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THEORETICAL AND METHODOLOGICAL PRINCIPLES OF ENTERPRISE'S FINANCIAL RESTRUCTURING

***Abstract:** Nowadays rapid economic growth of Ukraine is constrained by the growth the number of companies unable to achieve certain economic and social goals. This is mainly due to low efficiency of their activities, loss of competitive position because of inability to adapt quickly to changing market environment and as a result emergence of the crisis consequences.*

One possible way that will reconcile the impact of internal and external environment's factors and create by this pre-conditions for good management is the restructuring of enterprises. Special attention is given to the financial type of restructuring. Carrying out financial restructuring allows to realize an effective crisis management, reform of ownership and achieve the expected financial and economic results.

In this article the author describes the various approaches to the definition of "financial restructuring", defines purpose, the main directions and stages of restructuring the financial type. The basic principles, which the process of financial restructuring are based on, are outlined. The characteristic of the basic mechanisms and particular methods of financial restructuring, features of its effects and effectiveness are characterized. The need to incorporate modern innovative approaches to the management of the entity during the restructuring process is emphasized and its connection with crisis management and the process of providing financial security of the company are underlined. The attention is focused on issues of effective use of the enterprise's resources and its social responsibility during the financial restructuring.

Competitiveness of enterprises, their level of financial and economic indexes is largely dependent on general economic conditions, perfect tax system and regulatory - legal framework in country and stability of the national currency and more.

The global financial crisis adversely has influenced on the performance of domestic enterprises, resulting in deterioration of their financial condition, increase in loss level and decreased ability to adapt to constant changes in economic and political situation in Ukraine. As a result an adaptation to the dynamic environment and possible improve the efficiency of the activity can be achieved through a complex of measures of financial restructuring.

Foreign and domestic scientists have researched various theoretical aspects of financial restructuring problem in their scientific works: M.D.Bilyk, A.Butnik-Severskiy, A.Donchenko, L.M.Yeris, S.V.Klymchuk, H.Lofova, I.I.Mazur, N.H.Olderohhe, M.Perar, N. Slaviansky, E.Helfert, V.D.Shapiro and others. In the works of scientists the essence of the financial restructuring concept and steps for its implementation are studied, the necessity of its carrying out was founded, the ultimate goal and the basic mechanisms of its realizing were determined etc.

The analysis of studied literature allows us to make conclusion that nowadays there is no single definition of "financial restructuring". Thus, in accordance to the law of Ukraine "On renewing debtor's solvency or declaring it bankrupt" financial restructuring is defined as a system of measures carried out during the proceedings in bankruptcy in order to prevent recognition of the debtor as bankrupt and its elimination, it is aimed at strengthening the financial and economic situation and it also satisfies creditors in full or in part by correction and restructuring the debt and capital of the enterprise and (or) changing legal structure of the debtor [3].

The similar interpretation of the concept of financial restructuring gives M.D. Bilyk. The author's opinion is that the financial restructuring of the company is a system of financial-economic and other measures directed to reforming its financial performance and the attainment of the objectives of its financial strategy by implementing the necessary reforms of its capital assets and cash flows, adapted to

changing environment of the financial market and other external factors of financial performance [1].

However, there are more narrow approaches to defining this concept. In particular, the French economist M. Perar considers financial restructuring as reforming structure of passive balance of enterprise, while A. Butnik - Siverskiy, H. Lozova, A. Donchenko understand by that term the redistribution of accounts receivable and accounts payable.

Accordingly the implementation of financial restructuring is possible in the following areas:

- Restructuring passive balances (short-term and long-term debt forms of the enterprise and the structure of equity and debt capital);
- Restructuring the asset balance (current and over current types of enterprise assets and their correlation in general);
- Restructuring of cash flows (certain types of positive and negative cash flows, certain areas of the company activity and the correlation of total capacity of funds receipts and expenditures).

According to A.M. Poddyerohin's opinion financial restructuring is related to changing the structure and amount of equity and debt capital, as well as with changes in the investment activity of the enterprise. To the main activities of the financial restructuring he relates the following:

- Restructuring accounts payable;
- Receipt of additional credits;
- Increase in authorized capital;
- Freezing of investments.

Moreover the author emphasizes that "financial restructuring should be accompanied by restructuring production, otherwise measures to improve the situation of the financing may only delay the liquidation of the enterprise" [6].

Description of the concept of financial restructuring as restructuring its outstanding debt is the most common. In particular, Mazur I.I. also determines the

financial restructuring process as a procedure "... of ordered change in the terms of company repayment of debt agreed between the creditor and debtor ... because of debtor's inability to pay its debt obligations in a before fixed time" [5].

It is important to emphasize that in this case it is underscored on the interpretation of the nature of the financial restructuring as a system of measures that cause proper changes in the financial component of the company, in other words company finances are the subject of restructuring.

Another definition of financial restructuring provides E. Helfert in his book "Financial analysis technique": "The need for restructuring occurs when in company management or interested outside party the understanding, that there is a gap between a firm's actual value and its potential and to achieve it is possible by some of the changes work, appears. Simplifying, it can be said that this gap is the difference between the present value of planned cash flows under the existing conditions and the present value of other, usually larger, cash flows of the company to be restructured "[10].

Thus, the concept of financial restructuring is treated on the one hand as the restructuring of debts and on the other – as a reorganization of its financial flows, and provides the systematic use of measures set for the restructuring of corporate finance in order to avoid bankruptcy, appropriate providing its solvency and financial stability. In other words, the ultimate goal of financial restructuring is to create conditions for effective management of the enterprise. In the formed favorable conditions tasks are realized and the existing problems of a financial nature are solved through adjusted work of financial management.

An obligatory condition for the effective implementation of financial restructuring is the formation of a new approach to financial management and, consequently, the corresponding increase its efficiency, which is achieved by searching and using existing reserves, necessary resource support, radical changes in its infrastructure.

The financial restructuring of the company is a system of measures that forms an integral and controlled process of solving the identified financial direction problems. This process is related to the most important areas of business and requires continuous monitoring.

The process of financial restructuring involves passing several stages. First of all the goals and objectives are defining, the implementation plan is developing; it must contain the standard positions typical for a financial recovery business plan. The main idea is to create conditions to satisfy claims of creditors by the debtors' financial and business activity.

In the second stage a special workgroup is creating, in which representatives of enterprises those are restructuring, representatives of creditors and arbitration manager that can execute functions of the property manager and the reorganization leader or liquidator, if the restructuring is carried out after the institution of proceedings for bankruptcy of the enterprise, professionals who are release financial and economic analysis of activities and directly the restructuring, must be included.

In the third stage the schedule of restructuring is making.

In the fourth stage the diagnosis of the company is made, in other words financial analysis, assessment of products' competitiveness, production potential etc. Financial analysis focuses on issues associated with usage of existing enterprise financial resources. The structure of production costs and selling products on its individual groups, as well as profitability of individual products are analyzed [8].

A complex of measures of financial restructuring involves not only making changes to improve the efficiency of its operations. It also focuses on rational distribution of financial resources for highly efficient activities and reasonable management of business entity's scarce resources.

However, the process of financial restructuring usually involves large-scale changes in the assets structure due to the possible buy-sale transactions, revising the financial sources of economic activities. In connection with this organizational

structure, main activities and even legal form of enterprise are exposed to possible changes.

An important element in the process of financial restructuring is the considering of existing modern scientific achievements and innovative approaches to management and other areas of activity to improve the financial aspect of the enterprises functioning and creation of new competitive advantages.

It is clear that the financial restructuring of the company also causes changes in financial relations with other subjects of economic activity. Significant changes in the company that has restructured often cause corresponding changes in financial arrangements and commitments with contractors and resigning the existing contracts.

Carrying out financial restructuring intends taking into account certain principles. It is clearly that first of all process of restructuring is based on the general principles of economic activity. Let's characterize some of them in more detail.

Thus, financial restructuring should focus on a certain goal - to achieve high efficiency of the company, its sustainable development, rational use of financial resources and more. In this way the subordination principle of purposefulness is reached. The possibility to get the practical expected results of the financial restructuring's procedures means the principle of expediency. Flexibility of financial restructuring means that the company is able to generate alternative solutions to the problems of a financial nature, taking into account the results of the study and prediction of events. The principle of complexity is intended to solve the existing problems associated with different areas of enterprise's activity etc.

At the same time the approaches relating to the enterprise valuation plays important role because financial restructuring is practically based on this. The subordination of that group of principles requires a set of particular characteristics that satisfy the requirements of the owner and the market environment. They can be divided into three groups.

The first group identifies a set of characteristics necessary to satisfy the goals of the owner (utility, replacement, prediction). The second group includes the

approaches based on principles of accordance with supply and demand, competition and changes in value. This approach is founded on that the market environment sets the certain requirements of the business entity in the form of need of constant improvement and maintenance of competitive position. Besides the market is also undergoing constant changes that are reflected in changes of property prices under the influence of various factors, therefore correctly identified the direction of its development and implementation of appropriate changes in the structure of the enterprise leads to increase the value of the enterprise.

The third approach is related to the operation with the enterprise property and the most objective assessment of its value. In the context the enterprise is viewed as open interacting system, so any change in its structure leads to a change in its value as for the owner as to market. Consideration of the role of each element of the system and the right combination of production factors can increase the company value. This approach is built on the comparison of the alternative variants: whether in fact the expected result of structural changes will be better than result without their implementation.

Taking into account that domestic economic conditions have quite variable character, releasing the financial restructuring it is important to consider also the main theses of crisis management. It is aimed at identifying and overcoming the possible negative consequences of the crisis, and using the situation for the benefit of future development. At the same time the effectiveness of this administration can be assessed by analyzing the effectiveness of management in general.

The crisis situation is a serious incentive to find new more effective principles of activity. From this position the financial restructuring may be a way to resolve the consequences of crisis actions, and therefore it is submitted to the principles of antirecessionary management.

An important aspect of financial restructuring is to select the necessary mechanisms for its implementation. There are the following mechanisms: legal,

minimizing shadow effects, economic value, sanation and socio-economic orientation [4].

In accordance to author opinion the system of interdependencies of financial and legal standards for each of the centers of strategic conditionality restructuring provides an opportunity to outline the range of global optimization problems of this process. Such centers are the units of the enterprise that fully control certain areas of financial activity, and their leaders make their own management decisions and in these areas are fully responsible for the achievement of planned (or normative) indicators of the state of financial performance of this subsection. Construction of responsibility centers, determining their number and composition is individual for each company, and requires consideration of factors - organizational - legal form, lines of business, number of employees and others.

The mechanism of transformation of its economic value at its maximization is a set of quantitative measurement of the companies' economic value by a factor of cash flow at the set components of zoning and branch focus. Studying the cash flows resynchronization tendencies of factor influence of zones and branch orientation that contribute to forming a more accurate methodic of determining the value of the enterprise in the process of restructuring are revealed.

Mechanism of minimizing the shadow effect is complex of measures of transformation the property in the short-term period, implying an effective increase of enterprises in the context of reducing shadow losses. Choosing the most optimal method gives an opportunity to predict the event of effective model of restructuring.

Mechanisms of sanation and socio-economic orientation are embodied in the system of responding instruments of activities without any losses that will contribute to steady economic growth. The responding instruments of activities without any losses represent a mobilization factors and incentives for implementation of the process, they are companies and organizations quick - diagnostics, business planning, and usage of logistic control centers [4].

In accordance to the identified problems in the company providing financial restructuring one of the following methods are used:

- Sale of unused fixed assets;
- Reduction the current reserves by selling their redundant parts;
- Reduction of accounts receivable and payable;
- Transfer of property to pay off debt;
- Sale (purchase) of shares of different companies;
- Sale of part of own shares;
- Additional emission of shares;
- Offsets;
- Decrease (increase) in involved loans [8].

S. Klymchyk offers the following methods of financial restructuring:

- "Debt Swap" - transformation in the stock owner's structure by purchase-sale of shares, change of nominal value of shares, their conversion into other forms.

- "Peace deal" - restructuring of debt by paying off, cancellation, delay, conversion, exchange, suggesting conversion account payable on share of corporate rights.

- "Method of financial leverage" is a conversion of property into debt.

- "Debt restructuring" is a complex of organizational and economic means to change the qualitative and quantitative parameters in real debt of the enterprise [4].

Carrying out financial restructuring requires the use of appropriate labor, financial and material resources, the possibility to act in appropriate legal framework, the availability of certain organizational and legal support, which together serve the necessary means for its implementation.

Financial and material resources of the enterprise have the most significant role in releasing of the financial type restructuring, because their formation and use to the most extent is happening in the first place.

The role of labor resources in the implementation of financial restructuring is in the efficient work of highly skilled and well motivated staff. Besides the heads of departments and enterprises in general must have high level of professionalism.

Information plays an important role in modern business conditions and during realizing the financial restructuring it becomes even more important and requires constant renovation and protection. Providing information resources involves disseminating information about the tasks, progress and results of the restructuring, the formation and operation of information electronic databases and search systems.

Obviously, the carrying out of financial restructuring requires adherence to current legislation standards and norms, consideration of existing contractual arrangements; that is why appropriate organizational - legal providing is designed to coordinate them.

The effectiveness of economic activity and stability of the enterprise is largely determined by its degree of protection against internal and external threats associated with the use of limited resources. Therefore, the problem of its economic security, including its financial component, in the process of financial restructuring mostly plays the paramount importance. Financial security is achieved through a set of measures that previously defined at the strategic and tactical financial planning and it is the foundation in detail developed the concept of involvement and use of enterprise financial resources.

Monitoring and accounting measures formed properly to protect the financial interests of the enterprise from internal and external threats, coordinated work of skilled financial managers perform one of the most important conditions for high performance and sustainable development.

It is truly important in researching theoretical - methodological problems of financial restructuring is the issue of assessing its impact and effectiveness. In this case the increase its solvency and financial stability, growth of net cash flow can become the main criteria.

The implementation of financial restructuring is in close connection with the management of financial resources; therefore the requirement of taking into account the concept of value appears. Restructuring in the modern sense in fact is seen as an investment project with the aim of creating value. In assessing the restructuring is usually viewed as a variant of the investment with the initial costs and expected future profits, where the added value can be formed by operating, investing and management effects[9].

Operational effect is a savings of operating costs and getting an additional income for the period of competitive advantage.

The investment effect is represented in these parts - sale of assets that do not satisfy the business system (in other words, they prevent the creation of value) and acquisition of strategic resources.

The financial effect is to reduce the gap of perception and optimization of financial costs due to financial construction.

Management effect is the result of a synergy from business by introducing new management system [9].

Company as an entity of economic activity operates under conditions that are constantly changing, are continuously forced to adapt using all possible tools with strategically oriented motives of efficient functioning and sustainable development. Financial restructuring is the one of such instruments. Practical experience in financial restructuring of domestic enterprises shows the focus on short-term goals. In this context, very often there is withdrawal of financial resources that is mainly determined by the need to achieve effectiveness and damages to long-term goals of the organization. But lately positive trend appears, as quick profit motive gradually recedes into the final plan.

During providing the financial restructuring of enterprises the question of social responsibility comes. Primarily it is associated with social insecurity of the Ukrainian population, lack of resources necessary to ensure adequate standard of living and free development of most of the citizens in the state. This issue takes the

particular importance in times of economic entities' alterations. Thus, the result of restructuring may be massive layoffs from large company in the region, where it is difficult to find a job. Besides in the state the series of socio-economic problems continues to accumulate and complicated and need to be solved at the earliest possible date. Therefore one of the possible solutions is the division of joint responsibility of business with the state to society. Of course Ukrainian companies are trying to take the first steps towards the formation of socially responsible business. However, nowadays the effectiveness of the company is a key in the process of restructuring and the interests of workers back to the background.

Conclusion: Modern business realities ask for constant adaptation of Ukrainian enterprises in accordance with the changing requirements of the economic environment. Radical restructuring of management may be realized due to instruments that implement major structural changes and lead to rethinking the role of enterprises in the events of economic nature and aims to improve performance and stability of Ukrainian enterprises.

The financial restructuring of enterprises serves as one of such effective tools. The concept of financial restructuring on the one hand means the restructuring of enterprise's debts and on the other - the reorganization of its financial flows. It is a system of measures required for reforming of corporate finance, and allows the company to avoid the bankruptcy.

Financial restructuring can significantly reduce the risk of economic activities, optimize the structure of financial resources, and improve financial relations between the company and creditors, owners and others. Through its implementation efficiency of financial management, more rational use of financial and other resources are achieved, resulting in new opportunities for investment and efficient operating appears that is shown in increasing the effectiveness of the company, improving its competitive position etc.

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