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Gresham Considine

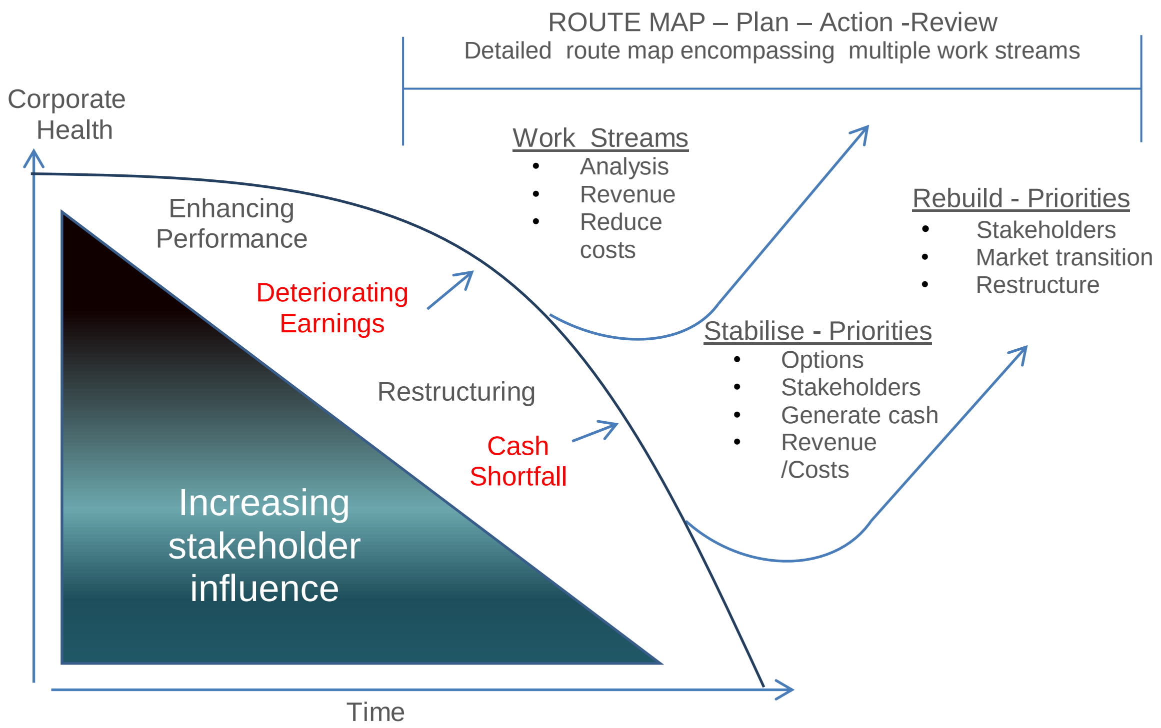
Better Outcomes

Arresting Corporate Decline

“A time for decisive action..........”

Corporate Decline

For many years a decline curve has been used to depict the deterioration in a company's health and the increase in external pressures as it slides toward failure.



The curve suggests acceleration in the pace of decline over time with the economic interest in the business being transferred from equity to debt. As the decline deepens, the influence of lenders on the company’s agenda increases to the point where management lose control.

It has been said that a company will decline at an ever increasing rate until the intervention of a third party. As a general statement this is partly true what it doesn't explain is why some companies that start to travel down the decline curve, experiencing deteriorating earnings, are turned around and go on to generate acceptable earnings. The difference between those companies that continue to travel down the decline and those where decline was arrested is decisive management action.

The management teams who succeed in arresting decline are aware of and accept the deterioration in the company's competitive position. Consequently are better able to reconfigure the business model, reaching out for external assistance as appropriate to augment the team's capabilities and capacity.

Management Structural Weakness – Side Bar

Argenti defined the structural weaknesses as:

1. **One-man rule**: No one person, man or woman, has the wisdom to do what is best, indefinitely. Some CEOs whose strength and determination help a firm to grow at early stages have difficulty in transitioning to a more professionally team managed enterprise, and their initial strength becomes obstacle to effective management of a larger organization
2. **A non-participating board**: a passive board can foreshadow failing corporate governance. A board will spend as much time on the wording of a document, as it will on issues of strategic importance, and will fail to ask the right questions.
3. **An unbalanced top team**: It is understandable that people like to work with people of similar backgrounds, and outlook, diversity of capabilities is vital to enabling the organization to deliver on its promises to intended beneficiaries like shareholders.
4. **A lack of management depth**: Governing directors, and top managers must have sufficient understanding of both the internal organization and the external environment to be able to ask the right questions, to envision the future. Broad-based experience, as well as cognitive capacity is important.
5. **A weak finance function**: No organization can sustain itself for long if no one is monitoring the cash flow. Focus on profit is not enough. Focusing on short-term profits may be a strategic error. Cash, asset and risk management are critical to long-term sustainability. A strong Chief Finance Officer (CFO) must go beyond being a historian, and contribute to the top team strategic thinking as well as prepare clear reports for governing directors.
6. **A combined chairman and chief executive officer**. It is important to separate the day-to-day operations from the oversight and strategic role of the board.

Whereas those management teams who find it difficult to accept the reality of the business situation will often try harder with the current business model, despite it resulting in deteriorating performance, when a reconfigured business model is needed.

Management structural weakness is a major factor in the decline of the company. John Agenti undertook cornerstone research into this particular aspect of the decline. Based on the research he determined a number of management structural weaknesses which put a company at greater risk of failure. These weaknesses have over the years become universally accepted and are set out in the sidebar.

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Changing Direction

To break out of the inevitable decline depicted by the curve, management need to not only correctly analyse and accept the causes of the company's decline, but have the capabilities and capacity to develop and implement a restructuring plan and route map at pace.

Given the constraints of the restructuring environment:

- People,
- Cash resources, and
- Time,

management have to move quickly to arrest the deteriorating trends. Our experience has taught us that restructuring actions cannot be undertaken linearly, rather management has to run simultaneous work stream programmes across multiple dimensions of the business to first stabilise it, then arrest the decline before going on to build enterprise value.

The decline curve diagram above sets out the typical dimension work streams which are often required. We are experienced in developing and delivering all of those activities.

Work streams make a difference

The objective of the work streams is to deliver change to increase value. Each work stream value should be quantified to provide a robust performance improvement bridge. Further each work stream will have key operational actions which need to be achieved to deliver the expected value.

The operational actions of each work stream are incorporated into a route map which acts as the implementation monitoring tool enabling management to quickly become aware of deviations from plan so that appropriate corrective action can be taken.

The earlier management respond to deteriorating performance the more time and options will be available to enable the decisive action necessary to develop a restructuring route map and as a consequence protect and build value.

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