

STRATEGICAL RESTRUCTURING AS A WAY OF CHANGE MANAGEMENT

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Abstract

The article answers the question why a concept of change management is topical today and examines a restructuring as a possible way of change management, there are sorted out numbers of features allowing to classify a restructuring regarding a concept of change management, In the paper are considered possible definitions for “strategical restructuring” and a definition proposal in the movement of change management. The paper explores a life cycle and its influence on strategical restructuring process. Taking a decision about strategical restructuring it is important to understand that the main goal of this process is shareholder wealth maximization. The article investigates an agency problem - an issue concerning interest’s adherence of certain stakeholder groups, determines their possible reasons of resistance. In the end of the paper there is considered a list of the information to be analyzed before starting a strategical restructuring program, and there are made conclusions concerning possible consequences if one decides to start restructuring without influence assessment of certain factors.

Keywords: change management, restructuring, shareholder wealth maximization, stakeholder, life cycle.

JEL Classification: G34.

Introduction

The subject of an inquiry is a strategical restructuring as one of the ways of change management.

The objective of the paper is a study of some theoretical issues having a substantial practical importance for enterprises.

The methodological base of the paper are scientific works dedicated to theoretical problems of restructuring, works of practicing consultants and some knowledge observed by author of this paper while working for a company, twice experienced strategical restructuring.

The research methodologies used in the paper are: analysis, comparison and synthesis.

Issues concerning change management were investigated by such authors as Drucker P.F., Kameron E., Duck J. D., Gouillart Francis J., Kotter, J.P. (Drucker, 2007; Kameron, 2006; Duck, 2003; Gouillart, 2000; Kotter, 2009).

The importance of change management concept today is determined by the fact that many researchers point out that problems and their decisions are an integral part of our life. For example, Drucker says that problems we will face tomorrow are quite different comparing with problems we have today. We live in an epoch of deep changes which by their scale and possible consequences may be compared with Great Depression and World War II. The most problems are caused by swift changes in all contemporary life. It means that there is a necessity in substantial change of previous strategies in all areas (politics, economics etc.). (Drucker, 2007)

Kameron E. writes that we live in a world that is constantly changing. It seems that there every day happens a new important invention. Economics of globalization dominates in political and corporate thinking. (Kameron, 2006)

Adizes I. K. indicates that each problem or a favorable possibility, caused by a change, leads to a decision which generates even more substantial change. As a result, we will face with a new situation and a new set of problems or favorable possibilities.

So, the problems and possibilities will arise till there are changes in the world.

All organizations have a life cycle: they are born and develop and, if their management doesn’t know what to do in the future, they die. (Adizes, 2010)

The changes will occur with a greater speed and to be in advance of these changes mean to be alive for the organizations.

One of the ways to make changes is a restructuring.

What is a strategical restructuring and what it is necessary for?

The Figure 1 presents a classification scheme worked out by author allowing to pick out a strategical restructuring.

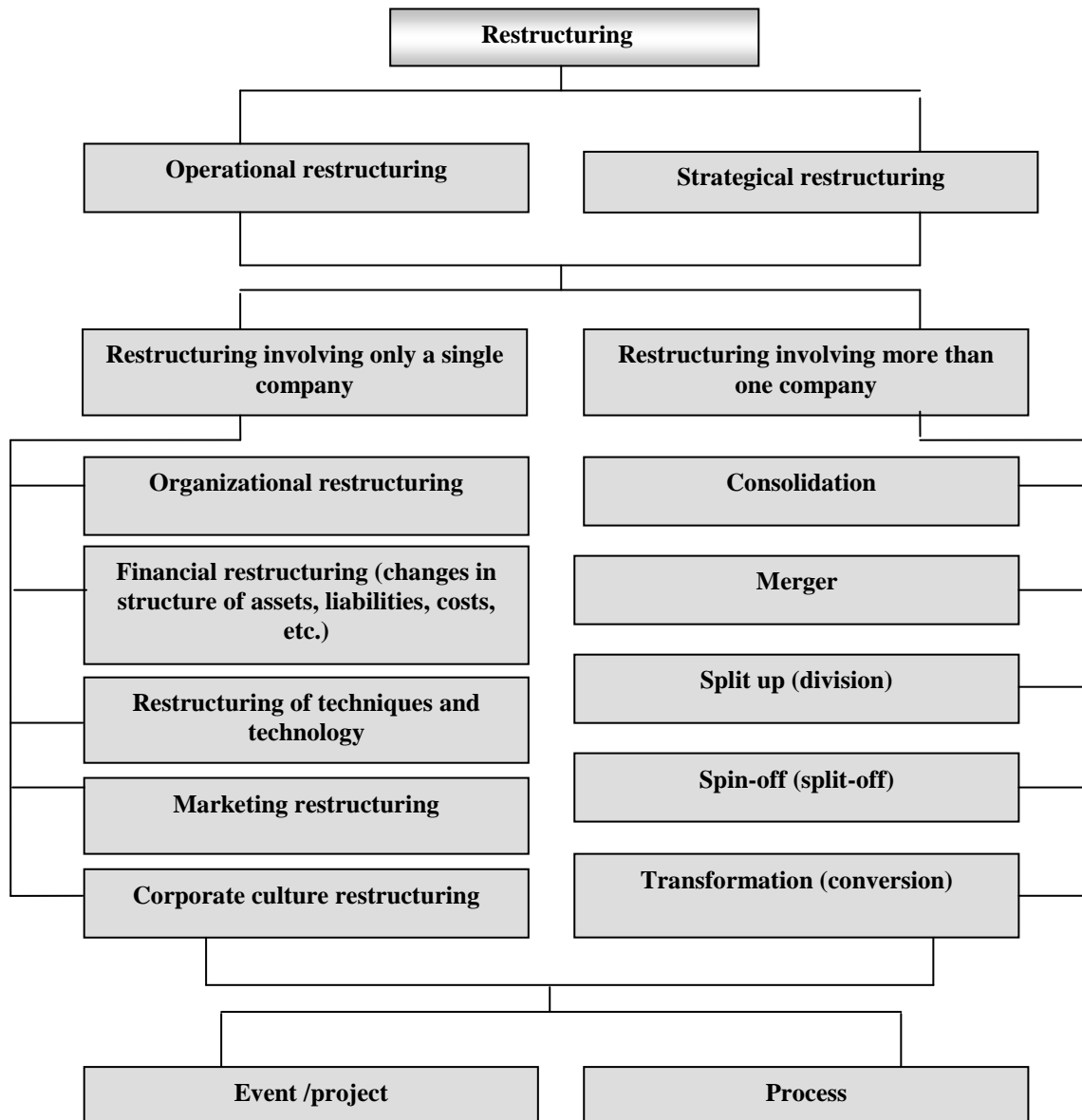


Figure 1. Classification scheme of restructuring

In some sources, dedicated to restructuring issue one differentiates two types of restructuring: a) an operational restructuring (in some sources – restructuring in the crisis situation) –it is used as a crisis-proof program; b) a strategical restructuring –it is used for enterprise maintaining (goals are to raise company's market value, competitive recovery etc.).

An operational restructuring is often called crisis restructuring and a strategical restructuring is called the restructuring of development.

An operational restructuring is more close to the concept of crisis management, when an owner faces such problems as non-payments, share of the market loss. In this case it is necessary to start changes immediately for improving the situation.

The concept of a strategical restructuring is more difficult and this term is not so definite.

Either strategical or operational restructuring may be classified by the sphere of the changes to be implemented:

1. Connected with the changes in the external structure of the company (consolidation, merger, etc.) – there is involved more than one company;
2. Connected with the changes inside the company – there is involved a single company in the process of restructuring. It is proposed to classify changes inside the company according with possible object of management.

Each change in the enterprise may occur as an event or as a process. Each event may generate more radical changes, so it is a constant process of changes monitoring, their analysis and following implementation that may be the smoothest way of restructuring. Based on this, it is possible to define strategical restructuring as following: strategical restructuring is a constant process of change aimed at shareholder wealth maximization taking place in the each phase of life cycle, having a concrete goal and aimed at shareholder wealth maximization subject to stakeholder influence. So, it is possible to mark out three basic conceptions describing strategical restructuring: a goal, a phase of life cycle and a stakeholder influence.

To determine a final goal of the restructuring process is a very important factor. These goals should correspond to criteria SMART (specific, measurable, achievable, result oriented, time bounded). It is advisable this goal to be documentary stated and coordinated with all possible stakeholders. To work out tactical steps is not the least of the factors as without resource availability allowing to ensure the fulfilment of a goal the goal becomes useless.

Enterprise life cycle and its influence on restructuring process

There is a considerable number of life cycle theories, but, from our point of view, the most complete and detailed theory was developed by Adizes I. K. This theory proposes 10 stages to be experienced by an enterprise, reasons of moving forward or staying on the certain stage. So, it is interesting to suggest possible directions of a strategical restructuring which may help to move forward if they are made on time.

Table 1. Adherence of life cycle stage and direction of strategical restructuring

№	Life cycle stage	Peculiarities and problems of the stage	Direction of strategical restructuring
1	Courtship	At this stage, the company is not yet born. It exists as a gleam in the founder's eye. The primarily goal of this stage is to build the founder's enthusiasm and commitment to this dream	Corporate culture restructuring
2	Infancy	Time for talking is over, it is time to get to work and produce results (sales and cash). This stage is attributed by active sales, absence of organization structure, norms and rules.	Corporate culture restructuring, marketing restructuring, financial restructuring (changing structure of assets, liabilities, costs, etc.)
3	Go-go	Self-confidence, Sales drive the ship, Everything is a priority Insufficient cost controls.	Organizational restructuring, financial restructuring (changing structure of assets, liabilities, costs, etc.), restructuring of techniques and technology, marketing restructuring.
4	Adolescence	Heated conflicts between partners and management, unsystematic delegation of authority, absence of control.	Organizational restructuring
5	Prime	Insufficient managerial depth.	Organizational restructuring, financial restructuring (changing structure of assets, liabilities, costs, etc.), restructuring of techniques and technology, marketing restructuring, corporate culture restructuring.
7	Stable (aging)	When people begin to age, the initial signs aren't apparent in their actions or bodies. Aging starts in their minds with subtle changes in attitude, goals, and their outlook on life. This is also true for companies. When an organization starts to age, the first place the symptoms appear is in the attitudes, outlook and behaviors of its leaders. The company is strong, but it is starting to lose flexibility. More and more, people are adhering to precedence and relying on what has worked in the past. Order and predictability prevail.	Organizational restructuring, financial restructuring (changing structure of assets, liabilities, costs, etc.), restructuring of techniques and technology, marketing restructuring, corporate culture restructuring.

8	Aristocracy	A company has reduced expectations for growth, a conservative uniformity of dress, employees address each other formally Focus is made on past achievements rather than future visions.	Organizational restructuring, financial restructuring (changing structure of assets, liabilities, costs, etc.), restructuring of techniques and technology, marketing restructuring, corporate culture restructuring.
9	Early Bureaucracy	People focus on who caused the problems, rather than on what to do about the problems. Problems get personalized. Rather than dealing with the organization's problems, people are involved in interpersonal conflicts, backstabbing, and discrediting each other. Personal survival and turf wars absorb all available energy leaving precious little to deal with the needs of customers or the world outside the organization.	Organizational restructuring, financial restructuring (changing structure of assets, liabilities, costs, etc.), restructuring of techniques and technology, marketing restructuring, corporate culture restructuring
10	Bureaucracy	A company has many systems and rules and runs on ritual, not reason. A company has leaders who feel little sense of control. It is internally disassociated; it creates obstacles to reduce disruptions from its external environment, forces its customers to develop elaborate approaches to bypass roadblocks.	Organizational restructuring, financial restructuring (changing structure of assets, liabilities, costs, etc.), restructuring of techniques and technology, marketing restructuring, corporate culture restructuring
11	Death	Death occurs when no one remains committed to sustaining the organization	Corporate culture restructuring

As shows Table 1, it is a Courtship, an Adolescence and a Death that require a certain direction of a strategical restructuring, other need comprehensive and integrated approach to change management that seriously complicates the process of restructuring.

How to raise shareholder wealth and not to lose while implementing strategical restructuring?

The main goal of a strategical restructuring is shareholder wealth maximization. Shareholder wealth maximization is an ordinary share market value and is considered in a long-term perspective. At the first glance it is possible to think that shareholder needs are of primary importance. But it is necessary to look at the enterprise as a coalition of different groups of interests having their "share" in the enterprise.

A Figure 2 shows different groups to be considered as stakeholders.

It is possible to come to the conclusion that satisfaction of stakeholder needs often corresponds with a necessity of shareholder wealth maximization. For example, a failure to satisfy employee's needs may lead to a less productivity, strikes etc. and have quite negative consequences for shareholders and enterprise. A certain interconnection in this issue leads to a proposition that stakeholder needs are to be considered as limitations and it is necessary to maximize a shareholder wealth within the framework of these limitations. (Atrill, 2006)

According to experience of consultants working in the sphere of organizational changes, the process of restructuring won't be successful if it supposes just schemes, plans and projects. Unfortunately, researches showed that organizations pay less attention to employees in comparison with other business field. A system of organization and finance are given twice more time than a staff. Anyone who dealt with restructuring knows that it is necessary to take into account much more factors. The main role plays politics, psychological needs of managers and employees. It is necessary to be sure that the process of restructuring will allow company to try something new and it won't be a way of unfounded structure change. (Kameron, 2006)

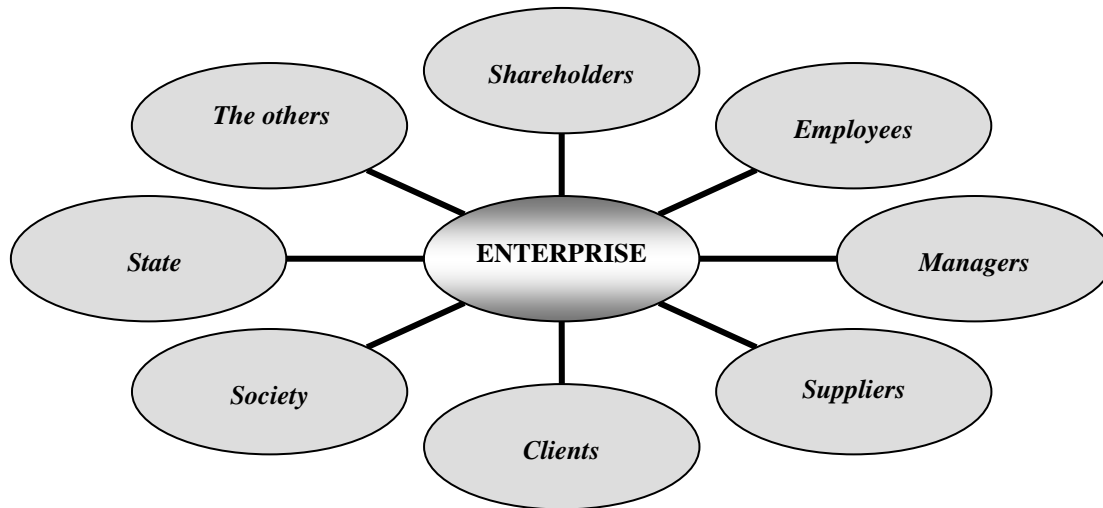


Figure 2. Stakeholders of the enterprise

In spite of the fact that such conclusions make almost all researchers, investigating restructuring issue, they are ignored by shareholders and a company management. There is no doubt that coming only under stakeholder's influence even to the damage of enterprise is not a right decision, but not to take their influence is a mistake leading at the minimum to failure of restructuring process and at the maximum to enterprise bankruptcy.

Conclusion

Before starting the process of restructuring it is necessary to have following information:

1. A reason and a goal of changes. It is absolutely unreasonably to implement restructuring just for restructuring, it will lead to waste of money and time;
2. What phase of life cycle the company is experiencing now;
3. The influence of what group of stakeholders is considerable.

In conclusion it is necessary to say about possible consequences if one decides to start restructuring without assessment of influence factors (a goal of changes, stage of life cycle and knowledge about the influence of what group of stakeholders is considerable).

1. Replacement of organization to earlier phase of life cycle. It means that we don't take into account achievements of previous years and lose time;
2. Strategy diffusiveness. It means that we don't know where to go and what is more important for the enterprise today;
3. Loss of stakeholder's confidence and their walkout (loss of key employees, suppliers, client's etc.);
4. Loss of product market;
5. Loss of solvency;
6. Transfer to a crisis enterprise.

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