Fixing 'Broken' Businesses Requires Focus on Efficiency
10 Strategies for Rebuilding Corporate Value
by Jeffrey A. Wurst

Efficiency is certainly a goal of every business, whether or not it is solvent. Striving for efficiency allows companies to build more effective managerial and financial structures. It increases revenues, reestablishes corporate value, and enables a troubled company to emerge from financial distress.

The problem is that "efficiency" has become a buzzword so ubiquitous that it may seem to have lost much of its meaning. "Improve efficiency" has become the equivalent of a corporate CEO telling the rank and file to enhance corporate value by repeating the mantra, "Just do it."

Nevertheless, bankruptcy attorneys are often called on to assist struggling businesses enhance value and efficiency and help these companies to obtain fresh starts. The assistance of these professionals becomes necessary because of fundamental problems with the companies. Bankruptcy attorneys are not in a position to cure every problem a company may face, but they can offer advice on improving efficiency.

There are numerous pitfalls in how distressed companies approach the process of repairing their "broken" businesses. Here are 10 strategies that can help these businesses avoid such problems and focus on rebuilding corporate value.

1. Plan Ahead
Before running off to Bankruptcy Court, a company should set a specific course of action. An agenda of what the bankruptcy filing should accomplish and how those goals will be achieved should be prepared. Before a petition commencing a Chapter 11 case is filed, a plan of reorganization should be drafted. Although this first draft is unlikely to be acceptable to a company's creditors, it serves as a good starting point and will improve the efficiency of the bankruptcy case. Planning a company's exit from Chapter11 before filing puts a debtor in a better position to reduce the time spent in bankruptcy and minimizes the costs of the process.

2. Seek Help Early
Too often, distressed businesses file Chapter 11 before determining whether the costs and risks associated with the process outweigh other options, such as negotiating an arrangement with creditors outside of court or even closing the company. Business owners are frequently in denial regarding the status of their companies and delay seeking critical assistance.

Often, the result of such a delay is that by the time management accepts that it needs outside help, it is too late to save the company. Management must understand that just as it is appropriate to seek a second opinion on medical advice, it is sound to seek second opinions on business counsel. If a company is not performing as management believes it should, it should seek help promptly before it is too late.

3. Minimize Expenses
Professional fees quickly accumulate over the course of a bankruptcy case. The costs for attorneys, accountants, and others are often a drain on limited resources of the company these professionals are attempting to revitalize. While the services of such professionals are vital in facilitating a recovery, it is crucial that their costs do not outweigh the benefits.

Too often, clients consume enormous amounts of professionals' time, only to be truly surprised at how costs have escalated. Both the professionals and clients involved must remain sensitive to these issues. While it is important to maintain full and open dialogue between professional and client, it is also important to remember that the dialogue must bring value to the process.

4. Evaluate the Corporate Structure
No aspect of the corporate structure is immune from a complete productivity review, especially the management team. Even if the top executive is the founder of the business, it does not mean the founder's vision should prevail in the current circumstances.

Effective owner-managers must remain open to the idea of stepping aside if that is best for the company. Similarly, a company must evaluate its employees continually, especially middle managers, to determine if they are truly necessary. Excess payroll is often a key issue that prevents a floundering company from resuscitating.

5. Pick Battles Carefully
A troubled company should fight only those battles that, if successful, result in real gains. For example, why expend resources to challenge a particular creditor's claim when the overall amount available to divide among creditors is a fixed sum? Often, it is more cost-effective to pay an obligation that a company may not believe it owes because the cost in terms of legal expenses and the potential drain on the business' resources cannot be justified.

In the end, a distressed company's attorneys, accountants, and restructuring professionals are its best advisors for identifying battles that must be fought and those that should be avoided. If these professionals are not on board with the company's litigation strategy, then the business should either change how it approaches a situation or find new advisors.

6. Dispose of Excess Baggage
After a business has been evaluated and a new plan and objectives have been formulated, it is time for decisive action. Unneeded assets should be sold at the highest achievable price using all available methods. A company in Chapter 11 should take advantage of its ability to reject contracts to shed its burdens under unfavorable executory agreements. A company should also consider whether it can take advantage of economies of scale and scope through restructuring.

The manpower, intellect, skills, and tools are similar and the cost of expanding one business is less than that for having two distinct corporations handle similar tasks. Although they may appear to be similar, some businesses may not fit well together. The roots of a business's distress may even be found to be overexpansion and a failure to meld acquired businesses to work as a unit. While a merger might help a struggling company to right itself, so too might a divestiture.

7. Control the Budget
While there is no steadfast approach to budgeting, once a company has filed for bankruptcy protection, it is no longer being operated for the benefit of shareholders; an insolvent company is operated for the benefit of creditors.

Such a company should work with its creditors, not against them. Creditors will be scrutinizing the company's budget to ensure that it is not wasting assets. The Bankruptcy Court judge involved will have similar sensitivities. Management should not be greedy, keeping in mind that its budget must be used to maximize value for its creditors.

8. Increase Employee Productivity
A business in trouble should find ways to increase employee productivity. While they are important, employee concessions alone will not ensure a successful reorganization. Incentives, such as bonuses or even promises of continued employment once a company is back on track, must be provided to encourage employee buy-in for concessions and increased

productivity.
Its employees are the most valuable intangible any company has. Management should keep employees apprised of the status of the bankruptcy process. No news will often be interpreted as bad news, so regular updates are important. When there is bad news, employees should hear it first from company management, who must be sure to explain what the news means to them. Keeping employees up to speed on the process helps ensure their buy-in for the process.

9. Be Realistic, Flexible
Sometimes, the best way to rebuild corporate value is to stop the bleeding and close the doors. Some companies will never be successful. Just as it may be best to dispose of burdensome assets, it may make sense to establish a strategic alliance with another company - even if that means selling the company to a competitor, a related business, or some other acquiring entity.

10. Rely on Turnaround Professionals
The management group that was in charge as a company deteriorated into bankruptcy is unlikely to be in a position to lead a successful recovery. It is doubtful that this group can cure the company's problems without outside help. That is not to say that prior management has no role in the future of the company - it may very well be competent and capable of operating a going concern once the business is back on track.

Fresh eyes are needed first to evaluate whether there is a business that can be saved and then determine how to go about saving it. In most instances, existing management is protective of its initiatives and defensive with respect to its errors. However, a turnaround professional brings valuable advice into these situations and provides experience in dealing successfully with the process. Without them, a company's chances of recovery diminish.

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