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**KEY FACTORS FOR SUCCESSFUL
FINANCIAL AND BUSINESS
RESTRUCTURING WITH A GENERAL
CORPORATE RESTRUCTURING
MODEL AND SLOVENIAN
COMPANIES CASE STUDIES**

Nina Malačič
Iztok Malačič, M.Sc.

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ABSTRACT

Restructuring of companies is the process of adaptation of the company to changed external or internal conditions. Such an adjustment may be necessary due to the change in business environment, such as economic crisis, the entry of new competitors on the market, the increase in purchasing prices of raw materials, technical progress, departure of key personnel from the company, and due to many other reasons. These reasons have such a strong impact on revenues or costs, or even on the business model itself, that the company can no longer operate successfully. Eventually, it is not able to pay its liabilities any more or generate profit. When the situation becomes critical, such events are associated with crises. However, the management may recognize changes early enough to be able to prepare and act in advance. Changes carried out by management in such situation are not necessarily related to crises, they might be implemented to avoid a crisis.

In this paper, we are presenting different types of crises, key factors for successful business or corporate restructuring* (turnaround) and setting a brief theoretic introduction to corporate restructuring. Furthermore, we are presenting a general restructuring model, which we have developed as a framework and tool for timely action for managers, faced with a need to adjust or restructure due to a major change in the environment. We are also presenting two case studies of corporate restructuring in Slovenian companies and we use them to test the restructuring model we have developed. We are finalizing this paper with a summary of the main findings.

KEYWORDS: Business and Financial Restructuring; Economic Crisis, Business Crisis, Key Factors for Corporate Restructuring, General Restructuring Model

* The term 'Corporate Restructuring' is used in this paper as a synonym for corporate change or corporate turnaround.

1. INTRODUCTION

The world has recently survived another major global economic crisis. The consequences of an economic crisis are reduced competitiveness of a country and its companies. Changes in local or international business environment can threaten the existence and survival of companies, which find themselves in financial problems or fail to develop new products.

Economic crises have negative effects on business environment, but they are not the only reason for business problems companies may have. Lower performance of companies can have different reasons in the external or internal environment. They can face problems in the market due to the entrance of new competitors and increased competition, higher cost of materials, or outdated technology the company is using. Internal problems can be caused by inefficient organisation, complex business processes, or key personnel leaving the firm. The consequence can be liquidity problems, loss generation, and insolvency.

When the management fails to recognize and address these problems promptly, we talk about business crisis. The owners and managers, however, can recognize the environment changes and symptoms of the forthcoming crisis beforehand. They can prepare or even prevent the crisis from happening by implementing the right business measures. In such case, the changes implemented by the management to avoid the crisis are called preventive restructuring.

Crisis prevention or solving the company crisis normally requires company restructuring, which can be gradual and smooth, or it can include the use of radical change methods. Often and repeatedly the companies face the situation, when operational and financial measures are necessary due to internal and external changes in the environment. Otherwise, further company operations would not be possible. The common expression for such changes is business restructuring or business turnaround.

1.1. THE PURPOSE

In this paper we present key factors, which influence financial and business restructuring of companies and different approaches to crisis management. We firstly present a theoretical framework to corporate restructuring, secondly, a general model for business restructuring that has been developed is introduced, and finally, empirical testing of the practical model with two practical cases of Slovenian companies, which have successfully finished business restructuring, is presented.. We conclude this paper with an overview of important findings and conclusion.

The purpose of this paper is to present a general restructuring model, which will serve as a practical tool to managers, owners and other stakeholders, who are facing the challenges of restructuring. The turnaround model we have developed might have an important influence on more efficient business restructuring in Slovenian companies. It will serve as a tool for crisis managers to recognize changes in the environment and key restructuring factors, define the process of business turnaround and implement the right measures. Nevertheless, the managers and owners will still have to recognize the situation when their company is facing a crisis situation and accept their responsibility for prompt action. It is all too often that managers avoid their responsibility and seriously diminish company's possibilities for recovery due to late or inadequate restructuring measures.

In this paper, we are trying to answer the following research questions:

- Can a company crisis be recognized on time and is prompt reaction possible?
- Are the reasons for crises in companies from different industries similar?
- Is fast and efficient implementation of restructuring measures the most important factor for a successful solution to the crisis in the company?
- Do different approaches to corporate restructuring have similar features?
- Can crises in companies from different industries be solved in a similar way?

Answers to these research questions helped us to develop a restructuring model, which is useful and applicable in practical cases of corporate restructuring. Based on the testing of our model, we will try to confirm the following statements:

- S1: A company can adopt measures for on-time corporate restructuring based on implemented internal and external environment monitoring system.
- S2: A company can implement measures, which can prevent its bankruptcy or liquidation by using a general restructuring model.

1.2. MAIN OBJECTIVES

The main objectives of this paper are:

- Defining key factors for successful financial and business corporate restructuring. Identification of needs and conditions for restructuring within and outside the company.
- Defining different approaches to restructuring, when and how should the management start and how to perform activities.
- Defining common characteristics of different approaches to company restructuring, the most frequent actions and measures used.
- Developing general company restructuring model which will help managers identify the reasons for changes, and identify changes in the environment and within the company that are most likely to cause the need for adaptation and restructuring. At the same time the model will serve as a practical tool for fast, efficient and comprehensive implementation of the restructuring process.

1.3. METHODS OF RESEARCH

During our research we have used the following methods of work:

- a. Studying of literature and other sources
 - Professional domestic and foreign literature and Internet sources,
 - Internal documents of selected companies, minutes of the meetings, key personnel interviews and other internal documents.
- b. Analysing the corporate restructuring process, phases, activities, time frame, tasks and responsibilities.
- c. Synthesis of partial solutions into a single, universal model of company restructuring.
- d. Comparative analysis of several empirical cases and case studies development.

Based on the literature and our experience with restructuring we have developed a general model of corporate restructuring. Furthermore, we have tested its performance on actual cases of restructuring in two selected companies.

Based on testing performed and empirical findings we have proposed the most important measures and milestones for development and definition of a restructuring plan, placed these measures in the restructuring timeline and defined key elements for the successful implementation of the restructuring process.

2. CRISES DEVELOPMENT

The last great international crisis was 2007 financial crisis started in the United States which had devastating impact on financial markets, economies and businesses around the world. It has started on the real estate market. American government has promoted housing ownership, interest rates were low, and lenders saw their opportunity in mortgage loans, so they lowered conditions for loan approval. Financial markets have developed new derivative financial instruments, based on mortgage loans, ABS or Asset Backed Securities. Investors who took over the credit risk were not original borrowers. Credit agencies approved AAA credit rating to these bonds. Market demand was high due to higher return rates, if compared to securities of the same rating, and banks rated these papers as low risk high yield investment. Then, financial institutions developed new derivative instruments, ABS CDO or ABS Collateralized Debt Obligations, with higher risk and far lower coverage in actual real estate. A vast financial market of derivative financial instruments has developed. It followed the growth of real estate prices (Hull, 2012).

Prices of real estate have increased from 2000 to 2006 due to the entry of new buyers and speculators. Some mortgaged loans included promotionally low interest rate for the first two years, and then the interest doubled or tripled. Therefore, some borrowers couldn't afford higher instalments due to their low credit rating. The number of foreclosures has sky rocketed, the real estate supply has exceeded demand and real estate prices fell sharply, so many derivatives lost their coverage. Real estate owners found out that the value of their debt to banks by far exceeded the value of their assets and declared bankruptcy. Thus, the real estate prices fell even more.

Key factors which caused the burst of the American real estate bubble and the world recession were irrational behaviour of market participants, poor incentives, relying on credit agency ratings, poor investor analyses and complexity of financial derivatives. As a consequence, banking regulation has increased substantially (Hull, 2012).

2.1. DIFFERENT TYPES OF CRISIS

"A crisis is a sudden or prolonged change, leading to urgent problem that a company management should solve" (Luecke and Bartlett, 2004: 155). "Crisis is every situation, which can affect the long-term loss of confidence in the organization or product, or may prevent the normal course of operations. Crisis management is every process, consisting of well-defined steps which in the correct sequence allow effective decision-making process at the stage after the occurrence of the crisis, or negative event" (Klančnik, 2009: 41). The word 'crisis' comes from the Greek word 'krísis' (κρίσις) and stands for a decision, event or a decisive moment. It can be applied to any field of human activity, including the operation of businesses.

Most companies meet crisis sooner or later. Some can be prevented, others we can predict. Sudden crises are normally a result of an unpredictable event, such as a natural disaster (earthquake, flood ...), war, health epidemic, fire, major production line breakdown. Such crises cannot be predicted, however, we can prepare for them by developing a plan including operating procedures, measures and checklists for the event of crisis.

"Crisis in a company is mostly a long term result of incorrect business decisions and harmful effects of environmental factors, which slowly poison the corporate system, disrupt the business aim and objectives of the company and cause disintegration (entropy) in the company" (Končina and Mirtič, 1999: 21). Dubrovski states differences in defining

crisis already by defining whether this is an event, a process or a state. Therefore, the definition of corporate or organisational crisis is not simple. Different definitions differ according to the context, content and perception of problems (Dubrovski, 2011). The author defines crisis as a "short term, unfavourable, undesirable and critical situation in the enterprise (organization), which directly threatens future existence and development of the company, and which is a result of intertwined and simultaneous operation of both external and internal factors" (Dubrovski, 2011: 31).

Linke (Gilpin and Murphy, 2008) classifies crises to four types, based on the time that management has to react: explosive crisis (natural disaster leaves no time for preparation), immediate crisis - the management has some time for preparation and reaction, crisis in the construction (allows more time for preparation), and slowly building crisis (awareness of the onset of the crisis is there already long before and allows for the preparation of possible reactions to the crisis).

Meyers and Holusha (Gilpin and Murphy, 2008) define reasons for business crises as a consequence of: the change in public opinion, sudden change in the market, product failure, discontinuity in the management change in the availability of cash, trade mark violation, hostile take-over, negative international event, regulation change or state deregulation.

Crises can also be classified according to the urgency: urgent, serious and mild crises (Schwenker and Spremann, 2009). Urgent crisis occurs when the company has no more money to pay for the employees or material. Companies in such state don't have a lot of support. All those who could help are reluctant to respond and help. At this point the owners must recapitalize the company and implement restructuring measures, or the company becomes insolvent. In the serious crisis employees receive their usual salaries and customers receive the products or services they have ordered. The owners only receive a minimum share. The company is not able to pay the taxes and is depending on the state aid. Subventions are keeping the company alive until it reaches the urgent phase. In a mild crisis the employees receive their normal payments, customers receive the products, the company is paying taxes and the owners receive dividends. The company is increasing its value, but much slower than in normal conditions. There is a high probability for the company to enter into serious crisis, if no measures are taken.

2.2. CONSEQUENCES OF CRISES

2.2.1. Warning signs and causes for crises

Many times in the past people have thought that managers have found the way to solve economic problems. Even today, banking professionals and government officials try to find rescue measures, which would stop economic crises from spreading (Krugman, 2009). Unfortunately, with every new crisis it becomes evident that bankers and government officials are not trained to recognize signs of the emerging crises, and even less to prevent them. They lack knowledge, authority and power to accept measures, rules and regulations, which are not in the interest of stakeholders. Furthermore, only post festum we are able to see which measures are appropriate to restrict or stop the crisis.

The similar situation exists in companies. Management is often too occupied with daily business and relations within the company and doesn't recognize changes in the environment on time. Contrary to bureaucrats in public administration and bankers they are able to act quickly, however, they must foresee the coming changes and warning signs to do so. Warning signs come in different forms. The emergence of new technology, entry

of a new competitor with innovative business model, losing important markets, customers or suppliers, departure of trained employees or managers from the company, difficult access to sources of funding or losing investors' confidence are all such signs.

Signs or symptoms are those signals, which may indicate or predict crisis in a company. It is vital that they are not ignored, neglected or underestimated. The warning signs occur in all business functions, in different areas within the company and outside the company, and are reflected in different forms and combinations. Typically, the warning signs do not occur simultaneously, but in a particular time sequence. It is therefore important for the management to pay attention to warning signs. The management must identify, determine and analyse the causes why such signs have occurred in the company. Also, the management has to remove them in a timely manner in order to prevent crisis from happening (Dubrovski, 2011).

The cause for the crisis is unawareness of the occurrence of the warning signs and the loss or absence of a timely response. If the company does not respond to changes in the environment, it becomes less competitive, operations are becoming increasingly difficult, financial performance indicators are worsening, the firm starts operating with a loss and it is losing money.

Although many people believe that business crises are the result of banking and financial crisis only, it is important to stress internal reasons as well. They can be a result of internal structural problems within the company, such as low quality of products and services, long lead times, excessive cost and low productivity, following traditional organization structures and inefficient business processes (Ferk, 2012).

2.2.2. Consequences of crises

Each crisis is a consequence of a conflict or inability of the company to adapt to the environment. At the onset of the crisis, economists have different opinions regarding the appropriate response. Some believe that the government must intervene and become the largest lender, while others reject such approach, arguing that the government should not interfere in the market (Roubini and Mihm, 2010). The state can guarantee for company loans when the crisis occurs, however, at the end this always falls on the taxpayer, so the state guarantees are in a way part of fiscal policy. According to Krugman politicians around the world should do two things, namely, to release lending and stimulate consumption (Krugman, 2009).

Every crisis can have two main consequences: people can recognize warning signs of changes in the environment and initiate measures to eliminate the causes of the crisis, whereby positive developments lead to the recovery of the company, elimination of the crisis and restoring the situation without the crisis; on the other hand, when all warnings remain without proper response the crisis deepens and ultimately leads to the collapse or bankruptcy. This is possible for both, a company or a country. The difference is that the government bankruptcy usually does not mean the ceasing of the country, while the bankrupt company ceases its operations. It is therefore critical that the company adapts to the changes in the environment. The adjustment process is called corporate restructuring. The crisis should not be the cause for restructuring, adjustments in the company should be constant. If we accept the fact that the company needs a crisis to start the process of adaptation to ever-changing environment, then we will always act according to the principles of fire-fighting. We also increase the possibility that the crisis is identified too late and its consequences are too big to be repaired and the company collapses. Corporate restructuring (adapting to changes in the environment) should become a continuous

process in every company. It should follow the vision and the objectives set by the company.

2.2.3. Key factors for the successful solving of company crises

Factors which influence the adaptation of the company to a crisis are internal and external. Most often, the internal factors are analysed. However, external factors such as ownership patterns also influence the development of internal organisational factors. As stated by Lampel, it was considered that companies where ownership is associated with the management are more adaptable due to higher motivation of employees. The crisis in the financial industry, where employees are often company co-owners, has shown that ownership itself is not enough for the company's viability. Ownership can also have a negative impact on the business when employees place their interests before the interests of the company and investors (Lampel, Bhalla and Jha, 2014).

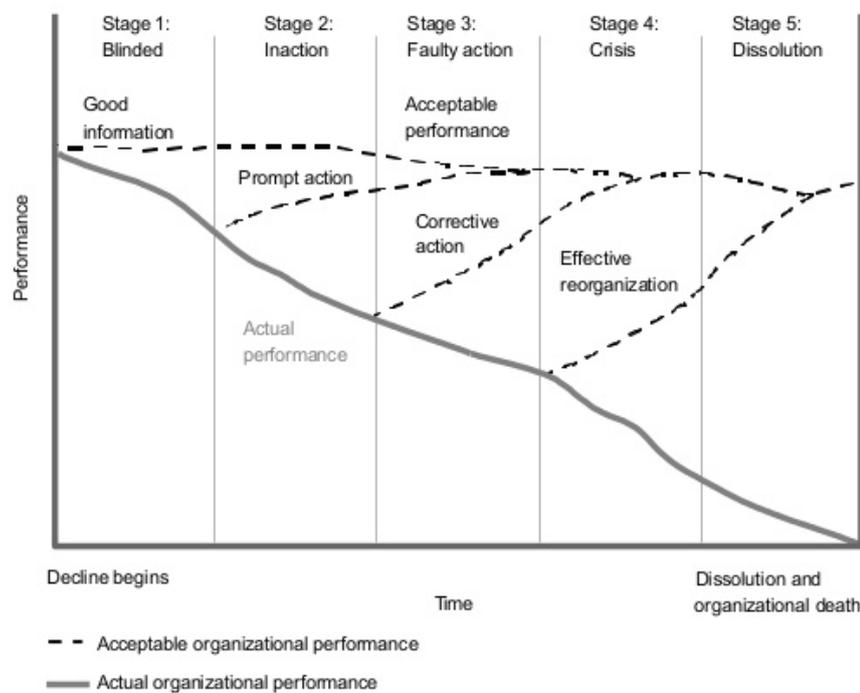


Figure 1: Weitzel and Jonsson's model of organisational decline (Jones, 2010: 346)

Weitzel and Jonsson claim that at the end of each business or company development phase a crisis occurs, which needs to be solved by the management in order for the company to continue with successful operations. In their model of organisational decline (Figure 1) the authors present the following five stages of crisis development: blindness, inaction, faulty action, crisis and company dissolution. It is important that the company can still perform the organisational turnaround and save the company from downfall during the first four stages. However, when it enters the stage of dissolution, the company survival is not possible any more (Jones, 2010).

In every stage of company decline specific warning signs occur. In the first stage of blindness the company doesn't have control over its business processes and lacks efficient information system. It is unable to measure its efficiency and to identify problems in operations. Signs which highlight these problems can be the increased number of employees, slow decision-making, increased number of conflicts in the organization, profit decline. At this stage, fast reaction and appropriate strategy can prevent deterioration and

failure. The management has to ensure monitoring and immediately implement corrective actions if the company fails to achieve its targets.

In the second stage managers do little to solve problems despite sales and profit decline. They might believe that the problems are only short-term, or they just do not see them. It is therefore called the stage of inaction and it can also occur if managers only focus on short-term goals which are in their interest. The gap starts to grow and the managers should start cutting costs, reducing personnel, optimising operations and abandoning unprofitable programs. It often takes a reorganization and change of organizational structure to avoid unresponsiveness and resistance to change.

If the decline is not stopped in the inaction stage, the company enters the third stage of faulty action. Problems have grown too big by now. Individual activities to solve problems have limited results. Managers often take wrong decisions at this stage or they do not take any decisions due to their fear of reorganization. Radical changes might further jeopardize the company and cause even greater crisis.

If the management and the owners don't identify the reasons for existing problems and fail to act even after the end of the third stage, the company enters the fourth stage, the stage of a crisis. The situation in the company is already so critical that only a radical change in strategy and structure can prevent a further decline in performance and failure of the company. At this stage, only immediate extensive reorganization, which will radically change corporate culture, can increase the chances of recovery and survival of the company. Chances of success are significantly lower than in any of the previous stages. The best managers and workers have already left the organization, investors, banks and suppliers are no longer willing to support the company. If the company still cannot find the way to solve its problems, it proceeds to the fifth, last stage of decline, the disintegration or enterprise failure. In this phase the restructuring is no longer possible. The company has lost its suppliers, customers, markets and support from investors. The only option is to liquidate and sell assets in the insolvency or bankruptcy procedure (Jones and Hensher, 2008).

2.4. CRISIS PREVENTION

If the company wants to prevent crises from developing and avoid their negative consequences, it must constantly analyse the organisational structure and all possible sources of change which have occurred when the company was growing. It has to analyse the environment, look for niche markets and changes in purchasing and sales. It is crucial to obtain the information from the employees and customers, ask for help of external consultants and analyse the information gathered. If the management recognizes the warning signs and prepares timely plan of action, it can prevent a negative outcome.

In order to prevent the crises from developing and the company to decline, the management has to:

- Constantly monitor and analyse the structure of the organization and identify potential sources of inactivity and inertia.
- Monitor and analyse all the time the environment in which it operates in order to identify changes in the amount or distribution of resources.
- Recognize that being part of an organization may prevent it from seeing and identifying internal or external problems.
- Be aware of their responsibilities to all stakeholders and be prepared to resign or withdraw if the company needs new leadership, new ideas or new energy.

One model that shows how to prevent crises through the life cycle or organizational growth stages of companies is Greiner's model of organizational growth (Figure 2). The model shows the life cycle of the company, which develops through five stages of growth. At each level, a specific organisational problem can cause the crisis which has to be resolved in order to enter into the next development stage. If the company fails to solve such crisis by changing its strategy or company structure, it enters into a phase of decline. This stage occurs when a company is not able to foresee, avoid or adapt to external and internal factors that threaten the long-term existence of the company (Jones, 2010).

If the company wants to adapt to the change, it must have the right mechanisms and processes in place. Changes cannot happen automatically. An example of three major US giants IBM, GM, Sears confirms that. In 1983, all three companies were dinosaurs, not adapted to the changes in the business world. Strengths of the three companies - brand awareness, customer loyalty, large number of employees, money and large long-term assets, made them virtually untouchable. The companies have seen the changes in their environment, but none of the people in the lead did react. All three companies have indeed begun to adapt to the changes, but only when they were already on the edge of existence. These companies have not been created to change. They have implemented partial changes, such as cost reduction programs and divestitures, but were not able to fundamentally change their business model and processes (Hammer, 1997).

Most businesses have been created in a way that they will not change. Therefore, they are not able to make a major change, or adapt the frame of their business. They are organized in a way that in the future the organization will remain the same as in the past. Management objectives are traditional and follow the requirements of the business owner. When such a traditional organization comes to new ideas, they have to pass many boards, committees, special study groups, and by the time they could be implemented, the opportunity has already passed.

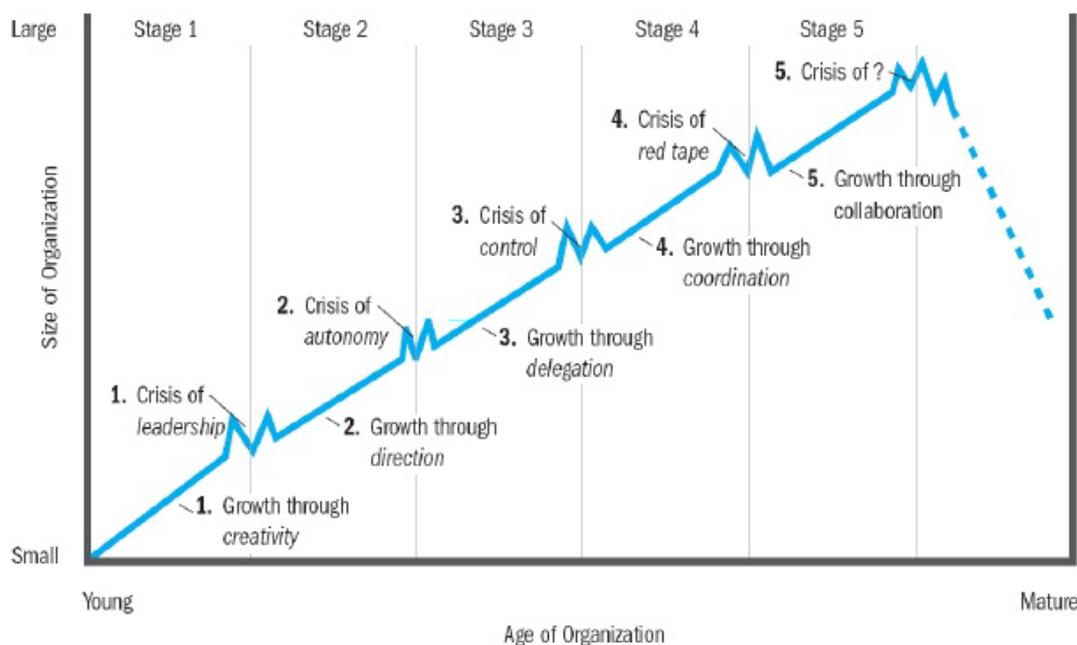


Figure 2: Greiner's model of organisational growth (Jones, 2010: 337)

The company, which wants to prevent the emergence of the crisis, must be organized differently. It must always monitor developments in the business environment, and must be familiar with changes in the company. Changes must become an integral part of the business and flexibility must be built in the company's culture. This is only possible when monitoring systems which analyse the environment, technological development, trends and developments in the industry and in related industries (benchmarking) are embedded in the company's operations and supported by top management. Constant analysis of human, financial and technological resources adequacy is performed, and the system adapts to change, which involves continuous training of employees, upgrading technology and business model checking.

3. COMPANY RESTRUCTURING AS A WAY TO ELIMINATE CAUSES AND CONSEQUENCES OF THE CRISIS AND ADAPT TO A CHANGING ENVIRONMENT

3.1. DEFINITION OF RESTRUCTURING

Restructuring is transforming the structure of the company and the relationship between structures, business functions, business processes and employees and other stakeholders who participate in these relations.

The structure according to Dubrovski is "the whole, consisting of interconnected and interdependent components (ingredients)" (Dubrovski, 2011: 273). "The structure is a static load-bearing company construction and an essential prerequisite for the functioning of the company, supplemented by dynamic processes, or management activities in an organization" (Tavčar, 1999: 127). Compared to a process the structure is static because it is a cross-section of existing elements and their connections at a given moment.

The word structure can relate to "organisational structure or (Bartoli and Hermel, 1986: 88-91):

- Relations between functions and communication network,
- Coordination mechanism (task sharing and coordination),
- Formal rules of operation (policies, procedures),
- Network of activities which enables development of values of all participants (formal and informal elements), and
- A sum of relatively stable organizational elements (working conditions, equipment, etc.), which allow development of human resources in particular.

Consequently, there are six categories of structures:

- Physical structures (location, organization, working conditions),
- Technological structures (equipment, processes),
- Accounting structure (balance of assets and resources),
- Organizational structure (the division of responsibilities and tasks, information and coordination systems),
- Demographics (the characteristics of employees), and
- Mental structure (the prevailing mentality in the company)".

A company has many internal structures and structures connected with external participants (virtual company, outsourcing, business networks, etc.). The word structure can relate to the organisational structure, where the composition or anatomy of the organisation is presented. It shows which services and departments belong to an organisation, how they are grouped and what are their common characteristics. In this way the main groups called the basic functions of the company have developed: sales, production, development, marketing, purchasing and finance (Vila, 1997). According to Biloslavo (Biloslavo, 2006: 205) "the fragmentation (or structure, building) is a frame, shell or load-bearing structure of the organization. It is a prerequisite for the functioning of the organisation, but it cannot exist alone. The structure is static, while dynamic aspects are processes, management activities within the organization. In contrast to the structure of a living being or a technical installation the structure of an organization is invisible. Only operations and behaviour of the organization indicate it exists. Segmentation of an organization determines the division of labour and the distribution of competences and responsibilities within the organization." In addition to the formal structure, deliberately introduced by the management so that the organization can function effectively, each

organization or company also has an informal structure composed of well-established patterns of relationships between the members of the organization.

Broader concept defines the structure of the organisation as a "pattern of formalized relationships and obligations, presented by the organisation chart consisting of duties and responsibilities within the organisation. At the same time the structure defines the distribution of tasks and activities between units and members of the organisation, it ensures the coordination of individual activities and tasks, defines relationships based on power, status and hierarchy in the organisation, formalized principles and operating rules, procedures and controls that direct activities and relationships between people in the organization" (Kast and Rosenzweig, 1985: 234).

Organizational structures in the companies can be divided according to their characteristics to (Bavec and Manzin, 2012: 73) "archaic or intuitive structures, hierarchical structures (functional, product or divisional, geographic or corporate, combined) and non-hierarchical organizational structures (matrix and network or virtual structures)".

If a particular structure of the company or of its individual parts and connections does not meet the conditions required by the changed environment, then it is necessary to change the existing structure and replace it with a new one. This process of transition from the existing structure to the new one, which allows for greater efficiency and effectiveness of the company, is called restructuring (Dubrovski, 2004). "Restructuring can be the elimination of factors which have caused a crisis and their effects. It requires from management quick actions, determined decision making, and identification of problems based on relevant facts" (Lueck and Bartlett, 2004: 163). Some authors are using terms such as company realignment or business reengineering, which is "a fundamental rethinking of the business process and its radical transformation, in order to achieve substantial improvements in critical performance indicators such as cost, quality, service and speed" (Hammer and Champy, 1995: 42).

Restructuring can be divided into active and passive restructuring. Restructuring processes are active when the owners and management use various solutions to eliminate the causes of the crisis, improve competitiveness and ensure long-term growth and development of companies, or passive, when companies go through insolvency proceedings due to inadequate or late reactions by the owners and management. This can lead to the replacement of the management and owners.

Another frequent classification is division of restructuring according to business functions into financial, personnel, organisation, production, development, technology, marketing and IT restructuring (Dubrovski, 2011). Widely used is division to financial and operational restructuring, whereby operational restructuring involves all business functions with the exception of the financial. Financial and business restructuring are usually closely linked, which means that in order to solve the crisis in the company one needs to undertake comprehensive financial and business restructuring. Financial restructuring has to be carried out due to financial reasons (over indebtedness, illiquidity, insolvency), which are normally connected to business reasons (excessive costs, declining revenues, loss of market, incorrect business or sales strategy) and business crisis in the company. On the other hand, operational or business restructuring is not necessarily linked to financial reasons. When the management identifies business reasons for restructuring early enough when the financial situation in the company is still sound, the company might only implement operational restructuring since there is no need for financial restructuring.

3.1.1. Financial restructuring

“Financial restructuring of the company includes changes in the structure of financial sources, whereby the final financial structure of a particular company is the ratio between equity and debt, which maximizes the unit price of a company's equity, while presenting the lowest cost of company's financing” (Dubrovski, 2011: 352-353). Financial restructuring can also include the change between different financial structures, constitutive structure, liquidity structure and financial or capital structure (Repovž and Peterlin, 1998).

During financial restructuring it is necessary to ensure financial planning that will help company restore normal operations. This means the planning of profit, where we define the amount of profit in a given future period and possible variability of profit related to estimated sales, structure of fixed and variable costs and the financing structure. In this context, the rate of operating and financial leverage is important. Operating leverage shows how higher fixed costs of operations influence profit from operations at a given change in sales volume. The ratio between the rate of growth in operating profit and a growth rate of sales volume is called operating leverage. Analysis of financial leverage deals with the relationship between the total profit and operating profit, and shows the impact of fixed expenses of the chosen mode of financing on total profit. Financial leverage is ratio between the change in total profit and the change in operating profit (Mramor, 1993).

3.1.2. Operational restructuring

Operational restructuring in the company is needed, among other things due to non-conforming products or services or their assortment, changes in the customer needs, poor responsiveness of the company to technological development and obsolete means of production (machinery and equipment), inadequate knowledge and lack of specific skills of employees, ineffective business processes, etc. Restructuring cannot be done only in a particular business area (e.g. business function), since the effects of restructuring are normally visible in a coordinated restructuring of several departments, functions or structures (Dubrovski, 2004). Positive result of corporate restructuring is usually a result of coordinated activities in operational and financial restructuring and it requires a certain time.

The objective of corporate restructuring is to provide long-term survival of the company and increase its value for shareholders. Restructuring of the company may include:

- “diagnostic overview and analysis of the existing situation,
- analysis of possibilities for long-term survival of the company,
- rationalization of operating costs,
- redefinition of corporate, business and functional strategies,
- sale of unnecessary assets,
- restructuring of business content,
- reengineering and/or reorganisation of business processes,
- increase of the company value” (Dubrovski, 2004: 223).

The management can perform corporate restructuring even if the acute business crisis didn't occur. It has to constantly monitor development in the business environment, particularly technological change and performance of competitive business enterprises, in order to evaluate their ability to compete and define competitive advantage. If the management decides that existing or perceived changes in the environment might significantly affect the competitiveness of the company, it should find a way to respond to anticipated changes in advance. This may lead to a restructuring process.

Besides financial and operational restructuring, there are also other types of corporate restructuring. In the process of transition and privatization in Slovenia we have seen privatization restructuring, where the change in the ownership structure leads to change in management and business strategy. Similar process takes place when state ownership is transformed in the privatization process and replaced by private ownership.

3.2. RESTRUCTURING AS IMPLEMENTATION OF CHANGE

Already in 1844 the mayor of New York Philip Hone, shocked by the volatility of the environment, has said: 'This world is turning too fast. Progress, politics, reform, religion, they all fly. Trains and steamers are competing with time. Flying is dangerous. Where are good old times of stagecoaches, which went at a speed of six miles per hour?' This statement reflects the belief of people throughout the history. From ancient times to the present day environment has been volatile and unpredictable. Companies that were not aware of the variability in the environment, or have ignored it, have lost business opportunities, or even had to stop their operations (Steiner and Steiner, 2000).

Every restructuring includes introducing changes. Changes may represent progress, growth, success, but also frustration, failure and fear. The biggest challenge of introducing changes is how to lead people through the process of change in a way to overcome their doubts and fears and experience the joy of positive results of change, growth and success. Key success factor is recognition of key features of the change implementation process, as illustrated by the J curve in Figure 3, and the ability to manage human aspects of change (Jellison, 2006).

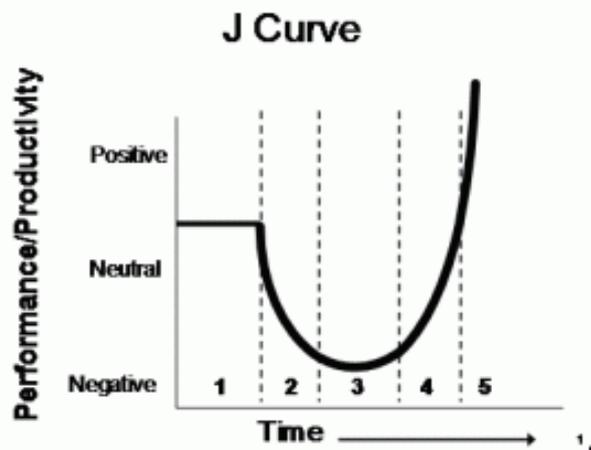


Figure 3: J-curve of change (Jellison, 2006: 3)

J-curve shows a normal performance or productivity pattern in introducing changes, whereby in each time period we subtract total number of failures from the total number of successes. Before we start with introduction of changes the employees of the company are at the highest level, which was achieved so far and is presented as stage 1 (plateau) in the Figure 3. Often their level of managing tasks is at a high level. The information about introducing major changes can lead to negative individual reactions, but in average this does not affect productivity until the introduction of changes begins, which is indicated as the stage 2 (fall). Employees begin to do things in a completely different way and they do more errors. Their productivity declines significantly. When they reach stage 3 (bottom),

the number of errors decreases, workers start to learn and more and more tasks are carried out correctly. In this phase the transition from the old way of working to the new better way is taking place. In stage 4 (the rise) the performance highly improves. The curve is growing almost as fast as it was falling in the stage 2. New procedures are introduced, elimination of inefficiencies is starting to take place, the coordination is always better and employees are gaining experience. Due to the success, motivation is increasing. Up to this point, the productivity was below the initial level at the stage 1, and from here it moves to stage 5 (top). Workers are adept and skilled, performance is increasing, errors are eliminated and costs are reduced. The company has successfully introduced change (Jellison, 2006).

Companies are assessing changes in the environment and include their impact on operations in the corporate planning process. This is the process of preparing an annual operational business plan and strategic long-term business plans. It is a complex and time-consuming process which is performed differently in different companies, but can be represented by a general model. Corporate planning process begins with definition of vision and mission statement, environmental analysis and setting objectives, policies and strategies. This is done by management based on guiding lines issued by the owners. Business plan includes defined measures and determines the criteria for measuring the success of their implementation. On the basis of regular reporting about the results corrective action plan can be prepared, or the objectives, policies and strategies can be adapted (Steiner and Steiner, 2000).

Business environment can be divided into internal and external environment. External environment can further be divided into five separate areas, which affect businesses today. These are economic, political, technological, natural and cultural environment. In each of them there are forces that can cause rapid and profound changes and impact on society, governments, markets, consumers and businesses. Understanding and adapting to these changes is no longer the responsibility of top management, but of all responsible leaders throughout the organization (Steiner and Steiner, 2000).

The objectives of corporate planning and business restructuring are very similar. They are related to the process of continuous improvement of the company.

3.3. DIFFERENT TYPES OF CORPORATE RESTRUCTURING

Changing or restructuring of companies is a broad term which is in professional literature most often connected with organizational change, change management, improving, optimizing, and reengineering of business processes, performance improvement, business restructuring or business turnaround. Sometimes it is also connected with crisis management. This field is closely connected with responsibility of leaders and management in general. Effective and efficient implementation of changes and introduction of new structures (organizational, technological, human, etc.) always depends on knowledge, skills and experience of people who lead and implement these changes (Myers et al., 2012).

There are many theories which consider changing of the organization. We can divide them to approaches dealing with changes in the entire population of organizations, usually industries and branches (they are further divided into population ecology and institutional theory) and theories dealing with changes in the organization at the enterprise level. There are several important theories at the company level. Theory of transaction costs is based on a series of microeconomic decisions that are related to reducing costs. Theory of unforeseen events (contingency theory or contingent theory) states that the process of

adaptation to the changing environment is a constant, continuous process. Organization change models may be permanent, incremental or gradual, where adaptation to changes in the environment takes place through a planned and controlled sequence of many small changes in the company, or radical, discontinuous, where companies implement several major changes within a short period of time, and which also causes changes in company values, strategies, structures, and abilities (Newman and Nollen, 1998).

Based on the magnitude and duration of changes, on the style of leadership and the way how the changes are implemented by the management we can classify the following types of changes (Myers et al., 2012):

1.) Development transition or evolution is a continual gradual adjustment of companies to changes in the environment. They are characterized by a consultative style of leadership and awareness that there is a need for constant improvement. Restructuring takes place all the time and all employees are involved in this process on a voluntary basis. Change is based on mutual trust and continuous communication process.

2.) Targeted changes require constant adjustment of the way how companies work in specific areas. Management style is authoritative and changes are introduced from the top. The person introducing changes requires strict compliance with objectives and delegated tasks. The emphasis is on formal communication with the instructions and regular reporting.

3.) Charismatic changes imply introducing radical changes, which may refer to the entire company. They are led by the charismatic leader in the company, who introduces changes and leads the process, while seeking commitment and dedication from employees. His presentations are inspiring and convincing. Communication takes place from top to bottom but includes regular feedback. Changes are usually introduced by own example, active involvement and leadership.

4.) Turnaround is rapid discontinuous change that requires authoritative change management. It often involves coercion. The aim is to radically change existing working methods by presenting in a formal and authoritative way the crisis situation where the company does not have time, so it is necessary to implement changes rapidly.

Corporate restructuring as presented in this paper is connected with the need for urgent changes that have to be implemented fast. They normally require authoritative way of changing the company. Three most commonly used methods of authoritarian restructuring of companies over the last twenty years are: business process reengineering, lean management, lean manufacturing, and six sigma (Myers et al., 2012).

Company restructuring can be classified in many different ways. We have already introduced the classification to financial and operational restructuring. We can add organizational restructuring and ownership restructuring where the company organization or ownership structure of the company is transformed. One of the often used classifications is restructuring of individual business functions within the company, such as restructuring of sales, purchasing, production, IT, development, or individual departments, e.g. quality control department restructuring. Different types of restructuring may be performed independently from each other, one after the other, or simultaneously, that is, a number of different types at the same time.

3.4. KEY FACTORS FOR SUCCESSFUL FINANCIAL AND OPERATIONAL CORPORATE RESTRUCTURING

The process of business deterioration is associated with various warning factors resulting from both internal and external business environment. The successful company turnaround

requires from management in time analysis of the causes of business deterioration and implementation of an appropriate strategy for a turnaround.

The warning signals are often shown before the company comes into the crisis. Many managers make a mistake when they discard the warning signals as a temporary difficulty. This does not only worsen the business result, but can in the longer term threaten the existence of the company itself. Companies that are taking more risk are more affected by the crisis, especially if they are also taking more debt. In the recession interest rates rise and if this is followed by a decline in sales, shears that occur can trigger a financial crisis in the company (Soininen, Puumalainen, Sjögrén and Syrjä, 2012). On the other hand, companies that are innovative and proactive are better off during the recession. Through innovation and proactive approach they are trying to find new business opportunities.

The key element for early detection of risk factors is understanding and ability to influence the external and internal environment of the company. Internal business environment is easier to monitor while the external competitive environment represents a bigger challenge for the company to control. Political, legal, cultural, social, economic and technological factors represent the external environment. The management often blames external market changes, technological change, and other uncontrollable factors for poor performance and poor business result. Nevertheless, the main causes of business deterioration are within the company, they are represented by inefficiencies in its sales and marketing, development, finance, and manufacturing. Internal and external factors are also linked to each other and external factors often influence the formation of internal factors. Furthermore, internal factors are also interconnected and deterioration in one factor may trigger a chain reaction, which can lead to deterioration of other internal factors. The company in today's business environment therefore needs a management which is capable to monitor changes in the external and internal business environment of the company and timely respond to these changes if it wants to survive (Scherrer, 2003).

Only after the company recognizes the warning signals, the process of change can begin. The timely start of the business restructuring is crucial for the survival of the company and can significantly influence the amount of funds needed for successful turnaround. The main and most typical signal for the late start of restructuring is the fact that the company is already facing a crisis. The reaction of employees is that of a shock, usually followed by denial. Then they decide for a change, which might already come too late. At the beginning of the restructuring the performance of the company is still falling, despite the introduction of changes, and this might cause further resentment and anger (Tavčar, 1999).

There are three different phases of business decline: early, intermediate and late (Scherrer, 2003). Each phase has its own group of warning signals which are presented in Table 1. We can also talk about the concept of contraction, which is presented in Table 2. As opposed to restructuring, the contraction is applied in situations where company growth is not the key aim of the owners, but there are other more important goals and benchmarks - for example, the survival of the organization, profitability of equity, technological progress (Biloslavo, 2006), or when the company restructuring cannot be carried out successfully due to the late start and the owners decided to liquidate the company.

Early	Intermediate	Late	All Phases
Lack of funds	Increase in inventories	Accounts receivable exceed the age of 90 days	Declining market share of key products
The pressure on liquidity	Reduction of sales margin	Paying suppliers with a delay of 60 to 90 days	Poor accounting
Reduction in working capital	Increase in advances to suppliers	Reducing inventory turnover	Additional borrowing
Reduction in ROI for 20-30%	Banks require additional collateral	No liquidity	Increase in employee fluctuation on all levels
Late financial information	Unreliable financial information	Exceeding the authorized bank overdrafts	Conflicts in the management regarding company objectives
Overdue receivables	Breach of loan covenants	Premature layoffs	Increase in complaints
Extending the payables	The loans are used for the coverage of salaries	Stopping of deliveries	
The increase in customer complaints	Fall of customer trust	Reduced working capital	
Decline in sales	Overdrafts on current bank account		

Table 1: Warning signals in different phases of business decline (Scherrer, 2003)

Concept	Strengths	Weaknesses
Turnaround	Effective company treatment for improved performance	All turnarounds are not successful, additional risks are possible
Divestment	Regaining liquid assets, optimising company activities	Questionable divestment returns, loss of synergies, critical mass, company reputation
Omission	Reallocation of scarce company resources to areas with higher yield	Long term process, common employee resistance, problems with past cost and loss allocation
Bankruptcy (liquidation)	Settling obligations to creditors, fair distribution of remaining assets between co-owners	Social vulnerability of employees, uneconomic breaking down of company's activities, damage to company reputation
Submission	Dependence on strong partner can ensure safety and survival of the company	Sharing of benefits from operations is done to the detriment of a subordinated partner

Table 2: Strengths and weaknesses of company contraction concepts (quoted from Tavčar in Biloslavo, 2006)

Most companies decide to implement the turnaround. Depending on the required time to complete a corporate turnaround we can divide the turnaround process to five stages (Scherrer, 2003):

- Stage 1: Analysis - one week to one month.
- Stage 2: Preparation of a plan - one to two months.
- Stage 3: Implementation of the plan - six months to one year.
- Stage 4: Stabilization of operations - six months to one year.
- Stage 5: Return to business growth - one to two years.

Stage 1. Analysis

There are numerous financial indicators used by management when implementing a company turnaround. By using working capital to total assets, net profit to total assets, operating profit (EBIT) to total assets, equity to total financial debt, revenues to assets and other financial indicators, the management is able to assess the status of the company and decide whether the turnaround is viable.

Analysis based on financial indicators is useful as an overview of company's operations in the last three years. It can show the patterns and direction. The size of deviations from the trend shows the required speed of response. Firstly, the management has to find the causes of deviation and bad result. When the indicators are very poor, usually additional liquidity funds need to be provided. The owners can provide these funds through a recapitalization. Part of the funding might be provided by banks, however, they will be unwilling to lend any further money if there is no sound turnaround plan or it is not based on realistic projections. Banks will also require more guarantees.

Stage 2. Preparation of a plan

The purpose of preparing a turnaround plan is to present solutions to the main problems disclosed during the analysis. The plan for turnaround is a document that describes all changes and business solutions. It can be used for restoring confidence of stakeholders and guide the process of restructuring. Turnaround procedures may be different, but most commonly used are the following three:

1. Strategic business turnaround redefines the business model. It may include a change in the market and new definition of product groups.
2. Operational turnaround changes existing business processes. This may mean reducing costs, creating new revenue streams and reducing assets.
3. Financial turnaround only restructures financial structure of the company. This way the company can continue with operations, however, this can also represent the basis for later restructuring in other areas of the company.

Stages 3, 4 and 5. Implementation of the plan and stabilization of operations

In the initial phase of the turnaround a financial reorganization and market and customer base analysis are most important elements. Financial restructuring takes time, but it has to be implemented immediately in order to stop further deterioration of business. Daily monitoring and cash flow planning is crucial and the entire planning of operations is dedicated to providing the highest possible cash flow. Cash flow control is also one of the most important requirements of most lenders. The other important part of the turnaround process is the analysis of customers and markets in which the company operates. This way, the management can determine which customers bring profits and how regularly they settle their obligations.

The key factors for successful restructuring are the stakeholders, which may be external or internal. The most important external stakeholders include those who constitute the market (customers, suppliers) and regulatory environment (public authorities, government, legislature, inspection), as well as banks, and players in the labour market. Internal

stakeholders in the company are the supervisory board, corporate executives, managers and key personnel, workers, workers' representatives, trade unions. Every company has to define the main stakeholders and business objectives and separate them from other objectives (e.g. social).

Based on the presented characteristics of corporate restructuring and different approaches, theories and models, we have identified the following key factors for successful financial and operational corporate restructuring: established system or method for detecting changes in the environment, timeliness and speed of implementation of measures, secured financing, successful management leadership and sufficient motivation of company employees.

4. APPROACHES TO CORPORATE RESTRUCTURING

4.1. DIFFERENT STRATEGIES OF CORPORATE RESTRUCTURING

Potential crises faced by each organization cannot be avoided, because all business activities have risks (strategic, financial, operational, commercial, technical, etc.). It is however possible to prevent conditions leading to an acute crisis by implementing different strategic management methods (Dubrovski, 2011).

Normally, the activities are connected with the change management or management of change.

The process of introducing the change includes a series of complex activities. Each of them is important for the overall success of the changes that are introduced. The process can be divided into four activities, which are presented in Figure 4. If we want a successful result, each activity must be fully completed. A failure to introduce any single activity will result in a failure of the change that we wish to introduce (Nilakant in Ramnarayan, 2006):

- accepting the change,
- building support,
- change implementation, and
- development of skills and construction of system that will adapt to change.

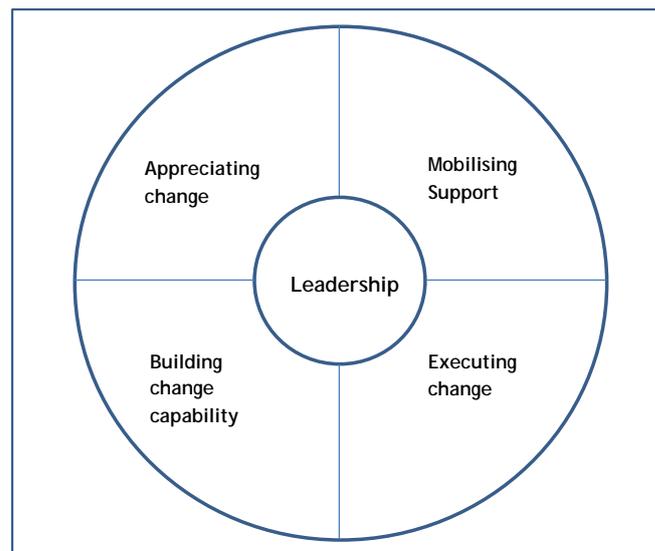


Figure 4: Change Management Model (Nilakat and Ramnarayan, 2006: 30)

At the time the company faces business problems the owners and managers are faced with the fundamental question, namely, what strategy for rescuing the company is the right strategy and will it after the given time lead to successful restructuring and turnaround in the company's operations. It may be that the initial strategy requires cost cutting, and is then replaced by a strategy that generates revenues. Strategies can be combined and used in different sequences. As Scherrer is stating, the companies in different stages of development can use various strategies. Selection of a strategy and timing when a strategy is applied are crucial for the success of restructuring (Scherrer, 2003):

- Mature companies are using the strategy of restraint and efficiency, but they are not focused at products and markets.
- Companies with low capacity utilization must implement a strategy of cost reduction.

- Companies with high capacity utilization should implement a strategy of cost reduction.
- Companies with high market share should use the strategy of revenue generation and orientation on product marketing.

As an effective tool in dealing with the companies facing a decline in efficiency, we can decide for one of the six turnaround strategies. First four are related to the main objective of the turnaround, while the other two strategies are associated with the change process needed to implement a turnaround (Schoenberg, Collier and Bowman, 2013):

- achieving cost-effectiveness,
- limiting the use of resources,
- focusing on key competences,
- planning for the future,
- change of leadership, and
- change of corporate culture.

Corporate restructuring strategies can be classified into different groups (Smith and Graves, 2005), namely strategies can be focused on business efficiency (cost reduction and reduction of resources) or they can be business-oriented (adapting operations to market changes). The main objective is to stabilize the financial position of the company and implement integration activities, such as gathering support from stakeholders, eliminating inefficiencies, stabilization of internal relations and improvement of decision-making processes. When the financial position is stabilized, the management should decide on its strategy for the recovery of operations: whether it will look for profitability with a reduced scope of operations or execute a (business-oriented) strategy aimed at growth.

Turnaround strategies focused on business efficiency are trying to reduce costs and improve productivity and efficiency of company's operations. Reduction of costs and increase of efficiency are important factors for the success of turnaround because these measures improve profitability in the short term and allow the company to release its resources for a more effective use elsewhere. The company can for example invest released funds into new technology or in the new markets. 'Return' is statistically significant category and distinguishes companies that have successfully implemented reorganization from those that go into liquidation. There is also a statistically significant correlation between the success of the turnaround and the company size. In general, smaller companies can be more successful because they are able to adapt to a changing environment faster than the large companies. However, there are also studies presenting the reverse effect, whereby the larger companies are better equipped to collect the additional resources needed to carry out the restructuring. In large enterprises, the probability of survival is greater, because of larger assets and negotiation power. Large companies are also more recognizable, the potential loss for shareholders is higher and therefore they are more likely to be kept alive.

The change of management is an important step towards the recovery, since it can re-establish the trust of stakeholders in the survival and successful future operations of the company. The new management can offer a fresh insight into the causes of decline and bring new skills and motivation to achieve organizational change. Therefore, a change of management is one of the most important turnaround measures. In many cases the old management was no longer able or prepared to introduce changes necessary to stop the decline of operations.

The seriousness of the financial situation is a crucial factor in the company's ability to take appropriate recovery measures. Companies in serious financial difficulties must aggressively cut costs and reduce assets. During the restructuring additional costs can incur

due to a reduced employee confidence, absence and fluctuation of employees, lower quality of service, sabotage. In order to stabilize the company, the management should gain the support of stakeholders, improve the efficiency of operations and cash flows, and improve internal decision-making processes. The aim of the recovery is to ensure that all the causes of decline are recognized and eliminated.

4.2. COMMON CHARACTERISTICS OF DIFFERENT APPROACHES TO CORPORATE RESTRUCTURING

There are various factors related to the crisis in a company and to restructuring activities. Also, different corporate turnaround strategies can be used to solve a specific problem situation. Different approaches to the implementation of a turnaround strategy may however have common characteristics.

Seven essential factors define a successful corporate turnaround and preparing an efficient restructuring plan (Slatter and Lovett, 2006): stopping the crisis and stabilization of business, appointing new management, managing stakeholders, strategic orientation, critical improvement process, implementing organizational changes and financial restructuring. Table 3 presents the connection between the essential restructuring factors and successful turnaround strategies that address the specific problem in the best way.

Factors of turnaround	Turnaround strategies
Stopping the crisis and stabilization of business	<ul style="list-style-type: none"> - Acquiring control over the situation - Control over cash flows - Sale of assets - Provide short term financing - Reduction of costs
New management	<ul style="list-style-type: none"> - Change of the managing director - Change of other managers
Management of all stakeholders	<ul style="list-style-type: none"> - Establishing communication with all Stakeholders
Strategic orientation	<ul style="list-style-type: none"> - Definition of core activities - Divestments and cuts - Focus on the product and markets - Reduction of unprofitable areas and products - Outsourcing - Investments
Critical improvement process	<ul style="list-style-type: none"> - Implementation of structural change - Change of key employees - Improvement of communication - Building on employee commitment and capabilities - New conditions for employees
Organizational changes	<ul style="list-style-type: none"> - Increasing sales and marketing - Price adjustment - Quality improvement - Improving responsiveness - Better information and control systems
Financial turnaround	<ul style="list-style-type: none"> - Refinancing - Disposal of unused assets

Table 3: Relationship between factors and turnaround implementation strategy (Slatter and Lovett, 1999)

There are six stages that a company in a turnaround situation will need to go through (Downey, 2009):

Stage 1: Management Change. Involves the board of directors or senior management to recognise that a change is necessary and initiate corporate turnaround programme. This often involves bringing a new CEO or an external specialist.

Stage 2: Business Review. The company must quickly identify the underlying problems causing the current situation and understand the business' chances of survival. This includes a thorough assessment of strategy, operations, finances, infrastructure/people, and commitment and capacity to change.

Stage 3: Business Restructuring Plan. It is important to identify appropriate strategies and develop an achievable recovery plan with detailed functional actions. Typically, this will include action to: restructure outstanding debt obligations, reduce operating costs, improve management of working capital, enhance product pricing and customer mix, streamline product lines, and accelerate growth of high potential products. The plan must be communicated to all key stakeholders in the company and external parties such as banks, suppliers and creditors to gain credibility and restore their confidence in the business.

Stage 4: Implementation. At the emergency stage, companies must do whatever is necessary to survive. This may include making redundancies, eliminating departments and drastically reducing all non-essential costs. Positive cash flow is critical and must be established quickly. Additionally, cash will be required to implement the turnaround strategy and must be sourced immediately.

Stage 5: Stabilisation. The main focus is on improving the efficiency and effectiveness of the remaining business operations. The company must increase profitability and its return on investment while ensuring the smooth operation of existing facilities. This is often the most difficult stage.

Stage 6: Embedding the change. The final stage concentrates on embedding the turnaround, with the company gradually returning to financial health. Management behaviour and reward and compensation systems need to focus employees on profitability, return on investment and value creation. To achieve long-term sustainability and growth, the organisation may also need to develop new markets, new products or strategic alliances, improve customer service and enhance product quality and secure long term financing.

5. DEVELOPMENT OF A GENERAL CORPORATE RESTRUCTURING MODEL

Several methods, models and process diagrams have been developed for the strategic planning, analysing and monitoring of company operations. In 1979 Rockart developed a Critical Success Factors method based on the Pareto 80/20 rule for the needs of strategic management. He identified critical success factors as targets and results in the important areas to which we need to pay particular attention, and which need to be successful in order to ensure the success of the organization. They are based on definition of company's vision, mission and business goals and constitute a fundamental platform for business planning. They help us identify key business processes, define key performance indicators of these processes, and compare results with the plan. This enables the management to continuously measure the effectiveness and efficiency of the strategy implementation (Kovačič and Bosilij Vukšič, 2005). Overlapping of planning and implementation stages, characteristic for the restructuring process is shown in Figure 5.

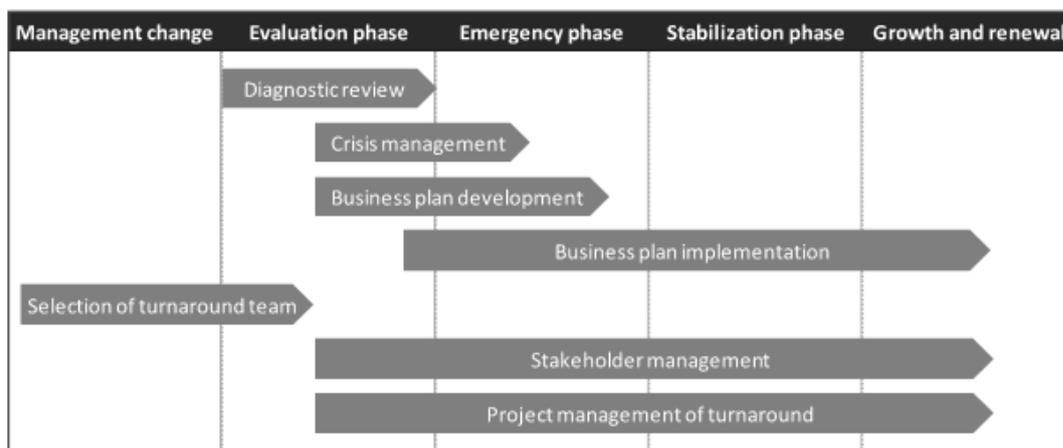


Figure 5: Planning and implementation stages in turnaround process (Slatter and Lovett, 1999)

Individual turnaround processes and activities can take place in two stages of corporate turnaround, or even throughout the entire restructuring process, while other measures and restructuring activities might be happening simultaneously within the same stage. Slatter and Lovett divide the restructuring process into four phases: evaluation, emergency, stabilization and growth and renewal phase which normally follow the change in management. In the evaluation phase the analysis of company situation is conducted, preparation of the restructuring plan starts and the turnaround team is selected. At the same time, managing relations with stakeholders and project management of turnaround begins. It can take place throughout the four phases. The company also starts implementing the restructuring plan, which also takes place throughout the remaining two phases of stabilization and growth and renewal (Slatter and Lovett, 1999).

Analysis of key success factors and monitoring of selected performance indicators is only representing part of procedures and methods the management can use to monitor operations and detect deviations from plans and from other companies in the industry. These methods and procedures can be seen in the wider context of the analysis of company's internal and external environment.

Corporate restructuring is a complex process, where the management is suddenly confronted with a number of interrelated variables. It is therefore important to properly evaluate a complete set of measures, activities and tools that are available to the management. For this reason, many authors have developed various models of the corporate turnaround or corporate restructuring process. We are presenting only a few, Schmitt holistic turnaround process model (Figure 5), Smith and Graves turnaround process model (Figure 6) Ernst & Young Performance Wheel (Figure 7), and Roland Berger restructuring concept (Figure 8). According to Tavčar the management has to handle the strategic dimension of business policy of an organization by starting with managing models that include processes or main activities carried out by the organization. Most authors consider process models for design and sometimes also for implementation of business policies or operational restructuring (Tavčar, 2000).

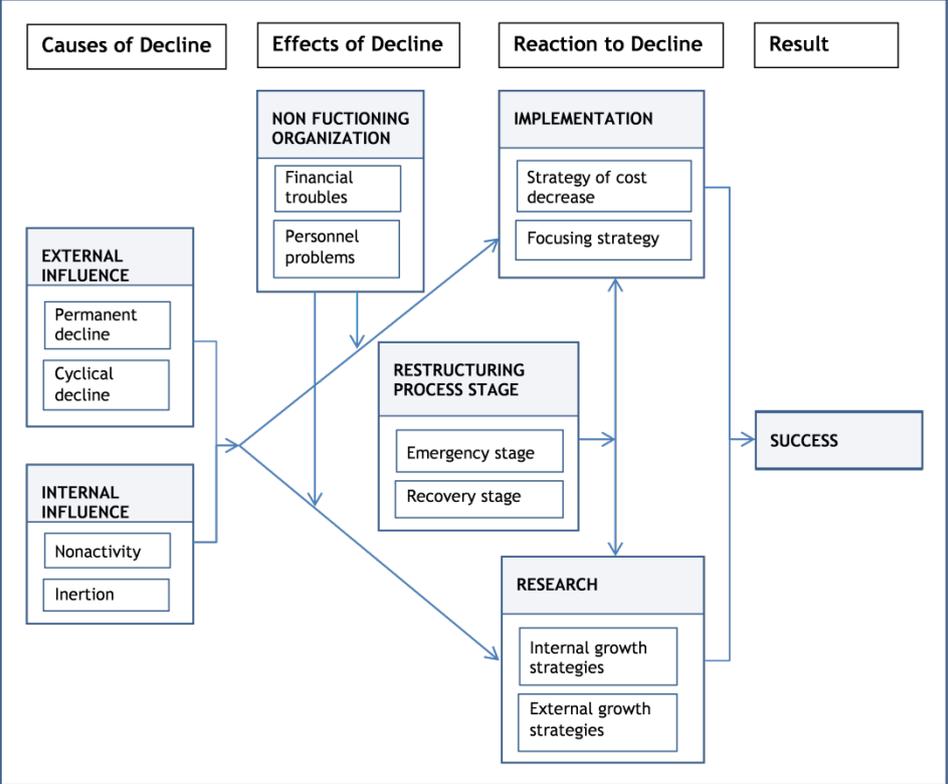


Figure 6: Holistic turnaround process model (Schmitt, 2009)

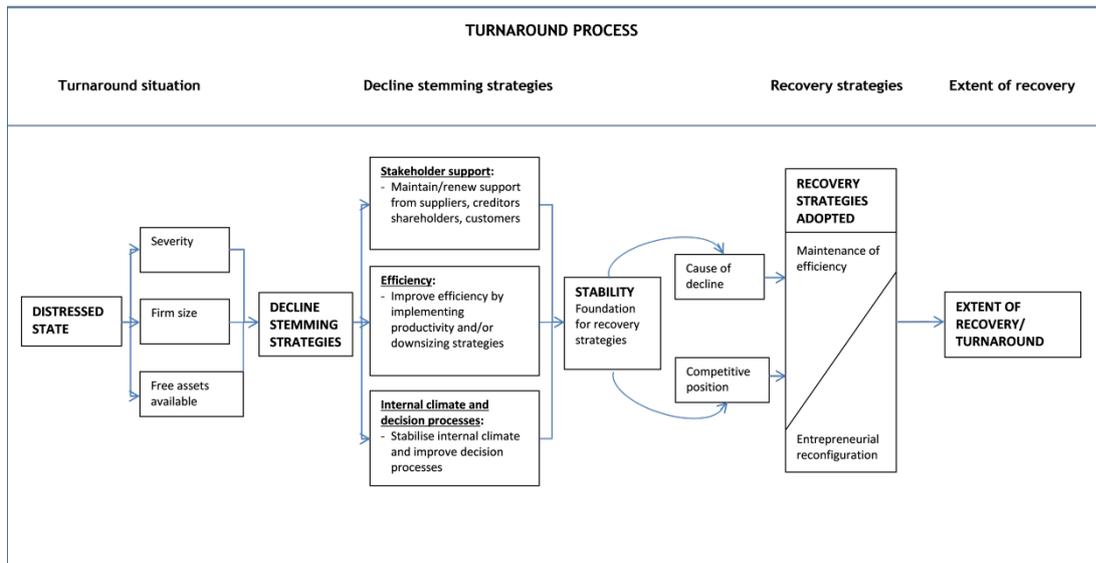


Figure 7: Turnaround process model (Smith and Graves, 2005)

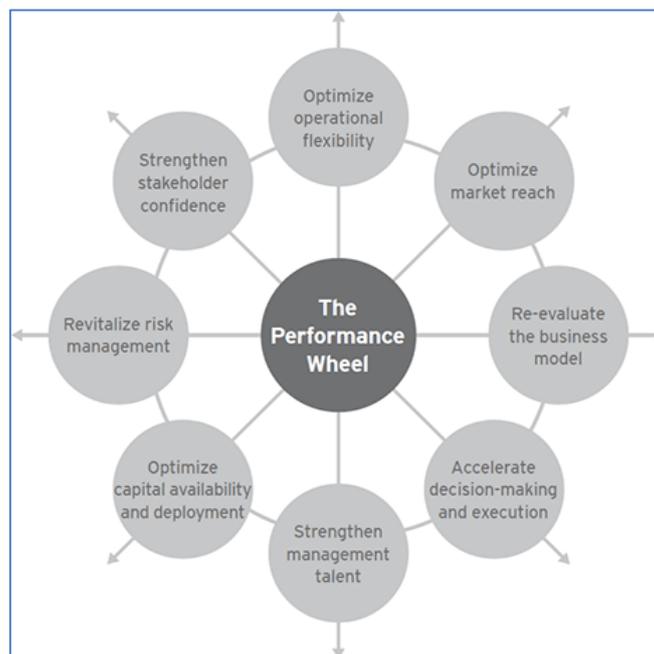


Figure 8: Ernst & Young Performance Wheel (Ernst & Young, 2010)

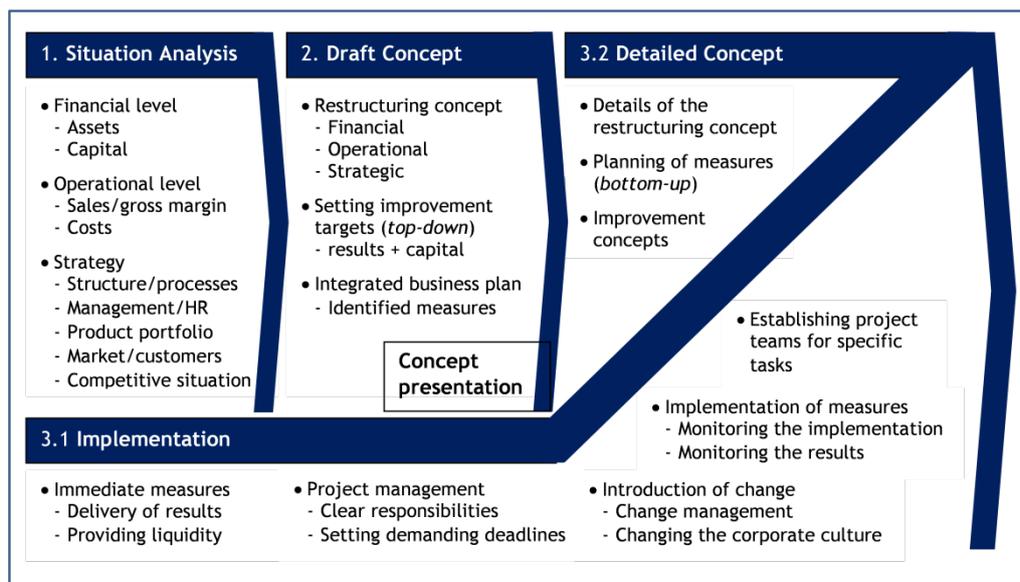


Figure 9: Roland Berger restructuring concept (Blatz, 2006)

"Models are images of the real world, reflecting the idea or view of reality. They allow us to better present, define and understand the problem." (Kovačič and Bosilij Vukšič, 2005: 177). The authors of different models want to present general concepts or processes in a specific area, in this case in restructuring of business enterprises. The problem is often that models can be very general. This can be convenient for the presenting the results of scientific analysis in textbooks, professional book or article, but is less useful to assist management with practical implementation of restructuring in a specific company.

We have therefore developed a more detailed and generally applicable model of restructuring. We have based it on our studies of scientific literature, existing general corporate turnaround models and analysis of different stages and processes of corporate restructuring, and are presented in this paper. It is intended to assist all managers who are carrying out the process of restructuring and other stakeholders, business owners, and employees who participate in the process. It will serve managers as a tool for identifying various stages of the restructuring process, better planning the restructuring activities and successful implementation of the restructuring measures. Others can use the model to understand the restructuring process in which they must participate and often radically affects their working environment, situation and role in the company.

The development of a general corporate restructuring model can also be important for creditors and lenders when deciding whether to approve or extend the loan, or when assessing and deciding if the company can still be rescued, or it should be liquidated. The model can help to determine whether the company has the potential to revitalize the business and in particular to determine if it is capable of operating profitably in the future. By developing a general corporate turnaround model we have resolved the weaknesses of other models, since we presented the key activities in the corporate restructuring process in more detail and placed them in particular stages of the process. The model does not include all the activities that must be carried out in the corporate restructuring process, as it would become too large and lose its benefits. However, it can help us to plan turnaround activities more efficiently and set our priorities, which are crucial in the implementation of restructuring measures.

The corporate restructuring model presented in this paper is showing different stages of the corporate restructuring process, while at the same time it allows us to connect each

stage with the individual functional area in the company. The model is presented in Figure 10 and contains the following six stages of corporate restructuring: 1. Operational decline, 2. Crisis, 3. Analysis, 4. Strategy for restructuring, 5. Implementation of measures, and 6. Recovery. All the stages are related to different areas of management, sales, finance, production/supply of services, development, organization and human resources. Although we could state a number of other areas or business functions in the company, these are the most important areas in the corporate restructuring. Purchasing and logistics are considered as part of production.

We are assuming in the model that stages in the restructuring process are following each other, and that the business restructuring does not only occur once in the company lifetime, but it is a recurring event. In a given time after the completion of the sixth, final phase of the restructuring process, the conditions in the internal or external environment change again to the extent that the company needs to enter a new process of adaptation. The model includes a system of continuous monitoring of the environment and allows on time identification and detection of changes and deviations inside and outside of the company. If the changes are large enough, this is a signal for the company's management to initiate the process of analysis, which will help them determine the existence of a crisis, its scope, its causes and resources at their disposal for the crisis resolution. Hereby the term crisis means all those situations where there is a significant deviation from the established mode of operations of the company, even if they do not directly threaten the functioning of the company.

The phase of analysis is followed by the response of the management of the company where they define a strategy to resolve the crisis and determine the future operations of the company. An operational plan with specific tasks, responsible persons and deadlines is prepared. Resources are activated and the implementation of turnaround measures is started. Their aim is to improve the efficiency and to adapt business processes to changing conditions in a way, which will ensure long-term survival and successful operations of the company. In the capitalist economic system this is normally considered to maximize profits, but it can also mean an increase in employment or harmonization with the natural environment. It is important for the management to communicate appropriately. The final result of restructuring is a state of company stability, which occurs in the recovery phase.

The main characteristics of the general corporate restructuring phase model, divided by stages of restructuring and functional areas, are presented in detail in Tables 4 and 5. Moreover, the key activities for successful corporate restructuring are presented in Tables 6 and 7. These tables are designed for management, owners and other stakeholders as a tool for implementation of operational restructuring and are based on the presented model. Same as with the model, we have assumed that the turnaround process is carried out in phases, following each other from left to right. The tables allow us an easy overview of the main features of each stage (phase) in the restructuring process for a particular functional area if we read them from top to bottom, and an overview of the characteristics of individual functional areas in the company, or important activities through all six phases of restructuring, when we read from left to right.

The main characteristics of the general corporate restructuring phase model by stage and area are presented in Tables 4 and 5. For example, the main characteristic of the first phase (business decline) in the area of management is lack of management vision. The company failed to adapt to changes in the environment. This was accompanied by wrong management decisions and the business result is deteriorating. This leads to a crisis phase, where unresponsive and indecisive management continues accepting wrong decisions. Part of the management refuses to change and disputes among the management are frequent. At this stage the change of management normally occurs. In the phase of analysis the new

management first determines whether there is a chance of company survival, what is the extent of the crisis, what are its causes and what resources are at management's disposal for the crisis resolution. During the next stage, the restructuring strategy, the vision and a restructuring program is prepared by the management, restructuring team is formed, key resources are identified and the schedule is drawn up. The next phase is the phase of restructuring measures implementation. Cost reduction, increase of revenues, optimization of production and other restructuring measures are carried out. Speed and determination are key factors of success. In the last phase of recovery the company already operates positively, the main causes for the crisis have been eliminated and business processes are adapted to the changed conditions. The management should establish a system which will prevent the emergence of future crises and develop company's competitive advantages. Based on its vision a long-term plan for growth and development is prepared and launched. At this stage, owners might appoint new management, because management in normal conditions differs from the crisis management. The model allows us to monitor different activities in the field of sales and marketing, finance, production, development, organization and human resources at each stage of the restructuring in a similar way.

Tables 4 and 5 will help management to find out in which stage of corporate restructuring is their company. Tables 6 and 7 present key activities that are the most important and most common for a specific stage and functional area, and thus assist the management to implement the right measures in a faster way. The same concept as with the general corporate restructuring phase model is used, where the lines present activities in certain area and columns present activities by different stages of corporate restructuring. Activities presented in tables are based on studying of professional literature, articles, case studies and especially on own project work on different corporate restructuring cases in Slovenian and international companies.

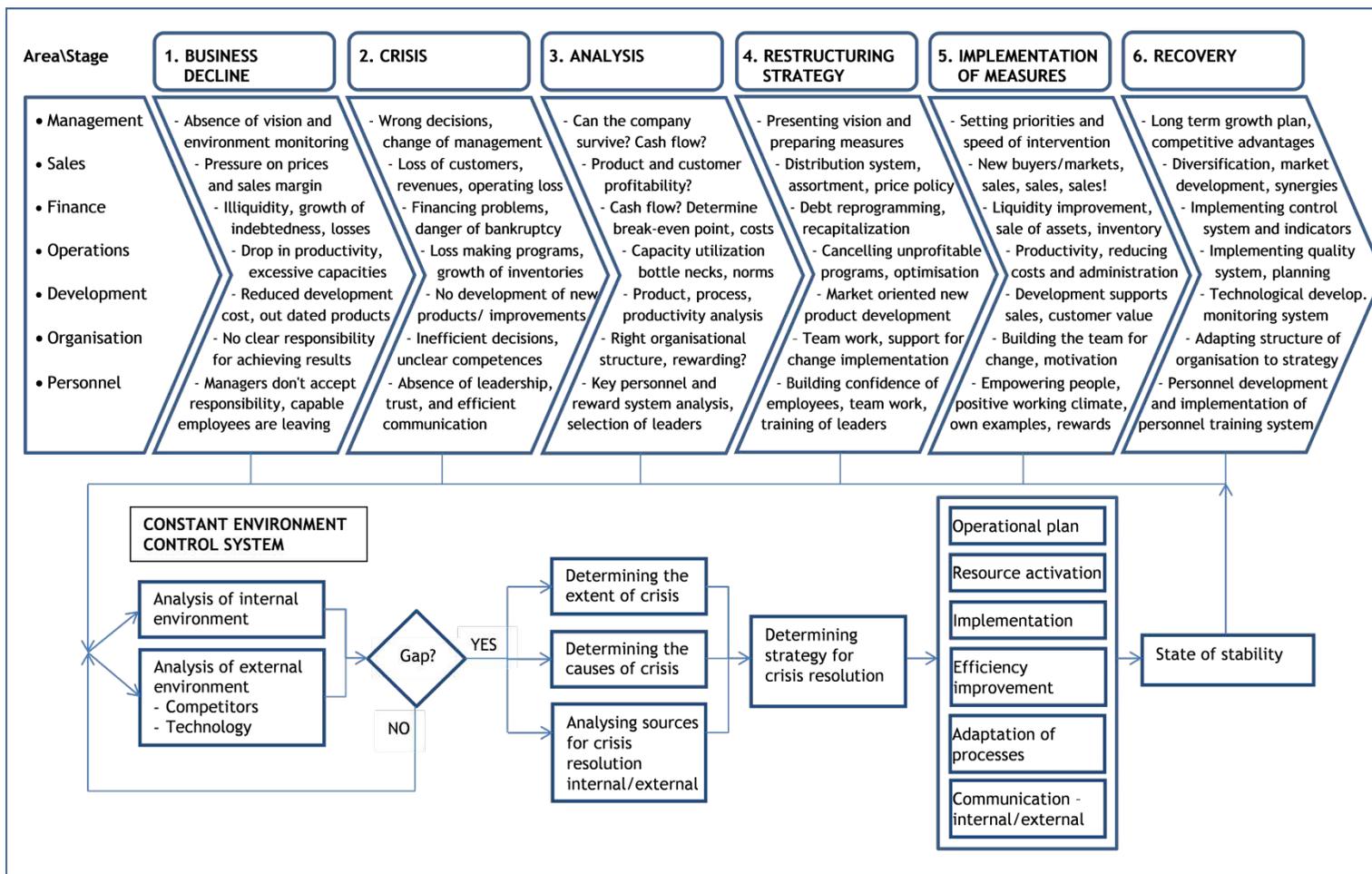


Figure 10: The general corporate restructuring phase model

Area\ Stage	1. Business decline	2. Crisis	3. Analysis	4. Restructuring strategy	5. Implementation of measures	6. Recovery
Management	<ul style="list-style-type: none"> - Management does not have the vision of company development - There is no system for environment monitoring - Uncoordinated management team - Different valuation of the situation and appropriate measures 	<ul style="list-style-type: none"> - Unresponsive leaders and wrong decisions - Wrong priorities and inconsistent solutions - Frequent disputes concerning crisis response and measures - Part of management rejects changes 	<ul style="list-style-type: none"> - Determine options for company survival and value for the owners - Is the existing management able to solve the crisis? - Determine the scope, causes, and resources to solve the crisis 	<ul style="list-style-type: none"> - Preparing restructuring program and vision of company development - Identifying key sources for plan implementation - Forming key turnaround team, assigning duties and tasks - Preparing schedule of implementation 	<ul style="list-style-type: none"> - Achieving profitability by reducing costs, optimizing production and increasing sales - Preparing measures, setting responsible leaders, teams, deadlines and priorities - Preparing conservative plan, aggressive and rapid implementation 	<ul style="list-style-type: none"> - Developing competitive advantages - Preparing plan for growth, efficiency and yield increase - Setting up environment monitoring system - Annual verification of long-term plans
Sales & Marketing	<ul style="list-style-type: none"> - Decline in sales revenues, market share, sales prices and sales margins - In transparent discount system, unfavourable payment terms - Inventories increase - Inefficient distribution system - Marketing activities not supporting sales 	<ul style="list-style-type: none"> - Losing key customers, sales revenues decline - Unprofitable products and customers - Increasing operating loss - Sales is concentrated on non-profitable and small customers - Company fails to acquire new customers 	<ul style="list-style-type: none"> - Determining profitable products/ programs, price calculations - Analysis of sales channels, distribution, representatives, agents - Verifying sales and marketing strategies and systems, analysis of sales funnel - Determining priorities by ABC analysis 	<ul style="list-style-type: none"> - Developing product assortment, determining competitive advantages - Creating sales and pricing offers - Identifying key markets, geographical or product allocation by sales people - Sale and marketing activities planning 	<ul style="list-style-type: none"> - Immediate increase in sales activities - Continuous sales cost control, verification of competitiveness - Selecting right business partners (distributors, agents, customers) - Developing new products and marketing support - Continuous support of management 	<ul style="list-style-type: none"> - Research of new markets and market segments - Monitoring competition, substitutes, technical improvements - Diversification based on synergies - Strategy of cost efficiency vs. strategy of value-added and brand development
Finance	<ul style="list-style-type: none"> - Problems with liquidity - Late and unreliable financial information - Growth of overdue accounts receivables - Growth in payables - Over-indebtedness - Cost reduction is slower than decline in revenues - Part of the business is not profitable - Lower return on investment 	<ul style="list-style-type: none"> - Accounts receivable are longer than 90 days - Decrease in working capital and inventory turnover - Delay in payables over 60 days - Illiquidity, stopping material supplies - Further borrowing not possible, banks executing collateral - Increasing the share of fixed costs in the price of products 	<ul style="list-style-type: none"> - Analysing financial categories: cash flow, profitability, break-even point, gross margin by product, value chain - Analysis of balance sheet, fixed and current assets, liabilities, inventories - Review of reporting and monitoring system - Identifying cost reduction opportunities 	<ul style="list-style-type: none"> - Loan rescheduling, inventory disposal, aligning maturity of sources of funding and achieving appropriate capital structure - Preparing financial projections, risk and sensitivity analysis - IT development and management information systems (MIS) investment overview 	<ul style="list-style-type: none"> - Improving liquidity and creditworthiness - Restructuring of short-term loans into long-term, ensuring lending capacity for short term financing, LC's and bank guarantees - Ensuring capital adequacy - Ensuring support of owners and banks for implementation of the restructuring plan 	<ul style="list-style-type: none"> - Cost and maturity optimisation of loans received - Monitoring of optimal cost of financing (WACC calculation) - Developing financial reporting - Introducing controlling, monitoring quantitative and qualitative key performance indicators

Table 4: Main characteristics of the general corporate restructuring phase model by area - part 1

Area\ Stage	1. Business decline	2. Crisis	3. Analysis	4. Restructuring strategy	5. Implementation of measures	6. Recovery
Operations/ Services	<ul style="list-style-type: none"> - Non-competitive and out dated products - Low productivity, delays in production - Poor quality, growth of complaints and reclamations - Producing partially on stock 	<ul style="list-style-type: none"> - Increase of non-performing programs - Surplus workforce - Underutilization of production capacities - Small series, frequent substitution of tools - Frequent failures and downtime in production due to lack of material 	<ul style="list-style-type: none"> - Production capacity utilization analysis, and analysis of the technology used - Identifying production bottlenecks, planning urgent investments - Review of norms - Quality evaluation of suppliers 	<ul style="list-style-type: none"> - Planning production capacity optimization and profitability of production programs - Providing resources for urgent investments - Optimizing production processes, eliminating production delays 	<ul style="list-style-type: none"> - Optimizing production processes and production capacities - Amending production norms, establishing order confirmation rules - Realizing urgent key investments into machinery/ equipment renovation or purchase - Optimization of planning 	<ul style="list-style-type: none"> - Preparing and implementing machine park and tooling renovation program - Updating technology - Continuous upgrading of quality system - Developing strategic partnerships with leading companies
Development	<ul style="list-style-type: none"> - Termination of new product development and new technology investments - Reducing or cancelling of development departments and funds 	<ul style="list-style-type: none"> - Cancelling development resources, no new product development - Out dated technology causes additional costs compared to market - No production improvements support 	<ul style="list-style-type: none"> - Analysis of marketable new product development - Analysing value chain - Overview of the technology used - Improvement introduction review 	<ul style="list-style-type: none"> - Considering economic value added (EVA) and competitive advantage analysis concept - Development should support sales and consider customer expectations 	<ul style="list-style-type: none"> - Establishing market oriented new product development department - Development and technology should closely cooperate with production, incentives for process improvements 	<ul style="list-style-type: none"> - Developing a system for monitoring new technologies, technical solutions and competitors - Focus on creating added value
Organisation	<ul style="list-style-type: none"> - Rigid, inflexible organisational structure - Internal culture of complaining and warning of faults of other people - Leaders protect their areas at the expense of the company's success 	<ul style="list-style-type: none"> - Long inefficient process of decision making, growth of bureaucracy - Insisting on rigid, non-practical rules - Unclear organisational structure and responsibilities - No performance measurement and reward system 	<ul style="list-style-type: none"> - Analysing organisational structure, business processes, feedback and documents flow - Analysis of reports and decision making - Preparing a plan for changing organisational system and culture 	<ul style="list-style-type: none"> - Verification of the restructuring plan, adjusting to resources and requirements of stakeholders - Communicating key measures with stakeholders (owners, executives, employees, environment, business partners) 	<ul style="list-style-type: none"> - Introducing modified and flexible organisational structure - Adapting format of reports and decision making information - Change in organisational culture 	<ul style="list-style-type: none"> - Adapting the structure of organisation to changing needs - New organisation must promote cooperation, efficiency and development of common objectives
Human resources	<ul style="list-style-type: none"> - Managers do not feel responsible for bad results - Departure of key personnel - Reduction of funds for training 	<ul style="list-style-type: none"> - Inadequate leadership, no clear responsibility - No trust, poor communication - No teamwork - Lack of control over the task execution, shifting deadlines, no penalties - No reward system in place 	<ul style="list-style-type: none"> - Analysing functioning of leaders, teams and key individuals - Finding discrepancies with the organisational structure - Overview of key competencies and gaps - Analysis of potential reward systems 	<ul style="list-style-type: none"> - Recruitment and selection of personnel with key competences - Optimization of personnel structure (by education and age) - Combining required experience, skills and competencies, training program preparation 	<ul style="list-style-type: none"> - Training the management for crisis operations and implementation of change - Ensuring critical mass for change, including through external recruitment - Forming optimal teams 	<ul style="list-style-type: none"> - Developing key personnel - Combining internal and external training for workers and management - Encouraging and motivational reward system

Table 5: Main characteristics of the general corporate restructuring phase model by area - part 2

Area\ Stage	1. Business decline	2. Crisis	3. Analysis	4. Restructuring strategy	5. Implementation of measures	6. Recovery
Management	<ul style="list-style-type: none"> - Strengthening management with a crisis management expert - Preparing the vision of company development - Establishing environment monitoring system 	<ul style="list-style-type: none"> - Change of management - Forming the restructuring team - Taking control over operations - Preparing and prompt implementation of crisis measures - Communicating vision and sense of urgency 	<ul style="list-style-type: none"> - Analysing possibilities for company survival and profitability - Defining internal and external financial and human resources - Defining core business, profitable units and preparing the restructuring plan 	<ul style="list-style-type: none"> - Management preparing the restructuring plan as annual operating plan and five year projections - Focus on concrete actions, communication and obtaining support - Determination of priorities and timelines 	<ul style="list-style-type: none"> - Fast implementation of measures, clear priorities, flexible plans - Participation of a wide circle of employees - Prompt monitoring of results and immediate feedback 	<ul style="list-style-type: none"> - Competitive advantages in people, products and services - Setting challenging but achievable targets - System of continuous introduction of changes - The key is collaboration and management support
Sales & Marketing	<ul style="list-style-type: none"> - Calculating costs, sales prices, profitability of product and customers - Preparing sales strategy, sales conditions and payment terms - Increase of sales activities with focus on closing 	<ul style="list-style-type: none"> - Stopping the loss of customers and revenues - ABC analysis of products and customers, focus on A customers/products - Increasing sales margins by lowering product costs - Increasing sales prices - Increasing sales activities, creating a sales funnel 	<ul style="list-style-type: none"> - Cancelling unprofitable products - Analysis of sales channels, distribution system, representatives and agents - Analysis of sales and marketing strategy - Analysing sales funnel and lead development - Setting sales targets and priorities 	<ul style="list-style-type: none"> - Allocation of markets and customers to salespeople, assigning key accounts - Developing Unique Selling Proposition - Setting sales targets by markets, customers and salespeople - Planning customer visits, fair presentation and marketing activities 	<ul style="list-style-type: none"> - Monthly and weekly sales targets and plans by markets and salespeople - Preparing appropriate sales materials - Introducing CRM system - Regular weekly reporting of results - Three most important things: sales, sales, sales! 	<ul style="list-style-type: none"> - Establishing existing customers references and recommendations system - Constant comparison of sales results by salespeople, appropriate compensation plan - Preparing long-term marketing plan - Brand development and promotion
Finance	<ul style="list-style-type: none"> - Review and reduction of costs - Improving unprofitable programs or business units - Selling non-operating assets, deleveraging - Establishing control over sales and purchasing conditions, putting pressure on suppliers 	<ul style="list-style-type: none"> - Establishing strict control over cash flow, calculating breakeven point - Negotiations with customers/ suppliers - Debt restructuring, providing new liquid assets - Decreasing costs and increasing revenues - Selling inventories and non-operating assets - Closing unprofitable programs 	<ul style="list-style-type: none"> - Review of all contracts, terminating contracts with no added value - Preparing a cost reduction plan - Increasing sales to key customers - Introducing regular reporting and monitoring system - Calculating key financial indicators, benchmarking 	<ul style="list-style-type: none"> - Capital increase and conversion of debt to equity (D/E Swap) - Debt restructuring - Securing new sources of financing - Preparing transparent forms and explanations of trends and indicators for regular reporting - Introducing controlling and regular monthly reporting of department managers 	<ul style="list-style-type: none"> - Preparing daily cash flow plans - Preparing monthly financial statements (P&L, BS, CF) 15th for the previous month - Negotiating loan restructuring with the banks - Negotiating capital increase and providing additional sources of financing with owners - Preparing financial and business reports 	<ul style="list-style-type: none"> - Insuring accounts receivable - Establishing customer credit rating system, introducing commercial limits - Optimizing the financing structure: equity vs. debt financing - Introducing controlling and corporate governance - Establishing market value of property, trademarks and company value

Table 6: Key activities for successful corporate restructuring - part 1

Area/ Stage	1. Business decline	2. Crisis	3. Analysis	4. Restructuring strategy	5. Implementation of measures	6. Recovery
Operations/ Services	<ul style="list-style-type: none"> - Increasing control over the production process - Introduction of rules - Calculation of norms and bottlenecks - Implementation of quality standards and rules for resolution of complaints 	<ul style="list-style-type: none"> - Production based on customer orders - Cancelling unprofitable programs/ products - Optimizing employees, productivity, inventory and reduction of administration - Introducing costs and material consumption control, work orders 	<ul style="list-style-type: none"> - Analysing processes of manufacturing, introducing rules and procedures - Planning optimization - Preparing productivity increase program - Analysing investments and regular machinery and equipment maintenance 	<ul style="list-style-type: none"> - Planning quality standards introduction - Appointment of quality system manager - Preparing standard operating procedures (SOP), work instructions and checklists - Planning production process optimization 	<ul style="list-style-type: none"> - Cancellation, relocation or concentration of production facilities - Customizing workforce number and structure - Implementation of productivity increase programs - Monitoring the cost of production administration - Complaints resolution 	<ul style="list-style-type: none"> - Monitoring and implementing new technological solutions aimed at achieving competitive advantage - Introducing and improving quality system (TQM, ISO 9000, ISO 14000, 6σ, lean production, 20 keys)
Development	<ul style="list-style-type: none"> - Strengthening the development team - Supporting promising development projects - Identification of key investments into technology 	<ul style="list-style-type: none"> - Supporting development projects with great market potential and improvements production process - Stopping side projects - Concentrating on increase of value added products 	<ul style="list-style-type: none"> - Development of new products - Introduction of innovative thinking techniques - Getting feedback from markets and from key customers - Interdepartmental cooperation 	<ul style="list-style-type: none"> - Development plan is based on market expectations - Preparing specific marketing plans for new products, budgeting - Equivalent product and service development and marketing support 	<ul style="list-style-type: none"> - Introducing regular group meetings for exchanging information and generating ideas - Provision of development funding (budget) within the annual plan - Regular training of researchers and developers 	<ul style="list-style-type: none"> - Monitoring of technical development - Development activities are key generator of competitive advantages - Promoting joint research and development with strategic partners
Organisation	<ul style="list-style-type: none"> - Clear definition of competences and responsibilities of managers - Determination of tasks, responsible persons and deadlines - Identifying priorities 	<ul style="list-style-type: none"> - Determining managers' competences and responsibilities - Introducing teamwork and lean organisation - Cancelling interim management levels, centralization of management - Rewarding introduction of changes 	<ul style="list-style-type: none"> - Centralization of key functions, fast and efficient decision making - Introducing lean organisational structure - Business process optimization - Creating the structure of decision-making reports and information 	<ul style="list-style-type: none"> - Ensuring broad support for change, seriousness of situation and urgent rapid action - Introducing flexible organisation - Distribution of areas and tasks, introducing personal responsibility 	<ul style="list-style-type: none"> - Introduction of new organisation structure enables efficient work - Placement of change implementation team and other operational teams - Introducing performance measurement and reward system 	<ul style="list-style-type: none"> - Finding the best area and department heads - Establishing internal mentoring and leader development system - Empowering managers and taking responsibilities
Human resources	<ul style="list-style-type: none"> - Identifying key management and professional staff - Identification of key competencies - Changing managers - Introduction of teamwork and project work 	<ul style="list-style-type: none"> - Immediate replacement of inefficient leaders - Promoting leadership by example - Sanctions for rule violations - Stopping key personnel from leaving - Establishing reward system for introducing changes 	<ul style="list-style-type: none"> - Forming competent key management teams - Allocating responsibilities - Rewarding positive results, dismissing incompetent staff - Standardising objectives implementing reward systems 	<ul style="list-style-type: none"> - Acquiring employee trust at all levels of management - Communicating with employees and the environment regularly - Establishing common values and a positive work environment - Encouraging teamwork and project work 	<ul style="list-style-type: none"> - Introducing personal objectives, agreed at the regular annual interviews - Planning rewards and incentives financing - Legal support with redundancies - All employees should constantly think about the quality, costs and profit 	<ul style="list-style-type: none"> - Monitoring and developing key personnel - Training programs for workers and managers, developing core competencies - Continuous upgrading of the reward system - Open communication between the management and employees

Table 7: Key activities for successful corporate restructuring - part 2

6. CORPORATE RESTRUCTURING CASE STUDIES

In this chapter we would like to test the performance and applicability of the general corporate restructuring phase model by using research method of case studies. We are introducing two cases of Slovenian companies from different industries which have successfully carried out the process of corporate restructuring. The first is an industrial company, active in production of glass products, which we have named Glass Ltd. The other company operates in the travel industry and is presented under the name Hotel Ltd. In both cases, we have partially obtained details on the restructuring process from publicly available sources and partly from internal sources and by carrying out interviews with the management who participated in the restructuring.

With the help of the case studies, we intend to verify the functioning of the theoretical model in practice. To do so, we introduce each company and the actual implementation of the restructuring project, and after that we analyse each case by using the general corporate restructuring phase model.

6.1. CASE STUDY GLASS LTD.

The glass industry is a commodity industry with a long tradition, going back to the dawn of civilization. Archaeological research indicates that the first real glass was produced in northern Syria, Mesopotamia or Ancient Egypt. The earliest known glass objects were beads from the middle of the 3rd millennium BC. At the time of ancient Rome, the glass products were used in the household, industry and for burials, and glass objects were widespread throughout the whole territory of the Roman Empire. The use of glass has greatly expanded in the Middle Age. Kitchen utensils, window panels and jewels were produced from glass, and in the 10th century the production of the stained glass window for cathedral and churches began (Wikipedia, Glass, 2016).

The glass industry in the European Union has a very diverse range of products ranging from handmade lead glass bowls to large-scale glass for construction and automotive industries. Industrial customers in the construction industry and food and beverage industry are buying more than 80% of the products. Large-scale production is crucial for ensuring competitiveness, while some industries with lower volume production are producing high-quality technical products or products for final consumers (Environment Agency (ARSO), 2003).

6.1.1. Company presentation - Glass Ltd.

The Glass Ltd. company is a Slovenian manufacturer of table, opal and packaging glass of superior quality and purity. It is a leading world market producer of prestigious bottles for the branded high-end products. Because of its properties, glass packaging is suitable for use in the food industry, fulfilling strict norms. Due to the high quality the glass packaging of Glass Ltd. is useful for consumer products and for local food and beverage producers in glass packaging return systems. It has lower brittleness, does not contain heavy metal, has a high glow and has no scratches even after several thousand washes in an industrial dishwasher (Annual Report Glass 2014, 2015).

In presenting the case study, we focused on the company's operations in the period from 2007 to 2014. Like many other Slovenian companies, the company Glass Ltd. failed to respond to changing market conditions during the global financial and economic crisis in a timely and appropriate way. Therefore, it has suffered a significant reduction in orders in

the period from 2007 to 2009 and got into a financial and business crisis. In 2009 there was a change in company management, which has successfully carried out the restructuring until 2014.

In the following text, we are presenting the case in phases corresponding to those of a general restructuring model. First we briefly present the status of the Glass Ltd. company before the change in ownership and management. The company faced a decline in operations and business crisis. We are presenting a brief analysis of the situation, followed by presenting the restructuring process, namely developing of a restructuring strategy, implementing the restructuring measures and company recovery of operations. This is followed by presenting an analysis of selected operational and financial data of the company during the period between 2007 and 2014.

6.1.2. Causes of decline of Glass Ltd.

Business decline and crisis 2007-2010

After the successful operations in 2007 the market conditions started to change already in 2007 and 2008. The USD exchange rate to EUR became unfavourable, the concentration in the distribution chain, where smaller distributors supplying hotels and hospitals started to form purchasing groups, started. At the same time, a decline in the size of industrial orders and the requirement to present new products faster became a trend. Low cost producers from Eastern Europe and Far East entered the market in the lighting and electrical industry.

Glass Ltd. was not prepared for these changes. The company which exported 94% of its products, still had a positive result in the first half of 2008, but the second half of the year brought orders decline and increase of cost of energy for several thousand euro per month. Sales dropped for 12% compared to 2007, the orders continued to be cancelled or shifted into the future, the share of their biggest client dropped from 20% to 3% and 2008 ended with a loss. At the same time the unions demanded an increase of salaries due to successful business results from the past and threatened with a strike (Internal documents).

Compared to other producers the quality also fell behind and new investments were made into the computer-controlled machine for production of blown glass products in 2008 and into quality control in 2009 in the total amount of EUR 6.8 million. The company struggled to adapt to the falling demand by restructuring of internal processes, but there was a further increase of cost of materials in the second half of 2008 due to increased oil prices. The cost of natural gas increased for 35%, electricity for 31% compared to the average price level in 2007. The average price increase of other materials was 6%, and only the price of packaging remained stable. There was a further 17% drop in received orders in the first quarter of 2009 and 10% in the second quarter compared to the previous year. The consequence was a loss in years 2008 and 2009, and this caused a change in management at the end of 2009 (Glass Ltd. Annual Reports 2008, 2009, and 2010).

Analysis

In 2009 and 2010, the new management has first carried out an analysis of the reasons for large decrease in orders and increase in cost. The analysis has shown that the main reasons were external, however, due to inadequate organization and leadership style the company has been unable to adapt in time. Due to the specifics of the production process, where the operating results is largely determined by the utilization of glass melting furnaces, any further contraction with turning off the ovens and stopping the machine lines would result in the loss of customers. The company couldn't reduce fixed costs in the short term and such action would therefore further increase losses. Instead, the analysis showed that it

was necessary to maintain existing customers, implement training of sales personnel to increase sales activities and to reduce operating costs. The appropriate response to the entry of low-cost competitors was raising the quality of products, which was associated with additional investments in machinery and equipment. The key finding was that the orders of existing customers were lower but the customers remained and did not go to the competition (Glass Ltd. Annual Reports 2009, 2010).

6.1.3. Restructuring of Glass Ltd.

Restructuring strategy

The new management focused on the reorganization of the company and implemented organisational changes in early 2010. Diversified and fragmented organizational structure, where several business functions were divided by business units, has been changed into a process oriented organization. Different departments, units and groups were joined into a single team and different groups of people who have dealt with the same tasks in different units started working together. The process organization was introduced in sales, logistics, quality management, staff activities, purchasing and finance.

Major changes were introduced in human resources and leadership, and the company refocused on the development. Key personnel and prospective employees were defined. Different training programs were introduced, such as middle management workshops for effective communication, improvement of skills and competences in sales and marketing for salespeople, and a comprehensive mentoring program for young employees. More than 10% of employees were sent to training. At the same time the number of employees decreased by 5%, salary and reward systems were revised and additional EUR one million was allocated for the salaries, primarily for motivation of employees in the lowest paid jobs (Glass Ltd. Annual Reports 2010, 2011).

The new management has redefined the vision. According to the new vision Glass Ltd. is an innovative and dynamic business group of world-renowned glass engineers who share a passion for developing and manufacturing elegant, fashionable and customized glass products and solutions. Common values and key policies were identified in operational excellence, segmentation of markets and products, development of human capital and research and development. The company will build its competitive position in selected market niches, high quality glass inputs, flexibility, innovation in developing new high quality products, and long-term partnership relations with customers (Glass Ltd. Annual Reports 2014, 2015).

Implementation of measures and recovery

Additional key restructuring measures were development of new products and building of the brand, reductions in costs of production and administration, improved productivity, increased production volumes, replacing expensive materials with cheaper alternatives of the same quality, optimization of packaging and energy costs in purchasing department, introduction of stock exchange and market trends monitoring, and exemption from excise duties. Several strategic supplier contracts were signed with longer payment periods and annual rebates. In sales, new glass products were introduced that complied with the requirements and expectations of customers and at the same time considered identified market opportunities and offering of competitors. The focus was on development of own brands, also in the hand-blown products program. Sales activities included intensive acquisition of new customers, attendance of trade shows and focusing on markets outside the EU with less competition, such as Japan, China, Ukraine, Georgia, Russia, Mexico, the US and South African Republic. The key products in the product range were high quality higher priced products (Glass Ltd. Annual Reports 2010, 2011).

The business result in 2010 was still negative, but the loss has substantially decreased, while production volumes increased by 12% and sales by value increased by 9%. Business turnaround and the result of changing company culture, values, communication and marketing activities was shown in 2011. The sales increased by 14% compared to 2010 and by almost 25% compared to 2009. In all sales programs, the company managed to enter higher price segments. Investments have remained at the level of previous years and amounted to EUR 3.2 million in 2011. The company also invested into wastewater and sewage treatment and reduction of dust particle emissions (Glass Ltd. Annual Reports 2011, 2012).

Sales activities were aimed at developing strategic partnerships with existing and new customers, while entering the markets where the company previously had no presence. All customers and markets were monitored carefully. Marketing was focused on selling products and services with higher added value. The sales program, general sales conditions and internal processes were aligned accordingly. By doing all this, the company acquired annual orders at higher prices, reduced inventories and managed to exceed sales compared to the year before by 30% in some programs. It increased productivity and had a major positive impact of internal innovation program, where 132 useful proposals were received from employees in 2011. The company has overcome the crisis without major liquidity problems and reductions in production and has concluded business year of 2011 with more than 34 million of revenues and net profit of EUR 1 million for the first time since 2007. The positive trend continued in the following years which brought further growth of employment, employee reward and remuneration, and substantial investments in the renovation of melting furnaces and machinery (Glass Ltd. Annual Reports 2011, 2012).

6.1.4. Analysis of selected business results of Glass Ltd.

Selected business results of Glass Ltd. in the period 2007- 2014 are shown in Table 8, namely earnings before taxes, interest, depreciation and amortization (EBITDA), operating profit (EBIT), net sales margin, value added per employee, return on equity, operating margin and the ratio of net financial debt (NFD) to EBITDA. All values are presented in euros.

Category\Year	2007	2008	2009	2010	2011	2012	2013	2014
EBITDA	6.687.783	4.154.782	2.482.504	3.240.734	4.206.105	5.384.918	6.349.477	6.712.509
EBIT	2.391.945	346.568	-1.424.519	-421.201	855.415	1.940.339	2.961.727	3.935.965
Net sales margin	7,1	-1,47	-11,15	-3,11	2,49	3,29	6,64	9,41
Value added/employee	24.463	18.746	18.336	20.026	22.238	22.889	27.511	28.066
ROE	16,37	-3,15	-24,67	-9,05	7,97	9,33	16,33	19,1
Operating margin	8,11	-1,33	-14,07	-3,73	3,13	3,95	6,18	9,52
NFD/EBITDA	2,67	4,86	8,47	5,94	4,35	3,19	2,78	2,82

Table 8: Selected business results of Glass Ltd. in the period 2007-2014

Based on an analysis of selected data we can conclude that Glass Ltd. already faced a decline in business in 2008, when EBIT fell for EUR 2 million and EBITDA for EUR 2.5 million, compared to 2007. In addition, value added per employee decreased for EUR 5,700, and all other key performance indicators fell significantly. The NFD to EBITDA ratio

has increased from 2.67 in 2007 to 8.47 in 2009, reflecting the sharp rise in the company's indebtedness and showing difficulties in financing its operations.

The decrease in EBIT and EBITDA also continued in 2009, but has improved in 2010. The company still recorded a negative EBIT of EUR 400 thousand in 2010, but the EBITDA has increased by EUR 750 thousand and EBIT by EUR 1 million over the previous year. All other indicators, although still negative, have improved as well. The company's operations have further improved in subsequent years and both EBIT and EBITDA have increased by around one million euros each year from 2010 to 2014. We can therefore conclude that the restructuring of the company Glass Ltd. began between 2009 and 2010, and in the period from 2010 to 2012 the company has moved from crisis into recovery. All other phases of the company's restructuring, analysis, development of restructuring strategy and implementation of restructuring measures were implemented in the meantime.

One of the key success factors of a restructuring is timely beginning of the restructuring. From the data presented herein, we can see that EBIT in 2007 was EUR 2.4 million, then fell to EUR 0.3 million in 2008, and in 2009 the company declared a loss of EUR 1.4 million. The beginning of the restructuring process only started in 2010 after the change in management. We may conclude that the company needed more than five years to reach the level of operating profit from 2007, due to late reaction and the late start of the restructuring.

6.2. CASE STUDY HOTEL LTD.

Tourism is one of the industries which globalization has affected the most. It changed the habits and life patterns of people, and the entire hotel industry had to adjust to these changes by changing the design, construction, marketing and operations of hotels. Among the most important were changes in the demographic structure of the population, technological advances, particularly the development of information and communication technologies which enabled the concept of market segmentation by gathering increasing amounts of personal information about guests and determined the structure and organization of hotels. Furthermore, changes in travel behaviour, development of holiday destinations, popularization of sustainable living and new ways of investing in hotel capacity were also important for development of hotel business. The cyclical nature of economic activity also has an important influence, as people change their habits very quickly in the time of major financial crises or terrorist attacks (Rutherford in O'Fallon, 2007).

The impact of the global economic crisis was also visible in Slovenian tourism. We decide to take holidays when we have the money. When economic conditions are uncertain, people prefer to save money, and postpone their travels. The most important effects of the financial crisis on the tourism industry are reflected through lower profits, higher costs, lower profitability, and reduced number of employees. People change habits and still travel, but during the crisis they reduce the number of trips, they travel for shorter time and closer to home, their travel decisions are accepted in the last minute.

6.2.1. Company presentation - Hotel Ltd.

Hotel Ltd. is a service company that performs two main activities: concession activities or managing tourist attractions, and commercial activities which consist of sales and marketing of food and beverages, accommodation, events and other commercial activities.

In presenting the case study, we have focused on the company's operations in the period from 2004 to 2011. The company has changed ownership in the second half of 2003 and the management was replaced soon after that. Company objectives and strategic direction were revised and greater emphasis was given to developing destination tourism and optimisation of the concession for managing the tourist attraction. The new management has introduced new brands and new services. They invested in reconstruction of hotel accommodations, car parks and hotel surroundings. The restructuring was successfully implemented until 2007 and has shown good results. From 2008 onwards, the owner stopped supporting development plans due to its own financial difficulties and started selling the company. In 2010 Hotel Ltd. was sold to a new owner who successfully continued with the company restructuring.

In this paper we are presenting the case study in stages corresponding to phases of a general restructuring model. We are first presenting the status of Hotels Ltd. before and immediately after the changes in ownership and management when the company has faced a decline in operations. We are presenting a short analysis of the situation, followed by presenting the restructuring process, namely the restructuring strategy, implementation of restructuring measures and the recovery. We are then analysing the selected operational and financial data of the company in the period 2007-2011. An important difference to the case of Glass Ltd. is that no crisis occurred in the company Hotel Ltd. The company has always operated at a profit, but the owner wanted to significantly improve the operations and the result of the company and has therefore decided to change its management.

6.2.2. Causes of decline of Hotel Ltd.

Business decline

Due to the lack of vision and inactivity of the old management and competition from other tourist destinations there was a decrease in the number of visitors of main attractions already in 2003 by 5% compared to the year 2002. The visit of school groups and other random groups (pensioners, union outings, associations, clubs, companies) was lower, for school groups the decline was 25%. Decreased number of visitors has also affected the income from selling food and beverages and other commercial activities. This was the reason for the replacement of the managing director in 2003, which was followed by strengthening the management team with external experts. As a result of implemented changes and turnaround measures, the business result has improved already in 2004. Hotel Ltd. always had a positive operating result, thus we can conclude that no major crisis occurred in the company (Hotel Ltd. Annual Reports 2004, 2005).

Analysis

In 2003, revenues from concession activities were dominating while revenues from other tourist attractions and commercial activities accounted for a smaller part of revenues and were neglected. More than half of sales, or 54% were made directly to the end customer, 27% through tour operators and travel agencies and one-fifth through other agents (schools, companies). In the recent years, hospitality of the employees has deteriorated. The exterior was outdated with the exception of the restaurant, a physical space limitation presented the bottleneck and at the peak of the season there was not enough space for all the guests. In addition, most of the guests came between 11.00 and 16.00, while during other hours there were only a few guests. The offer was not properly structured and segmentation of customers was not possible. It was not possible to have a drink outside of the restaurant and no additional new products or content were developed for visitors. Existing activities and products were unrelated, marketing was occasional, the website and information support were inadequate (Internal documents).

Marketing activities were primarily focused on two main products and only few related high profiled events. All other products have been unrecognizable in the market since they have not been adequately supported. Individual marketing elements were not linked in an integrated marketing mix. Traditional approach was used in advertising, with ads in local public media, in tour operators' sales catalogues, and in special journals dedicated to bus companies. Billboards along the major roads have been used, but they have not been regularly maintained. The company was present at fairs and promotional events of the Slovenian tourist organization (STO), it printed and distributed leaflets and visited domestic and foreign tour operators. Hotel Ltd. was offering unattractive and inappropriate products in its stores, sales points didn't look attractive and they were dispersed on several locations, which increased the cost of operation. Several locations were unprofitable (Internal documents).

Purchasing and IT support were mismanaged. The number of different suppliers was high, many were offering similar products. Purchasing conditions were unfavourable for the company and there were no regular price negotiations. Purchasing was done by different store managers and there was a high level of inventory. The IT consisted of five different subsystems (entrance fees, catering information, stores, hotel management and accounting), each of them supported by a different computer programme and supported by different outside company. Most of them were based on DOS operating system. They were not interconnected, while the connection with the accounting was poor and slow. The cost of maintenance and licence fees was very high.

The average age of employees was close to 50, and their salaries were above industry average. Better organization of work and improved communication could easily improve their results and efficiency. Scheduling of work was inefficient and costly, there was high absenteeism and internal surveys were showing high level of discontent. There was no interaction between different departments and no internal support for creativity (Internal documents).

6.2.3. Restructuring of Hotel Ltd.

Restructuring strategy

During the stage of analysis the company's new management has identified weaknesses and potentials and adopted a strategic plan. A key part of this plan was to build strategic marketing and create a business strategy for the next five years, based on their knowledge of the markets and global trends. Key objectives for the optimization of business functions (human resources, purchasing, finance, information technology) were: to integrate the company into the environment, increase revenues and number of visitors, develop brand awareness, raise the level of services, develop high quality products, and to improve the cost-effectiveness and the cash flow.

A new company vision was defined (Hotel Ltd. Annual Reports 2004, 2005):

- long-term, constant and stable growth of the company,
- to become an example in the field of the services offered to guests in catering, trade and tourist services,
- to develop new products and services in all the main sectors - concession, catering and trade,
- to train, educate and motivate employees in order to create the best experts in their fields,
- to attract customers from all over the world, with a focus in the domestic and the surrounding markets, Germany, Scandinavia, Eastern Europe, and selected markets outside of Europe, in particular the US, Japan and China,

- to optimize all business functions,
- to develop partnership with the government on concessions.

Company corporate goals were presented in a quantified way so that their achievement could be measured. The goals for the following five year term 2004-2009 were to (Hotel Ltd. Annual Reports 2004, 2005):

- increase the number of visitors,
- increase revenues from catering,
- increase revenues from commercial activities,
- target the return on equity,
- maintain low indebtedness,
- have a positive economic value added.

As a main strategy the company optimization strategy was chosen, whereby all business functions and activities of the company should be optimised in order to achieve long-term success. Reorganization of marketing department, human resources, purchasing and the introduction of appropriate IT support were set as priorities.

Implementation of measures and recovery

The strategy of new management was to introduce new products, develop richer and more original catering and trade offering and combine it with concession activities. They have segmented the market and defined potential target groups. Products have been adjusted to these group based on existing data for 700 biggest clients. A systematic approach to increase sales was followed. It has concentrated on activities which would extend the period of individual visits, which represented approximately 80% of all visitors. In addition, new sales channels were introduced especially internet sales and SMS advertising (Hotel Ltd. Annual Reports 2004, 2005).

The main tool for promoting sales continued to be visits to fairs. However, they were well planned with set targets and planned meetings. Great emphasis was given to visiting partner agencies and tour operators, cooperation with other hotels was more active, and direction tables and billboards were better maintained. The aim was to attract new visitors and encourage them to spend more, especially out of season. Special attention was devoted to visits and direct marketing by mail and telephone in the Austrian and German markets, targeted at travel agencies, schools, families and special target groups, such as journalists. They were regularly informed by electronic media about new products and services, and supplied with relevant sales materials, such as brochures, price lists, special offers and invitations (Internal Documents).

Several new products were introduced in the field of spa activities, a permanent collection of archaeological finds from a wider geographic area and exhibition of technology over time were set up. New products were added in catering and commerce, particularly typical Slovenian dishes and regional souvenirs. Hotels and restaurants were offering simpler dishes and the existing restaurant was transformed into an open-plan brasserie with a summer garden. Because the company cannot change the natural, cultural and historical attractions, the management concentrated on adding new content and creating a complete experience. This was the main focus of restructuring measures, in addition to optimization of business processes. Three key directions were set for developing sales services (Internal documents): 1. Concentration on target markets, 2. Transformation and adaptation of the offer to the guest, 3. Reorganisation of marketing.

An important emphasis in the implementation of the restructuring measures was in improving human resource management. Employees are in direct contact with the guests and therefore the key to the successful implementation of the new strategy. One of the

main priorities of the new management was to establish proper communication with employees, therefore, a new system of training and motivation was introduced, which rewarded employees according to the extent and effectiveness of the work done. People were also invited to prepare new products and services, tailored to the customer.

Moreover, internal planning, regular reporting, monitoring and controlling was introduced and implemented in the financial and accounting department. It also included control of liquidity and measures to control and reduce costs. The following regular analysis were introduced: monitoring the value of sales and price differences (according to customers, products, periods), monitoring of business results compared to the plan and past results, regular monitoring of costs, cash flow, receivables and payables, monitoring of key personnel data, customer loyalty and efficiency in sales and marketing (Internal Documents).

The result of implemented restructuring measures, new investments and destination management strategy, where the entire region is presented to the customer, was a successful introduction of new brands, spa tourism and reinforcement of catering department. Revenues in 2007 have increased for 23% compared to the year before, while the number of visitors has increased for 9%. By raising the prices of group tickets the difference between individual and group pricing has been reduced. All planned investments into infrastructure have been carried out, especially a new children's park, winter ice skating rink and refurbishment of restaurant and sales points (Hotel Ltd. Annual Reports 2007, 2008).

6.2.4. Analysis of selected business results of Hotel Ltd.

Selected business results of Hotel Ltd. in the period 2004-2011 are shown in Table 9. The same categories are presented as with the Glass Ltd. case study, namely earnings before taxes, interest, depreciation and amortization (EBITDA), operating profit (EBIT), net sales margin, value added per employee, return on equity, operating margin and the ratio of net financial debt (NFD) to EBITDA. All values are presented in euros.

Category\Year	2004	2005	2006	2007	2008	2009	2010	2011
EBITDA	947.670	825.038	1.188.084	1.751.395	1.608.457	1.109.806	1.108.905	1.807.214
EBIT	458.750	489.402	815.245	1.233.290	1.197.667	714.028	714.053	1.201.448
Net sales margin	8,95	8,62	8,88	10,81	9,35	5,59	6,48	10,17
Value added/employee	26.377	26.079	28.996	34.562	32.958	29.959	31.771	36.895
ROE	9,94	9,98	10,22	14,81	12,93	6,24	6,47	11,22
Operating margin	11,24	10,98	11,81	14,36	11,93	7,34	8,02	12,57
NFD/EBITDA	0,08	-0,06	-0,10	0,11	1,30	1,98	1,73	0,87

Table 9: Selected business results of Hotel Ltd. in the period 2004-2011

Based on the analysis of the presented data we can conclude that the company Hotel Ltd. operated positively throughout the period 2004-2011. An important decline in business activities has only occurred in 2003 compared to the previous year. However, this is not included in the scope of our research. The EBIT from 2004 to 2008 has increased every year, and the same is true for EBITDA with the only exception of 2005. The company had very low debt during the whole period. Net financial debt to EBITDA indicator in the period

2004 to 2007 was close to zero, which means that the company didn't borrow any money. An increase in debt occurred only in 2008, but the indicator never exceeded the value of 2, which represents moderate indebtedness. The value added per employee indicates the trend of stable growth, from EUR 26,377 in 2004, it increased to EUR 36,895 in 2011. All other key performance indicators are also showing a successful business operation with a minor decline in the years 2008 and 2009.

According to internal documents and conducted interviews we can summarize that the operations of Hotel Ltd. from 2000 onwards were stable and the company generated a positive operating result. However, the overall market potential has not been exploited sufficiently. The owners have used a slight decline in the number of visitors and in revenues in 2003 as a pretext for the replacement of the old management. The new management showed greater commitment and introduced changes and improvements that lead to a significant increase in the number of visitors, revenues and operating income from 2004 onwards.

Since the company has not faced a crisis, we can conclude that the restructuring ended in 2004. The company continued with business growth throughout the analysed period, even during the general economic crisis in 2008, when a general decline in tourist visits happened, it operated positively. We can conclude that the company started to renovate its product offering in time and that through implementation of restructuring measures it was well prepared for the crisis.

7. COMPARISON OF RESTRUCTURING STRATEGIES AND TESTING OF GENERAL CORPORATE RESTRUCTURING PHASE MODEL

Typically for both companies selected for case studies is that they have achieved successful turnaround in operations through the implementation of restructuring processes. After the restructuring they are now operating successfully for the past few years despite the economic crisis. A comparison of the main characteristics of the two companies is presented in Table 10.

From the analysis of the two companies selected for testing of the general corporate restructuring model we may find that they operate in different industries, the first is a manufacturing company and the other one operates in services in tourism. Both companies have experienced a decline in business in the last decade. The company Glass Ltd. has also faced crisis which did not threaten its existence. Some of the reasons for the decline were similar for both companies. The most important were the external impacts of the environment to which the companies were not prepared and did not adequately respond to. Both companies have for several years not invested in the development of new products, into existing and new markets, and into production capacities, and the consequence were loss of markets and customers and declining cash flows from operations.

Company name	GLASS Ltd.	HOTEL Ltd.
Industry	Production	Tourism
Ownership	Private ownership company	Private ownership company
Main reasons for decline	The strategy was not adapted to market changes Drop in sales revenue Obsolete production Lack of funds for financing High indebtedness	Redirection of tourist flows Decline in sales Obsolete products and services, uninteresting offer No investment in the development of new products and brands Inadequate staffing
Reason for restructuring	The owners were dissatisfied with business results Loss Increasing liabilities to banks and suppliers Difficulties in settling current liabilities	Drop in the number of visitors The owners were dissatisfied with the business Unregulated internal processes Lack of development orientation
Restructuring strategy	Concentration on strategic markets and customers Focusing on niche markets and products with higher added value Reduction of unprofitable areas and products Investment in production Change of sales channels Investing in the development	Definition of main activities Focusing on product and market Designing new innovative products Brand development Investing in development of the markets Focus on marketing and sales
Current status of the company	Growth in revenue and profit Revenues exceed the plan Implementation of strategic changes	Growth in the number of visitors Growth in revenue and profit Investing in infrastructure Introduction of strategic changes
Type of restructuring	Operational and financial	Operational

Table 10: Comparison of the main characteristics of case studies selected for testing of the general corporate restructuring model

The companies were selected in two different industries. We have compared the key restructuring factors in both companies and tried to determine whether these factors were similar or different. The first factor, a major impact of the external environment on the company operations was already mentioned. When analysing the key internal factors we might say that the two companies have met the management crisis and inadequate response of the management to the crisis. As a consequence, the owners have changed the old management in both cases after the business decline and occurrence of the crisis. The new management has in both cases succeeded to establish an agreement about the restructuring with internal and external stakeholders. New products and services have been developed and new markets and customers were found. A significant level of trust was established with internal stakeholders, mainly because the management didn't implement the strategy of cost optimization through layoffs and reduction of labour costs. On the contrary, one company has increased salaries already in the first year and this was a measure that was crucial for developing other positive changes.

Both companies realized too late that a number of internal and external factors were causing the deterioration of the business. They did not immediately begin to apply corrective measures and prepare the operational restructuring plan. Therefore, the adaptation of internal business processes to the changing market conditions started late. The companies did not adequately take into account the other important factor, the timely implementation of restructuring measures. If they would act in accordance with the general corporate restructuring model we have developed and regularly analyse both the external and internal environment, the changes could be implemented earlier and the companies could avoid a decline in business and the emergence of the crisis.

When comparing the strategies of restructuring the companies used, we can conclude that both companies focused on strategic markets and customers while they increased investments in development of new products and services. The first company changed its sales strategy to focus on niche markets and introduce new sales channels, and it has reduced or eliminated unprofitable areas and products, while substantially increasing investments in production. The other company identified core business activities and focused on the product and on design and development of new brands. Higher emphasis was given to cost control.

Both presented companies had guaranteed funding, so their business has not been jeopardized. The new management used appropriate leadership skills and through clear presentation of the new vision and goals ensured motivation of employees in the company.

7.1. CRITICAL SWOT ANALYSIS OF THE GENERAL CORPORATE RESTRUCTURING MODEL

When analysing and measuring the success of corporate restructuring, we cannot use a single performance indicator or benchmark. Moreover, in addition to quantitative, mainly financial data and indicators, qualitative benchmarks are equally important. Factors such as winning trust of business partners, or motivating colleagues to make the necessary changes are difficult to express as an indicator and even harder to measure. Therefore, we have focused on quantitative data during our analysis, and we tried to present equally important qualitative data within the description of each restructuring case study.

Quantitative data used for analysis of both examples are publicly published data from AJPES agency in the selected time period. We have used selected data to demonstrate and define the main stages, characteristics and timing of the restructuring of individual company and by this method we have tested the general corporate restructuring model we

have developed. The comparison of selected financial data and performance indicators is presented in Tables 8 and 9.

7.1.1. Analysis of strengths, weaknesses, threats and opportunities of the corporate restructuring phase model

The presented general corporate restructuring phase model was analysed by using the analysis of strengths, weaknesses, opportunities and threats (SWOT analysis).

Strengths of the presented model are:

- various stages of the corporate restructuring process are linked with the main activities and business functions within the company,
- definition of a continuous environment monitoring system and the inclusion of this system in each stage of restructuring,
- the model enables constant monitoring of critical points and monitoring deviations from planned operations,
- by using the model it is possible to detect important changes in the internal and external environment on time.

Weaknesses are presented by following facts:

- capturing data from environmental monitoring and assessment of variations may depend on the analyst,
- smaller companies may experience more rapid transitions between the business decline phase and the period of crisis, and the management cannot detect that the situation is critical until the company is already seriously threatened,
- the model represents general guidelines for business analysis and does not set targets or values of indicator, which would present the beginning of business decline or the emergence of crisis.

Opportunities of the model are presented as follows:

- the model can be upgraded and improved by defining measures or values of indicators which present probable emergence of crisis,
- the model could be extended in a way that analysts could receive an estimation when should the company start with restructuring activities within the company or business area by calculating a combination of quantitative operational indicators, operational risks and determining weights which should be related to a specific industry or market,
- the ability to create simulations.

Threats are presented as follows:

- subjective qualitative data can be a reflection of an individual assessment,
- subjectivity of the model, where different areas in the company are subject to the discretion of an analyst who can assign them higher or lower importance.

Based on the SWOT analysis, we can conclude that the presented general corporate restructuring model is useful for the analysis of individual cases of corporate restructuring, as well as a tool for identifying circumstances in the enterprise that lead to a decline in business and the formation of a business crisis. Since the model is combining individual stages in the corporate restructuring process with business areas or business functions in the company, its use can improve the efficiency of managing the restructuring process.

7.1.2. Testing the general corporate restructuring model by analysing restructuring of companies Glass Ltd. and Hotel Ltd.

We have started testing the general corporate restructuring model by verifying if actual restructuring process in companies Glass Ltd. and Hotel Ltd. has followed the same stages as defined by the model. We have found out that in the case of Glass Ltd. the restructuring has followed the same stages. It has started with a decline and moved into a business crisis. At this stage the owners have replaced the old management. The new management has first implemented an analysis of the company status, followed by the preparation of the strategy and plan of restructuring. In cooperation with the owners it started implementing the restructuring measures and focused on development. The measures were successful and their result was recovery and improvement of company's operations and business result. Furthermore, the management has introduced the permanent environment monitoring system and gave great emphasis on employee training, all with the purpose to detect warning signs of a decline on time so that the business crisis the company would not be repeated in the future. The only difference with the company Hotel Ltd. was that the analysis and preparation of restructuring strategies were already prepared in the phase of business decline. The phase of crisis, which could threaten the operations of the company, was not experienced by the company Hotel Ltd.

We continued the testing of the model by checking which key activities, specific to each phase of the restructuring, have been carried out in each case. The company Glass Ltd. has implemented several adjustment measures during the first stage of business decline, but they did not result in a desired result. The management has not taken effective measures to eliminate the causes of the crisis, so the negative performance has continued. At the same time, the conditions in the purchase and sales markets have further deteriorated and the company faced a crisis. At this stage, the crucial moment was replacement of the management. With the onset of the crisis and the change of management, restructuring activities were implemented in individual areas, as they are presented in Tables 6 and 7. The new management has introduced reorganization and linked previously fragmented departments. Process teams were established in sales, logistics, quality management, human resources, purchasing and finance. By identifying key personnel and focusing on training the changes which were implemented were raising awareness of the importance of each individual and his contribution to the quality of products and the success of the overall restructuring.

The owners of Hotel Ltd. have strengthened the management with external consultants who had experience with the corporate restructuring in the hotel industry already in the phase of business decline. Together with the management they have prepared a new sales strategy and increased activities in sales and marketing in key markets. They started to develop new products, create a new brand and enter new markets. At the same time they have set up control of costs, sales and supply conditions, introduced quality standards and made significant investments in the modernization of information technology. A new organization structure was introduced and competencies and responsibilities of every individual to carry out the agreed tasks were introduced. Strategic priorities were identified and key competencies of employees were defined. Teamwork and project work were introduced. All these measures are specified by the model as necessary measures to be implemented in the phase of business decline and in later stages. By verifying the conformity of measures actually implemented in the selected companies with those presented in the model, we have confirmed the usefulness and applicability of the general corporate restructuring model. The limitation of space in this paper does not allow us a more detailed presentation of the comparison in all areas of the company and in all stages of restructuring.

While testing the model, we have found out that some of the actually implemented measures differ from the general guidelines laid down by the model. For example, the management of Hotel Ltd. didn't prepare a specific restructuring plan. Instead, they have included the basic corporate goals in the company annual business plan and supported these goals by specific activities, and time schedule and control system to monitor the planned restructuring.

In the next step we have made an analysis of quantitative business performance data. We have analysed the operations of the two companies over a period, which has included the time before the business decline and the emergence of crisis, the change of management, actual analysis, preparation of strategy and implementation of restructuring measures and was completed a few years after the successful completion of the restructuring. In doing so, we have compared the quantitative data with the course of the individual stages and confirmed that the implemented restructuring measures described in the case studies actually affected the operating result, financial indicators and other items in the financial statements each year. By analysing quantitative data, we could identify in which particular year the decline in business began, but could also see that only from the key performance indicators and financial analysis it would not be possible to predict the emergence of the crisis. Furthermore, on the basis of quantitative data we are not able to accurately determine at what stage of the restructuring the company is in a specific moment. Therefore, it is necessary to analyse and interpret the qualitative information.

On the basis of the above tests, we have also found out that in order to determine the actual stage of the restructuring of the company, it is important to have the most accurate information. Analysis of financial data can only partially describe what is happening in the company and cannot give a sufficiently accurate picture. A combination of financial data, key performance indicators and qualitative information about activities in sales and purchasing markets, activities of competitors, technological development in the industry as well as information about the product assortment, sales conditions, company's organization structure, key personnel, technology used and the available financial resources is far better.

We believe that through the tests performed we have confirmed the applicability of the model which has no major weaknesses, however, there are a few limitations in its usefulness. The general corporate restructuring phase model can serve as a tool for the management and owners for quicker and more effective actions when conditions in the internal and external environment change and the company fails to adapt. The model will help to recognize the signs of the crisis and define different stages of restructuring, but it must be adapted to each specific case. It also does not constitute a pre-known standard set of criteria, where one could check certain indicators of the company and find out whether a company is in crisis. Given the variety of operating characteristics of different companies and industries, something like that cannot be expected from a general model.

7.1.3. Summary of the results of testing the general corporate restructuring phase model by case studies

We can summarize the results of testing the general corporate restructuring phase model by case studies in the following points:

- Dealing with problems and business decline or business crisis - in both companies this has been a key action that has allowed the start of restructuring. The restructuring didn't only focus on increasing sales and developing new products or services. It has included the entire business process reengineering. Focusing on sales increase was supported by a market survey and analysis of the selling potential of the product.

- Pursuing the same goals - it is essential that the owners support the management of the company and that the objectives of the restructuring are agreed between the management and the owners. These objectives should include customer satisfaction, employee support and establishment of sufficient cash flow to carry out all necessary restructuring measures.
- Taking control over financial operations - the management must have adequate quantitative tools to monitor operations. It must have complete, relevant and timely information for decision-making. Key information for executives is mostly related to the planning of cash flow, while return on investment and return on equity are more important for the owners.
- Planning the unexpected - is essential to maintain the performance of the company, because some managers never plan the possibility of downturn in the company's operations. In such cases and in the absence of a long-term strategy they often take drastic cost cutting measures and reduce the number of employees in hope that this will lead to a quick solution to the problem. The new management of both companies did not start the effective turnaround strategy by determining who was responsible for past errors and creating fear among employees by announcing redundancies. On the contrary, the whole restructuring strategy was based on building relationship with employees, their empowerment and high motivation to implement changes.
- Establishing trust - in every restructuring it is essential to establish and maintain trust between management and various stakeholders. This can be ensured only by proper and open communication.

7.2. POSSIBILITIES OF FURTHER DEVELOPMENT OF THE MODEL

On the basis of the presented general corporate restructuring phase model, we have carried out a qualitative and quantitative analysis of the restructuring of two Slovenian companies where the restructuring was carried out successfully. Our analysis has limitations, since it was limited only to two companies. Therefore, the possibility for further research is above all the extension of the analysis and testing of the restructuring model on a higher number of companies in different industries and countries. This way we would not only test the validation and applicability of the developed model but could also compare characteristics of the restructuring in different industries and compare them between different countries.

Analysis could be extended to study the length of time necessary to carry out the restructuring and compare cases where this period was longer and those where the restructuring was carried out very quickly. In both case studies, presented in this paper, the period of restructuring lasted for a few years. We could also analyse companies where the restructuring took place, but the process was unsuccessful. These cases could be examined so that the reasons for failed restructuring process could be found. We could use our findings to further develop the model, recognize these signs and resolve them in time.

Despite limitations that are characteristic for every general model we can conclude on the basis of tests carried out that the restructuring model we have developed, is applicable in practice. The management and other stakeholders can use it as a tool for rapid recognition of crisis, it will assist them to specify at what stage of the restructuring is the company and help them to search for faster and more effective solutions to end the crisis and implement recovery measures.

8. CONCLUSION

Corporate restructuring is the process of adapting to changing conditions in the internal or external environment of the company. Companies that are not adapted to changes in the environment can have problems in their business. If the causes for the problems are not recognized in time and if they are not removed, the problems may increase and the business decline can transform into a business crisis that can seriously endanger the operation and existence of the company.

In this paper we have presented key factors for successful financial and operational restructuring of companies. The first key factor for the success of the restructuring is a system or method for identifying changes in the environment. If possible, the changes should be identified before the crisis occurs, so that the company can react on time. Other key factors include: the timeliness and speed of implemented restructuring measures, provided financing, effective management of change and motivation of employees.

We have also presented a general corporate restructuring phase model, which we have developed on the basis of our studies and above all on our practical experience with corporate restructuring. We have used the method of case studies to verify the restructuring process and the corporate restructuring model. Two successful Slovenian companies, operating in production of glass products and destination tourism were used to verify our definition of key restructuring factors, and their relation to individual stages of corporate restructuring. By analysing quantitative and qualitative data from real operations, we have confirmed the usability of the model. It will be an effective tool for the management and the owners for fast recognition of business decline and crisis and for determining in which stage of restructuring is the company and what measures should it implement in order to resolve the crisis.

We can also conclude that in the paper we have successfully answered all our research questions:

1. Can a company crisis be recognized on time and is prompt reaction possible?

Yes. If the company has established a system of continuous monitoring of external and internal environment, the model will help to recognize and react to the crisis in time. Owners in both companies have recognized the occurrence of the crisis or its possibility in time, and they have replaced the management and changed the business strategy.

2. Are the reasons for crises in companies from different industries similar?

Yes. The causes for the crisis between companies from different industries can be similar, which we have confirmed by the case studies. Both companies saw a business decline or the occurrence of a crisis due to the change in their markets. Both companies have for several years failed to invest in infrastructure, development, and human resources. And both have failed to adapt business processes to the changes in the market.

3. Is fast and efficient implementation of restructuring measures the most important factor for a successful solution to the crisis in the company?

Yes. Fast and effective implementation of the restructuring measures is the key factor for successful solution of the company business crisis. Only timely actions may prevent the onset of serious crisis and the collapse of the company. The effectiveness of the restructuring measures implementation is associated with a rapid change in operations and ensuring cash flow needed for the turnaround implementation. The operations in both presented companies have been poor for some time. With faster and more effective actions they could prevent losing money and certain markets and customers.

4. Do different approaches to corporate restructuring have similar features?

We can neither confirm nor deny this research question by analysis of the two companies. Both companies have had a similar approach to the restructuring with common characteristics: a change of management, review of operations, preparation of restructuring strategy, plan and measures, implementation of the chosen strategy, stabilization of operations and adoption of changes.

5. Can crises in companies from different industries be solved in a similar way?

Yes. Crises in companies from different sectors or industries can be resolved in a similar way as the process of resolving crisis and corporate restructuring is similar. We have first assumed this while developing the corporate restructuring model, and have later confirmed it by two case studies of companies in services and manufacturing, which have implemented their activities to adapt to changes in the environment in a similar manner.

In addition, we have confirmed the following statements which we have set and wanted to prove in the beginning of this paper:

S1: A company can adopt measures for on-time corporate restructuring based on implemented internal and external environment monitoring system.

The first statement, that a company can take timely measures for the restructuring of its operations with the help of an established system of monitoring of the internal and external environment, was checked and confirmed by the two case studies. In both cases the management and business owners have analysed the internal and external environment of the company correctly and on time. They have managed to find out that there was a gap and that businesses were not adapted to the changes in the environment. They have also determined the causes of the decline in business or crisis, identified the precise strategy and taken the necessary measures to resolve the crisis. Through the introduction of restructuring measures they have managed to resolve the situation and reach stability.

S2: A company can implement measures, which can prevent bankruptcy or liquidation by using a general restructuring model.

The second statement can be confirmed as well. The companies have performed a thorough analysis of operations and set out a strategy to resolve the crisis. The operational restructuring plan has enabled timely adoption and implementation of the restructuring measures, which have ensured the stabilization of operations, and avoiding a further increase of the crisis that could lead to bankruptcy or liquidation of companies. The analysis of the situation, development of restructuring strategy and the implementation of the restructuring measures are three phases of the general restructuring model undertaken by the two presented companies. In this way we have confirmed that the general restructuring model we have developed is useful in practice, and that its use can prevent the increase of crisis and further bankruptcy and liquidation.

We believe that due to its usability our general corporate restructuring phase model, presented in this paper, will help managers and owners in the corporate restructuring process. It is presenting main characteristics of each phase of corporate restructuring and links them to the individual business areas. Furthermore, an overview of key activities and measures that are critical for the successful restructuring of enterprises in specific stages and business functions are presented. Together, they will help identify those factors that are the key to the successful financial and operational restructuring of an individual business case.

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