SCIENTIFIC PAPERS
OF THE UNIVERSITY OF PARDUBICE
Series A
Faculty of Chemical Technology
17 (2011)

CORPORATE RESTRUCTURING AND PUBLIC PRIVATE PARTNERSHIP

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Received September 30, 2011

The article deals with the problems of corporate restructuring and public private partnership. Firstly, the concept of corporate restructuring is explained. Attention is paid to alternative reasons calling for corporate restructuring and to crucial spheres of corporate restructuring. Secondly, partnership restructuring as a key part of corporate restructuring is discussed. Finally, the foreign and Czech experience of public private partnership is summarized and main advantages and disadvantages of public private partnership are characterized.

Introduction

Nowadays, when the enterprises are affected not only by the strengthening competition of the globalizing world, but also by the negative consequences of the economic crisis, importance of alternative possibilities of business partnerships is rapidly growing. Collaborative relationships, routines and knowledge lead to increased revenue and/or reduced costs and risks [1,2]. Collaborative arrangements represent "relational assets, which should be considered, along with physical and financial assets, in determining a firm's market value" [1,2].

Making partnerships represents taking an important restructuring measure that can be applied in any phase of the company's life cycle. To enhance their competitiveness and to improve their economic situation, companies can take advantage of various forms of partnership. The article aims to define and assess the Public Private Partnership (PPP) in the context of corporate restructuring, particularly of partnership restructuring.

Corporate Restructuring

Restructuring is usually perceived as a change of a certain organism structure. Kratochvílová [3] distinguishes changes at macro and micro levels. When dealing with a structural change of a national economy particular field, we then use the term of a macroeconomic restructuring. If a change is being witnessed in an enterprise structure, we then use a term a microeconomic (corporate) restructuring.

In terms of a corporate restructuring there might occur changes both at the company level and at the levels of its particular parts. Corporate restructuring "deals with the organisation's structure and is usually associated with cultural change" [4]. According to Weston, Chung and Siu [5] corporate restructuring represents "significant changes in the strategies and policies relating to asset composition, liability and equity patterns, as well as operations". According to Bartol and Martin [6], corporate restructuring represents "the process of making a major change in organization structure that often involves reducing management levels and possibly changing components of the organization through divesture and/or acquisitions, as well as shrinking the size of the work force". Corporate restructuring presents an essential reconstruction of an enterprise strategy, structures and processes and their tuning with the new reality [7]. To sum up, a corporate restructuring represents a holistic changes process based on carrying out appropriate restructuring measures. This means profound, strategic changes that dramatically impact future enterprise activities rather than only partial (marginal) changes.

Lin, Lee and Gibbs [8] argue that corporate restructuring is a solution to a corporate crisis. In our opinion, starting the process of restructuring may arise from a whole range of problems. In principle they can be summed up in the four main groups [9] — crises, problems, prevention and chance. The crises are the first typical reason calling for a necessary restructuring. A firm is in a crisis endangering its prosperity, stability and future existence and this situation must be solved radically. The second reason states for problems. A firm must solve less urgent, partial problem situations and conditions that arise during its life cycle and which might lead to much more difficult situations — crises. Another reason, which might issue in restructuring, is a prevention aimed at avoiding potential problems in future. The last reason is chances. A firm may apply selected restructuring measures to use ahead of the competition and to stabilize its position in the market.

According to Hall [10], corporate restructuring covers a whole range of activities — changes in control (including ownership changes), changes in financial structure, or changes in the major lines of business in which the firm operates. According to Jones [11], corporate restructuring can also be oriented to realizing improvements in areas such as innovation, quality, input efficiency, and customer responsiveness. Pamphilis [12] notes that corporate restructuring activities are often broken into two specific categories: operational and financial restructuring. Gaughan [13] distinguishes cost restructuring, workforce restructuring and financial restructuring. The successful restructuring process requires the realization of restructuring measures in all spheres of business activities. It means some measures in the sphere of finance, properties, production, business, organization, information and personnel. It is necessary to take into account that these changes do not affect separately but they are mutually connected and influenced. The following can be considered as primary spheres of a corporate restructuring:

- financial (a financial, ownership and partnership structures);
- properties (a property structure);
- production (it concerns both produced products and provided services, and used production facilities or technologies, but also an organization of a production process);
- business (oriented both on inputs and outputs of the organization);
- organization (organization structure defining function roles and relations in business processes);
- information (information systems in a complex concept);
- personnel (human resources – volume, structure, quality).

Partnership Restructuring

Partnership restructuring represents a process of changing partnerships and is based, above all, on their extension. It is implemented in the form of strategic alliances, which are not based on the joint ownership. The strategic alliances are "associations to further the common interests of the members" or "intercorporate agreements cover a wide gamut of functions, ranging from component sourcing through research and development to production and marketing" [14]. In this case, cooperation between partners is based on agreements, either of the formal or informal character. However, there is no property link between the partners.

Partnership restructuring is closely connected with ownership restructuring.

Ownership restructuring represents a process of overall changes in the ownership structure of the enterprise. Such ownership changes can be based on changes in the ownership of the enterprise as a whole or on changes of the individual owners, but also on certain changes in the structure of the owned property. Its main forms are mergers, acquisitions and strategic alliances based on the joint ownership, regardless of the fact whether it is a holding or a joint venture.

There are a number of motives why to create partnerships [13,15-18]: expansion, diversification, risk reduction, synergic benefits, financial factors, time and innovative advantages. The primary motive is the effort to enhance positive cooperation, i.e. mutual cooperation. Potential derived motives can include sharing the partners' sources (e.g., common funding of demanding investment construction), sharing the partners' activities (e.g., common research and development), sharing the partners' know-how (e.g., transfer of technologies and other relevant partner's knowledge), and limitation of conflicts with competitors (e.g., making your own position towards the competitors stronger).

Public-Private Partnership

The Public-Private Partnership is a special form of partnership for entrepreneurial entities. It is necessary to mention that there are a number of alternative names for Public-Private Partnership (PPP) [19]: Private Participation in Infrastructure (PPI), Private-Sector Participation (PSP), Privately-Financed Projects (PFP), Private Finance Initiative (PFI), P3, etc.

Nijkamp, Burch and Vindigni [20] posit that "A PPP is an institutionalised form of cooperation of public and private actors who, on the basis of their own indigenous objectives, work together towards a joint target, in which both parties accept investment risks on the basis of a predefined distribution of revenues and costs.". According to Klijn and Teisman [21] "PPPs can be defined as co-operation between public and private actors with a durable character in which actors develop mutual products and/or services and in which risk, costs, and benefits are shared. These are based on the idea of mutual added value." A Public-Private Partnership refers to the form of cooperation between public authorities and the world of business which aim to ensure the funding, construction, renovation and management of maintenance of an infrastructure and/or the provision of services. A Public-Private Partnership is characterized by the following features [19]:

- a long-term contract between a public sector party and a private sector party;
- for the design, construction, financing, and operation of public infrastructure by the private sector party;
- with payments over the life of the PPP contract to the private sector party for the use of the facility;

- with the facility remaining in public sector ownership, or reverting to public sector ownership at the end of the PPP contract.

The projects that combine strong points of both the private and the public sectors during their implementation and financing are called Public-Private Partnership projects. The PPP projects represent projects of building a wide-ranging infrastructure implemented in the public interest using financial resources of the private sector [22,23]. What is typical of the Public-Private Partnership projects is that private companies provide not only financial resources, but also their know-how, organizational and innovation potentials — abilities and experience with project implementation and funding. At the same time, private partner takes part not only in securing the infrastructure, but also often in provision of certain public services. The PPP projects are characterized by the following features:

- The PPP projects represent long-term partnerships; typical projects have duration between 20 and 40 years.
- The PPP projects have considerable extent, these projects amount to several hundred million crowns.
- The PPP projects enable optimal spread of risks, where each subject of the partnership takes the risk they are best able to manage.
- The demanded effects of this co-operation are the predefined outputs, not ensuring the demanded inputs for subsequent provision of values by the public sector. So, the basic thing is that the public sector exactly specifies the demanded service, its quality, determines the price policy and arranges checks of the set targets, and the private sector ensures the entire project, i.e. ensures its funding, implementation and maintenance.
- The PPP projects usually include a number of secondary public services ("non-core" services), e.g., building the infrastructure, including accommodation, but they do not include provision of the primary public services ("core" services), e.g., justice or police supervision.

The PPP projects focus on all different areas. The typical areas are: transport (e.g., construction, operation and maintenance of motorways or roads for motor vehicles, introduction and collection of electronic toll, construction, operation and maintenance of airports or railways), justice (e.g., construction and operation of prisons), school system (e.g., construction, operation and maintenance of accommodation and sports facilities, ensuring services in the areas of information and communication technologies, provision of supporting technical services — heating, parking, etc.), health care (provision of supporting services of technical character, e.g., board, logistics, medical equipment, ensuring supporting services of laboratory), social services (e.g., construction of social housing), industry (e.g., construction of the infrastructure in industrial parks), or the environment (e.g., construction, reconstruction and operation of waste-water cleaning stations or ensuring the central water distribution).

As for the Czech Republic, the PPP projects are only on the starting line. Table I shows the pilot PPP projects, which should be implemented in the Czech Republic in the near future.

Table I Pilot PPP Projects in the Czech Republic

Project Name	Public Sponsor	Sector	More Details of Projects
AirCon (Airport Connection)	Ministry of Transport	Transport-Railways	Upgrade of the Prague-Kladno railway line and construction of a railway connection to the Ruzyne Airport, including operation and maintenance; investment costs: CZK20bn; contract duration: 30-40 years.
Building and Financing of D3/R3 Motorway	Ministry of Transport	Transport-Roads	Construction, maintenance and operation of D3 motorway and R3 road; investment costs: CZK27bn; contract duration: 30 years.
Lodging house for CMH staffs, Hotel - type lodging house and parking site	Central Military Hospital in Prague	Accommodation	Construction, maintenance and operation of a hotel-type lodging house and a parking lot in the Central Military Hospital in Strešovice, Prague, the lodging house being intended for staff; investment costs: CZK1bn; contract duration: 25 years.
Building and Operation of Guarded Prison	Ministry of Justice, Prison Service	Accommodation-Prisons	Construction, maintenance and operation of a new guarded prison with the capacity of 500 inmates that will meet European standards in Rapotice area; investment costs: CZK1.1bn; contract duration: 25 years.
Justice Courts in Ústí nad Labem	Ministry of Justice	Accommodation-Courts	Construction, maintenance and operation of court house in Ústí nad Labem – infrastructure and support services focus only; investment costs: CZK1.4bn; contract duration: 25-30 years.

Table I – continued

Project Name	Public Sponsor	Sector	More Details of Projects
Revitalization of the Třebíč Bus Station	City Třebíč	Transport	Design, construction and operation of bus terminal in the city of Třebíč, including construction of a shopping gallery and parking house; investment costs: CZK349m; contract duration: 25 years.
Central Heating Supply in Kopřivnice	City Kopřivnice	Heating	Construction, maintenance and operation of central heating supply system in Kopřivnice; investment costs: CZK250m; contract duration: 15 years.
Reconstruction and Operation of the Sport and Recreational Complex „Pod Červeným kamenem“	City Kopřivnice	Sport and Leisure Facility	Construction, maintenance and operation of complex of sporting grounds, with the possibility of sports and recreational activities; investment costs: CZK 150-400m; contract duration: 25-30 years.

Source: Modified according to [24]

Conclusion

The Public Private Partnership represents important chance both for enterprises and for government (on state, regional and local level). Managers in industry and also government can use this article to gain an understanding of the alternative forms of industry (private sector) — government (public sector) partnerships and their possible value.

From the point of view of the private sector, the PPP represents an interesting opportunity. It enables enterprises to extend their portfolios of implemented projects and thus significantly support meeting the corporate objectives, i.e. make a reasonable profit within the medium-term time horizon, and maximize the market value within the long-term time horizon. At the same time, successful participation in the PPP projects improves the company image, strengthens its market position, and leads to an increased number of orders in the future.

From the point of view of the public sector, the main advantage of the PPP can be seen in the more effective and better insurance of the infrastructure and public services, solution to the problem of limited disposable sources, transfer of selected risks, faster development of the infrastructure, shortening the process of decision-making, diminishing the rate of bureaucracy, strengthening the public administration, more benefits and satisfaction for the citizens.

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