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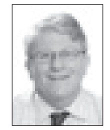

Strategies for Successful Restructuring

By Keith Bailey

Restructuring to innovate or defending against tough economic conditions, these pointers can help your business reap rewards for your efforts.

Businesses successfully adapting to the contracting economic cycle we've seen over the past few years seem to be favouring two diverse restructuring strategies: they are either taking a defensive position or innovating.

The choice between these two strategies depends on an organisation's financial strength. For many companies with weak cashflow or balance sheet, their short-term response has been to reduce costs and sell under-utilised assets. We see this in sectors such as mining, where mining services and support companies have responded to a drop in mining activity by undertaking wide-scale retrenchments. We've also seen a growth in mergers, with businesses seeking diversification and synergies through shared or complementary services to reduce cost base.

Businesses with weak cashflow have been restructuring by divesting or exiting underperforming products or services to ensure the core business is more sustainable, as well as establishing ways to extend debt repayments or refinancing.

For companies with a good cashflow or a strong balance sheet, restructuring trends are towards diversifying products or services into areas where competition has been reduced or positioning current products and services into new markets. We've also seen a trend towards acquisitions of smaller businesses with a competitive position that may have been weakened through their development or growth cycle.

Before committing to a restructure, you should undertake a cause-and-effect assessment and consider risk-mitigation options. Consider if a restructure will increase competiveness and profitability and reduce complexity, and if not, why not? Then ask:

- Have we assessed the transaction risks and put in place risk-mitigation strategies?
- What alternatives are there to this action?
- Have we got project controls and monitoring in place, plus a clear reporting cycle to ensure key milestones are achieved?
- Has financial-scenario modelling been done, and what are the key sensitivity variables?
- What are the key issues or events that require a go-or-abort decision?

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Common mistakes

If restructuring failures occur, it is often not because the strategy was wrong, but because it was poorly implemented, not understood, or due to events not anticipated.

The most common failure factors are usually people (poor leadership, culture mismatch, egos, resistance to change); systems (misaligned, complex, inadequate, or incompatible); or financial (cost blowouts consuming cash, hidden costs not considered).

Restructures are often taken off track by:

- not acting early enough when issues are identified, and ignoring warning signs
- not allocating appropriate skills, resources, or independent reviews
- not having the foundations in place, which compromises the balance of the project
- not seeking specialist assistance to negate learning curves.

Monitoring tools should include a strategy map, risk register, project plan, KPIs, and financial reviews.

Parallel with this should be an effective communication plan to align management, employees, and relevant stakeholders within the bounds of commercial confidentiality.

Helping your people embrace change

The three things we stress to clients undertaking restructuring projects are communication, interaction, and education, which are the key ingredients in any change process from the board to the floor to maximise alignment, synergy, and common focus.

Have key staff involved in the development and refinement of the plan so that the strategy and conclusions are understood and embraced.

Visual strategy maps are effective communication and coordination tools, supplemented with project review charts that are handy on restructuring projects where timing and employee engagement is critical for success.

If the restructuring is a business-recovery project, transparency and honesty are the most effective ways to gain support and options for solutions.

Directly engage with key customers and suppliers, employees, and financiers, as they are often key to the solution and have just as much at stake if the project fails.

In many cases, concessions can be provided, which provides you with valuable time to implement the plan or provide cashflow relief. With some lateral thinking, united stakeholders can provide solutions and options that may not have even been considered possible.

About Keith Bailey
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Type of restructure	Main risks or errors	Solutions
Mergers	Culture clash Incompatible systems Management misaligned Not preparing for after-merger operations	Effective due diligence Independent assessments Set up advisory board
Acquisitions	Value not being realised Purchase price too high Rushing into a deal Not doing effective due diligence Not identifying warranties and liability legacies, and mitigating exposure	Effective due diligence Independent assessments Take time to assess Set up advisory board
Divestments	Retaining poor performers Not getting the business in shape, which reduces shareholder value	Understate current business Independent assessments
Start-ups	Lack of starting capital Underestimating timelines Underestimating resources	Improve research Robust project plan Set up advisory board
Turnarounds	Leaving it too late to act Not seeking advice early enough Operating business while insolvent	Seek advice and ask questions early Early intervention
Refinancing	Not considering all options Committing to onerous personal guarantees	Seek independent specialists Get more than one opinion
Entering new products or new markets	Not understanding competition or market Underestimating capital or resource needs Overconfidence in benefits Not considering other options	Improve research Set up specialist advisory board
Internal division integration	Culture or system clashes People politics	Improve leadership Objective independent reviews
Developing in-house manufacturing	Committing to onerous equipment leases that may be under-utilised Shifting away from core competence Blowout in supporting overheads	Implement supply-chain review and maximise supplier completion Set up specialist advisory board