RISK MANAGEMENT OF ENTERPRISE RESTRUCTURING STRATEGY

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ABSTRACT

In the current economic situation, enterprises are constantly looking for options for their development. One of the effective ways of transforming in a business environment is enterprise restructuring, during which the company is not immune to errors and negative results. Numerous risks can negatively affect restructuring. The article is devoted to the determination of types and classification of risks during the restructuring of the company. Possible problems and errors during the restructuring, which exacerbate risks, are considered. The article also defines the stages and risk management algorithms and proposes a restructuring risk management system. Taking into account the risks listed in the article during the restructuring will help companies successfully implement this process.

Keywords: Enterprise, Restructuring, Risk, Risk Management, Strategy
1. INTRODUCTION

As a result of rapidly developing markets, global digitalization and in the era of the modern information society, a large number of companies are forced to adapt to the rapid changes in the external environment. One of the most effective market instruments that ensure the life of the company during the transformation period is restructuring.

An analysis of the functioning of modern enterprises indicates the urgency of the study of restructuring for the reform and justification of their economic activities. Restructuring is necessary for successful work in a market economy, improving enterprise management, stimulating their activities to increase production efficiency, accelerating the gap between the closest competitors and creating unique competitive advantages, including using restructuring methods and tools.

Previous studies of the authors [1-5] show an increasing role in risk management in all areas of enterprise management. In these circumstances, the increased role of risk management in the selection and implementation of the enterprise restructuring strategy has increased significantly. However, according to the analysis of the risk management system in the restructuring process, we can conclude that they do not fully meet the necessary requirements and need to be improved. The lack of generalized experience and comprehensive scientific research in the field of risk management during the development and implementation of the restructuring strategy leads to additional losses and a decrease in the efficiency of enterprise restructuring.

The aim of the study is to develop the theoretical and methodological foundations of a risk management system in the process of developing and implementing an enterprise restructuring strategy.

2. THEORETICAL ASPECTS OF RISK MANAGEMENT OF ENTERPRISE RESTRUCTURING STRATEGY

2.1. Enterprise Restructuring Strategy

The main purpose of the restructuring of the enterprise is to increase its value.

There are two main types of restructuring: operational and strategic. Table 1 presents the main goals, objectives and methods of the two types of restructuring.

<table>
<thead>
<tr>
<th>Type</th>
<th>Operational restructuring</th>
<th>Strategic restructuring</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose</td>
<td>change the structure of the company to improve solvency; financial recovery</td>
<td>increasing the investment attractiveness of the company; expanding opportunities to attract external financing enterprise value growth</td>
</tr>
<tr>
<td>Methods</td>
<td>reduction in production costs; staff reduction; inventory; suspension of capital construction; implementation of work in progress;</td>
<td>merger (acquisition, accession); strategic alliance; sale of part of the enterprise or withdrawal of investments; outsourcing;</td>
</tr>
</tbody>
</table>
The purpose of operational restructuring is to change the structure of the company to improve solvency or financial recovery. Such work is aimed at restoring solvency at the current time, while usually using internal, not costly sources.

Any enterprise that goes through the path of restructuring faces risks. The main reason for possible risks, inefficiencies, or the detrimental effects of restructuring on the company is errors in its implementation (Fig. 1). The self-reaction and solution of these problems will reduce their number or completely get rid of the negative impact.

### Tasks

- The purpose of operational restructuring is to change the structure of the company to improve solvency or financial recovery. Such work is aimed at restoring solvency at the current time, while usually using internal, not costly sources.

| sale of subsidiaries; | capital splitting; |
| sale of unused equipment and materials; | creation of subsidiaries; |
| debt restructuring; | split-off; |
| accounts receivable optimization; | split-up; |
| renewal of fixed assets; | voluntary liquidation; |
| introduction of modern management technologies. | privatization. |

| Tasks | adjustment of the solvency of the enterprise in the short term; |
| increasing the investment attractiveness of the enterprise. | increasing the net present value stream of future income; |
| enterprise competitiveness growth; | increase in the market value of equity. |

#### 2.2. Classification of Risk Factors during Enterprise Restructuring

For a more detailed risk assessment of restructuring projects, there is a need to improve the classification of risk factors.

In addition to common risk factors, there are also specific for each project. With an increase in the number of specific factors included in the calculations, the accuracy and adequacy of the results of evaluating the economic feasibility of restructuring increases. With a certain degree of conventionality, general risk factors can be called external and specific – internal (Fig. 2). External factors have a great influence on the development of

#### Figure 1 Possible mistakes and problems during company restructuring
restructuring processes: the state with its own system of tax and customs legislation, suppliers and contractors, creditors, banks.

Figure 2 Risks of restructuring process (Classification of risk factors)

The main characteristic of the current economy is its instability [6-8]. The tax and customs legislation is unstable and not fully developed [9-10]. The tax incentives presented to enterprises at the initial stage can be further changed, even cancelled in the worst case, and this jeopardizes the implementation of large-scale restructuring projects.

Banking risk is very high, both from the point of view of the instability of interest rates and terms of granting loans and from the point of view of the reliability of the banking system itself.

A serious threat to the development of restructuring processes is represented by unsustainable relationships with suppliers and contractors, which is the reason for the risk of non-payment of work performed [11].

Along with external factors of restructuring risks, specific internal conditions hindering the implementation of the restructuring project have a noticeable effect. This applies, first of all, to the lack of personnel of the necessary qualifications. At the same time, the failure of enterprises to prepare project managers and executors of the implementation of restructuring projects is still evident.

2.3. Risk Management System of Restructuring

In general, the risk factor for restructuring is determined by the following formula:

\[
R = \frac{P}{Q - C}
\]

where \( R \) – restructuring risk factor; \( P \) – probable losses; \( Q \) – restructuring benefit; \( C \) – restructuring costs.

It can be seen from formula (1) that the risk coefficient determines the number of probable losses in the composition of the expected income from restructuring and, therefore, with its increase warns of the danger of disruption of the project.

The probable losses \( R \) of the restructuring project can be decomposed into various factors, and as a result, it will be possible to assess the impact on the formation of risk of each eliminated factor, which, in turn, will make it possible to identify and exclude risky measures from an economic point of view from the economic point of view.
The most enlarged division of probable losses is the allocation of the so-called internal (Pa) and external (Pb) losses. In this case, formula 1 will take the following form:

\[ R = \frac{P_a + P_b}{Q - C} \]  

(2)

Losses from errors in forecasts of the expected useful results of the restructuring should also be taken into account in assessing the feasibility of project implementation. In prospective economic calculations in a transitive economy, it is not possible to determine with high accuracy the expected positive and negative results of the changes. Therefore, the risk factor for restructuring, calculated by the formula (2), increases with increasing volumes and terms of restructuring programs.

The risks of restructuring are largely due to underperformance of change programs, mainly due to reduced funding. Chronic disruptions in logistics, late payments by customers, and downtime due to shortages are accompanied by deepening financial instability of enterprises. This is the reason for the reduction of the already small own funds allocated for restructuring.

The restructuring project is constantly evaluated throughout its life cycle. At any time, work can be stopped or, conversely, a decision has been made to speed up work and the corresponding additional resource support.

Building a restructuring risk management system involves making decisions on the following issues.

1. The object of management. It is clear that the object is the risks of restructuring in the risk management system. It is necessary to identify a list of possible risks, classify them into external and internal.

2. The subject of management. The subject of the risk management of the restructuring project is project managers. Moreover, in each case, a management structure should be chosen: either a special risk management service is created, or the risk management functions are assigned to project managers.

3. Management objectives. The main objective of restructuring risk management is to create conditions for achieving the goals of the restructuring project as a whole.


When approving a restructuring project, it is necessary to analyze the risks included in the list of a specific restructuring project for two factors: the significance of the risk and the degree of control over it by the company.

The first factor, in fact, is the assessment of each risk in terms of its impact on the outcome of the restructuring project. Assessment of the significance of risk should be carried out in two stages.

At the first stage, risks are assessed according to formula (2). At the second stage, the obtained calculation results are grouped by experts at three levels: low, medium and high level of risk significance for the restructuring project. In each case, experts decide how to get the range of each level. The easiest way is to divide all the obtained coefficient values for each risk R into three equivalent groups. A low level of significance means that the risk does not pose a significant threat to achieving the goals of the restructuring, it can lead to a delay in the implementation of certain measures and is accompanied by indirect rather than direct losses. The average level of risk significance poses a more significant threat to the project since it leads to additional costs compared to those planned in the project. But even these risks do not lead to the disruption of the overall objectives of the restructuring. And finally, a high
level of significance of risks is characteristic of risks, the implementation of which disrupts the goals of restructuring.

The second factor is the degree of enterprise control over risk. In fact, this factor characterizes risk manageability. Its assessment is also possible only by expert means. If you use the same principles in the assessment, then for this factor, you can distinguish low, medium and high levels. A low level of risk control is the most dangerous for the enterprise since it does not provide it with the ability to manage such a risk. Here, provided that it is identified in a timely manner, it is only possible to adjust or change the restructuring strategy, and in the worst case, refuse or reschedule the restructuring. A medium level of risk controllability means that a partial adjustment is possible, but it is not possible to fully manage such a risk. In some cases, here too, it is advisable for the company to change the restructuring strategy, choosing and using the most effective risk management methods if possible. A high level of control is characteristic of risks that are manageable. They can be levelled for a restructuring project subject to a number of conditions. First, they must be identified in a timely manner. Secondly, effective methods of risk management should be available in the bank of enterprise methods. Thirdly, the qualifications of project managers should be sufficient to select the most appropriate method for a particular case.

Such an approach will make it possible to classify all possible restructuring risks into four groups, and for each risk, group to develop its own management, adjustment and control strategy (Fig. 3).

![Restructuring Risk Matrix](image)

**Figure 3** Restructuring Risk Matrix

Consider each of the quadrants of the matrix.

1. Quadrant of strategic decisions. This is a situation where both risks and the degree of control over them by the enterprise are great. Risk factors should be the subject of careful study, the centre of attention in the implementation of the restructuring project, which requires the organization of continuous monitoring of changes in the external and internal environment of the enterprise. It is possible to use various methods of risk insurance, including, for example, by concluding long-term contracts with suppliers and consumers.

2. The quadrant of vulnerability. There are great risks, but control over them is weak. The factors that fall into it are critical to the success of the restructuring project. Organization of situational analysis is required, and when identifying a possible situation of a complete failure
of the restructuring project, the enterprise must develop alternative restructuring projects, or, in extreme cases, abandon the project or at least postpone the timing of its implementation.

3. The “fine-tuning” quadrant is characterized by a low significance of risks for the restructuring process and a high possibility of their control by the enterprise. This includes risk factors that are monitored and managed by operational management. The main task is to prepare qualified managers who are able to timely recognize the risk and take appropriate measures to level it.

4. In the non-strategic quadrant, risks and the degree of control over them is low. The factors that fall into it should be taken into account in the basic scenario of restructuring. Using the proposed matrix will allow, in our opinion, to make more informed decisions on the restructuring of enterprises, more reasonably develop a plan for restructuring and thereby avoid negative, undesirable consequences for the enterprise of its implementation.

The main recommendations for risk management in the process of restructuring industrial enterprises are to reduce the dimension of tasks so that the desired level of protection against risk threats and the maximum use of risk chances can be achieved within the specific project budget of the industrial enterprise. It is also recommended to limit and group all risks by ranking them using expert assessments. Carrying out these operations allows you to identify the most important risks of restructuring and take them under special control. In practice, an integrative risk management system is being introduced at the enterprise.

3. METHODOLOGY AND ASSESSMENT OF RESULTS

3.1. Analyzing Possible Risks before Starting the Restructuring Process

Risk management of the enterprise restructuring strategy is a set of practical measures that can reduce the uncertainty of results, increase the usefulness of the project, and reduce the cost of achieving the goal.

Before proceeding with the development of the risk management system of the restructuring project, it is necessary to make sure that it is technically feasible. To do this, it is necessary to clearly formulate and analyze the main assumptions that can have a significant negative impact on the success of the project, especially those that are not subject to control by the enterprise management. In particular, examples of assumptions in a restructuring project may include:

- effective cooperation with partners of the enterprise on the project, in particular, with suppliers and contractors, creditors and investors, consumers, government agencies;
- the absence of barriers to the recruitment of staff of appropriate qualifications;
- a high degree of interest of the owners of the enterprise in the full implementation of the restructuring project;
- support of the project by public authorities;
- full appropriation of the allocated budget;
- high level of the corporate culture.

An analysis of the assumptions made is appropriate for two indicators.

First, it is necessary to evaluate the importance of each assumption for the implementation of the restructuring project. Such an assessment can only be carried out by experts, and owners, top managers, and third-party consultants can be involved as experts.

To simplify and reduce the dimensionality of the experts' tasks, the importance of each assumption can be assessed on a bipolar scale when experts are asked to choose the answer from only two options: yes or no.
Secondly, it is necessary to assess the likelihood of realizing the stated assumptions. Such an assessment can also be carried out exclusively by experts, using the same list of experts who can assess the likelihood of the implementation of the formulated assumptions in terms of "unlikely, probably almost definitely."

As a result of these expert assessments, the analyst must verify the technical feasibility of the restructuring project (the general assumptions analysis algorithm is shown in Fig. 4). This algorithm is a preliminary analysis of risks and an attempt to reduce them somewhat.

After managers are convinced of the fundamental possibility of the technical implementation of the restructuring project, it is necessary to develop a risk management system. The tasks of risk management arise from the main objectives of the restructuring, ensuring their implementation.

### 3.2. Stages of Restructuring Risk Management

Restructuring risk management should include the following steps:

- identification and classification of risks;
- analysis and quantification of risks;
- development of a risk management strategy;
- monitoring of the restructuring process;
- making tactical decisions on risk management.

![Figure 4 An algorithm for analyzing possible risks before starting the restructuring process.](image-url)
Strategic restructuring in enterprise management is aimed at creating a new enterprise development strategy, developing a restructuring business plan and implementing a restructuring project in accordance with the business plan. The main tools of strategic restructuring are reorganization and reengineering.

The purpose of the reorganization is to change the principles of business organization. Reengineering is mainly aimed at optimizing the business processes of the enterprise. The main task is to minimize time and cost costs. In its entirety, restructuring is aimed at achieving optimal centralization of managerial functions, which allows ensuring the necessary level of enterprise competitiveness in the market.

The restructuring process involves diagnosing the initial state of the enterprise, developing a strategy and restructuring project, agreeing on the main directions of restructuring, the restructuring process itself and analyzing the process's effectiveness (Fig. 5).

**Figure 5** Stages of enterprise restructuring

*Step 1.* Defining the objectives of the restructuring. Goals are determined based on the overall strategy of the enterprise and involve the search for aspects of the enterprise that are not satisfied with the management. The further development of the enterprise and, accordingly, the fate of the restructuring program depends on how well defined the goals and range of tasks are.

*Step 2.* Enterprise diagnostics. This process allows you to identify the main problems of the enterprise and determine its strengths and weaknesses. Also, this analysis will help to predict the development prospects and the profitability of further investment in this enterprise. When conducting diagnostics, as a rule, legal, tax analysis, analysis of operating activities, market and investment attractiveness of the enterprise. We study his financial condition, strategy and management activities.

*Step 3.* Developing a strategy and restructuring program. At this stage, as a result of the diagnosis, several alternative options for the development of the enterprise are compiled. For each option, restructuring methods are determined, forecast indicators are calculated, possible risks are assessed, the number of resources involved.

*Step 4.* Coordination of the main directions of restructuring. At this stage, the interaction of various parts of the enterprise is ensured in the interests of fulfilling the main directions of
Risk Management of Enterprise Restructuring Strategy

restructuring that it faces. Coordination specifically determines who, what and when does it, with whom and how interacts, in what order transfers its own results to other participants in the activity and uses their results.

Step 5. Implementation of the restructuring in accordance with the developed program. The service of specialists involved in the work is being formed; all stages are being worked out and successively implemented, programs are being adjusted.

Step 6. Assessment of the effectiveness and results of restructuring. At the last stage, the implementation of targets is monitored, the results obtained are analyzed, and a final report on the work done is prepared.

In the process of restructuring, especially in times of crisis, there are many risks that vary in content, source of manifestation, the likelihood of occurrence, size of possible losses and negative consequences for this enterprise, and sometimes the economy as a whole. All this necessitates the creation of a restructuring risk management system in crisis conditions as an integral part of the anti-crisis risk management system integrated into the general enterprise management policy, its business plans and activities.

3.3. Assessment of Results

In order to include the result in the overall rating of the enterprise restructuring risk management efficiency, the result is grouped as follows:

- The worst – at least two out of three indicators are less than zero.
- Satisfactory – at least two out of three indicators are zero.
- Good – two positive indicators, one is zero.
- Excellent – all indicators are positive.

Below is a methodology for the formation of a common rating of risk management effectiveness.

The overall rating includes 5 groups of risk management efficiency indicators, which is measured by a 4-point system: excellent (1), good (2), satisfactory (3), and unsatisfactory (4). Integral assessment is the total score for each component of effective risk management. At the same time, the lowest score indicates the most effective risk management, and the maximum number of points shows the lowest level of risk management effectiveness. The maximum possible number of points is 20. In practice, it is often impossible to clearly distribute risk management in the effectiveness of any group, so it is advisable to use threshold values (Table 2).

<table>
<thead>
<tr>
<th>Components</th>
<th>Excellent</th>
<th>Good</th>
<th>Satisfactory</th>
<th>Unsatisfactory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Operating</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Process</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Strategic</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Market</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Final Grade</td>
<td>from 5 to 7</td>
<td>from 8 to 11</td>
<td>from 12 to 15</td>
<td>from 16 to 20</td>
</tr>
</tbody>
</table>

The overall rating is based on the assumption that any two performance subgroups can be rated 1 point higher than that of the target group (for example, a company with three components rated “excellent” and two “good” has excellent risk management). This method of presentation is clear and simple.

In this way, we can clearly see the effectiveness of risk management strategies for 10 enterprises from the sample (Fig. 6).
4. CONCLUSIONS

The risk management system ensures minimization or elimination of the impact of risk situations that are constantly or periodically repeating in the enterprise. The risk management system in practice is implemented by compiling a directory of risk management, safety training, the creation of quality systems or circles. All developed systems must be clearly implemented and monitored by the risk management service, in order to achieve reliable assurance of sufficient success of the project and timely diagnosis of possible failures so that the company can take measures against the emerging risk and adapt to its consequences.

Numerous risks can negatively affect restructuring:

1. The lack of clearly formulated goals and objectives of the transformation.

2. Wrong choice of restructuring method. Instead of the necessary strategic restructuring, an operational one is being implemented; in this case, the operational measures taken may contribute to the continuation of the agony of the organization, and not to the solution of its problems. Or vice versa, risky and costly strategic measures were implemented, despite the fact that only an operational restructuring was enough.

3. Incorrect assessment of resources needed for restructuring.

4. Inadequate qualifications of company management, which is unable to develop a comprehensive restructuring program for financial recovery.

5. Conflict of interests of various groups, one way or another participating in the restructuring process.

6. The negative social consequences of the transformation.

7. Poor legal support for the restructuring process.


Consideration of the above risks during the restructuring process will contribute to its successful implementation.
REFERENCES


