# PRE DICTIVE RESTRUC TURING

RESTRUCTURING
BEFORE THE EMERGENCY HAPPENS
IS THE NEW KEY TO SUCCESS

STAUFEN.

# CONTENT

# MANY CRISES ARE CAUSED IN-HOUSE

Restructuring and turnaround projects have always been implemented only once a company has started to see negative earnings, or even experience a real fundamental financial crisis. In an increasingly dynamic world, however, this view is overly short-sighted. Volatile markets, aggressive competitors and investors, flexible working and digital change mean that changes are taking place with increasing rapidity. As a result, even established companies that are (still) seeing good earnings now face the challenge of securing their existing success at the same time as they are managing the transition to new business models and structures.

Simply waiting and seeing is often the beginning of the end - which most company managers know from their own experience: more than 70 per cent of top managers have already had to establish a new business model for a company or a division. This is one of the results of the Staufen AG „Restructuring“ study, for which around 250 board members and managing directors were surveyed.

# WHY DO YOU THINK YOUR COMPANY IS VULNERABLE?

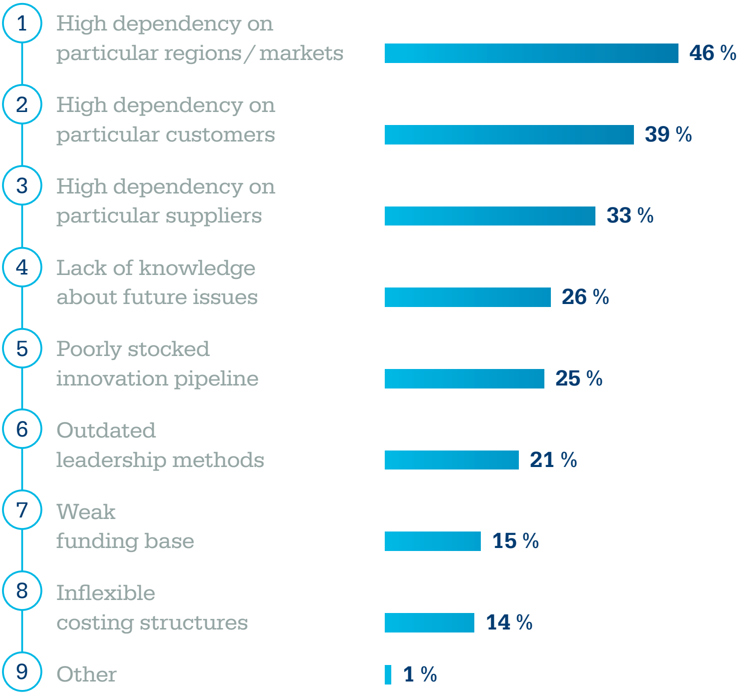



*Figure 1*

But what are the risks that most businesses face? The biggest risks cited by the company leaders surveyed in the Staufen study were high dependencies on particular regions/markets (46 per cent), particular customers (39 per cent) and particular suppliers (33 per cent) (see figure 1).

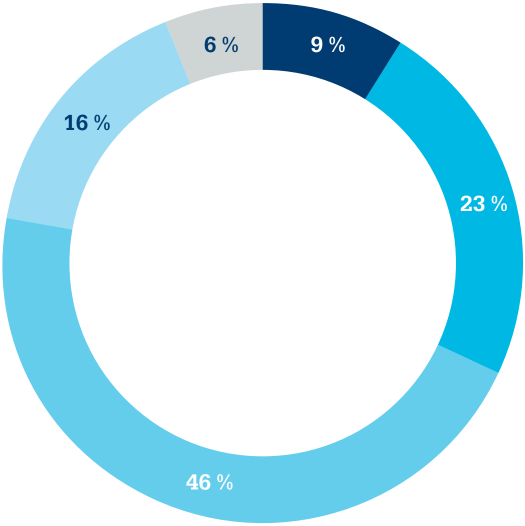
Many companies, therefore, are dependent on factors which, if the market changes or economic conditions are weak, may rapidly trigger crises. This is particularly obvious in, for instance,

the automotive industries. The fact that they specialize, to some extent, very narrowly on an individual manufacturer's model range makes suppliers extremely vulnerable.

Corporate management are generally very well aware of this type of sector-specific dependency and their opinion of their own situation is correspondingly critical: some one third (32 per cent) consider their own company to be highly or even very highly vulnerable to crisis (see figure 2). Only 22 per cent believe that a crisis would only affect them minimally or not at all. One of the main reasons for this perception is that numerous managers from medium-sized industry have already had experience of financial problems, and have had to take appropriate countermeasures.

The learning effect from this is that at least six out of ten businesses prepare themselves and run through crisis scenarios and potential counter-measures on a regular basis.

## HOW VULNERABLE TO CRISES DO YOU THINK YOUR COMPANY IS?




### Vulnerability to crises (∑ 32%)

- Very high
- High
- Medium

### Not vulnerable to crises (∑ 22%)

- Minimal
- Not at all

*Figure 2*

# CLASSIC RESTRUCTURING

## Looking back

Restructuring is traditionally seen as a company's response to changes in underlying internal and external conditions which may lead to significant risks to their profitability and competitive position. It may even be that the continued existence of the company is under threat. In this case making small changes is no longer of any use; a comprehensive reorientation is required.

This can only work if a company has devised a promising, sustainable concept. The first thing that needs to be done if this is to be achieved is to carry out a detailed analysis of the company's status and potential which also takes into account the views from both inside and out. Working process and organizational structures should be analyzed in this process, and transactions with suppliers, customers and distribution partners as well as in the markets need to be reviewed. It is important not just to look at any specific factors that have been pinpointed as causes, but in particular to examine how complex the portfolio is and the way in which it interacts with the business processes, because the majority of crises, such as decreasing margins or market share, have a wide variety of causes which are all interdependent on each other.

There are three consecutive steps that make up a successful restructure.

# PHASE 1:
## Sound concept

# PHASE 2:
## Consistent realization of potential

# PHASE 3:
## Sustainable company development

The analysis and concept phase is short, with a strong focus on the value of the optimization lever, as well as on whether the potential that has been identified can feasibly be implemented.

In the implementation phase, a core internal team comprising managers and service providers is defined. This team is tasked with continuing with the improvement process within the company, from the restructuring project through to systematic development of the business.

# PREDICTIVE RESTRUCTURING

## Looking ahead

The classic model of restructuring in reaction to crises is no longer acceptable; the next industrial revolution is, after all, already in full swing. Around 90 per cent of German industrial companies anticipate massive changes to their business over the next decade, and in almost half of companies uncertainty prevails over the upcoming upheavals. With good reason, as the “Change Readiness Index” (CRI) established by Staufen reveals. The survey of 421 executives in German companies proves that at the present time only a minority of businesses would be able to reinvent themselves. This situation is aggravated by the fact that most managers overestimate the ability of their companies to make changes. Their own perception of the situation is considerably ahead of the reality (see figure 3).

# ASSESSMENT OF ADAPTABILITY

on a scale from 0 = „not at all“ to 100 = „completely“


*Figure 3: Change Readiness Index There is a significant gap in perception between actual adaptability and perceived adaptability. The intuitions of the managers surveyed give a more positive picture than the figures derived from the detailed results of the study when looking at structures, processes, leadership and company culture, and employees/qualifications.*

But even companies that consider their business models to be sustainable need to prepare themselves for greater pressure to be innovative. Digital transformation, in particular, is moving the goalposts in every industrial sector.

Innovation cycles are getting shorter and shorter, competitors with the benefit of a digital background are moving into markets previously believed to have been safe, and even traditional customers are turning into competitors on an international scale. It requires a great deal of adaptability and power of innovation to be able to react successfully to these challenges. Leadership and corporate cultures that promote the ability and willingness to change at all levels are also vital.

# THE PATH TO PREDICTIVE RESTRUCTURING

## 01. Lean Management enhances adaptability

The “Change Readiness Index” also evidences the positive influence of Lean Management on a company’s overall ability to adapt. There is already an above-average number of companies that have this ability, and whose value creation processes follow the Lean Management principle. If Lean Management is also applied in indirect areas, or indeed if the full Lean strategy is followed, these companies can become even more agile and flexible.

Professor Daniel T Jones, founder of the Lean Enterprise Academy and co-author of “The Machine that Changed the World”, the standard work on the Lean philosophy, explains the Lean company’s good performance like this: “While traditional management approaches use standardization to exercise control over the workforce, Lean Management shows employees a way to achieve improvement through their own efforts. And when people drive the optimization of their own work themselves, they are capable of solving not just the problems of today; they also become increasingly better at facing the problems of tomorrow.”

## 02. Combining restructuring with approaches to leadership and change

There will be a demand in the future for leaders who are not only capable of preparing people in the company for new challenges, but who are themselves enthusiastic about these changes. To achieve this, management need to explain why it is essential to change, and to establish confidence so that people's fear of the uncertain future can be allayed and replaced with clear-cut objectives and steps for action. If the structure of a company is strongly hierarchical and management like to keep a tight hold on the reins to make employees perform, this inhibits both initiative and the will to make changes.

In organizations such as this, any change process is predestined to failure. The good news is that the overwhelming majority of German industrial companies are committed to a management style that involves their employees. More than three quarters of companies claim that they have a flat hierarchy. Similarly, many of those surveyed believe that their own organization is capable of learning and is prepared for continuous improvement.

Self-perception is, however, one thing and the reality within the organization is often something different. On this point the Staufen study presents an interesting picture: on the one hand there is a commitment to flat hierarchies, while on the other hand there is a majority who generally impose changes from the top down. It is notable that important strategic decisions continue to be handled by the company's management. Nevertheless, the degree to which changes are even now still triggered in the boardroom alone is being noticed. Organizations that only allow personal responsibility or scope to be exercised when the matter is comparatively insignificant are engaged in shadow-boxing, and this type of management is not capable of unleashing the innovative power of the employees.

## 03. The controller becomes the designer

It is not just company and management cultures that have to change, but also entire job descriptions - including that of the controller. The traditional role of financial controller is mainly a top management one, and the holder of this role has to take care of management accounting and financial figures.

All this involves looking almost exclusively at the past. This position as a "financial accountant" rarely means taking a proactive role. On the contrary, his very limited perspective may even induce senior management to make judgements that are less than ideal.

The alternative is for the controller to adopt an integrating role. He becomes an interface, who adopts a holistic approach in order to create a mutual understanding within the company of the connections between operational processes and the top management's performance indicators. This enables a meaningful correlation to be made between operational performance indicators such as productivity, quality and performance, and management performance indicators. With these changes to the role, the controller can now start to play an essential part in directing the value stream and in standard operational communication. The traditional function of the financial controller is now expanded to handle parts of the information, management and planning processes in line with the Lean Management concept.

## 04. Integrated approach from analysis through to implementation

In order to put predictive restructuring into practice successfully, it is essential for a sustainable top-down method of working combined with operational excellence to be in place (see figure 4). The bottom-up approach includes processes such as evaluation of the management system, mapping of processes and interfaces, a study of individual jobs and systems, and a precise determination of potential. With the top-down approach the structures of the company and the business become transparent and the product portfolio is structured, while the organizational and cost structures, as well as cost drivers and targets, are analyzed.

All this put together creates a coherent concept for positioning the right optimization levers, and also for determining whether the defined strategic targets are valid. The primary consideration for implementation is that the process of predictive restructuring must be implemented on a continuous basis and adapted to the changing market conditions, in order to ensure that the emergency does not become a permanent state.

# CONCLUSION: IT NEEDS A CHANGE OF ATTITUDE

To achieve this, companies need to think of restructuring more broadly and always in combination with agile organization, digitization and leadership excellence. This is the only way to ensure that the transformation process remains sustainable (see figure 4). One crucial point is that the management and corporate culture must promote the ability to change in all areas, because a learning organization can anticipate changes if an early warning system is in place. It is less susceptible to disruptions and can manage crises with a forward-looking plan. The primary challenge is to unite the complex variety of issues so as to produce an overall concept for transformation and to find sufficient liquidity or viable financing to support this.

## WE CALL THIS PREDICTIVE RESTRUCTURING.

# PREDICTIVE RESTRUCTURING

## Integrativer Ansatz

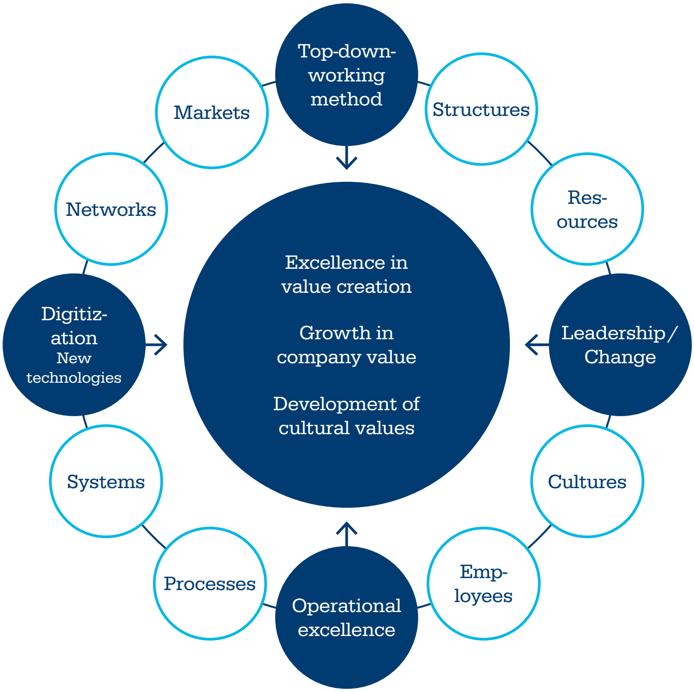



*Abbildung 4*

# HOW WE RECOMMEND GOING ABOUT IT

The forecasts indicate another crisis. Nobody can yet tell how badly this is going to affect our economy. The only thing that is certain is that it is coming. The winners will be marked out from the losers by the extent to which a company is both crisis-proof and adaptable.

## Step 01: The analysis

The most important thing is to be aware of where your value creation is most at risk and how all the individual factors are interdependent. This knowledge will allow you to simulate future crisis scenarios and you will know exactly what you need to focus your attention on in the future and which levers need to be tackled.
It is also important to make a realistic assessment to prepare for an emergency, if possible from the perspective of industry experts who have been involved in many companies in the specific market conditions. Using Staufen AG's predictive restructuring approach, we analyze, simulate and derive specific instructions for action to ensure the future success of the individual company.

## PREDICTIVE RESTRUCTURING: SIX STEPS TO LASTING SUCCESS AS A BUSINESS

### The key to adaptability in the future

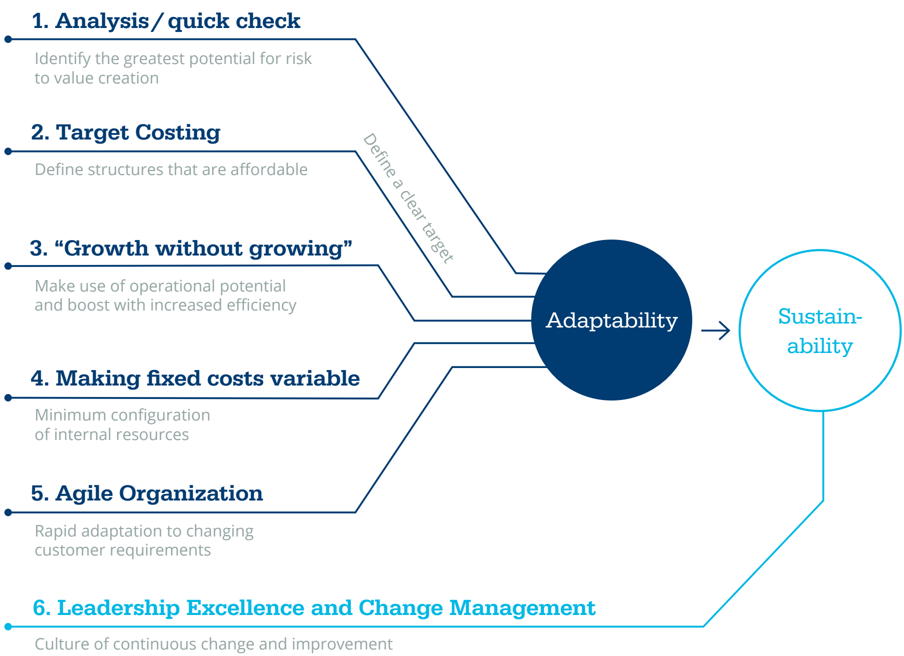



*Figure 5*

# BECAUSE THE “BEST” CRISIS IS THE ONE THAT DOESN’T HAPPEN.

# STUDIES AND WHITE PAPERS

All Staufen AG studies can be found online at **www.staufen.ag/studien**

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