Issue 5

The CEO Files

CEO Europe
Management on demand

The CEO files: Each month, CEO Europe shares its expertise and presents you an expert synopsis of a specific topic.

Cleaning up/restructuring in the case of heavy loss-generating business units

No one wants to talk about it, but there are numerous instances where a company or a group come to realise one day that a given business unit, a subsidiary, or worse, a group of subsidiaries, has become a source of recurrent, permanent losses, and does not respond to the efforts made to turn its situation around, or, at least, bring it under effective control.

This kind of situation appears very often when the money-loosing entity is located in a foreign country, where language problems as well as different ways of doing business add to the usual difficulties of finding the appropriate solutions and restructuring measures to cope with an ailing business entity.

CEO Europe offers companies the experience of seasoned top managers who have a successful track record in the carrying out of several restructuring programs for heavy loss-generating business entities. And in this field, like in a number of others, experience is a (probably even <u>the</u>) major success factor.

A/ Identifying the problem

When a business unit has lost money for some time and does not seem to react positively to whatever corrective actions have been decided upon and implemented, the usual reaction is to question the measures and/or the management team responsible for their implementation. However, when this line of thought does not lead to some fairly obvious explanation, it is necessary to look closer into the matter. The requisite in-depth study of what is actually happening is very often postponed if the losses generated by the business unit remain limited in comparison to the consolidated result of the shareholding entity, and/or if, in addition, the reasons for the poor performance of the business unit seem obscure and difficult to identify. The problem then remains unsolved, losses keep accumulating, and conventional wisdom, within both the ailing business unit and its shareholding entity, soon begins to vehicle the idea that there is no good solution whatsoever.

B/ Where to start

The first decisive step must be the decision by the top management of the shareholding structure to put an end, one way or the other, to the never-ending losses of the business unit, and to follow up on that decision. The top manager in charge must clearly be backed by the CEO. Inasmuch as possible, he should be chosen amongst the top collaborators who have had no responsibility in connection with the ailing unit, his final objective(s) should be clearly expressed and the corresponding deadline to achieve his objective(s) clearly defined.

C/ The key factors for a successful solution

Considering the fact that the situation at hand has remained unattended or at least unresolved despite various attempts to deal with it, or at least to mitigate its consequences, it must be obvious to all that the problem is indeed serious and that the main reasons for its occurrence have not been properly identified and fully understood. Consequently, the top manager in charge will first select and appoint a chief operating officer (COO) who will work

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full-time to solve the problem(s) of the ailing business unit, or to dispose of the unit through sale(s) or closure(s). Under the direct supervision of the top manager in charge, the COO should be given all powers to instruct and direct the ailing entity as he deems appropriate to carry out his assignment within the imposed time frame, in the best interest of the shareholding structure.

The COO will be given a limited but adequate amount of time to study the situation in depth and propose a strategy as well as an action plan to solve the problem(s) in due time. The top manager in charge will review the strategy and the action plan, make whatever changes and modifications deemed necessary (in liaison with the COO), and obtain the green light and full support of the CEO (or the Executive Committee as the case may be). He will then formally send to the COO the precise objectives, constraints, and levels of financial and human resources corresponding to the implementation phase of his assignment.

C1) Sponsorship:

To ensure success of the action plan to be carried out by the COO, it must be clear to all, within the ailing unit but also within the shareholding entity, that the restructuring process is fully supported (and monitored) by the top management at the highest level. It is essential to have all collaborators involved be aware of the fact that the COO's assignment has high priority for top management, that the necessary resources will be made available in due time, and that the key collaborators involved in the process will be accountable and rewarded for performance.

C2) Decision-making at the shareholder's level:

A key factor to the success or failure of the process is the ability of the manager in charge to swiftly make the decisions which must be made at the shareholder's level in response to the questions and requests coming from the COO. All too often, because of insufficient availability, delayed access to the CEO, other priorities and so on, the top manager in charge is in no position to give the answers which the COO requests and which he needs to move on. As a result, the whole process is at best slowed down, its credibility damaged and its outcome jeopardised. No matter how competent and diligent the COO is, he can only succeed if the top management is prepared and organised to react and decide promptly.

C3) Communication:

As the restructuring/cleaning up action plan often implies carrying out social plans, reductions of the labour force, closure of some plants, disposal of assets, etc…, it generates strong emotional reactions at all levels within the company and around it. It is therefore necessary to communicate and explain both internally and externally what is happening and what is coming and why, in order to give to all stakeholders a fair, even though often simplified, understanding of the process and to reduce inasmuch as possible all sources of anxiety. Communication is therefore of the utmost importance and should be handled very carefully with a strong involvement of the COO and the top manager in charge.

D/ To conclude : nothing replaces experience

If there are any rules to successfully carry out a clean up/restructuring process of an ailing business unit, experience is the crucial factor. There are so many variables involved that no business administration operating manual can give all the answers; besides, the human factor plays a major role (either in a positive or in a negative way or both at the same time) in the response of the business entity to the restructuring process itself. This is why experience is so very important.

CEO Europe provides a number of top managers who have succeeded in completing clean up/restructuring of heavy loss-generating business units. They can intervene in an autonomous way or assist you directly in this vital step for your company or group.

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