

REASONS FOR RESTRUCTURALIZATION AND APPROACH TO ITS MANAGEMENT IN SLOVAK ENTERPRISES

Andrea Sujová

Technical University in Zvolen, Slovak Republic

Abstract

Slovak enterprises used to consider the restructuralization process in crisis situation. However the enterprise's restructuralization can be considered as a way for securing the sustainable development. In present time the restructuralization has become a tool enabling reevaluation of present enterprising activities and to relocate sources towards increasing the enterprise performance. The paper is focused on reasons for restructuralization in enterprises especially in Slovakia and on approach to management of restructuralization. In paper the attention is paid to approach applied in Slovak enterprises and to process approach considered to be more effective than function approach.

Key words: restructuralization, process management, sustainable development, crisis.

Intorduction

Among basic strategic goals of each enterprise the ability to be competitive on the market belongs. The matter of restructuralization has been contemporary in Slovak enterprises high actual because it seems to be only one way to reach new competitive advantages according to requirements of globalized market and to long-term and sustainable enterprise development [8]. Restructuralization presents a complex system of changes in all company departments and processes requiring change including not only cost reducing but optimalization of all elements and processes allied to change of thinking, work procedures, company culture.

Restructuralization of enterprise is a process of changes in particular company departments directing to securing the next successful development and long-term prosperity Restructuralization content are complex changes including relatively independent but inseparable and interlocking components: technical, organizational, methodical and social changes.

The aim of restructuralization in enterprise practise is usually cost reducing, labour productivity growth, added value and profit increase and improving an internal communication. The aim of restructuralization should be in compliance with strategy a strategic goals determined by enterprise. For the main aim of restructuralization we consider competitiveness and performance increase, securing the key success factors of an enterprise and thereby the conditions for its long-term prosperity.

1. Reasons for restructuralization

Restructuralization in traditional understanding is considered for solution of crisis situation in an enterprise. However, it is important to emphasize that restructuralization shouldn't be connected only with crisis situation in enterprises. Restructuralization processes can be performed also in enterprises without having problems but with reaction to permanently changing conditions of environment in effort to increase their competitiveness.

To decision for restructuralization the enterprise is conducted by several grounds evocating a change need. Authors of scientific literature Borovský, Tetřevová, Šmída [1, 5] and experiences with restructuralization changes in enterprises mention the following grounds:

Crisis – the first, classic ground the enterprise crisis is which endangers its prosperity, stability and existence in the future. This situation should be solved radically.

Problems – an enterprise has to solve less emergent problem situations appearing during operating because in case of their insolving they can lead to crisis situation.

Prevention – an enterprise can decide for restructuralization also in period without problems but management staff has sufficiency of foresight and it realises the possibility of appearing the problems and it tries to avoid them.

Opportunities – an enterprise tries to take chance on market and restructuralization considers as a opportunity to fasten a leading position on market and step before competition.

Competition benchmarking – changes are motivated by situation of competitors through

systematic evaluation of enterprise position towards competition.

Manager's vision of future – impulse for re-structuralization is a subjective vision of leader but it depends on ability of leader to anticipate future development in chosen enterprising area.

Changes in customer requirements are for an enterprise impulse to change realization in effort to keep regular customers and to achieve their satisfaction in changed conditions.

Requirement of foreign investor - foreign holder enforces changes in accordance with strategy and skills in mother company.

Grounds for restructuralization can be classified as follows:

External and internal grounds:

- Among *external grounds* belong: market opportunities and threats, competition benchmarking, changes in customer requirements.
- As *internal grounds* are considered: crisis and problems in enterprise, prevention, vision of management, requirement of foreign investor.

Negative and positive grounds:

- *Negative grounds are:* crisis and problems in enterprise, market threats, competition benchmarking.
- *Positive grounds are:* prevention, management vision, market opportunities and customer requests.

	Negative grounds	Positive grounds
External grounds	Market threats Benchmarking	Market opportunities Customer requirements
Internal ground	Crisis Problems	Prevention Vision of management Investor requirement

Fig. 1. Grounds for restructuralization

Research in Slovak enterprises focused on grounds for restructuralization showed following mostly appearing grounds:

- **Ownership change** has been in each case a ground for restructuralization. The character of restructuralization used to be administrative-organizational.
- **Crisis situation in enterprise** – unfavourable results endangering next existence of enterprise
- **Requirement of foreign investor** – foreign owner enforces changes in accordance with his strategy and experiences from mother company.
- **Legislative changes** – the main ground is to adapt to changed legislative requirements, rules and regulations.

2. Approaches to management of restructuralization

The present theory and practice provide for enterprise's restructuralization two different approaches: traditional functional and process approach [6].

In the long term used management system in most of enterprises the **functional management** has been. Enterprises consist of functional structures that perform partial elements of total processes. Functional management is based on division of labour and specialization and there are created specialized organs providing particular management functions [3]. Traditional, functional approach comes out the principles of function management therefore it is based on clear procedures and instructions from up to down. It is focused on measurable and quantificational results. Functional approach is focused on measurable and quantificational results. It comes out

analysis of company economy and its aim is to slim of enterprise towards better prosperity. Arrangements are directed to improvement of economic indicators like cost reduction, profit and labour productivity increase. This approach is solving only consequences of crisis rise and it is not able to be flexible in fast changing environment. The result is loss of dynamics, contact with customers and orientation on internal problem of enterprise. Continual sliming of enterprise can result in such company weakening that disables to come at growth phase.

Process approach to restructuralization goes out principles of process management focused on horizontal management of an enterprise through processes. Process system is operating on following principles:

- Principle of alternative procedures – choice from more possible procedures.
- Team cooperation – involvement and motivation off all workers on results.
- Lean management structure – competences and responsibility for result in each process.
- Jointly perceived success or failure – better employee morale, cooperation and communication.
- Orientation to customer – creation of added value for customer.

Within process approach *two conceptions* exist:

Continual improvement – never ending process whereat repeating small improvements in production and trade processes are achieving and company is becoming more competitive. This conception can be applied in functional enterprises without permanent problems. Among methods of continual improvement belong:

- **KAIZEN** (*kai = change, zen = better*), that means a change to better; it is going on team improvement focused on serial and sustainable improvement of work and working procedures in all areas and all levels.
- **TFM** (*total flow management*) is considered for new KAIZEN model including

not only production but also complete supply chain and its aim is to shortening a total running time in complete supply chain.

- **TQM** (*total quality management*) is characterized as a conception of quality management oriented in all phases of product life-cycle on customer satisfaction, respecting its different requirements by insisitng on permanent increasing the quality of products and services.
- **JIT** (*just in time*) is synchronisation of production operations, purchasing needed raw-materials and delivery of products according to real needs and their time flow.
- **Lean production**: maximal simplification of all production procedures, elimination of all activities with possibility of chepar purchase.
- **Patching** is a method of proactive, periodic restructuralization with aim to optimalise using the enterprise sources by appearing the market opportunity.

Reengineering – radical change of company processes in purpose to dramatic efficiency improvement. The main principle of reengineering is identification of outdated rules, methods and processes and their radical change to new, more effective. After I. Mašín [2] a need to perform reengineering has risen if difference between planned, target value and achieved one is more than 10%. Reengineering process includes 3 levels:

- **Work process reengineering - WPR**: change of proceses in production and data processing,
- **Business process reengineering - BPR**: change of enterprising processe in relation to environment (adapting to economic environment),
- **Business reengineering - BRE**: radical redefinition of goals and functions of whole enterprise, strategic change of enterprising direction.

Table 1. Basic characteristics of approaches to restructuralization

Parameter	FUNCTION APPROACH	PROCESS APPROACH	
	The slim of enterprise	Continual improvement	Reengineering
<i>premise</i>	negative economic results	healthy process	defecting process
<i>outlet</i>	economic analysis	detailed process analyses	lterative proposal
<i>width</i>	all functional levels	existing small process	whole company process

(continued)

Parameter	FUNCTION APPROACH	PROCESS APPROACH	
	The slim of enterprise	Continual improvement	Reengineering
<i>method</i>	cost reduction	TQM, KAIZEN, JIT	innovations - change management
<i>technique</i>	implication identification	identification of reasons	rules refracting
<i>aim</i>	better prosperity	upgrade of process output	process redesign

Present situation of solving the management of restructuralization issue *in Slovak enterprises* has been analyzed through questionnaire research in 56 small and medium enterprises from production branches. Research came to result that approach to restructuralization applied in most of Slovak enterprises is functional and the changes are performed only in case of critical financial situation. It is proved by next facts:

- 72% enterprises come out the financial situation detected by financial analysis and changes are performed only by critical financial situation.
- Enterprises don't regard the competition, none enterprise analyses competition by decisions about changes realization.
- The main grounds for changes were: low production efficiency (100%), negative economic result in 72% and low labour productivity in 60%. Insufficient competitiveness, innovation need were grounds of middle importance.
- Solution of named problems consisted of employees reducing (in 88%), assortment structure optimalization (in 80%), production increase (in 48%).
- To solve the problems in enterprise by change realization – to achieve a positive result was succeed only in some enterprises: to upturn the economic result in 55%, to reach higher satisfaction of customers in 33% and to increase production quality in 43% enterprises.
- Long-term positive effects have been achieved in enterprises (72%) focused on small number of areas (2 – 3) where more changes have been performed.

3. Arguments for application of process approach to restructuralization management

Application of functional management instruments in present time in fast changing environment has not been effective what is reflected by the characteristics and features of functional management which are considered as its disad-

vantages in comparison with other management systems and also by research results in enterprises focused on grounds for implementation of process management that are realization of total strategic change in effort to achieve flexibility in reaction to changes in external a internal environment, implementation of quality management system ISO, keeping the quality according to ISO standards, simplification of management system.

Restructuralization is a process and that is main reason why a process approach to restructuralization of enterprise is a necessary prerequisite for its realization. Also enterprises successfully passed a restructuralization process confirmed that the basic prerequisite of successful restructuralization the process approach is. It means focus on changes in processes and eliminating the reasons of negative results.

Restructuralization based on processes brings to enterprise several measurable and negligible effects. Among main contributions of process restructuralization belongs:

- detecting reasons of negative results: assign effective and ineffective processes and get rid of unnecessary activities and development of effective activities,
- adding evidence about objective exploitation of enterprise sources: it helps to detect reserves and to increase business performance by optimal costs,
- insuring the measurement and evaluation of customer, products and market segments profitability, help to recognize enterprise from customer view,
- measurement of results in relation to business strategy,
- effective cost reduce (on right places, in right scale),
- gaining the flexibility in adapting to changes on market that means to gain a main competitive advantage on globalized market.

Conclusion

The permanent development is conditional to successful restructuralization of business

processes. Except emphasis on production quality the enterprises have to insist on quality and effectiveness of processes. Needed changes should be performed in way to achieve desired effects in the long term.

The large number of Slovak enterprises understands the restructuralization as the process connected with change of owners or as a process focused on cost reducing in effort to improve financial indicators and that is why the most frequent ground for restructuralization is the crisis situation in the enterprise. Experiences of foreign enterprises confirm that restructuralization can be a way to reaching competitive advantages on market and to increasing the competitiveness and performance. The main ground for restructuralization has been becoming utilization of market opportunities or changes in customer requests.

Success of business restructuralization depends on choice of suitable approach and methods of restructuralization management. Slovak enterprises by deciding for change realization apply the functional approach – they have gone out financial situation and by restructuralization they have been trying reduce the costs and improve economic results. Functional approach doesn't enable find and eliminate the reasons of negative results that is why the effects of restructuring changes were not sufficient and restructuralization was failed.

Experiences of Slovak enterprises performing functional approach to restructuralization proved that required effects were not achieved

or were only short-timed. Solution for successful restructuralization is process approach to management of restructuralization.

Acknowledgement

This paper was processed in the frame of the project No. 1/0151/10 as the result of author's research at significant help of VEGA agency, Slovakia.

References

1. Borovský, J. *Manažment zmien – cesta k rastu konkurencieschopnosti*. Bratislava. Eurounion. 2005. 142 s. ISBN 80-88984-66-1.
2. Mašín, I. *Kontinuální zlepšování nebo reengineering?* In: *Moderní řízení*. č. 9/1994. s.8–12. ISSN 0026-8720.
3. Rašner, J., Rajnoha, R. *Nástroje riadenia efektívnosti podnikových procesov*. Vysokoškolská učebnica. Zvolen. TU Zvolen. 2007. 286 s. ISBN 978-80-228-1748-6.
4. Sujová, A. *Aspekty reštrukturalizácie drevárskych podnikov*. Vedecká monografia. Zvolen. TU vo Zvolene. 2005. 68 s. ISBN 80-228-1543-8.
5. Tetřevová, L. *Finanční reštrukturalizace firmy. Študijné texty*. Pardubice. Universita Pardubice. 2005. 123 s. ISBN 80-7194-788-1.
6. Truneček, J. *Reštrukturalizace: funkční kontra procesní přístup*. In: *Moderní řízení*. č. 8/1997. s. 29–33. ISSN 0026-8720.
7. Truneček, J. *Reštrukturalizace řízení malých a středních podniků*. In: *zborník z MVK. Ekonomika firiem 2000*. Košice. PHF Košice. 2000. s. 624–632. ISBN 80-225-1308-3.
8. Zaušková, A. *Riadenie inovácií*. VŠ skriptá. Zvolen. Bratia Sabovci. Zvolen. 2002. 220 s. ISBN 80-89029-34-5.