MANAGEMENT Session

THE PROCESS OF FINANCIAL RESTRUCTURING IN TIMES OF CRISIS IN ENTERPRISES

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ABSTRACT

A clear, systematic approach to restructuring is indispensable for successful combat over a crisis in a company. Identification of reasons for a crisis, whether and how, it can be remediated.

In recent years, changes in technological conditions, improvements in communication and information technology, trade and financial liberalization have affected the operation condition of business grave competition has started between companies and countries. With increased financial and trade deregulation, markets have been more risky and seen an extent of the convergence among companies and countries. With the contagion effect, shocks and crises has spread from one country to another. As a result of them, companies have been faced with crises. Whatever the causes of crises, either external (macro economic or came from another country/another region) or internal conditions (firm specific level such as weakness of management or the deterioration of the financial structure of companies) they have negatively affected companies. Management, reputation, market share, sales or profitability. For these companies, crises management has been urgent and life-giving requirements.

To recover from the business distress and crisis, companies experience restructing of their activities. The companies also need restructuring when a division of company performs low than target or this division is not fit the future plans of company. Corporate restructuring en compasses a wide range of actions, such as the transformation of the firms. Organization of asset structure and of business portfolio. The restructuring activities also include operational and financial restructuring. Financial restructuring can take different forms such as expansion strategies, downsizing (exiting) strategies and strategies that can change in ownership structure by using dept.

In this study, we can use the financial restructuring of enterprises in crisis conditions the crisis exit strategies will be examine

Key words: financial liberalization, business, deregulation, companies, Crisis management, Improvements

1. THE CONCEPT OF CRISES IN BUSINESS ENTERPRISES

Due to the fact that the concept of crisis is distinctly defined by the different disciplines, it is difficult to make an integrated definition about crisis. According to Shrivastava, crises are triggered by a set of elements such as the human, organizational, and technical failures that are in mutual interaction (Shrivasta et al, 1998, p. 297). Laurence Barton defines the crisis as the important and unexpected events, the potential of which is high to produce the negative outcomes, (Guth, 1995, p.125). When crisis is defined in general meaning, it is a phenomenon that will lead an individual or a group to face a negative case, if any attempt is not made to correct it (Dutton, 1986, p.502, Mutlu and büyükbalcı, 2009, p, 118).

While crisis is defined, two keywords taking place in line spaces are of course “unexpected” and “urgent” (Taylor, 2001, p. 47).

Crisis can be defined as a case threatening the integrity, competitive power, and life of business enterprises and the major reasons pushing the business enterprises to crisis are (Akgüç, 1998, p. 947):

- That sales volume is insufficient;
- That the expenditures are high;
- The receivables cannot be collected in time;
- That inventory turnover is slow;
- That unutilized production capacity forms by over investing on real assets.
- Over debts;
- That the possibility of competition is weak;
- Liquidity insufficiency;
- External stocks;

In crisis management, it is necessary to get to bottom of the problem forming crisis. However, whatever its cause is, in the conditions of crisis, business enterprises face a liquidity insufficiency and in this condition, cash becomes a resource rare and unpredictable (Brigham and Ehrhardt, 2005, p.816)Hence, whatever the cause is, the first application that is necessary to be done for overcoming the crisis is to settle the deficiency of cash and to get bottom of the problem. Therefore, the effective cash management plays an important role in being eluded of crises (Aba-bulgu and Islam, 2007, p. 925).

2- MANAGEMENT OF THE CRISIS CONDITIONS AT THE LEVELOF COMPANY

2.1. FINANCIAL PLANNING

Planning is to determine the targets and aims toward the future and to decide the ways to be followed for reaching these targets (Ülgen and Mirze, 2004, p. 23, Köse and Solakoğlu, 2009, p. 239). With moving from this definition, the financial planning process is as follows:

- analysis of the possibilities of financing investment
- prediction of the future results of the decisions to be made,
- deciding about which alternatives will be applied,
- measuring performance in the direction of the identified aims.

In the periods of crisis, conducting the financial plans extremely matters. The critical elements of the plan should include (Köse and Solakoğlu, 2009, p. 238):

- pro forma cash flow, income table, and balance projections,
- the main assumptions of financial plans,
- the programs associated with managing the existent assets and liabilities,
- project plans for critical assumptions,
- organizational change,
- critical risks and plans for managing the risks,
- reporting mechanism for the existing communication.

3- FINANCIAL RESTRUCTURING IN THE PERIODS OF CRISIS

In business enterprises, in the periods of crisis, the financial restructuring expresses a process, more than one, leading to the changes in the assets, financial structure, and property relations of the business enterprises (Pomerleono and Shaw, 2005, p.12, Yılgör, 2009, p. 328) The reflection of crises at macro level on business enterprises are also the cases jeopardizing the future of business enterprises in the troubles and crises at the level of business enterprise. In these conditions business enterprises, in order to be able to achieve to more manageable structure, use the strategies of financial restructuring as an instrument of getting out of crisis and mostly appeal to the sale of assets (Cao and otr, 2008, p. 69).

In business enterprises, in general, the processes of financial restructuring can be generalized as determined below (Gaugen, 1999, p. 405).

- with conducting the necessary financial analyses and evaluating the alternatives, making decision about the financial restructuring, and identifying which strategy is convenient;
- forming the restructuring plan, and with the department or participation of the business enterprise that is subject of restructuring, making the necessary interviews;
- approving of the restructuring plan by the shareholders;
- making the necessary legal notations and registrations;
- completing of the procedure.

4-IN THE PERIODS OF CRISIS, DOWNSIZING STRATEGIES IN RESTRUCTURING

In the financial restructuring of business enterprises, in the scope of downsizing strategy, the partial asset sale, distribution of assets of business enterprises or a unit of business enterprise to the existing shareholders, and the procedures of public offering of a certain part of department of the business enterprise will be considered (Yılgör, 2009, p. 328).

4.1. PARTIAL ASSET SALE

Partial asset sale is the sale of some assets, a participation, a department, or production line of the business enterprise to a purchaser outside. For the business enterprise or department of the business enterprise that is sold, a payment is made in cash or in the form of readily cashable securities, or a combination of both of them. Just as the cash obtained as a consequence of sale can be used in financing the new assets, they can also be used for the share payments to be made to the shareholders or repurchasing the stocks (Yılgör, 2009, p. 330).

4.2. DISTRIBUTING THE SHARES OF THE ASSETS OR A UNIT OF THE BUSINESS ENTERPRISE TO THE EXISTING SHAREHOLDERS

The procedure of distributing the shares of the assets or a unit of the business enterprise to the existing shareholders, putting the irrelevant departments withthe main activities out of operation, depending on the causes such as enabling the managers to focus on the main branch of activity; and eliminating the need for transferring resources to the departments and participations, especially in the large enterprises, makes an effect increasing the productivity, effectiveness, and the firm value in the business enterprises in the crisis conditions (Pin, 2006, p.978).

5. ARRANGEMENTS CHANGING THE STRUCTURE OF PROPERTY WITH THE RESOURCES BASED ON BORROWING

5.1. BUYING BY BORROWING

Buying by borrowing is to buy all of stocks or assets by financing them with the resources obtained via borrowing. Those acquiring a business enterprise or a unit of business enterprise by using loan target an increase on the performance, activity areas, and cash flow of business enterprise (Yılgör, 2009, p. 330),

5.2. PLAN OF MAKING THE EMPLOYEES PARTNER

The plan of making the employees partner aims to enable the employers to form an instrument for their employees for them to be able to invest on the stocks; to provide liquidity for the shareholders of non-public enterprises; to form a partial market for the stocks of company; and to provide the employers with the tax advantages (Rezaee,2001, p. 284)

5.3. REPURCHASİNG THE STOCKS

Repurchasing the stocks is being bought of the stocks that are treated in the market by the business enterprise in exchange of cash. Repurchasing the stocks and premium payments are of the methods a business enterprise will refer to for it to be able to make a payment to its shareholders. While the premium is accepted as a continuous cash flow to be made to the shareholders, repurchasing the stocks is considered a temporal cash flow (Yılgör, 2009, s, 330).

6.CONCLUSION

Crisis is a case threatening the integrity, competitive power, and life of business enterprises. Crises can be resulted from the reasons such as managerial vulnerability, planning faults etc. However, whatever its reason is, business enterprises, in turn, face a cash deficiency and in this period, cash becomes a resource rare and unpredictable.

In the periods or crisis, for meeting the cash the business enterprise needs, the actions creating cash are taken. Shortening the maturity of receivables, the potential to create cash can increase. For shortening the maturity of receivables, besides the policies of applying discount for the early payments, eliminating the customers experiencing problem in paying for their debts, it should be concentrated on the customers regularly performing their payments. Shortening the durations of stock holding and supply, cash need of business enterprises can be reduced. For this purpose, supplies can be made in small amounts and in shorter times. Also determining the stocks whose turnover rate are low, the share of these should be decreased.

In order to persuade the investors having a potential both to understand the causes and size of crisis and to determine cash need; and both to balance cash flow and to provide extra resource to the firm to that the firm is worth to be invested on, the financial plans in detail should be made. For this purpose, financial plans forming the necessary roadmap for the business enterprise to achieve its previous financial health are developed.

Plans and budgets are the works carried out to shape the future, beginning from today. The future is a completely unclear environment; especially in the period of crises, this uncertainty leaves its place to chaos. Therefore, in order to get out from chaos in the conditions under consideration, the success chance of solutions that will be produced according to an only possible case is weak.

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