



MANAGING RESTRUCTURING PROCESSES OF SMALL AND MIDDLE SIZE ENTERPRISES

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Annotation

The article presents the management model for restructuring small and middle size enterprises (SME) specifying measures for improving strategic management, rationalizing management functions as well as controlling restructuring process and assessing influence of its results on SME competitiveness.

In this context as to justify the need for SME restructuring it is necessary, first of all, to evaluate the current efficiency of enterprise activity. The respective technique is proposed for enterprise efficiency evaluation in terms of strategic and functional management.

As to prepare the proper strategy for SME restructuring the author have determined and hence recommend the regularities for strategic decisions making towards restructuring as well as the ones for the rational selection of restructuring techniques. When executing SME restructuring author proposes to use the complex set of measures determined in order to ensure the reasonable efficiency of functions of the enterprise as well as its products. In order to ensure rational management of restructuring the respective technique is also proposed to control the execution of the considered process itself. It allows to evaluate the benefit of measures under implementation and to identify disadvantages as well as reasons thereof.

Finally, author recommends to evaluate the efficiency of SME restructuring respectively proposing the toolkit created thereof. This let as to evaluate the benefit of the executed changes within the enterprise as to identify the directions and actions needed to continue increasing the efficiency of the enterprise activity.

The paper reveals the benefit of use of the proposed model specifying all its phases to relevant techniques and actions, also confirming the prevailing flexibility when applying the model while characteristics of the complex of measures set under the latter can be adjusted to the specifics of SME and its business environment. While leading to greater possibilities to rationalize restructuring process, the model created by the author also provides an SME with prerequisites to improve the use and development of human, material and financial potentials with pivotal contribution to its sustained competitiveness even in a changing business environment.

KEYWORDS: small and middle size enterprise, restructuring, management, process, business development.

Introduction

In market economies, restructuring processes are continuous. Increasing competition, market dynamics, processes of integration and globalization affect all sectors of economic systems, causing business entities to adapt to dynamic target environment and shape it in order to remain resilient and competitive; therefore, restructuring is a prerequisite of economic systems. The last decades of the global economy (including the latest economic crisis) showed restructuring as related to a great risk due to its essentiality and extent; thus, it is vital both for SMEs and economic systems. The majority of studies (Meyer 1982; Devenow, Welch 1996; Taleb 2007; EIM 2010; De Kok *et al.* 2011; Canton 2012; EC 2013 (a)), however, cover issues of larger restructuring cases and focus less of SMEs, which represent more than 99% of European businesses and contribute to nearly 50% of global GDP (EC 2005). Yet by the definition¹ (EC 2005), data on SMEs is fragmented, limited and publicly unavailable. Consequently, scientific researches on SME restructuring are scarce and fragmentary. There has been no research to form the basis for preparation and effective implementation of economically justified SME restructuring programmes (plans) made until now. Having in mind the context, the paper synthesizes a vast spectrum of literature and empirical data in the attempt to

systematically approach this issue with specific focus on rationalization of SME restructuring processes as a complex. For this purpose, the author proposes the model for the management of SME restructuring programmes that allows to rationalize the management of restructuring process and the use of human, material and financial resources, which enables SMEs to identify, adjust and implement measures for reconciliation of controversial management methods in order to strengthen and balance interactions between strategic, tactical and operational tasks, and focus on permanent improvement of management systems of SMEs seeking for sustained competitive performance.

The Object of the Scientific Research is enterprise restructuring as a radical and rational way of reconstruction of enterprises in order to increase the competitiveness of enterprises.

Methods of the investigations are comparative analysis of the problem, synthesis, modeling.

Scientific Novelty and Practical Benefit. The solutions for SME restructuring are proposed in the paper. They create the possibility to rationalize restructuring processes and the use of human, material and financial potentials of an SME.

SME restructuring management model

Restructuring is subject to strategic management techniques used to rationalise the activity of an enterprise and resulting in essential changes of the corporate strategy and structure in pursuit of improvement of competitiveness in a clearly defined time outlook taking a multitude of proactive (e.g., planned redirection or growth) and reactive (e.g., avoiding “black swans”) forms (Hannan, Freeman 1984; Roll 1986; Scharfstein, Stein 2000; Tamošiūnas 2014).

The analysis of data gathered and processed, including empirical investigations and considering research results of various scientific investigations (Miller, Friesen 1982; Shleifer, Vishny 1989; Amburgey 1991; Jansen 2004; Jensen 2005; Beck, Bruderl 2008) on SME restructuring cases, allow defining SME restructuring management model (Fig. 1) more precisely in order to achieve its greater competitiveness.

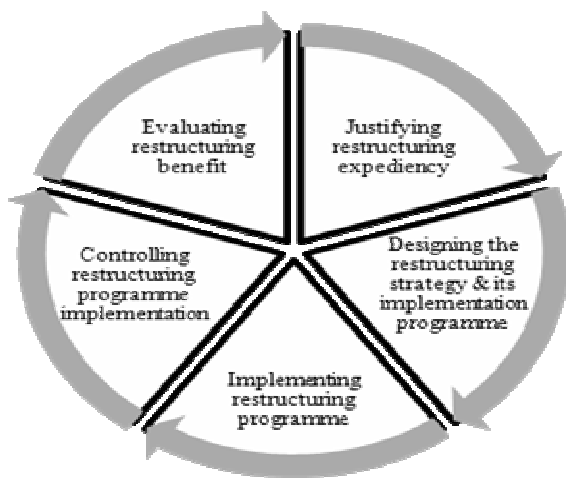


Fig. 1. SME restructuring management model

The model consists of the following phases composing the integral cycle of SME restructuring process: 1) justifying the restructuring expediency; 2) designing the restructuring strategy and its implementation programme; 3) implementing restructuring programme; 4) controlling restructuring programme implementation; 5) evaluating restructuring benefit. Each phase is specified in the following paragraphs.

Justifying the expediency of SME restructuring

First of all, in order to justify the expediency of SME restructuring, it is necessary to evaluate the current efficiency of SME activity, identifying strengths, weaknesses and possible threats for its competitiveness in the context of the current strategy and viability of its use. To solve this task, a wide spectrum of indicators of economic and financial analysis is often applied in practice including such techniques as SWOT, SPACE, various modifications of Balanced Scorecard and Boston Consulting Group Matrix (Gallup 2007; 4Results 2009; Kowalewska 2010; EC 2013 (b); Orłowski *et al.* 2010; Eurostat 2011, 2013; OECD 2013). Many qualitative indices are used in relation to these methods. These

indices are evaluated in conditional quantitative gauges (scores) that are subjective. In order to increase objectivity while evaluating enterprise efficiency, it is necessary to apply some of the above-mentioned methods (or their combination) and justify conclusions by synthesis of results received applying distinct methods.

Aiming to make rational use of possible merits of evaluation methods in cases of SME restructuring, it is proposed (when evaluating efficiency of enterprise activity) to apply the combination of techniques mentioned above in the order provided in Fig. 2.

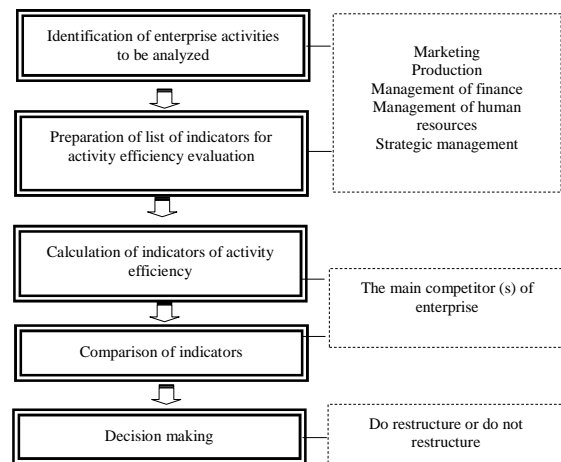


Fig. 2. Scheme for justifying the expediency of SME restructuring

It is proposed to divide the enterprise efficiency evaluation object into two parts: strategic management and functional management. The interaction between the strategic analysis, the use of resources, the strategic control and organisational management structure is evaluated in the strategic management part. Efficiency of marketing, finance, human resources and technologies/production is subject to functional management evaluation. The list of functional management activities may vary depending on SME business specifics (EC 2007; Deschryvere, Kotiranta 2008; EIM, Ikei Research and Consultancy 2009; Voss 2009; EIM 2010; IME GSEVEE 2012; Wymenga *et al.* 2012).

Having evaluated the activity efficiency following the above-mentioned criteria, the results of the activity efficiency of the main SME divisions are identified (weaknesses and advantages). Having compared the worst evaluated components of SME functional management with the respective results of competitors activity efficiency evaluation the conclusion on SME activity efficiency is formed. On the basis of this conclusion the decision is made with respect to the restructuring demand (Table 1).

When determining the level of efficiency dynamics, at least a 3-year business period is recommended for analysis. A longer business period is welcomed; however, it has to be reasonable as it causes additional expenditure related to deployment of necessary human, material and financial resources (KPMG 2007, 2009; BSMEPA 2011; Kitching *et al.* 2010, 2011; OECD 2013).

Table 1. Evaluating enterprise management efficiency

Management efficiency	Management efficiency of the main competitor (s)					
	Finance	Production	Marketing	Human resources	Strategic management	Result
Finance	Yes/No					Yes/No
Production		Yes/No				Yes/No
Marketing			Yes/No			Yes/No
Human resources				Yes/No		Yes/No
Strategic management					Yes/No	Yes/No
Conclusion	Do restructure / do not restructure					

If the efficiency results of at least two components of functional management object are worse than adequate ones of competitors, it is recommended to restructure the enterprise.

Designing the restructuring strategy and its implementation programme

Having identified the expediency for SME's restructuring, it is proposed to prepare respective strategy and its implementation programme according to the order set in Fig. 3.

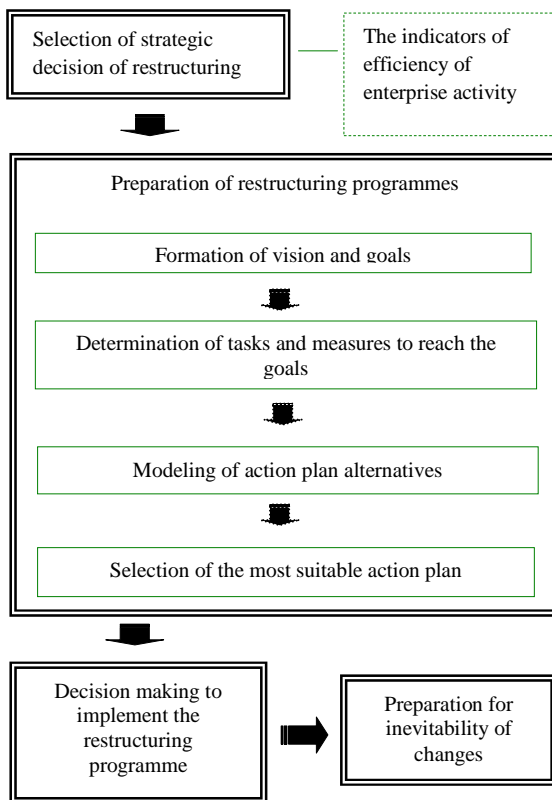


Fig. 3. Scheme of preparation process of enterprise restructuring strategy

When making SME restructuring decisions, it is necessary to assess restructuring reasons as well as goals relying on conclusions of enterprise activity efficiency evaluation. The executed analysis allows determining regularities (Anderson 2008; Mandl 2008; Cope 2011; Kontinen 2011; Sauka, Welter 2013) of SME restructuring decisions (Table 2).

Table 2. Restructuring strategy selection matrix

Enterprise restructuring strategy	Enterprise business strategy		
	Portfolio	Business family	Product
Horizontal integration			√
Vertical integration		√	√
Concentration		√	
Conglomeration	√		

When preparing the strategy and seeking for the best strategic decisions, it is necessary to analyse the possible results of alternatives of the considered strategy applying the technique of comparative analysis as well as techniques optimizing the decision making.

Restructuring programme

As SME restructuring is subject to strategic management techniques, it is based on the programme (or plan) of objectives and their tasks aimed at changing SME activities, covering the complex of related measures and ways, which content-wise are similar to the programme for the implementation of the corporate strategy at tactical and strategic levels of enterprise management.

In the context of research results, the following aspects are considered the main with respect to the content of SME restructuring programme (CSO 2008; Kelly *et al.* 2011; Bosma, Amoros 2013; Tamošiūnas 2013, 2014):

- enterprise activity objectives (long and short-term);
- alternatives of restructuring decisions, restructuring techniques, validity of their application;
- the demand for human, material and financial resources and other assets necessary for their application;
- the possible benefit of the strategy to the enterprise (if implemented) and risk factors that may reduce this benefit;
- changes in the organisational management structures required in order to implement the strategy;
- necessary changes in human resources (staff reduction, recruitment, change in functions, authority and responsibility);
- changes in functional strategies (concentrating on departments and divisions with the lowest efficiency level);
- forecast of restructured SME activity results and their comparison with expected results of competitor activity;
- restructuring strategy implementation plan, indicating tasks to be solved and persons as well as divisions responsible for execution of tasks (including time schedules).

As for determined regularities (Table 3), selection of the restructuring technique depends on SME restructuring goals. Their application is recommended during the design of the programme.

The restructuring type (Table 3) is selected depending on the significance of disadvantages and advantages of the enterprise, which are identified during the evaluation of enterprise activity efficiency.

Table 3. Matrix for selection of techniques for implementation of restructuring strategy

Restructuring techniques	Restructuring purposes						
	Business expansion and/or development	Maintenance of market share	Over-capacity	Portfolio management	Rationalization of management	External restructuring	Internal restructuring
Merger	✓	✓	✓	✓	✓	✓	✓
Acquisition / takeover	✓	✓	✓	✓	✓	✓	✓
Joint venture formation	✓	✓	✓	✓	✓	✓	✓
Selling equity share of enterprise/its business unit to the third party	✓	✓	✓	✓	✓	✓	✓
Formation of subsidiary	✓	✓	✓	✓	✓	✓	✓
Enterprise split-off (business unit sell-off, winding-up)	✓	✓	✓	✓	✓	✓	✓
Enterprise liquidation	✓	✓	✓	✓	✓	✓	✓
Equity interchange between mother enterprise and its subsidiary	✓	✓	✓	✓	✓	✓	✓
Partial takeover	✓	✓	✓	✓	✓	✓	✓
Changes of owners authority	✓	✓	✓	✓	✓	✓	✓
Changes of management authority	✓	✓	✓	✓	✓	✓	✓

Making the decision regarding the implementation of the programme, it is proposed to evaluate the restructuring programme using the following criteria: 1) financial capacity; 2) enterprise business development potential; 3) product competitiveness; 4) productivity of technologies and production; 5) labour productivity; and 6) market share.

Having made the decision to restructure the SME, it is necessary to prepare the enterprise for inevitability of changes. In this respect, proper combination of strategic priorities of enterprise activity as well as the support of relevant (the theory of tipping points (Gladwell 2000) functional managers and employees will contribute to the success of SME restructuring.

One of the first tasks of restructuring programme implementation is to renew strategic management system. The second task is to rationalize enterprise management in terms of efficiency increase of its business strategy and its functional strategies. Next follows the execution of the programme tasks at the level of enterprise functional departments and business units.

Controlling the implementation of the restructuring programme

Aiming to rationally manage the implementation of the restructuring programme and achieve the maximal benefit, it is necessary to ensure a rational implementation of restructuring measures. It is proposed to execute this task with the help of the technique (Table 4), which allows evaluating the benefit of measures under implementation and identifying application disadvantages and their reasons.

Table 4. Evaluation of measure benefits during the implementation of restructuring

Task	Planned benefit	Benefit of application of measures under implementation				
		Independent experts	Employees	Managers	Owners	Final result
1	2	3	4	5	6	7
1. Managers actions creating and improving management system	a_{1i}	a_{1e}	a_{1d}	a_{1v}	a_{1s}	$(a_{1e} + a_{1d} + a_{1v} + a_{1s})/4$
2. Product and service management	a_{2i}	a_{2e}	a_{2d}	a_{2v}	a_{2s}	$(a_{2e} + a_{2d} + a_{2v} + a_{2s})/4$
3. Customer relations management	a_{3i}	a_{3e}	a_{3d}	a_{3v}	a_{3s}	$(a_{3e} + a_{3d} + a_{3v} + a_{3s})/4$
4. Management of external partnerships	a_{4i}	a_{4e}	a_{4d}	a_{4v}	a_{4s}	$(a_{4e} + a_{4d} + a_{4v} + a_{4s})/4$
5. Management of financial resources	a_{5i}	a_{5e}	a_{5d}	a_{5v}	a_{5s}	$(a_{5e} + a_{5d} + a_{5v} + a_{5s})/4$
6. Management of long-term assets	a_{6i}	a_{6e}	a_{6d}	a_{6v}	a_{6s}	$(a_{6e} + a_{6d} + a_{6v} + a_{6s})/4$
7. Technology / production management	a_{7i}	a_{7e}	a_{7d}	a_{7v}	a_{7s}	$(a_{7e} + a_{7d} + a_{7v} + a_{7s})/4$
8. Management of information and knowledge systems	a_{8i}	a_{8e}	a_{8d}	a_{8v}	a_{8s}	$(a_{8e} + a_{8d} + a_{8v} + a_{8s})/4$
9. Management of human resources	a_{9i}	a_{9e}	a_{9d}	a_{9v}	a_{9s}	$(a_{9e} + a_{9d} + a_{9v} + a_{9s})/4$
Total value of results by evaluation group		$\sum a_{ie}$	$\sum a_{id}$	$\sum a_{iv}$	$\sum a_{is}$	$\sum (a_{ie} + a_{id} + a_{iv} + a_{is})/4$

If comparison of the results regarding the application of restructuring measures under implementation in enterprise departments and business units (both in qualitative and quantitative terms) with the planned ones set in the restructuring programme arrives to a conclusion that the benefit of those measures is not sufficient, it is necessary to ascertain the reasons for disadvantages of applied measures and formulate possible alternative solutions in order to change or improve the restructuring measures.

Restructuring benefit evaluation

No specific method for evaluation of the effectiveness of restructuring was found in literature. It was observed that usually ordinary methods for analysis and evaluation of effectiveness of an enterprise activity are chosen, although the concept of competitiveness is used often. In this respect, literature presents a vast system of indicators. Having summarised possible indicators for evaluation of the effectiveness of restructuring, the respective model (Tamošiūnas 2014) was proposed, which generalised the expression as follows:

$$E_R = f(E_1, E_2, E_3, E_4, E_5) \geq E^0 = f(E^0_1, E^0_2, E^0_3, E^0_4, E^0_5)$$

where E_R — the benefit of restructuring (e.g., the respective programme and/or the action plan); E_1 — product competitiveness; E_2 — enterprise productivity; E_3 — market share; E_4 — business development potential; E_5 — financial capacity; $E^0_1, E^0_2, E^0_3, E^0_4, E^0_5$ — indicators of product competitiveness, enterprise productivity, market share, business development potential, financial capacity of enterprise activity when restructuring programme (or respective action plan) is not implemented; E^0 — enterprise activity effectiveness when restructuring programme is not implemented.

In the context of the model stated above, the calculated indicators for the enterprise with implemented restructuring programme are compared with the respective ones determined for the enterprise when restructuring programme is not implemented.

It is proposed to use the following principles when evaluating effectiveness of restructuring programmes under the above described model:

the results of restructuring can be considered satisfactory when there is only one indicator less and there is also at least one higher than the respective ones of the enterprise when the restructuring programme is not implemented;

the results of restructuring can also be considered satisfactory when there are at least three indicators, values of which are higher than the ones of the enterprise when the restructuring programme is not implemented.

Other modifications are proposed to be defined as subject to non-satisfactory results of restructuring.

The proposed principles of assessment of restructuring results present a possibility to determine the minimal necessary level of the benefit of implemented restructuring measures and evaluate the effectiveness of each management area of any SME in question.

Conclusions

The proposed model for management of SME restructuring programmes gives the following possibilities:

to justify the need for restructuring, identifying and evaluating possibilities to increase efficiency of SME activity and its development as well as the perspective of its strategy within the context of sustained competitive advantages;

to prepare the programme for SME restructuring determining restructuring strategy and ways for the increase of efficiency of enterprise activity, rationalizing the use of human, material and financial resources and creating possibilities to attract external resources;

to control the process of restructuring, evaluating the effect of restructuring measures, correcting (improving, changing) the latter ones (their implementation process as well as application pattern and the object) in order to increase efficiency of the use of SME resources;

to evaluate benefit of the restructuring programme and identify directions and actions needed to continue improving the efficiency of enterprise activity.

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Summary

The paper presents the management model for restructuring small and middle size enterprises specifying measures for improving strategic management, rationalizing management functions as well as controlling restructuring process and assessing influence of its results on SME competitiveness.

The model consists of the following phases composing the integral cycle of SME restructuring process: 1) justifying the restructuring expediency; 2) designing the restructuring strategy and its implementation programme; 3) implementing restructuring programme; 4) controlling restructuring programme implementation; 5) evaluating restructuring benefit. In order to justify SME restructuring demand it is necessary, first of all, to evaluate the current efficiency of SME activity, identifying strengths, weaknesses and possible threats for enterprise competitiveness, evaluating efficiency of enterprise current strategy and viability of its use. Having identified the demand of enterprise restructuring it is proposed to prepare the restructuring strategy following the recommended order. When making strategic enterprise restructuring decisions it is necessary to evaluate restructuring reasons as well as the objectives relying on the conclusions of SME activity efficiency evaluation. On the basis of the research results the regularities for enterprise restructuring strategic decisions making are determined and respectively are proposed.

In order to make the best strategic decisions it is necessary to analyze the possible results of enterprise restructuring strategy alternatives applying technique of comparative analysis. When preparing the programme it is also recommended to use the determined regularities of application of enterprise restructuring techniques.

When implementing the restructuring programme the following tasks have to be solved: a) to renew the strategic management system; b) to rationalize the management of enterprise in terms of efficiency increase of enterprise strategy and its functional strategies; c) to execute programme tasks at the level of enterprise functional departments and business units.

Aiming to rationally manage the implementation of the restructuring programme and achieve the maximal benefit, it is necessary to ensure a rational implementation of restructuring measures. It is proposed to execute this task with the help of the proposed technique, which allows evaluating the benefit of measures under implementation and identifying application disadvantages and their reasons.

Respective model is also presented as to evaluate the efficiency of SME restructuring.

Having in mind the context the proposed model for management of SME restructuring programmes let the following: to justify the need for restructuring; to prepare the programme for SME restructuring determining restructuring strategy and ways for the increase of efficiency of enterprise activity; to control the process of restructuring, evaluating the effect of restructuring measures, correcting (improving, changing) the latter ones; to evaluate benefit of the restructuring programme and identify directions and actions needed to continue improving the efficiency of enterprise activity.

KEYWORDS: small and middle size enterprise, restructuring, management, process, business development.

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