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RESTRUCTURING COMPANIES UNDER CRISIS

Methodological articles

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Abstract

Nobody is planning to fail, but many companies are failing because of lack of planning.
Real business experience showed during the years that crisis can be prevented, avoided or limited. If detected in time, the risks associated with the crisis can be mitigated and the effects can be diminished, with the condition that the actions required are done fast, in a sharp and accurate manner. When it comes, a crisis brings an intense level of pressure and under these conditions there is no time or room for mistakes. Delays, losing focus and lack of planning will bring a company one step away from failure. The right way to deal with crisis, if required measures are not done in time, is to minimize the losses and reposition in the best way possible.
Analysing the success stories of some of the biggest and strongest companies in the world, led to an important conclusion: the majority of these companies were in the situation to face huge crises which threatened their ability to survive in certain moments, on their way to success. With the ***right planning*** *and by setting a proper organisational structure, the negative aspects of the crisis can be turned into benefits and opportunities for the company. The most critical challenge for management is to assess the level of exposure to risk of the company and identify the key points to focus on in order to overcome the crisis and create value. In order to set up a strong plan in dealing with crisis, a business organisation needs reliable, efficient and effective tools and* ***this is what this article is all about.***

WHAT WE ARE GOING TO FIX?

The goal of every business organization is to provide value for its stakeholders. When facing crisis situations, this goal can no longer be served in a satisfactory level. When it escalates, the whole investment can be exposed.
In relation with the subject of crisis, the challenges that a company faces can be summarized as follows:

- **Lack of planning**

The majority of the companies that have setting procedures for business planning that give them the action plan for current business situations unfortunately don't have a planning for crisis situations.

- **Exposure to risk of the company**

Most of the companies don't have a clear image about the risks they are exposed to and the level of those risks.
Not knowing where the problem came from could make it really difficult for the company's management to know how to approach the issue and how to find the solution.

- **Globalization and international effect**

Today, in our global world, companies are exposed and often affected by crises and events that are not necessarily associated to their core business, such as political, social or economic crises that take place in the international arena.

- **Existing pattern in human behaviour**

In general, people are resistant to changes, this can be affecting all levels of the company, starting with the employees and going to the highest level. Specially, managers tend to minimize the problems existing in their departments, not admitting the risks and the lack of control. More than that, when the crisis is coming, they tend to lose critical time before taking action by ignoring the level of exposure.

- **The complexity of restructuring**

Companies that passed the stage of risk assessment and know what needs to be changed, face the restructuring challenge.
Restructuring is a complex process of change that might affect all the departments and all the levels of the company.
The challenges faced during this process are connected to the people's resistance to change, the reallocation of the resources and the modification of the core structure of the business.

WHAT IS THE SOLUTION?

Following the theoretical model, known as the cube matrix model "COSO ERM" (Enterprise Risk Management Integrated Framework), I have developed an applicable algorithm for assessing the level of the exposure to risk of a company, from different perspectives and at multiple levels. The assessment process using the three cubes matrixes focuses on measuring the exposure of a company concerning the most important three perspectives:

- Business exposure
- Finance exposure
- Operational exposure

The overall assessment of the company, divided in these three assessment processes, will be done in following steps:

- three lists of yes/no questions will be applied
- The answers to these questions will create the data base for the mathematical algorithm

1) Assessment of business risks exposure - Business Results Cube (BRC)

Business Results Cube is a matrix which helps the analysis of the changes of most important business indicators at Entity Level and Business units' level (a – n), categorized in pre-defined stages (Figure 1).
All the indicators are interconnected and can influence each other. The relevant period for analysing the evolution of these indicators is considered to be the last 3 years previous to the moment of analysis.
In order to show the evolution of these indicators, how they decreased or increased within a 3 years period, a tool for measurement will be used and, according to the changes, the indicators will be categorized in one of the below stages:
Stage 1 - 3 years decreasing
Stage 2 - 2 years decreasing
Stage 3 - 1 year decreasing
Stage 4 - Constant
Stage 5 - 1 year increasing
Stage 6 - 2 years increasing
Stage 7 - 3 years increasing

2) Finance Exposure – Financial Results Status Cube (FRC)

Financial Results Status Cube is a matrix which helps analysing the evolution of the most important financial ratios at Entity Level and Business units' level (a – n), categorized in pre-defined stages (Figure 2).
The same tool for measurement, as in the first case mentioned, will be used and, according to the changes, the indicators will be categorized in levels/stages, according to the evolution over the last 3 years.

3) Assessment of operational risks exposure - Operational Key Points Status Cube (OKPC)

Following the theoretical model (COSO ERM)[i], Operational Key Points Status Cube is a developed matrix which helps assessing the level of exposure to risk of a company, taking into consideration the three dimensional vectors presented on the cube (Figure 3).

The components of the cube have the following meaning:

- **Internal Environment -** it refers to the values of the company, how are these values viewed and addressed by the employees, the integrity environment in which they operate.
- **Objective Setting –** how are the objectives set in order to support the entity's strategy
- **Event Identification –** the ability of the company to identify the positive and the negative events which can affect or bring benefits to the company.
- **Risk Assessment –** the ability of the company to analyse the risks, to understand the impact and to establish how these should be managed.
- **Risk Response** – according to the entity's strategy in relation to risk and the attitude towards this must be analysed.
- **Control Activities & Monitoring -** the ability, activities and tools of a company to make sure that overall the company is following the strategy set, objectives, targets and decisions taken.
- **Information and Communication –** from accuracy point of view and time wise, the ways of transmitting information within a company it's a crucial point to be analysed.
- **Customer satisfaction –** the client's attitude towards the services received represents a very important indicator for the image and trust in the company.

The company's strategy stands on in four categories of objectives:

- **Strategic** – high-level targets and strategic guidelines
- **Operations** – effective and efficient ways of using the existing resources
- **Reporting** – accuracy, reliability, applicability of the reports developed
- **Compliance –** compliance with laws, internal and external procedures, regulations.

The applicable algorithm that I have developed provides the solution based on:

1) Yes/no key questions project

Relevant questions (based on COSO ERM) are addressed regarding the existing situation of the company. Each and every question represents a point of potential risk (if the answer is "no").

2) Ranking the significance of the questions

All though the questions are relevant to the majority of business fields and companies, the significance of each and every one of them is different from one company to another. And also can be changed during the time in certain companies.

In order to determine the weight of every question within a company, we need to evaluate every vector of the algorithm (X1-X4; Z1-Z4; A-H) from the most significant to the least.

A selected number of key persons in the company should evaluate these vectors.

The average of their evaluation creates the weight.

3) Mathematical algorithm

The mathematical algorithm shows **the company's exposure to risk and maps this exposure in the certain activities.** See Figure 4.

The finalized version of the mathematical algorithm will have an interface easy to understand, presenting the company's level of exposure to risk as a map.

The relevant questions and their answers which lead to the high, medium or normal percentage of risk exposure will be collared in red, yellow or green.

Based on the result obtained throughout the algorithm, the company receives a percentage of exposure to risk, which will be illustrated as alerts, as follows:

- Red alerts – in this places it is required for the company to take immediate actions
- Yellow alerts – actions for improvement are required on specific key points
- Green alert – the company level of exposure is normal, actions taken before are reliable

LAST BUT NOT LEAST

My research is a combination of academic knowledge of management under crisis and practical experience of managing companies under crisis in the last 20 years and handling crisis in general in the last 30 years, all set to create a practical and effective tool which will help decision makers to pass "grey days".

Author's background

The author has a long experience in assessing risks and managing crisis.

He is a retired Major from the Israeli Navy (served in combat and intelligence positions).

He has almost 20 years of experience of CEO in Insurance and Automotive industry.

He is attending a PhD program on "Restructuring companies under crisis" in UTM University.

ANNEXES

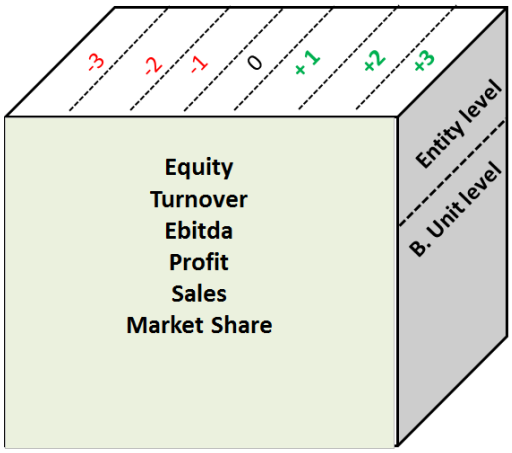

Figure1. Business Results Cube (BRC)

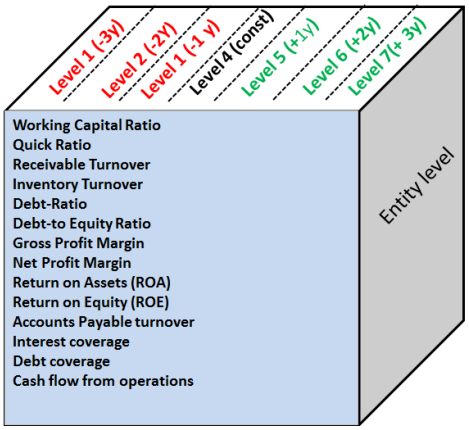

Figure 2. Financial Results Status Cube (FRC)

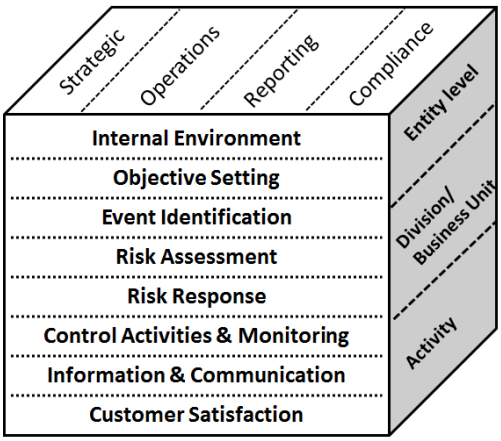

Figure 3 - Operational Key Points Status Cube (OKPC)[ii]

$$V = \frac{W}{Z1 + Z2 + Z3 + Z4}$$

$$W = Z1 * (X1 * (A1 + B1 + C1 + D1 + E1 + F1 + G1 + H1) + X2 * (A2 + B2 + C2 + D2 + E2 + F2 + G2 + H2) + X3 * (A3 + B3 + C3 + D3 + E3 + F3 + G3 + H3) + X4 * (A4 + B4 + C4 + D4 + E4 + F4 + G4 + H4)) + Z2 * (X1 * (A1 + B1 + C1 + D1 + E1 + F1 + G1 + H1) + X2 * (A2 + B2 + C2 + D2 + E2 + F2 + G2 + H2) + X3 * (A3 + B3 + C3 + D3 + E3 + F3 + G3 + H3) + X4 * (A4 + B4 + C4 + D4 + E4 + F4 + G4 + H4)) + Z3 * (X1 * (A1 + B1 + C1 + D1 + E1 + F1 + G1 + H1) + X2 * (A2 + B2 + C2 + D2 + E2 + F2 + G2 + H2) + X3 * (A3 + B3 + C3 + D3 + E3 + F3 + G3 + H3) + X4 * (A4 + B4 + C4 + D4 + E4 + F4 + G4 + H4)) + Z4 * (X1 * (A1 + B1 + C1 + D1 + E1 + F1 + G1 + H1) + X2 * (A2 + B2 + C2 + D2 + E2 + F2 + G2 + H2) + X3 * (A3 + B3 + C3 + D3 + E3 + F3 + G3 + H3) + X4 * (A4 + B4 + C4 + D4 + E4 + F4 + G4 + H4))$$

Legend:

- **An = Qn * Rn**
  Qn – answer value of the question (0 or 1 values)
  Rn – weighted average in the cube given by the responders
- **Z** – weighted average of the company levels in the cube
- **X** – weighted average in the objectives in the cube
- **W** – the sum of weighted average of the responses
- **V** – result of the company's health and stability – based on level, measures can be taken to improve the company

Algorithm Flowchart

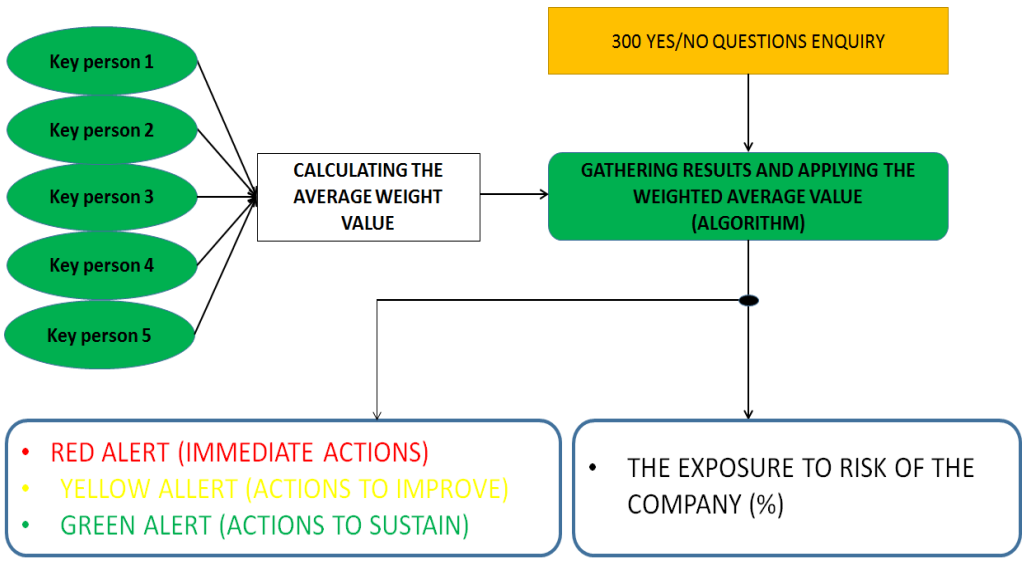

Figure 4 Mathematical algorithm

NOTES

[i] http://www.coso.org/documents/coso_erm_executivesummary.pdf
[ii] http://www.coso.org/documents/coso_erm_executivesummary.pdf - pag 5