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CORPORATE RESTRUCTURING IN THE PROCESS OF ANTI-CRISIS MANAGEMENT

Dissertation summary

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INTRODUCTION

JUSTIFICATION OF THE SUBJECT SELECTION

The first twenty years of the 21st century were a period of the appearance of an incredible number of new products, services and solutions that quickly became an indispensable element of our lives. Currently, they affect not only every person individually, but also companies operating around the world, including those operating in Poland. The latter should use these new qualitative elements to improve their position on the market in which they operate.

The solutions stemming from this dynamic development apply to all areas of the companies' operations - from management strategy, through finance, employment formulas, technologies used and sales channels. At the same time, such a multitude of changes within the company and the dynamics of the business environment result in an increased risk of crisis situations. In such situations enterprises implement radical change programs., which constitute the process referred to as restructuring.

In Poland, about 300,000 business entities are liquidated each year, including at least several thousand, that use the provisions of law regarding restructuring or bankruptcy proceedings. In turn from the observation of the phenomena in the Polish economy, it is apparent that the reorganisation proceedings in enterprises with the use of law-based solutions are characterised by low efficiency, while the number of entities returning to the market after restructuring proceedings is small and does not exceed a dozen percent.

It is precisely such negative phenomena, that inspired research in this respect as well as an analysis of the scientific literature regarding procedures aimed at healing enterprises.

OBJECT AND SUBJECT OF RESEARCH

The subject of this dissertation is enterprises in a crisis situation which in the years 2010-2020 decided to take advantage of the provisions of the Bankruptcy and Reorganization Law,

and later the new Restructuring Law, effective from January 1, 2016. The number of such companies is growing every year and in 2020 it exceeded a thousand economic entities.

The subject of research is the functioning of anti-crisis management structures and processes in enterprises that were at risk of insolvency or were insolvent. Only entities with such a status can use the right instruments based on legal provisions. The subject of research is the course and effectiveness of restructuring proceedings during the crisis of the enterprise, as well as actions taken after the crisis has been overcome.

HYPOTHESES OF THE DISSERTATION

The research results were intended to verify the following hypotheses:

1. The mistakes of Polish managers are the main source of crisis occurrence in the enterprise.
2. Polish enterprises do not create formal anti-crisis management systems.
3. Restructuring activities undertaken by managers in crisis situations are characterized by low effectiveness.

The research covered enterprises that were at an advanced stage of crisis and decided to use legal solutions supporting corrective actions.

REVIEW OF SCIENTIFIC LITERATURE

The issues of crisis, restructuring and the anti-crisis management process in the enterprise are described in the rich scientific literature. This literature has been reviewed in the dissertation, ranging from the crisis issue to the revitalization of the enterprise.

The following conclusions have been drawn from a critical view of the scientific literature:

1. In some of the works, the concepts of restructuring and anti-crisis management are treated without any strict correlation. Some scientists link both processes to the response to a crisis in the enterprise.

2. Analyses of crisis situations in enterprises were conducted mostly on the basis of surveys addressed only to managers of these companies. Therefore, they did not constitute an objective source of information.
3. The scientific literature does not emphasize the errors of managers as the main source of crises in enterprises. Attention is paid to poor management, lack of strategic planning, errors in financial management, the fact that equity that is not adjusted to the scale of company's operations, etc.

The analysis and critical evaluation of the literature covered the subject of crises occurrence in the enterprise, anti-crisis management processes, restructuring proceedings and revitalisation. It allowed to get acquainted with the knowledge and experience of researchers and practitioners of economic life. The review of numerous publications shows no correlation between the anti-crisis management process and restructuring. Many scientists treat these issues separately. The dissertation discusses the view of the scientific literature on the phenomenon of crisis in the enterprise, its causes and symptoms, as well as the role of managers in combating it. The analysis of publications on research into the causes of crises shows that, according to Polish managers of enterprises, external factors are the key source.

EMPIRICAL STUDY

The analyses of the causes of a crisis situation and restructuring measures contained in the existing scientific literature are usually based on surveys and interviews with entrepreneurs, which does not provide fully objective information. Therefore, in this dissertation, the author took a different approach than the above-mentioned and different research based on:

- analysis of court files related to bankruptcy proceedings with the possibility of an arrangement with creditors and reorganisation proceedings - the research was conducted in 2015-2017,
- survey addressed to restructuring advisers regarding restructuring proceedings conducted in 2016-2019, covering both anti-crisis management, the process of restructuring and revitalisation of the examined enterprise,
- study of crisis situations in public companies listed on the Warsaw Stock Exchange and NewConnect - the analysis covered two years 2018-2019.

The studies were also aimed at determining the effectiveness of the solutions adopted in the Restructuring Law, which has been in force since January 1, 2016. The business community expected legal provisions that would realistically support companies in crisis situations, speed up court procedures and make it possible to obtain financing for restructuring proceedings.

Limiting the research only to economic entities that have based reorganisation proceedings on legal instruments allowed to cover a significant number of entities from this group. The research did not include questions addressed to entrepreneurs, because it was found that scientific works are dominated precisely by this, inherently subjective, source of information. The research was based on the analysis of court files and documentation submitted by entrepreneurs in connection with the ongoing restructuring or bankruptcy proceedings.

The collected responses from restructuring advisors presented an objective view, while the analysis of current and periodical reports made it possible to refer to information from public companies, which are available to all stakeholders.

SUMMARY OF RESEARCH FINDINGS AND LITERATURE ANALYSIS

1. The results of each of the three stages of empirical study positively verified the aforementioned hypotheses. Particularly valuable are the conclusions drawn from the analysis of questionnaires addressed to restructuring advisors. These studies have shown that many entrepreneurs are not aware of the need for the functioning of formalized anti-crisis management processes, the restructuring measures used are only reactive and in practice are limited to attempts to reduce costs. Research has confirmed that the actions taken by managers in crisis situations are belated and are characterized by ineffectiveness.
2. Research has proven that restructuring should be an integral part of anti-crisis management and is a set of actions launched during a crisis.

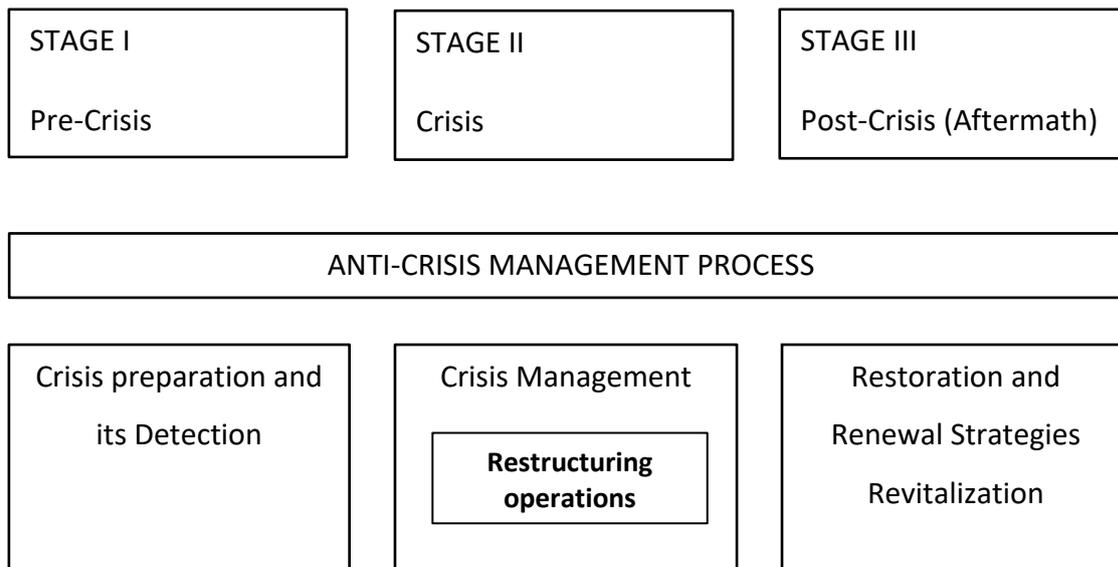


Figure 1. Restructuring in the anti-crisis management process

Source: own compilation

The relationship between the anti-crisis management process and restructuring activities has been well documented in studies with experienced restructuring advisors. The results of the surveys confirmed the functioning of the entities, structures and anti-crisis management processes in enterprises. In some of the surveyed companies, these structures were not formalized. During the crisis, actions, which in economic practice and in scientific literature are defined as ‘restructuring’, were taken. It is therefore justified to link the restructuring measures with the anti-crisis management process in the manner proposed by the author in the diagram above.

3. The main source of crises in the enterprise are management errors. Other reasons appear as well, but research has confirmed that being threatened with insolvency or insolvent is in most cases caused by lack of management skills. This conclusion proves that Polish managers are poorly prepared to run enterprises, in particular when a crisis situation threatens their existence. It is also worth emphasizing that the study covered entities that were in a very difficult economic and financial situation, hence the number of cases was limited to several hundred. The research has pointed to the disturbing phenomenon of unreliable preparation of financial statements, also among

public companies, and the unprofessional functioning of corporate supervisory authorities.

THE CONTENT OF THE DESERTATION

The work consists of six chapters. It includes an introduction and conclusion, lists of legal acts cited in the dissertation, figures and tables, and the bibliography. There are also attachments included in the thesis, which constitute its essential part.

The first three chapters of the dissertation present a critical analysis of the scientific literature devoted to the crises in the enterprises, the anti-crisis management processes and restructuring proceedings.

The first chapter of the dissertation provides a broad view of the crisis in the enterprise. Critical analysis of the crisis management pattern emphasized the importance of the diagnosis as a necessary element to develop a scenario, which in turn should indicate the causes (both internal and external), whose elimination is necessary to resolve the crisis. The presented research of Polish scientists, based on the statements of entrepreneurs, is a reference to the research (and its results) carried out by the author. The analysis of the scientific literature regarding the forms of crisis allowed to link the symptoms with their type: strategic, crisis of results and fluidity, and indicated the importance of the reaction when it is still possible to stop the negative trends, which is of key importance in the recovery processes. The review of the literature regarding the challenges faced by managers during the crisis was preceded by a synthetic look at the management model on the basis of which their reactions were presented. In numerous works, special attention is paid to underestimating the symptoms of crisis. Various views on the phenomena occurring in the enterprise, in particular during a crisis, constitute the basis for the analysis of the attitudes of managers of companies at risk of insolvency, that they run.

The second chapter of the dissertation presents the essence of anti-crisis management - a process that consists of four elements: planning, organizing, implementing and controlling activities. These activities occur before, during and after a crisis. The literature on the subject distinguishes four components of anti-crisis management: the type and kind of crisis, stages of its development, scenarios of fighting the crisis and its participants. From the perspective

of the dissertation's objective, it is of key importance to distinguish the features characterizing anti-crisis management activities in order to confront them with restructuring processes.

In the second dimension, the system of anti-crisis measures is identified, which include prevention, de-escalation, proper intervention and post-crisis intervention. The third aspect is strategies of anti-crisis management. The chapter presents two such strategies that contain numerous elements of restructuring activities.

The third chapter of the dissertation discusses the issues of enterprise restructuring and revitalisation. The essence and goals of restructuring, which is a process of reconstruction or restructuring of the structure introduced during the crisis of the enterprise, are presented. The research work focuses on activities enabling the achievement of the restructuring objectives, which are changes in the scope and range of the company's operations, capital structure and management. This chapter defines the concept of restructuring from the point of view of the objectives of the dissertation. The stages of the crisis management process indicate that once the crisis is over, the company should be revitalised (strategic renewal). The second part of this chapter presents the strategic and organizational approach to post-crisis changes. The literature on the subject emphasizes that as part of the revitalization of the enterprise, an improvement of the business model, process optimization and the reconstruction of key competences should take place. The concept of innovation, competitive potential, cooperation with universities, the ability to obtain sources of financing the changes are closely related to the revitalization process - it prompted the author to pay attention to the views on these issues presented in the scientific literature. Particular attention was paid to the role of managers both at the stage of preparing the enterprise for the crisis, determining its sources and actions necessary to overcome the crisis.

The fourth chapter discusses the concept of empirical research as well as its stages and justifies the selection of the research sample. The research problem of the dissertation is included in the question: what factors contribute to the lack of success of restructuring proceedings in Poland? Moreover, the chapter discusses research hypotheses and the research plan.

The fifth chapter presents the results of three research stages:

1st STAGE – carried out in the years 2015-2016:

- quantitative research on arrangement and remedial proceedings
- research method - a questionnaire completed by the author after analyzing court files of the proceedings
- research sample - 150 companies (including 35 thoroughly analysed)

2nd STAGE – carried out in the years 2019-2020:

- quantitative research on restructuring proceedings,
- research method - CAW questionnaire (addressed to restructuring advisors)
- research sample - 63 companies

3rd STAGE – carried out in the years 2019-2020:

- quantitative and qualitative research on restructuring proceedings among companies listed on the Warsaw Stock Exchange
- research sample – 13 PLCs

The presentation of research results is preceded by an introduction, which focuses on the description of the legal environment in which the examined enterprises functioned and introduces the method of obtaining data for research. In the context of reorganization proceedings, the assumptions of the Bankruptcy and Reorganization Law, internal and external causes of crisis situations, the effectiveness of the proceedings and general conclusions resulting from the analysis of court files covered by the study are presented. The research on restructuring proceedings was based on questionnaires, the content and results of which are discussed in the chapter. The four proceedings defined in the Restructuring Law were also presented. The study covered 63 enterprises that were threatened with insolvency

or insolvent. The aim of the study was to identify the anti-crisis management processes, causes and symptoms of the crisis, restructuring activities and activities undertaken after the crisis has been resolved. The summary of the research results based on the responses of licensed restructuring advisors positively verified the research hypotheses, which was presented in the last part of the chapter. The research on crisis situations in public companies was based on own analyzes of the current and periodical reports of the companies that declared bankruptcy or opened restructuring proceedings in 2018-2019. The provisions of law relating to companies listed on the Stock Exchange and on the NewConnect market, as well as the authorities supervising their operation were presented. Then, the phenomena that took place in the examined companies were characterized - full descriptions are included in the appendix to the dissertation. The conclusions drawn were related to the hypotheses of the dissertation. The summary of each research module is the verification of the adopted hypotheses and confirmation of their truthfulness.

The last, sixth chapter of the dissertation presents conclusions important for practice and concerning the main sources of the crisis in Polish enterprises. The author of the dissertation pointed to the errors of managers as the main source of crises in the examined companies. The analysis of financial statements and reports on the activities of the studied entities that were affected by crisis situations allowed for the identification of the low substantive quality of these documents, in many cases completely useless for those interested. The third conclusion concerns insufficient supervision of corporate bodies, especially in case of public companies.

CONCLUSION

The research problem was included in two key questions:

1. Is the restructuring process an integral part of the anti-crisis management system?
2. Which factors contribute to the lack of success of restructuring procedures supported by legal provisions?

Empirical research conducted by the author has shown that the answer to the first question is positive. It should be emphasized that the entities in a dramatic economic and financial situation are analyzed. For this reason, the documents and source data were sparse, which made reliable inference impossible. An unambiguous answer was provided by the information contained in the questionnaires addressed to licensed restructuring advisors. They contained the description of the entities and structures of the anti-crisis management system as well as the restructuring activities undertaken after the symptoms of the crisis have been identified.

The course of restructuring proceedings was presented at each of the three stages of the research. For this reason, it is possible to indicate the factors that occurred in each of them. The key factors of failure of restructuring proceedings are as follows:

1. The company's strategy and business model did not take into account the changes occurring in the environment. The concept of 'company's strategy' is related to decisions regarding the production / service profile, sales markets, technologies used, sales channels, etc. – for making which the managers who run the company are responsible.
2. Too late reaction of managers to symptoms of crisis.
3. Restructuring activities were undertaken to a limited extent.

The hypotheses have been positively verified. The results of the conducted research are not favorable for the image of the Polish economy, which is reflected in the low rate of effective remedial proceedings in enterprises.

The study based on surveys addressed to restructuring advisers shows that only 16 out of 63 analyzed enterprises managed to avert the crisis and return to functioning on a competitive market. Out of these, 15 entities undertook revitalization activities aimed at changing the strategy, business model and capital structure. The conducted research drew attention to two phenomena important for economic practice. The first of them concerns the quality of financial statements - each of the three conducted audits revealed an unreliable reflection of the financial situation in the statements, in particular, it concerning the valuation of assets and the lack of information in the descriptive part about the current crisis and the threat to continue the company's operation. The second negative phenomenon is related to the low

effectiveness of corporate supervision, and in the case of public companies - state supervisory institutions and regulators.

This dissertation did not exhaust such a wide topic as the functioning of an enterprise in a crisis situation. The conclusions obtained in the work can be used to implement changes in Polish economic practice.

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