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RESTRUCTURING OF FIRMS THROUGH DIVESTMENT (RESEARCH FINDINGS)

The article presents the premises and nature of restructuring as the condition for the functioning and development of a firm. Discriminants of restructuring changes were identified. After specifying the important conditions impeding divestment actions as part of the restructuring process in a firm, the range of such actions was described as well as factors facilitating their realization in 1990– 995. Also the results of divestment actions were evaluated.

1. INTRODUCTION

In the conditions of mature market economy the increasing occurrence of restructuring of firms has been accepted as a "routine" technique of introducing changes in the 1980s. In conditions of the Polish economy the period of total rejection of restructuring by firms is already over – however it continues to be a not fully structured process, which limits its range and prevalence.

Divestment remains an undervalued tool of restructuring. It results both from the sole nature of divestment, and from the conditions shaping the process of transformation.

The aim of the article is to show the range and effects of using this tool in the process of restructuring in chosen firms.

2. RESTRUCTURING AS THE CONDITION OF THE FIRM'S DEVELOPMENT

The strategy, being the expression of "conceptual model of the firm's functioning and its development in changeable environment" (Fabiańska and Rokita 1986, p. 63–72) fulfils a mediatory function between the dynamic environment and the relatively stable operational system of a firm. Generally the finally implemented strategy differs substantially from the initial strategic intentions. H. Mintzberg and J.A. Waters (1985) prove that realistic strategies are only partly shaped deliberately, and partly contain emergent elements.

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Therefore even systematic and consistent realization of the strategic management process, which currently moderates the effects of the lack of adaptiveness, is not able to exclude the necessity of carrying out periodically some deep changes, concentrated in time within so-called strategic turns.

Changes occurring in the environment and also inside the firm are so violent that they upset the existing conditions and development factors in the firm (Chomątowski 1996, p. 174–177). At the same time the currently used development factors lose their importance and this leads to a need for restructuring. Its aim is above all to restore the firm's capability of further development and growth, which would follow an evolutionary path of gradual changes and which would enable the firm to enhance its competitiveness. Imminent adaptive restructuring changes are not a goal in themselves, they have to comply with the natural objectives of the firm, i.e. its survival, safety and development. So following the changes occurring in the environment is not a free choice of the firm, but rather a requirement being an attribute of market economy.

3. DETERMINANTS OF RESTRUCTURING CHANGES

It can be assumed that determinants of changes carried out in the process of restructuring include the following:

– a broad range of changes and their complexity,
– their intensity, i.e. considerable concentration in time,
– depth of changes and their radicalism, manifested among others by the relatively high occurrence of "negative" quantitative changes.

Where the range of changes is concerned, it is assumed that changes in the restructuring process involve the entire organization or its larger part. According to Z. Sapijaszka (1996, p. 28) restructuring comprises of changes which occur in at least one of the three dimensions of an organization, namely:

– range of operation,
– capital structure,
– internal organization (management) of the firm.

Restructuring in the range of operation resolves itself to acquisition and/or disposal of fields of operation or change in their size mainly through purchases and take-overs of another firm (or a part of another firm), or through sale of part of firm.

Restructuring in capital and/or ownership structure, also called financial, restructuring resolves itself mainly to shifting the cash surplus from the management to the shareholders. Techniques used here include Leverage

Buy-Out (LBO), Management Buy-Out (MBO), aided recapitalization, debt-aided buying out shares from the market and staff shareholding. Organizational restructuring most often accompanies the aforementioned, and it rarely issues on its own. It involves changes within elements of organization and the relations among them.

It was noted by Z. Pierścionek (1996, p. 169) that, on assumption that restructuring comprises significant changes in structure of different systems in a firm, it is possible to distinguish many various systems within a firm, e.g. the production system, systems of supplies, of sales, of management, of information, of ownership, of motivation, of finances, of control, etc.

The above suggests that restructuring in such sense encompasses a broad subject range and practically can involve the whole functioning of a firm.

W. Garbusewicz (1996, p. 174–177), when determining the scope of restructuring changes, gives the priority to the objectives of the firm, then successively to the production potential, i.e. the fixed and active assets, production capacity, etc. and the management potential, i.e. human resources, organizational structures, management styles, information transfer systems, communication systems, etc.

Similarly other authors while outlining the nature of restructuring relate this notion to a broad subject range. Accordingly, B. Pełka (1994, p. 10) defines restructuring as "a system changes in a firm relating to technique, technology, production organization forms, management systems, economics and market, as well as the legal and organizational status of the firm."

A. Kamela-Sowińska and A.B. Mirecki (1994, p. 19) decided that restructuring of a firm is a process relating to structural, economical, financial and technological adaptation to some chosen (postulated) objectives of the firm.

The broad subject range automatically gives the changes realized in the process of restructuring a feature of complexity, i.e. simultaneously relating to different fields of the firm's functioning and to their reciprocal correlation or even overlapping.

A significant determinant for restructuring changes is their concentration in time. This is connected with the fact that changes are carried out in parallel in many fields/areas.

Such focusing of changes in a short period of time requires proper co-ordination, which in turn is conditioned by many different factors, like e.g. the level of specification of objectives/tasks for actual involvement of the management and staff in the restructuring process, the feasibility of bearing the costs of restructuring, etc.

Another feature of changes realized within the restructuring process is their depth, which implies their radicalism, which is manifested especially by reducing (degrading) direction of changes, which in turn involves the necessity of full or partial destruction of the existing structures.

In this way the range, the intensity in time and the dominating direction of changes resolve the revolutionary character of changes carried out in the process of restructuring.

4. DIVESTMENT AS A TOOL OF RESTRUCTURING IN POLISH FIRMS

Divestment (for more about the nature and premises of divestment, (Osbert-Pociecha 1996, p. 98–100) seen as actions restricting the existing subject range of a firm's operation through cessation, withdrawal, or disposal are an important instrument of introducing restructuring changes. Providing the means for correcting the firm's current business concept in market, product and technological dimensions, as well as verifying the firm's organizational configuration they are a requisite for optimizing the size of the organization in the sense of tangible, financial and human resources, as well as of market prospects. (Recently the theory of firm of unlimited size/boundaries is being questioned; Z. Pierścionek 1996, p. 172).

Polish firms, which used to operate in a centrally directed economy, until the time of economic transformation, perceived the necessity of development in a very biased way. They identified it mainly with investment seen as increasing the potential of the firm through introducing new, additional resources (tangible and human), which were acquired thanks to decisions from economic or political centres and were not individual choices from possible alternatives of future operation, and responsibility for such choices was not involved.

At the same time, in the circumstances of a deficit economy Polish firms were not given the chance of making divestment decisions. In conditions of a producer market the impact of market premises was insignificant, especially of competition inducing a proper quality of products, or the level of technological solutions and their functionality, responding to customer demand.

Occasional decisions of divestment in the future resulted from resolutions of local economic authorities, which realized their influences through decisions directly connected with the accomplishment of postulates of developmental programs (including the ones relating to preserving so-called "branch purity").

In singular cases such decisions were made by organs of local administration when for example there issued some obvious threat for the environment.

The current situation of Polish firms, which have had to adapt their operational concepts and principles of functioning to the requirements of a market economy in the course of the unending process of transformation in the Polish economy, proves that tasks emerging from restructuring are not easy for them.

The "line of defence", chosen intuitively by firms at the beginning was the strategy of "survival", which in many cases increased the crisis (state of unbalance) by postponing and obstructing the formation of a new concept of a strategy, which would be more suitable in conditions of the forming market environment.

At the same time the system transformation of economy, through the emergence of the barrier of effective demand, i.e. the impossibility of introducing to (both home and foreign) market own products/services, revealed the burning imperative of restructuring, including divestment - as a method of overcoming the peculiar state of entropy relating to the objectives and operational range of firms. This state results from the overlapping in the past of some actions, like competing for investments, striving to utilize the entire production capacity or looking for business partners through administrative channels, so it inevitably requires a verification, which would take into account both market factors and efficiency criteria, which firms operating in conditions of market economy have to fulfil.

The course of restructuring processes in our economy is very differentiated and not yielding to synthetic evaluation or classification, according to the opinion of B. Wawrzyniak (1997). Beside phenomena and facts which can be ranked among positive factors for the balance of economy transformation (like acceptation of competition, introducing many restructuring efforts, increasing propensity to investment, looking for strategic partners and relying on their support in the restructuring of privatising processes), there occur also opposite incidents which can undoubtedly be ranked among negative factors of transformation (like inability to create competitive advantages, superficial and not very prospective character of many restructuring processes, focusing on rationality of decisions, understood as taking advantage of current situation, which does not require radical changes, etc.)

It becomes clear that for Polish firms it is not easy at all to part with the "old times" - as stressed by B. Wawrzyniak - both because of old structures and the slow changes in the mentality and qualifications of Polish managers. Research (surveys for IRiSS in Warsaw about behaviour of firms in the process of changes, carried out by the author between 1990 – 1994 in 15 firms) has also proved that Polish firms are not yet ready for decisions of divestment in spite of the fact that diagnoses formulated before restructuring evidently confirm such a necessity, even within the so-called "corrective restructuring", where the urgency of efforts aimed at reducing damage should be indicative for the radicalism of changes.

Barriers which visibly limit the occurrence of divestment decisions in restructuring processes include:

– social reasons, problem of excessive human resources,

– lack of appropriate system of records and cost calculation, which would provide adequate information about the efficiency of particular units/fields of operation of a firm,

– not fully competent marketing function (mainly in the field of making reliable prospects of sales, market development and behaviour of competition, etc.).

The reasons for scarce use of divestment in programs of developmental restructuring include:

– dominating tendency to neglect strategic aspects of management at the expense of operational actions,

– low risk propensity. Attempts to diversify the existing profile remain an alternative to eliminate the risk connected with reducing or resigning from some fields of operation,

– awareness of the technological gap and very insufficient means (mainly due to limited access to capital assets) of overcoming it.

5. DIVESTMENT (RESEARCH FINDINGS)

In spite of the disadvantageous conditions, increasing resistance against using divestment as a tool for restructuring of firms, some actions that modify the current business conception are undertaken in Polish firms, however they are far from being sufficient for the needs of our "over-invested" economy.

The above thesis were confirmed in surveys (surveys entitled "Divestment Decisions in Firms" realized by G. Osbert-Pociecha within individual research carried out by the Department of Economics and Management of the Firm, Wrocław University of Economics 1996) realized in 1996. The survey comprised of eighteen firms – mainly manufacturing firms representing: the chemical industry (2), ceramic industry (1), light industry – textiles (3), light industry – knitting (1), light industry – shoemaking (3), light industry – bandage production (19), engineering industry (5), motor industry (19), aircraft industry (1).

In all of these firms a total of 58 divestment actions were identified between 1990 and 1995. They occurred in the following fields of operation:

product/service	17
technology	3
production assets	11
subsidiaries	9
social services	10
market/customers	3

research and development	2
special production	2
others	1

As can be seen from the above list, about 30% of divestment decisions related to product or services. These included cessation of producing certain goods and services (of an assortment groups or production lines), or limiting the production of goods and services (e.g. five times or in other cases by 50–75%). The relatively high divestment in products/services results from the fact that this field of functioning is the first to undergo market verification. Next on the list (approx. 19%) of divestment in surveyed firms is production assets. These decisions concentrated around the liquidation of remote production subsidiaries, territorial reduction through abridging the used production area, sales or liquidation of superfluous equipment.

Next (approx. 18%) is social services. Divestment in this area – although potentially had chances of relatively prompt realization (no relation to the basic function of the firm) in practice encountered many obstacles connected with formal conditions of disposing of this area of operation. Also staff resistance was an important factor. Although – taking into consideration the time criterion – it should be noted that divestment initiatives in this field concentrated at the beginning of the 1990, whereas divestment in other fields was a little delayed and concentrated in the second half of the surveyed period.

As far as subsidiaries are concerned – divestment was not intense here, although many firms have problems with the surplus of potential in this field. Mainly attempts at outsourcing were undertaken.

It should be noted that there was a relatively low share of divestment related to technology, which probably results from the earlier mentioned capital barriers which arise whenever new technologies are to be introduced.

At the same time it is worth mentioning that only six of the surveyed firms were able to declare any planned divestment for the next five years, and most of such prospects related to production assets and social services.

Identifying conditions for divestment actions, i.e. factors which decided such choice, in the surveyed firms two kinds of such factors were found:

- external,
- internal.

Among the internal factors the following seem most important:

- consolidation of declining tendencies of the market and succeeding decreases in sales,
- increase of competitiveness in the market.

These factors had a weaker impact:
- production of substitutes,
- increase in imports,
- insolvency of customers (budget units),
- no stimulating state policy (subsidies for agriculture),
- positive results of restructuring in other firms.

External factors inducing divestment actions include:
- necessity of reducing sales costs,
- no chance of improving competitiveness of products,
- liabilities connected with the level of indebtment,
- necessity of improving productivity,
- necessity of improving financial solvency,
- technology harmful for the natural environment.

Evaluation of results of the completed divestment actions in a firm was carried out according to the following criteria:

a) expected and achieved results,
b) changes relating to:
- potential of the firm,
- economic-financial situation,
- others.

Among the effects obtained from divestment actions the following were frequently indicated:
- improvement of capital structure,
- modelling the range of activities,
- increase of development possibilities,
- increase of competitiveness,
- increase of effectiveness.

The following future results were expected in relation to divestment actions undertaken:
- improvement of financial situation,
- release of financial assets,
- opportunity of formulating a clear development strategy and increase of chances for a strategic investor.

Changes in potential of the firm resulting from divestment actions include the following:
- reduction in the level of assets – reported by 15 firms (from 4% to 90%),
- reduction in the level of employment – reported by 18 firms (from 12% to 65%),
- release of capital assets – reported by 6 firms (from 5% to 8%).

Changes in economic-financial situation resulting from divestment actions include the following:

– improvement of financial solvency – reported by 10 firms (5%–30% relative to initial state),

– improvement of profitability of sales – reported by 6 firms (3%–20% relative to initial state),

– reduction of overheads – reported by 18 firms (2%–6% relative to initial state),

– increase of work efficiency – reported by 9 firms (10%–50% relative to initial state).

6. CONCLUSIONS

It can be concluded that – as shown by research – divestment as a restructuring technique is consolidating its position in Polish economic practice, however, the low tendency among Polish firms to use this management tool is conditioned by a large number of factors, including:

– necessity of regulating their legal and ownership situation,

– limitations in purchasing/selling assets, organized parts of the firm,

– continuing process of privatization,

– obscure organizational structures of firms,

and also:

– in sufficiently expanded belief in strategic management,

– narrow understanding of development – as expansion connected exclusively with investment,

– having properly trained managers able to anticipate and bear risks inevitably connected with changes.

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