article are laid by theoretical and practical studies conducted by scholars and businesspersons in the field of restructuring and property relations. The problems of restructuring are located at the intersection of corporate finance, accounting and reporting, legal regulation and management methods at different levels and in different time periods. Within the framework of this article, we used the systemic approach and common scientific methods (including, economic analysis, synthesis, analogy, classification and comparison).

While working on this article, we referred to both Russian and foreign scientific works.

3. Results

Various approaches to defining the term "restructuring" are shown in Table 1.

<table>
<thead>
<tr>
<th>Definition of restructuring</th>
<th>Components of restructuring</th>
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<tr>
<td>A set of measures to bring the functioning of some enterprise in line with the changing market conditions and the adopted development strategy (Mazur; Shapiro, 2001; Rykhtikova, 2014; Zub, 2015).</td>
<td>The process of improving the structure and functioning of management and its financial and economic policies, overcoming technical and technological gaps, achieving production efficiency and the competitiveness of products/services, increasing labor productivity, reducing production costs and encouraging better financial and economic results.</td>
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<td>Any change in production and organizational structures, as well as in the structure of assets and capital, which are not part of the daily business cycle of an enterprise (Yun, 2004, p. 340; Reznik et al., 2014).</td>
<td>Most often, restructuring denotes a change in the structure of an enterprise's debt, when relationships between the borrower and the lender change. This term can also be used in relation to specific systems, structures and business processes.</td>
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<td>The complex optimization of an enterprise's functioning system in accordance with the external environment and the development strategy, contributing to the fundamental improvement of management and all aspects of activities (Bespalov, 2017; Barinov, 2016).</td>
<td>The process of improving financial and economic policies, operating activities, marketing, sales and management systems, including personnel management.</td>
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Thus, the above-mentioned approaches represent restructuring as systemic and complex, optimizing almost all areas of an enterprise.
A phased transition to the principles of the enterprise's operation typical of a market economy goes through the following stages (Fig. 1) (Yun, 2004).

Figure 1 - Phased transition to restructuring

In the process of restructuring, efficient facilities are allocated and new business units are created on their basis. While production and organizational structures of corporate management change, the entire management system improves. In addition, the property complex of an enterprise undergoes significant transformations during restructuring. Some property is liquidated and written off, some is sold or leased, some is preserved and other forms the authorized capital of new business units (Gaughan, 2014; Grushenko, 2014; Nikitushkina et al., 2014). As a result, business costs reduce and corporate profitability increases. First of all, it is necessary to provide comprehensive information support:

- To plan and organize production and project activities at all workplaces;
- To exercise objective control over their results;
- To ensure prompt decision-making by managers and experts of all levels.

Like any other process, restructuring is associated with possible problems. The most common issues are as follows:

1) Wrong selection of restructuring methods. Downside: the ineffective restructuring and deterioration of financial and economic conditions;
2) Incorrect assessment of the resources required for restructuring, including time, workforce and sufficient funding. Downside: incomplete restructuring due to the lack of resources;
3) Insufficient qualifications among managers on the issues of restructuring. Downside: incorrect managerial decisions that undermined the effectiveness of restructuring. This problem can be solved by organizing specific workshops or dismissing managers who caused a crisis;
4) Low motivation of people involved in restructuring. Downside: a conflict of interest arising between managers and shareholders during restructuring. The problem is solved if
restructuring is done from the top downward. The interest of shareholders is also important since their aspiration passes onto other employees;

5) Legal support of poor quality. Downside: these problems can destroy all the positive results that have been achieved during restructuring;

6) The problem of restructuring projects, including all sorts of uncertainties in relation to the initial data of the internal and external environment, the chosen restructuring model and requirements for its effectiveness. To solve these problems, it is advisable to determine uncertainty factors and develop certain measures to reduce them;

7) Premature assessment of the restructuring results. Downside: the suspension of restructuring due to negative changes. The possible solution might be a detailed restructuring plan containing all short-term results and indicators, as well as long-term goals;

8) Negative social consequences. Downside: mass redundancies and layoffs.

From the practical viewpoint, there are two methods of business restructuring (Fig. 2) (Kovan, 2008, p. 125; Ryakhovskaya et al., 2012; Ryakhovskaya; Kovan, 2018).

Figure 2- Methods of business restructuring

Financial responsibility centers are built over the existing structural divisions of an enterprise, without acquiring the status of a legal entity. Such centers aim at accomplishing the following tasks:

– To transfer some principles of marketing management onto corporate management according to the level of certain divisions;
– To encourage employees from various departments to increase revenue and reduce costs;
– To strengthen responsibility for working results;
– To increase sales and cash inflow.

Different types of financial responsibility centers are shown in Fig. 3.
Budgetary financial responsibility centers are financed by an enterprise under the estimate: accounting departments, planning and economic departments and supply departments. Production financial responsibility centers are self-financed and do not have a bank sub-account.

The above-mentioned scheme highlights the following principles for organizing both production and budgetary financial responsibility centers:

- The goods produced by financial responsibility centers are paid based on domestic prices;
- Financial responsibility centers make all the payments necessary for the work according to their limit cards and the funds available on their bank account;
- Limit cards include the funds estimated in conformity with the contribution of financial responsibility centers to the common resources and the compulsory funding of budgetary financial responsibility centers.

Self-sustained business units and their allocation are the next steps towards dividing an enterprise into divisions according to the nature of their activities.

Based on an enterprise's property and its structural divisions, this allocation affecting self-sustained business units creates a set of independent legal entities, whose property rights belong to the parent company.

The allocation of business units pursues the following goals

- To bring business units to the level of a foreign market;
- To distinguish between promising and financially reliable business units and insolvent ones;
- To create favorable investment conditions;
- To increase sales.

Fig. 4 reveals a business restructuring scheme for a multi-purpose enterprise. The parent company retains ownership but creates new business units. These business units are either effective or ineffective. The parent company and business units operate as self-sustained legal entities.
The parent company is afraid of losing efficient business units and its control over them; therefore, it should retain a controlling block of shares in these affiliated companies. On the contrary, it can put up inefficient businesses for sale either in full or in part.

In this case, a possible solution is to sell non-controlling interest stakes in an effective business to raise additional funds and maintain control of their work. Another option is to sell property rights to other businesses without any restrictions.

Thus, funds are accumulated and directed to the development of effective businesses and the encouragement of their managers.

In addition to the above-mentioned methods for the allocation of financial responsibility centers and self-sustained business units, there are other restructuring methods applicable to certain corporate activities (Table 2).

Table 2- Restructuring approaches and methods

<table>
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<tr>
<th>Approaches</th>
<th>Methods</th>
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<tr>
<td>An approach aimed at changing the distribution of property, increasing</td>
<td>– Disposal of assets</td>
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<td>the level of control, improving management, increasing efficiency and</td>
<td>– Divestment</td>
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<td>transforming the property complex.</td>
<td>– Write-downs</td>
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<td></td>
<td>– Asset conservation</td>
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<td>– Demises.</td>
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<td>An approach aimed at improving financial stability, preventing financial</td>
<td>– Acknowledgment of debt as invalid</td>
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<td>deterioration and overcoming crises.</td>
<td>– Debt deferral or debt installment with the subsequent repayment</td>
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<td></td>
<td>– Debt repayment with minimum costs</td>
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<td>– Liability buyout with the subsequent claiming</td>
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<td>– Various forms of dismissing/reducing employees.</td>
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<td>An approach aimed at increasing the competitiveness of products,</td>
<td>– Strengthening strategically important activities through business</td>
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<td>production or an enterprise as a whole, the production of innovative</td>
<td>acquisition</td>
</tr>
<tr>
<td>products, the creation of additional value and its growth.</td>
<td>– Excluding non-priority, unprofitable and non-key activities</td>
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<td></td>
<td>– Improving the structure of a business portfolio.</td>
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4. Discussion

The study of restructuring directions, approaches and methods creates a coherent system for making fundamental changes. This is especially relevant in the post-coronavirus period when the number of insolvent companies and enterprises increases. Thus, many enterprises will have to optimize their assets, adapt their structure, etc. However, scholars studying the restructuring process do not pay enough attention to any changes in intangible assets. The restructuring of intangible assets should be considered within business and property restructuring but the topic is so important and extensive that should be analyzed in separate research.

Russian society has not developed a competent attitude to the management of these resources. Their share is up to 90%, including unaccounted or incorrectly accounted intangible assets. This phenomenon and its reasons have been described many times but there is still no real awareness of all the advantages provided by business restructuring. However, we cannot but mention a significant breakthrough in certain areas of intangible asset management, business reputation management, demanded business and law enforcement practices. This paper considers the project approach as a means to systematize intangible asset management and form an effective model from uncoordinated management. We examined the existing scientific studies, the best practices of the Russian and foreign business structures. While working on the article, we used empirical and analytical methods to put forward several hypotheses. The results can be used by multi-purpose enterprises.

The studies we conducted proved that the most common issues related to the restructuring of intangible assets are the brand, public image and business reputation of enterprises, trademarks and the protection of the owner's rights, i.e. direct and indirect consequences of the circulation of counterfeit goods. As a result, we developed a hypothesis that the systemic restructuring of intangible assets will support the development of companies in the world after coronavirus waves and the related inter-company crises. However, the topic is broad and requires a separate study. Summing up, there are various types of restructuring, whose need does not require additional argumentation. These include debt restructuring, the disposition of non-core assets, organizational restructuring with the redistribution of functions and powers, the analysis and restructuring of product ranges and the closure of unpromising studies, the introduction of new technologies and materials.

5. Conclusion

This research has both scientific and practical use. Its study results can be used in the development of future restructuring projects. Specific features of an enterprise and its external environment form a priority set of restructuring directions and methods. The latter aim at solving the
key problems and achieving the assigned tasks. We can predict that restructuring affects all market participants, government agencies and non-profit organizations. Restructuring requires the necessary resources, optimum timing and executive teams, i.e. restructuring should be conducted as a project, managing deadlines, stakeholders, budgets and other aspects. The new structure should be based on the systemic management of intangible assets, new technologies, public image and means of corporate individualization.

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