

ISSN: 2313-6758

Volume 3, Issue 3

March, 2015

Pages: 192-198

***Stephen Kamau Warui¹**

Martin Kimemia²

Maria Mungara³

Asuman Bateyo⁴

James Mwangi Njau⁵

In-Depth Analysis of Restructuring as a Business Transformation Strategy

1, 2 & 3. Mount Kenya
University, Kenya.

4. Lecturer, Kampala
International University.
Uganda.

5. Lecturer, St. Paul
University, Kenya.

The study focused on the review of literature on effect of restructuring on business transformation to attain effectiveness and efficiency. The objective of the study was critically to examine the efforts undertaken by the executives of the world class organizations as benchmark in business transformation. It further establishes reasons why efforts to achieve corporate renewal by some of the organizations have failed or not sustainable. The study will provide constructive information that helps the managers to precisely and concisely guide them in their quest to restructure. This will ensure resources are channeled to the right course. This will fill the gaps of earlier studies which provide sectarian data by providing comprehensive approach.

Email for correspondence:
stephen.warui@yahoo.com

Keywords: Restructuring, Business Transformation, Benchmarking,

INTRODUCTION

The environment in which businesses operate is ever undergoing radical change in recent times and is becoming very competitive. Companies that once enjoyed easy command over their rivals and dominated the markets now find themselves engaged in a raging battle to re-establish their dominance and regain the market share. Survival of many firms is at stake. The greatest challenge their survival exacerbated by the fast changing global market and hyper competitive global market environment (Hitt, 2007).

Business enterprises equally change and experience the impacts of change more glaringly. A brief look at business reviews shows that business institutions are crest-stricken by uncontrollable forces (Hoskisson, 2001). In fact companies like Enron, Arthur Anderson and World Com that once enjoyed easy command of their markets are now extinct. Several companies like General Motors now face relegation.

Corporate transformation is the orchestrated redesign of the genetic architecture of an organization achieved by working simultaneously at different momentum along its four dimensions; reframing, restructuring, revitalization and renewal (Kelly and Gouillart (1995). Thus it is a process of ensuring that an organization develops and implements changes or programs that ensure that it responds strategically to the new demands and needs from the market.

In effort to regain competitiveness, successful organizations are using an all-rounded approach to change, achieve corporate transformation. The experience of many troubled organizations has made it clear that business transformation is now a central management challenge and a vital task of business leaders. These organizations encounter corporate challenges like the board has several development activities and projects to manage as well as serving its customers. The responsibility of the management is to better itself and motivate its staff, given that resources and funding are not always adequate.

By identifying the corporate challenges and problems encountered by organizations can apply the corporate turnaround model by Gouillart and Kelly (1995). Nevertheless, organization's business character has remained largely that of the public sector with the carry-overs from their past. Their present situation appears to be an extension of what was done yesterday and the future probably a linear extrapolation of what

is taking place today. This kind of framework is the essence of business transformation.

LITERATURE REVIEW

Restructuring

Gouillart and Kelly (1995) defined as restructuring as dealings with a corporate body with a physical side of holistic health. It looks at the outside manifestations of the health such as the structure of the company's portfolio, the physical disposition of its assets and the alignment of its work processes. It also looks at the inside manifestation of health such as the resource allocation system, the operation strategy and the flow of work within" According to Bethel and Liebeskind (1993) restructuring refers to changes in the composition of a firm's set of businesses or financial sector. Thompson and Strickland (2001) refer to corporate restructuring as the art of making radical changes in the composition of the business in the company's portfolios. Restructuring targets corporate inefficiency and performs surgery on the nature and mix of business units in the company's portfolios. In most cases it brings about a reduction in the scope of the company through strategic exit actions such as divestment, harvest and liquidation. However restructuring can also be part of expansion of the company's scope when it involves acquiring poorly managed enterprises on the presumption that their acquisition will improve their efficiency and put a whole new face on the company's business make up; Restructuring is a strategy through which a firm changes its set of businesses or its financial structure. Thus it is about preparing the company to achieve a competitive level of performance (Hitt, 2007). It deals with the body of the company by constructing an economic model, aligning the physical infrastructure and redesigning the work architecture. It is an equally important dimension of a company's life. It is an area of pain resulting from inevitable loss of jobs, change of comfortable behaviours among others. (Kelly and Gouillart, 1995).

Restructuring is change tool or strategy that leads to corporate transformation and enable organizations to attain efficiency and effectiveness in a greatly liberalized business environment. The environment that precipitates change including increased change in customer needs and tastes, growing competition,

technological advancements and this results into improved efficiency when handled properly by organizations implementing the change programs (Asuman B, 2013).

According to Proctor, (2001), industries and organizations have life cycles and the transition from one stage to the next can have considerable strategic implications for incumbent firms. Restructuring companies and other companies bringing about change in an industry have a vital role to play in the process of industry transition and restructuring. Their participation in the process, however, is not always as successful as it might be. Too often the restructuring companies and other firms acting as change catalysts themselves eventually fail to survive. Therefore the question to what extent this change tool (restructuring) could bring about a holistic business transformation and therefore efficiency and effectiveness to an organization lingers on.

Looking at beyond restructuring in a bid to determine its scope and contribution to the total transformation of an organization is paramount. Restructuring as a strategy is the heart of business success and many companies are parting with millions of money to study, initiate and craft strategies that will enable them to out compete their rivals and make them earn above average returns. Restructuring is a strategy through which a firm changes its set of businesses or its financial structure. Thus it is about preparing the company to achieve a competitive level of performance (Hitt, Daune and Hoskisson, 2007).

A case in point is the acquisition of Znaussi and its eventual restructuring by Electrolux. The implementation resonated around a series of decisions such as relocation of production units, change of top management, improvement of production units, change of the innovation spirit and the redefining of the mission. Electrolux achieved strategic restructuring of Zanussi and leveraged itself into an expanded and the most profitable worldwide enterprise.

Hitt (2007) analyzing several media house acquisitions that took place in late 1990s and early part of the 21st century observed that restructuring remains largely a scope reducing phenomenon for company's portfolios and activities. However the media business has evolved significantly and problems arose with media mergers. A good example is the Time Warner acquisition of AOL which has led Time Warner to consider splitting off the business as it has reconfigured

the business to efficiently compete with Yahoo and Microsoft Corporations MSN. Viacom made a number of acquisitions including CBS network, which in the beginning added significant value to Viacom's MTV and other cable networks and Paramount Film Studios but later the stock price lagged. This has made Sumner Redstone, Viacom CEO consider ways to increase value. One strategy under consideration is to divide the large media business into two operational units. One focused on the smaller growing businesses such as MTV, Nickelodeon, The Movie Channel and Paramount Pictures among others, and another that would include CBS television and Infinity broadcasting as well as other entertainment businesses such as Viacom outdoor which schedules outdoor advertising and concerts. Although the later form of businesses is slow growing, they generate a lot of cash flows and allow the separate company to a more generous dividend policy-a policy that attracts more conservative investors. Thus the growth operation focused on MTV and other channels would allow a different type of investor focus.

Miller (1995) Siemens has also been carrying out restructuring programs since 1995. Several Japanese firms have also embraced substantial restructuring programs and have been relocating their production units overseas as part of their competitive strategy. Nakarmi (1995) since 1995, the South Korean conglomerates (Chaebols), Samsung being one of them have been under the rigorous restructuring. The ongoing policy of privatization in Africa has led many countries to restructure their companies before or after privatization.

Challenges of restructuring

Hoskisson and Moesel (2002), argue that the primary impetus for restructuring is poor performance along with correction of over-diversification. The basic aim of diversification strategy is to create value for the company but it can end up doing the opposite. Indeed Michael Porter, one of the leading authors in strategic management after studying 33 cases of major corporations in USA between 1950 and 1986 concluded that corporate diversification strategies of most companies dissipated value instead of creating it.

Ramanjun and Varadarajan (1989) in their academic study and corporate diversification also came to a conclusion that extensive diversification tended to depress rather than improving company profitability. One significant weakness of conglomerate

diversification is the big demand and attention required of corporate management to effectively supervise and oversee the subsidiaries especially when they are many. The greater the number of businesses in the portfolio the more difficult it becomes to track individual performance and to remain informed about the complexities of each. The problem of information overload starts here. Therefore along with information overload are the costs involved to manage it and coordinate the operations of the different business. It is therefore safe to argue that the diversification strategy can have meaning and value only if the costs associated with the expansion do not exceed that value. This was the predicament of the diversification spree of companies which began in 1960s and lasted until 1990s many of the over diversified and ended up with huge inefficiencies in their performance and vulnerabilities for hostile takeover bids. The remedy was severally traced into correction of over diversification through spin offs, management buyouts and other leveraged buy outs which are actions of restructuring. The case of Sears one of the largest retailing companies in USA is a better example. 113 of its retail stores were closed in 1993 engendering a loss of jobs for 50000 employees.

In early 80s, Rank Xerox, diversified into the financial service industry when its photocopier business came under attack from Japanese companies such as Canon and Ricoh. Like Sears it also wanted to protect its income stream. Although the strategy seemed to pay off in the beginning in the early 1990s Xerox Financial business could not match the competition within the industry. In 1991 the company disengaged completely from the financial services operations and sold most of its previously acquired units, often at a loss, in order to refocus on its core business.

Another strong example of over diversification through being overly focused on making a deal is the acquisition of the Compaq Computer Corporation by Hewlett Packard Company (HP). Carly Fiorina the CEO at the time waged highly controversial against other shareholders over whether those two firms should merge. Fiorina won the battle and the deal was carried out in 2002. In the process both HP and Compaq employees and management became consumed with the deal and in the course of time lost significant focus on the ongoing operations. In the end HPs shareholders paid \$24 billion in stock to buy Compaq and in exchange got relatively little value (Loomis, 2005). Fiorina lost the job and now the new

CEO Mark Hurd has a major job of retrenching and reorganizing HP's businesses. Therefore correction of over diversification can be a prime mover for restructuring.

Restructuring can be undertaken after realizing that the core business of the diversified company has come under attack from competition. In 1981 Sears whose business was retailing, further diversified into financial services by acquiring Dean Witter Reynolds Inc one of the biggest stock broker and Coldwell, Banker and Co, USA's biggest real estate broker, for a total of 800 million US dollar. The idea was to team the two giants with all state insurance which had been acquired in 1934. The chief executive expected to excel in the provision of financial services and protect the profitability and income streams of Sears. As if by coincidence during that same year its retailing operations run into serious unending problems until 1992 when the company was forced to abandon its diversification effort of 11 years in order to devote time to its troubled core business of retailing.

Strategies to Restructuring

Restructuring is a strategy through which a firm changes its set of business or its financial structure (Johnson, 1996). From the 1970s into 2000s divesting businesses from company portfolios and downsizing accounted for a large percentage of firms restructuring strategies. Restructuring is therefore a global phenomenon (Hoskisson et al, 2005). Failure of an acquisition is often followed by a restructuring strategy. Morgan Stanley a large US investment bank merged with Dean Witter, a retail investment company in 1997. The merger was touted to become a financial supermarket. However the two companies cultures did not fit together well; "beneath the surface of the two sides did not try very hard to conceal their mutual scorn" (McLean and Serwer, 2005).

Although Philip Purcell from Dean Witter won the political battles to retain his position of CEO after a number of key personnel left calling for his resignation, ultimately Purcell was forced to resign. However Morgan Stanley had to restructure in order to improve its position by selling of its Discover Card division and possibly even the retail brokerage business. In other instances, however, firms use restructuring strategy because of changes in their external and internal environments. For example opportunities sometimes surface in the external environments that are particularly attractive to the diversified firm in light of

its core competencies. In such cases restructuring may be appropriate to position the firm to create more value for stakeholders given the environmental changes (Morrow, 2004).

There are three restructuring strategies that firms use:

Downsizing: According to Hitt and Duane (1997) one of the popular means of restructuring is downsizing. Downsizing refers to the reduction in number and change of the composition of business in the company's portfolio. The main reason for undertaking this course of direction has always been given by the proponents as: Making the organization lean and mean by consolidating all operations and therefore achieve synergies and reductions on costs and bureaucratic inefficiency, improving productivity and increasing competitive advantage.

Appelbaum (1997) in his research, he argues that leading researches in this area have shown that all the downsizing goals are not achieved as intended. Reduction in expense is usually achieved by half way. A study conducted by Wyatt company consultants revealed that fewer than half of the downsized companies achieved a reduction in the overall expenditures with less than one quarter indicating increased productivity.

Bennet (1991) has similar observations improvement in productivity and achievements of competitiveness are achieved with dismissal results of about 19% to 22% respectively. Instead downsizing has been associated with a host of negative outcomes such as strange relationship with suppliers and customers, unwarranted early retirements of talented employees, poor public relations and general democratization of staff. The term right sizing was therefore coined to caution those intending to downsize that if it has to be done, that all human resources should not be affected as it would affect the competitiveness of the company.

Downsizing, once thought to be an indicator of organizational decline, downsizing is now recognized as a legitimate strategy. Downsizing is a reduction in the number of firm's employees and sometimes in a number of its operating units, but it may or may not change the composition of the business in the company's portfolio (Nixon et al, 2004). This is an intentional proactive management strategy where as decline in an environmental organization phenomenon that occurs involuntarily and results in erosion of the organization's resource base. In the late 1980s and 1990s and early 2000s, thousands of jobs were lost in

private and public organizations in the United States. One study estimates that 85 percent of the Fortune 1000 firms have used downsizing as a restructuring strategy. Moreover Fortune 500 firms lay off more than One million employees or 4 percent of their collective workforce, in 2001 and into few weeks of 2002. For instance in 2005 General Motors signaled that it will lay off 25000 people through 2008 due to poor competitive performance especially as a result of improved performance of foreign competitors (Hitt & Daune, 2007).

Downscoping: According to Rayand and Forsyth (2002), down scoping has a more positive effect on the firm's performance than downsizing does. Down scoping refers to divestiture, spin-off and some other means of eliminating business that are unrelated to the firm's core businesses. Commonly down scoping is described as a set of actions that causes firms to strategically refocus both Viacom and Clear channel communication have anticipated in such restructuring and are considering further moves. A firm that down scopes often also down sizes simultaneously. However it does eliminate key employees from its primary businesses in the process because such action could lead to loss one or more core competencies. Instead a firm that is simultaneously downsizing becomes smaller by reducing diversity of business in its portfolio.

Downscoping has been practiced by many companies as a restructuring strategy to improve their competitiveness. A case in point is the Tata Group founded by Jamsetji Nusserwanji Tata in 1868 as a private trading firm and now India's largest business group including 91 firms in a wide range of industries. The group covers chemicals, communications, consumer products, energy, engineering, information systems, materials and service industries. The group's revenue in 2003-2004 was US Dollars 14.25 billion about 2.6 percent of India's GDP. Tata's member companies employ about 220,000 people and export their products to 141 countries. However as India has changed, Tata's executives have sought to restructure its members businesses to build a more focused company without abandoning the best of Tata's manufacturing tradition (Kripalani, 2004).

Downscoping refers to divestiture spinoffs and other methods of reducing business not related to the core such as harvest and liquidation methods. The overall intention of down scoping is to refocus on the firm's

core business. Down scoping tends to be a workable and successful strategy for restructuring. Many cases in this area have been recorded in the annals of corporate restructuring. The case of Sears (1981) has already been cited, Hanson industries (1987) and Xerox (1980) which were typical cases of down scoping.

Leveraged Buyouts: Leveraged buyouts have also become popular in the restructuring area. An LBO is a restructuring action where by the managers of the firm or external party buys all the assets of the business largely financed by debt and takes the firm private. Leveraged buyouts are commonly used as restructuring strategies to correct for managerial mistakes or because the firm's managers are making decisions that primarily serve their own interest rather than those of the stakeholders (Markides & Singh, 1997).

A leveraged buyout is a restructuring strategy where by a party buys all of the firm's assets in order to take the private firm. Once the transaction is completed, the company's stock is no longer traded publicly. Related to that are the management buyouts or employee buyouts and whole firm buyouts in which on company or partnership purchases an entire company instead of a part of it, are the three LBOs. Research has shown that management buyouts can also lead to greater entrepreneurial activity and growth. While there are many different reasons for a buyout, one is to protect against capricious financial management, allowing the owners to focus on developing innovations and bringing them into the market. As such buyouts can represent a form of firm rebirth to facilitate entrepreneurial efforts to stimulate strategic growth (Wright, 2001).

Beyond Restructuring

According to Hamel and Prahalad (1998) hold that many companies which began as industrial leaders in 1980 lost this leadership by the end of the decade. We have already cited some of these cases; Daimler Benz, Sears, Xerox. There are others like IBM, Philips, and Salomon Brothers. The internal dynamic of these companies has not been able to match with the place of change in their various industries. It is this ongoing and unending mismatch, the daunting problem of organizational restructuring and transformation faced by many companies. Can restructuring alone solve it? Can transformation agenda of down scoping, downsizing, rightsizing, leveraged buyouts and over diversification corrections, strategic alliances among

others adequately address this concern?. Many writers and experts in restructuring including those I have interviewed in this study seem to be of the view that restructuring seldom/rarely gets to the root of the problem of organizational transformation. They also argue that it does not only bring about fundamental improvement in the business. Gouillart and Kelly (1995) argue that at best restructuring buys time. They further contend that downsizing belatedly attempts to solve the problems of the past. It is about getting thinner not healthier. Hamel and Prahalad (1998) further argue that it is not about creating the marketing of the future. When then is beyond restructuring?

Short term and long term outcomes resulting from restructuring strategies indicate that downsizing for example does not commonly lead to higher firm performance (Hoskisson, Right and Busenitz, 2001). Still in free market societies at large, downsizing has generated an incentive for individuals who have been laid off to start their own businesses. Research has shown that restructuring in terms of downsizing contributed to lower returns for both U.S. and Japanese firms. The stock markets in the firm's respective nations evaluated downsizing negatively. Investors concluded that downsizing would have a negative effect on the company's ability to achieve competitiveness in the long term. Investors also seem to assume that occurs as a consequence of other problems in a company (Krishan, 2002). This assumption is mostly caused by the firm's diminished corporate reputation as it is clear that losing employees with many years of experience in the company represents a major loss of knowledge which is vital to competitive success in the global economy. Thus I general research evidence and corporate experience suggest restructuring in form of downsizing may be of more tactical (short term) than strategic (long term) value. Restructuring in terms of down scoping generally leads to more positive impact or results in both the short term and long term than does down scoping or engaging in leverage buyouts. Down scoping is desirable long term outcome of improved performance is a product of reduced debt costs and the emphasis on strategic control derived from concentrating on the firm's core business. In so doing the refocused firm should be able to increase its ability to compete (Hitt, 2007)

IMPLICATION AND CONCLUSION

The present study of literature review focused on the effect of restructuring on business transformation. On the managerial front it sheds light on the experiences of the organizations that have already implemented restructuring strategy. This enables caution to be exercised as they restructure or contemplate the same more comprehensively. To the academicians this provides a collection of literature pertaining restructuring in one basket. It endeavors to fill gaps in literature available which looks at individual enterprises encounter and not from a multi-sector approach. Restructuring in corporate transformation has a role to create and strengthen operational efficiency and effectiveness in terms of productivity, competitive advantage and quality of product. However it is essential to involve the staff and put in more efforts to ally their scepticisms and misconceptions.

REFERENCES

- Asuman,B.(2013): The impact of restructuring and corporate transformation in business organisations: a case study of national agricultural export board(NAEB).Unpublished, masters project, Mount Kenya University
- Bennet (1991): "Downsizing does not necessarily bring an upswing" Wall Street Journal, June 4th.
- Bethel, J. E and Liebskin (1993): „The Effects of Ownership Structure on Corporate Restructuring“ Strategic Management Journal, Vol. 8, pp 18-19
- Gouillart, J. F. and Kelly, J. (1995). Transforming an organization, McGraw Hill Inc, New York.
- Harmel, G. and Prahalad, C. K. (1998): Competing For the Future, Harvard Business School Press, Boston 71
- Hitt, A. M & Hoskisson R. E. (2007): Strategic Management, Competitiveness and Globalization, Concepts and Cases, 7th Edition Lachina, Publishing House, USA
- Hitt, A. M and Daune, I. R (1997): Strategic Management, Competitiveness and Globalisation, West Publishing Company, Minneapolis.
- Hoskisson R. E., Canella A. A (2005): Asset restructuring and Business Group Affiliation in French Civil law countries; Strategic Management Journal, 25; 525-539.
- Hoskisson R.E and Moesel D. D. (2002): Divestment Intensity of Restructuring Firms, Effects of Governance, Strategy and Performance: Academic Management Journal, Vol. 6, pp 32-3
- Kipalani, M. (2004): Ratan Tata: No one is doubting now, Business Week, July 26, pp 50-51
- Markides and Singh, H. (1997): Corporate Restructuring; A symptom of Poor Governance or a solution to past managerial mistakes; European Management Journal, Vol.15; pp 213.219
- McLean, B and Serwer, A. (2005); Brahmins at the gate; Fortune, May, 2; 59- 65
- Miller, K. (1993). "BMW Zooms a head of Mercedes Benz in Worldwide Sales for the first time" Wall Street Journal
- Rayand, M & Forsyth, M. (2002): Hostile Bidders, Long term performance and Restructuring Methods; Evidence from UK, American Business Review 20 (1) 71.81
- Right, M., Hoskisson, R. E., and Busenitz, L. W (2001): Firm Rebirth; Buyouts as facilitators of strategic growth and entrepreneurship; Academy of Management Executive, 15 (1) 111-125.
- Thompson and Strickland (2001): Strategic Management, Concepts and Cases, McGraw Hill Publishers, London;
- Proctor,T. (2001) "Corporate restructuring: The Pitfalls of Changing Industry Structure", Management Decision, Vol. 39 Issue: 3, pp.197 - 204
- Wright, M., Thacker, Shaw, J.B., Fields J.W. and Fisher, C.D. (1993), "The Availability of Personal and external coping resources: their Impact on job stress and Employee attitudes during Organizational restructuring" Work and Stress, Vol. 7 No. 3, pp. 229-46.