

VALUE OF DUE DILIGENCE IN THE ENTERPRISE'S RESTRUCTURING PROCESS

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***Resume:** Due diligence is one of the important elements of the enterprise restructuring process. Due diligence is conducted at the beginning of the restructuring process to collect data for restructuring of the company. Based on the results of due diligence, it is possible to develop an effective restructuring program. In the article due diligence is presented as a tool for comprehensive analysis and evaluation of financial and economic activities focused on finding and minimizing the risks associated with the decision on the implementation of restructuring and business investment. Due diligence procedure provides determining the actual value of the business before and after the restructuring. The article describes the theoretical and methodological foundations of the due diligence. Describing the aims and objectives of the due diligence, the main areas and species, showing the methodology and algorithm of due diligence. A feature of the article is the organic unity of the assessment and analysis of operational, financial and investment activities, as well as the legal aspects of the activity. Presenting the restructuring program of the agricultural enterprise which is based on the results of due diligence.*

***Keywords:** due diligence, restructuring, enterprise, mergers and acquisitions, organizational restructuring.*

Introduction. Under the conditions of globalization the world's financial market and fierce competition, only those enterprises are successful, which consolidate and optimize their existing in public domain assets in due time. In order to obtain the competitive advantage, companies resort to mergers and acquisitions deals (m&a deals), which show the new sales markets, new logistic routes, allow to optimize the organizational structure of consolidated company and cost function of enterprise.

Mergers and acquisitions are the preferable method to increase growth and achieve some targeted improvements in revenue for the companies all over the world. In 2006 53% of all m&a fell on cross-border

deals. [1]. However after the global economic crisis in 2008, their number was significantly reduced up to 35, 3% in 2012 [2]. In 2013-2014 we might notice some revival on m&a market, companies are seeking for way-out from recession, number of m&a deals is increasing as well as number of cross-border deals. In year 2015 volume of deals exceeded 5 billion USD, according to the leading agency in the area, Dealogic.

M&a deals achieve success and the level of added value corresponds the declared expectations of management, companies should evaluate and realize risks and problems connected with m&a. The most secure way to hedge the risks while big deals of investment character is due diligence. Although the due diligence practice is spreading worldwide, including Ukraine, it has not been formalized with common standards for its operating. Absence of unified theoretical and methodical approach to this procedure requires detailed study and clarification of essence, goal, tasks, order and methodology of due diligence.

Section 1. In common conventional sense, due diligence means conducting the comprehensive integrated analysis of all the totality of relations inside the company and its interaction with the environment where it is operating. The goal of due diligence is the maximum reduction of risks, to which the companies and their owners are exposed during integration process.

The reasons for conducting due diligence are not only m&a deals, but also: sale or purchasing the company; organizing the joint venture; restructuring the business (e.g. joining, reorganization, restructuring of business processes or business units); public supply of securities in stock market; commercial lending, checking the reliability of the counterparty; purchasing shares of public company; purchasing property; purchasing license or franchise for own business; evaluation of investment attractiveness of the company; in other cases, involving significant risks of investing [3].

Due diligence must be conducted on the preliminary stage of strategic transformation, because the data obtained while its implementation is the reliable information basis to provide the efficiency of restructuring processes, and helps to avoid mistakes due to unreasonable management decisions[3].

Generally this study may be divided into several trends, differing from each other in goals and in methods of carrying out the research. All of them are necessary for comprehensive study of financial condition and activity of enterprise. The world's practice knows such types of due

diligence: operational, accounting, financial, taxing, juridical, managing, marketing, informational, strategic, ecological [4; 5].

Each trend of conducted procedure assumes the coordinated work of experts, consisting the expert working group. The composition of working group is defined on the preparatory stage of due diligence. Usually the group include lawyers, auditors, financial analytical experts, tax experts, programmers, marketing specialists, valuers. According to the results of the performed procedures, each expert provides his separate report, and on its basis the general comprehensive report is made on the results of due diligence examination [6].

The length of inspection depends on goals and tasks of examination, size of company, its operational activity, organization structure and activity field. This process may take in average from several weeks up to 9 months.

Due diligence may have not only comprehensive approach, but also a “target” one, directed to evaluate the coordinated goals. It means, that considering the goal of examination, its necessary and sufficient level is determined. That is why, to economize the time and funds for conducting the examination, company management should designate goal and tasks of due diligence, range of problems and points of interest [3].

Taking into consideration international experience and specific features of activity in industrial enterprise, we propose to conduct the examination as following:

Stage 1. Preparation to examination: definition of goals, solving financial and organizational issues of conducting DD; acquaintance with potential object of restructuring; planning the volume of works, directions of DD and the composition of working group.

Stage 2. Collecting the information: defining the list of necessary documents to be examined; establishing the ways to obtain the information.

Stage 3. Implementation of examination: analyzing the information, documents and reports gathered; inventory (under consent of company’s management); making requests to obtain additional information.

Stage 4. Preparation and presentation of report : analysis of results obtained and preparation the report; presentation of report.

Section 2. Let us consider some practical case of due diligence in Ukraine under the process of restructuring the agro-industrial company of production and selling oils (the company name is not disclosed, we call it “Corporation N”).

The owners of Corporation N have made a decision of restructuring the organizational structure of company in order to increase the the quality of work, main indicators of activity and the results of business in general.

Organizational restructuring was made engaging the consulting services of leading auditory company “Deloitte and Touche USC”.

The auditors have the main goal in front of them: to develop and implement the effective model of organizational structure to manage the enterprise. Auditory company together with representatives of client company have decided to use due diligence tools to create the reliable information basis of organizational restructuring the enterprise and to provide its efficiency.

To achieve the main goal, we have number of tasks. According to the given tasks, auditors of “Deloitte and Touche USC” together with company management, have determined the optimal directions of due diligence, estimated by experts as necessary and sufficient (fig.1).

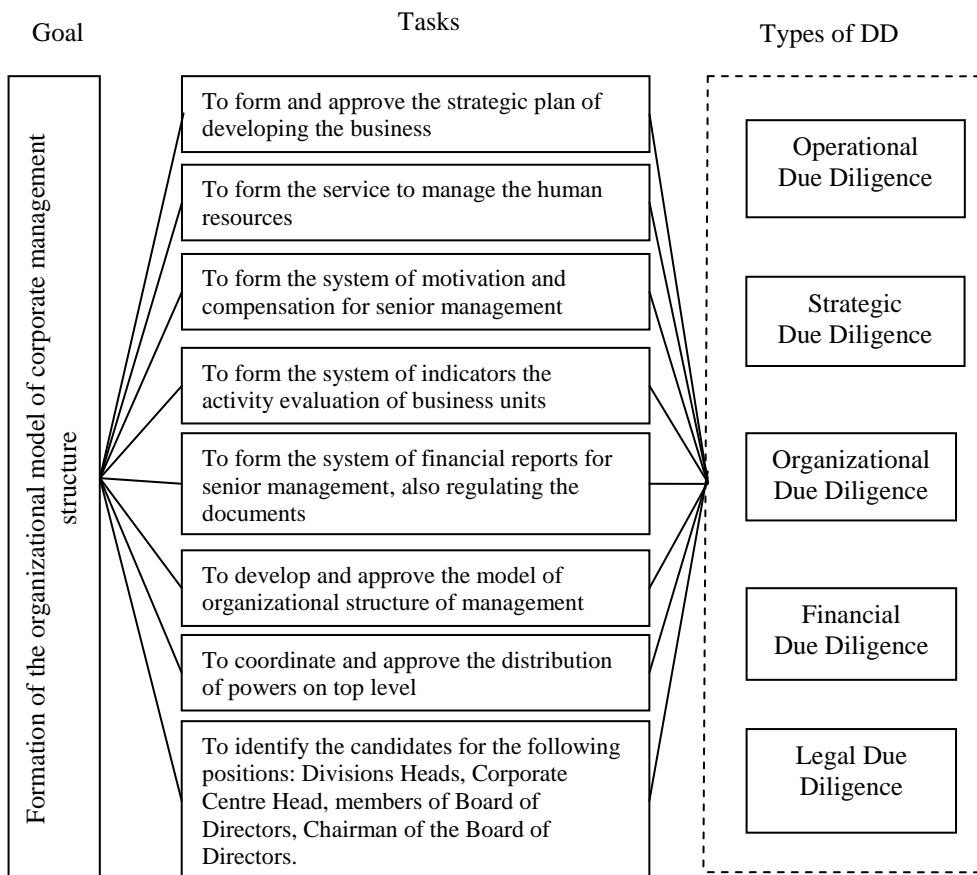


Fig. 1. Correlation of Due Diligence types and tasks of organizational restructuring the Corporation N.

During the examination, the following due diligence tools were applied: SWOT-analysis, analysis the relationships between participating companies of agricultural holding, analysis the chain of creating the added value of products, operational analysis of company activity, financial analysis.

Besides, the auditors carried out the questionnaires and interviewing the heads of Corporation N major departments.

As the result of conducted due diligence the following problems in investigated enterprise activity were identified:

1. Absence of the information for planning, control and decision-making. These are more serious problems for shareholders, than their operational loading.

2. Important management decisions may be made without proper analysis of data (lack of high quality management information about current state of business).

3. Fragmentation of businesses, products (services) and large number of companies make difficulties in management.

4. List and quality of services provided to customers may vary depending on company and region providing them. Lack of standardization the products and processes.

5. Supporting functions (accounting, legal department, IT) are not standardized or centralized.

6. No work is carrying on personnel management, no standard processes, approaches, motivation system, search and developing the staff, etc.

In accordance with the identified problems in corporation activity, the following trouble-shooting recommendations were developed:

1. To unite the companies into divisions to standardize the processes, to improve customer service, to increase scheduling and quality control.

2. To standardize and centralize the supporting functions, as well as regulate the process of managing the experts locally, to separate the services into Corporate Centre.

3. To create the Human Resources management service as a part of Corporate Centre.

4. To form the Board of Directors out of shareholders, divisions' heads, Corporate Centre Head, which will make decisions on strategic management, making investment and strategic decisions, distribution of resources (budgeting) and personnel structure of top management.

The auditors of "Deloitte and Touche USC" basing on results of due diligence conducted, developed and presented 3 versions of organizational structural model of the corporate management in customer's firm. The

results achieved were given in the form of presentation. In the final result the most rational and appropriate for the company's goals version of organizational structural model was approved.

In the conclusion it should be noted that the conducted forecast of the level of such indicator as economical added value in the enterprise investigated showed that in the result of implementation the approved model of organizational structure in corporate management, the owners of enterprise will receive EVA index increase of 20%. It confirms the ability of restructuring on the basis of due diligence to accumulate value added of enterprise, to increase the indicators of company activity and level of corporate management.

Thus, as a result of due diligence, the party interested receives a full report about financial and economic activity of enterprise, as well as fair and just evaluation of operational, financial, legal, tax and other risks in order to reduce them to minimum value while implementation strategic transformation of business.

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