1995 HANDBOOK OF BUSINESS STRATEGY

A Comprehensive Resource Guide to Strategic Management: From Long-Range Planning to Tactical Business Development

FROM THE PUBLISHERS OF

JOURNAL OF BUSINESS STRATEGY

F&G

Faulkner & Gray

Corporate Restructuring in the 1990s

JAN S. WOLPERT

The objectives for the new wave of restructurings are value maximization, liquidity enhancement, and business-risk reduction—or more colloquially, raising the stock price, de-leveraging the balance sheet, and stabilizing cashflow.

Thus far this decade, corporations have restructured at an unprecedented rate. Generally, worldwide economic uncertainty has fueled this activity. Beyond macroeconomic objectives, however, it is obvious that specific strategic objectives have driven restructuring decisions. Meeting these objectives has generally involved a mix of capital structure redesign, management team changes, operations improvement initiatives and repositioning of basic product-market relationships.

Contained within this article is a framework for formulating and implementing a set of strategic restructuring initiatives. To test this framework, a representative sample of 10 corporate restructurings has been analyzed for the period January 1990 through October 1993: Allied Signal, Campbell Soup, Chrysler, Citicorp, Compaq Computer, Ceridian (formerly Control Data Corp.), General Dynamics, Honeywell, M/A Com, and Occidental Petroleum. All of these companies went through fundamental changes in business mix, capital structure, and business-process structure; while change did not occur overnight, it was anything but evolutionary. In some cases, the restructuring efforts are still largely works in progress. Judged on the basis of several financial measures, the results have been mixed, although time may change these conclusions. Most of the shortcomings can be ascribed to the classic and difficult trade-off between value enhancement and capital structure management. Other key factors are industry dynamics, appropriate goal setting and the implementation of radical change throughout a corporate organization.

ELEMENTS OF A RESTRUCTURING STRATEGY

The restructuring model that we have seen evolve over the late '80s and into the '90s is one that is more complex and defensive than the pure value-driven model that thrived during the early '80s. The objectives for this new wave of restructuring are value maximization, liquidity enhancement and business risk reduction—or more colloquially, raising the stock price, de-leveraging the balance sheet, and stabilizing cashflow.

Restructuring strategies are now often articulated in terms of quantitative targets—stock price, debt-to-equity ratio, return-on-equity and earnings/cashflow growth. Beyond mere communications, these targets have actually driven specific restructuring actions. In a hypothetical scenario, formulating the elements of a restructuring strategy can be a highly mathematical exercise, with key variables such as prospective asset-sale proceeds and timing, business-unit operating plans and capital-structure reconfiguration. These variables provide the quantitative framework for a set of action plans that fully realize strategic targets.

STRATEGIC RESTRUCTURING FRAMEWORK

Our framework for strategic restructuring initiatives generally involves a mix of the following basic management actions:

- Change management team
- Reshape organization structure
- Sell assets
- Reduce costs
- Establish core business, products, and markets

In the context of this set of management actions, successful strategic restructuring has two basic tenets. First, discrete restructuring initiatives are generally dependent on one another. A company cannot reduce costs without seriously reevaluating its management talent and organization structure. Likewise, asset-sale initiatives cannot be rationally identified without a reaffirmation of core competencies and which businesses within the corporate portfolio offer competitive advantage. In general, the complete suite of effective restructuring initiatives—definition of core businesses and product-markets, management-team changes, redefined

Figure 1: Restructuring Initiative Dependencies