**How can restructuring grow value? (V2)**

The purpose of this article is to provide a framework for thinking about restructuring. Any size of company may need to restructure.

**What are the different types of restructuring?**

Restructuring is much larger change than the day-to-day continuous improvements being made in the company, or the pivoting (i.e. changes to the business model canvas[1]).

1) Merging with or acquiring a company.
2) Divestiture i.e. selling a subsidiary or major assets to a third party.
3) Spinning of part of the business and assets to create a new standalone company.
4) Changing the legal structure of the business.
5) Changing the financial and capital structure of the business e.g. common stock become worthless, bond holders take a write-off.
6) Turning around the company due to poor performance in the current market place.
7) Repositioning the company to a new marketplace.
8) Reducing costs.

Restructuring is often focused on short-term cost reduction, with workforce shrinkage playing a major role. There is the risk that restructuring addresses short-term issues but does not position the company for long-term value growth and preservation.

**What is value?**

How is value measured by different people and organizations?

1) Shareholders may look at share prices and dividends. Different shareholders have different expectations and metrics. Angel investors, venture capitalists, short-term hedge funds, private equity, and pension funds look at value differently.
2) Society looks at the value the company is providing to or extracting from society. Some shareholders, such as Blackrock and some pension funds are also starting to look at the value a company delivers to or extracts from society. A common issue is the impact on climate change.
3) The CEO and C-Suite have very clear measures of value, which are their personal compensation plans.
4) Employees and other stakeholders have their own perspectives on value.

**Who and what are the fundamental drivers of the decision to restructure?**

1) The board of directors and C-Suite want to transform the company before revenue and profits are impacted. The leadership may perceive future risks. This is the concept of fix it before it's broken. Few companies are this forward looking.
2) To achieve the growth strategy requires closing gaps in: talent, customer relationships, technology, intellectual property, and external partnerships.
3) There are assets (talent, customer relationships, technology, intellectual property, and external partnerships) that are not needed to achieve the growth strategy. These assets may be divested or spun off.
4) The customers are driving the need to restructure. Customer needs have changed and thus the marketplace is shrinking. Customer needs for phones with keyboards shrank, resulting in a major impact on Blackberry. Customer needs are changing and there are competitors better able to meet those needs.
5) The company's debt burden may be destroying profits or the company is getting close to breeching covenants or may have already breeched covenants. Breeched covenants may result in major decision authority residing in third parties.
6) Major shareholders may be driving change. Hedge funds may want a large short-term return on their investment. Pension funds may want climate change addressed.
7) Regulators are driving change.
8) There is the opportunity to make internal changes which do not impact the strategy e.g. changes in legal structure to reduce taxes or risks.

**What are the general stages of thinking?**

1) The board of directors, CEO, and C-Suite need to have a fact-based description of what is driving the need for change, assess how different types of restructuring will impact the change drivers and impact value.
2) The very first step is to determine if there are the right people on the board and right CEO to conduct this assessment and make the appropriate decisions. For example, a complacent board of directors who have not stayed in touch with the evolving customer needs and market place that resulted in massive losses is clearly not the right talent.
3) The company needs the talent to address the current situation, not the talent that was need in a very different past. Every director and every CEO is not appropriate for any and all situations. The necessary changes to the board of directors and CEO must be made quickly.
4) The board and CEO must agree on the decision-making process. Restructuring may be a rare or unique decision. The usual decision-making process may not be appropriate.
5) The most critical component of the strategy must be validated: the size of the market place demand and the customer needs. Market place demand is the number of customers willing to pay to meet their needs. For example, the number customers with needs for a keyboard-based cellphone dropped. The single best measure of the degree to which meeting current needs is the NPS[2] (Net Promoter Score). If your customers are not recommending your solution, then you have a crisis. The NPS must be supplemented with customer interviews.
6) The board and CEO must agree on the facts and assumptions regarding what is driving the need for restructuring. Any assumptions need to be quickly validated or invalidated.
7) The board and CEO must agree on the restructuring options and impact on the value. There should be a common understanding of what success and value will look like in the future.
8) Then set out the restructuring objectives. These objectives will be broader than short-term financial targets and consider things such as: reputation, customer retention, employee morale & ability to attract employees in the future, the need for long-term investments, etc.
9) Assign accountability for achieving objectives to specific members of leadership.
10) Assemble a plan, which includes both short-term options (e.g. terminating current and planned consulting projects, eliminating discretionary spending, staff reductions) and longer-term options (e.g. continuing to invest in projects with clear business cases to grow and preserve value, continuing with selected innovation and trials, reviewing and revising the organizational structure.)

**Your next steps**

Prepare a plan for your specific situation, based upon the above framework.

**Footnotes:**

[1] The business model canvas is the documented story of who your customer is, why they buy from you, and how you make a profit. The story consists of both narrative text and numbers. For further information go to: http://koorandassociates.org/the-startup-journey/what-is-a-business-model/

[2] NPS (Net Promoter Score) The single most important question is asking "Would you recommend our solution to others?" (Follow on questions could be "If so, why? If not, why not?") This metric is known as NPS (Net Promoter Score). What is your NPS? Above 0 is good. Above 50 is excellent. Above 70 is world class. How do you compare to your industry and competitors? What has been your NPS trend? You can find links to more information about NPS in the Further Reading section.

**Further Reading**

The Net Promoter Score concept was initially developed by Bain. The following is a link to the Bain website homepage for Net Promoter Score, which contains several short articles:
http://www.netpromotersystem.com/about/why-net-promoter.aspx

The following is a quick overview of using Net Promoter Scores:
https://www.forbes.com/sites/shephyken/2016/12/03/how-effective-is-net-promoter-score-nps/#1b1391b423e4