

# CONCEPT OF CORPORATE RESTRUCTURING AND REENGINEERING

Liběna Tetřevová

Institute of Economics, Faculty of Economics and Administration, University of Pardubice

**Abstract:** *The article deals with main concepts of corporate restructuring and reengineering. Firstly, the term restructuring is defined and the concept of corporate restructuring is explained. Secondly, the spheres of corporate restructuring are suggested and discussed. Finally, the term revitalization is cleared and the idea of corporate revitalization is characterized. Attention is paid to relationship between corporate restructuring and reengineering as well.*

**Key words:** restructuring, spheres of corporate restructuring, reengineering, transformation, integration, rationalization

## 1 Introduction

Restructuring, reengineering, transformation, renewal, and reorientation are words that describe the same general phenomenon - a change in how business is conducted. Only the firms which are ready and able to realize continuous changes - the firms which approach actively to a process of restructuring and (or) reengineering can be successful in the present world.

## 2 Concept of restructuring

Restructuring is usually perceived as a change of a certain organism structure [12]. We can then distinguish changes at macro and micro levels, as results from the following definition. "Restructuring – change of a particular economic area structure, change of production programmes and enterprising activities." [8]. When dealing with a structural change of a national economy particular field we then use the term of a macroeconomic restructuring. If a change is being witnessed in an enterprise structure, we then use a term – a microeconomic restructuring.

In terms of a microeconomic restructuring there might occur changes both at the company level and at the levels of its particular parts. Restructuring represents an essential reconstruction of an enterprise strategy, structures and processes and their tuning with the new reality [4]. Restructuring means overall enterprise reorganizing, renewing all its enterprising functions [15]. Restructuring represents "enterprise oriented and system holistic changes of a managed organization unit (enterprise, plant, autonomous business unit etc.)." [17]

The restructuring is a process of making a major change in organization structure that often involves reducing management levels and possibly changing components of the organization through divestiture and/or acquisition, as well as shrinking the size of the work force. [1]

Restructuring deals with the structure of organization and is usually associated with cultural change. The first stage is to conduct an economic model of the processes of the organization, to give a detailed view of where and how value is created, and to ensure that resources can be provided to different parts of the organization as and when required. Next is the alignment of the physical infrastructure of the organization, and then redesign of the work architecture or processes of the organization. It is also necessary to achieve market focus, invent new businesses and change the rules of competition through technology. The task is also to create a reward structure to provide a powerful motivating force and then to build

individual learning - the encouragement for individuals to acquire the new skills necessary for the success of the transformed company. The final stage is to develop the organization which will be able to adopt constantly to changing circumstances. [7]

It means that a company restructuring is based on changes touching all spheres of an enterprise life. A company restructuring affects changes in production, enterprise sources, their interconnection and their use and may be followed by an organization architecture changes [16]. The more detailed identification of particular areas of restructuring changes is offered by Vodáček, Vodáčková, who define the restructuring process as follows: "It is a process of assuring sources, introducing innovation changes while creating and mutually harmonizing production programme structures, a production-technical basis, functional and organization structures, personal structures, or as the case may be, further pragmatic structures (e.g. financial structures) so that an effective and efficient reproduction process functioning can be achieved." [18]. However, we can meet other content and scope concepts of the expression of a company restructuring. Some authors, e.g. Pamphilis [10] understand the term of restructuring only as a change in a property and finance company structure. In the narrowest concept a company restructuring means only a change in enterprise property relations (see e.g. Gaughan [2]).

In our opinion **a company restructuring represents a holistic changes process based on carrying appropriate restructuring measures.** This means profound, strategic changes that dramatically impact future enterprise activities rather than only partial (marginal) changes.

### **3 Alternative spheres of corporate restructuring**

The changes which are realized in the firms in case of restructuring can be oriented to various spheres of the firm activities. It is necessary to take into account that these changes do not affect separately but they are mutually connected and influenced.

J. Jirásek thinks that it is necessary to pay attention to the following spheres during the process of restructuring: financial turnaround; designing, product development, technologies; production, running the business, maintenance and repairs; purchase and logistics; controlling; informatics; human resources management; ecology, social responsibility, ethics, esthetics and business culture and quality management. [6]

L. Vodáček supposes that the necessary part of the process of restructuring is changes of the production program, innovations, changes of production and technology basis, functional changes, information, organization, staff and financial changes. [17]

N. M. Tichy states that firms have to realize changes in products, services, markets, organizational structure and human resources. [13]

Truneček distinguishes two components of a company restructuring, which are a financial restructuring and restructuring of a company management system. He defines the concept of a financial restructuring as changing company owners followed by targeted investments into a company development, mostly sourcing a foreign capital. A company management system restructuring is defined by him as a redesign of processes carried on within a firm. [15]

In our opinion the successful restructuring process requires the realization of restructuring measures in all spheres of business activities. It means some measures in the sphere of finance, properties, production, business, organization, information and personnel. The following can be considered as primary spheres of a company restructuring:

- **financial** (a financial and ownership company structure);
- **property** (a property company structure);

- **production** (it concerns both produced products and provided services, and used production facilities or technologies, but also an organization of a production process);
- **sales and purchases** (oriented both on inputs and outputs of the organization);
- **organization** (organization company structure defining function roles and relations in business processes);
- **information** (information systems in a complex concept);
- **personnel** (human resources – volume, structure, quality).

#### 4 Concept of reengineering

The concept of reengineering calls for many debates, especially in its relation to a concept of restructuring. The traditional definition of reengineering claims that an enterprise **reengineering** represents a “vital re-thinking and radical reconstruction (redesign) of enterprise processes so that dramatically improvement can be obtained in terms of critical measures of efficiency such as: costs, quality, service and speed” [3]. Reengineering focuses on remodelling enterprise processes that are thus straightened – it strives for eliminating all useless duplicate activities, uniting the activities and innovating the ineffective ones. The changes of the basic corporate modules are reflected in internal processes of the firm [9].

**Reengineering in its relation to restructuring is perceived in three ways.** In terms of the first approach reengineering is understood as a concept contents of which equals the concept of restructuring. The second approach issues from understanding that reengineering represents one of the significant parts of an enterprise restructuring process. For example Robbins a Coulter consider reengineering of processes, together with a vertical levels reduction and changes in particular teams job descriptions, main components of enterprise restructuring [11]. This view is shared by Tománek who states that an enterprise striving for success must: firstly restructure processes (which is understood as a change in the management concept in terms of transferring it from functional management to management of processes; innovation redesign of production, products and activities – for which author uses the expression of reengineering and the aim of which is to increase effectiveness of enterprising activities in a company) and secondly must restructure the enterprise in terms of finance (which means in this concept to change property management aimed at the increase of property effectiveness [14]. The third approach is based on reengineering as a philosophy which should be relied upon by the restructuring process, see Vodáček who states: “It is advisable to consider an effective and efficient application of reengineering in terms of a significant trend towards modern management findings utilisation during a strategic restructuring.” [17]. The particular perception of the relation between reengineering restructuring issues from the level – type of reengineering that is being considered.

The essential types of reengineering according to Ivanov [5] are transformation, integration and rationalization. **Transformation** represents cardinal rethinking of a company mission, strategy and enterprising, it is often interconnected with external conditions and concerns the whole company structure - in terms of property, finance, supply, production, sales and partners. **Integration** then means reviewing, design of new company visions and ideologies, leads to a new company architecture, focuses primarily on company processes – emphasising integration effects in structures, working methods, positions, functions, discreet company processes or a social system. **Rationalization** or redesign represents simplification of processes or parts of company structures, tends to the process of a quality improvement as there is nothing radically changed and in fact it preserves “status quo“.

Another definition of reengineering levels is provided by Veber [16] who distinguishes a **total business reengineering**, i.e. initialization and realization of changes that concern not only the company itself but also its relevant environment; **business process reengineering**,

i.e. crucial changes that concern the company as a whole and change its organizational architecture to enhance integration and synergic effects; and **work process reengineering**, i.e. cardinal changes concerning only a particular limited part of a company.

Reengineering in the concept of transformation, of total business reengineering (an enlarged concept) and of business process reengineering could be equalled with the concept of restructuring (the first approach). Reengineering in the concept of integration, of rationalization and of work process reengineering then represent one of the parts of a company restructuring ensuring restructuring process support.

## 5 Conclusion

Finally, we can sum up - a company restructuring represents a holistic changes process based on carrying appropriate restructuring measures. This means profound, strategic changes that dramatically impact future enterprise activities rather than only partial (marginal) changes.

A successful restructuring process calls for restructuring measures in all areas of company activities, i.e. in an area of finance, property, production, sales and purchases, organization, information and personnel.

Restructuring is closely tied with reengineering, while the particular type of their reengineering issues from the particular type of considered reengineering.

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**Kontaktní adresa:**

doc. Ing. Liběna Tetřevová, Ph.D.  
Univerzita Pardubice, Fakulta ekonomicko-správní, Ústav ekonomie  
Studentská 84, 532 10 Pardubice  
e-mail: libena.tetrevova@upce.cz  
tel. č.: +420 46 603 6161