Dos and don'ts of restructuring

Restructuring a company is never easy or pleasant, but it can bring rewards for the company and the executive charged with the task. Here a CEO provides his perspective

MUTLAQ AL-MORISHED, CEO, TASNEE

I have been CEO for a steel company [within SABIC] and a petrochemicals company [Tasnee] – both headquartered in Saudi Arabia. Within the first weeks in my role as CEO of Tasnee in early 2015, it became clear that I needed to restructure the organisation.

What does restructuring mean? Depriving people who have served the company of their jobs; the creation of huge amount of anxiety for those who remain; tussles with the board and senior management who may not share your vision. Yes, restructuring must count as the most significant challenge I, as a CEO, have ever faced. And yet restructuring secures a future for companies that might otherwise have headed to extinction.

As I said to one journalist in a particularly hostile press conference: "I may be firing 30% of the workforce, but I am also saving the jobs of the other 70%. Judge me on that too."

So sometimes, sadly, we must restructure, and when that is the case, it had better be done very well. I would like to share with you my perspective on the dos and don'ts.

AGILITY IN EXECUTING KEY TASKS

Restructuring occurs because, over a period of time, management has allowed the cost structure to surge without a corresponding enhancement in revenues. First, the CEO needs to understand why this has happened. A lax recruiting process? A failed growth strategy?

Whatever the case, the CEO must understand the company's operating model. He needs to identify where the costs have accumulated. More than that he needs to distinguish between the productive costs (that require protection) and the discretionary ones (that can be cut). Both tasks sound easy but actually pose difficulties.

Accounting and HR systems do not always provide a robust answer to the question "how many people work in my company and where are they located?" By the same token, the company's strategy may be too high-level to identify the differentiating capabilities that we need to compete in the market.

Having acknowledged these challenges, we should also recognise that speed of action is more important than perfection of design. So look forward and be bold! If you need to err, take out too many people rather than too few.

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A headcount reduction of less than 20% does not justify the pain. Target 30% or more. Streamline the offices and shut down unprofitable plants and product lines. People will protest, but in their hearts they will know that in even the best of businesses "dead wood" accumulates in the good years, departments expand, become less agile and people justify their roles with unproductive activities – too much analysis results in paralysis.

MANAGE THE CASH

In a turnaround situation cash is king, so watch it, forecast it and use as little as you can. Covering your payroll becomes the number one priority. This means ruthless management of your working capital. Finished goods inventory is simply cash in a tank (or a warehouse). Be ready to get rid of it even if this hurts your EBITDA.

Two weeks of finished goods inventory should suffice if you are selling locally and four weeks if shipping long haul. Raw materials inventory can be managed in the same way with a few adjustments depending on delivery time. Nevertheless, the two/four weeks rule should still apply. And do not forget your spare parts inventory – buy less and sell off what you can. So much for inventory.

The accounts payable can also be a useful area of focus. Extend your terms: 60 days account payable is normal these days so try to negotiate 90 or 120.

Be open with suppliers and other service providers if you have to delay their payment due to cash, ask them for help and offer them some marginal payment on their late invoices. Remember that settling a fraction of the invoice will be better perceived than doing nothing. Expedite the recovery of receivables too.

MEASURE THE RESULTS

Whether you are managing cash or reducing roles, measure everything. Day-to-day financial controlling may not be up to the task, so consider establishing a Programme Management Office. This team will have three tasks: monitoring the cash, maintaining the list of employees and measuring the effectiveness of turn-around actions. Every quarter the PMO should have an opportunity to present to the board. Every six months, the finance function should create a bridge between the PMO reports and the financial results.

ALIGN THE BOARDS

Many boards have limited understanding about the day-to-day functioning of their companies. This can allow the CEO freedom of movement. On the other hand, it opens him or her up to uninformed objections that could block the programme.

So what should the CEO do? From the very first day the CEO should seek allies on the board, starting with the chairman, and should recognise that many board members will have little enthusiasm for restructuring. I have personally have seen boards delay critical decisions even though the company bleeds cash. I prefer my boards to be informed and support-

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TASNEE IN BRIEF

TASNEE WAS established in 1985 as Saudi Arabia's first non-state owned industrial company, with the aim of advancing economic diversification in the country.

Tasnee is today Saudi Arabia's second largest industrial company and one of the world's largest producers of titanium dioxide.

It operates with three strategic business units: petrochemicals (Saudi Polyolefins Company, Saudi Ethylene and Polyethylene Company, Saudi Acrylic Acid Company); chemicals (National Titanium Dioxide Company [Cristal] – titanium dioxide, titanium-based metals, mining and pigments); and downstream, split into metals, diversified products and services. ■

TASNEE FINANCIAL PERFORMANCE 2014 AND 2015, MILLION SAUDI RIYAL

	2014	2015
Sales	18,693	15,146
Gross profit	4,613	2,213
Operating income	2,789	-373
Net income	1,071	-1,423

SOURCE: Tasnee annual report

ive – rather than detached. This places an obligation on me to educate the board members about the restructuring.

Whatever applies to the supervisory board, applies even more so to the executive board. Of course, I expect the senior managers to have a far more detailed understanding of the business compared to the non-executives. However their support is not guaranteed – and a CEO cannot lead alone. At least with the executive team, the CEO has options to keep, remove and assign. He or she should exercise those options – even if this means removing someone that you yourself appointed just a few months back. The damage that a non-aligned executive vice president can cause far outweighs the hurt pride implicit in admitting a mistake.

COMMUNICATE WITH THE EMPLOYEES

Short term, the supervisory and executive boards matter most. Medium term, however, it is the company's employees that will make or break a transformation. They will either support the CEO or find a thousand ways – all difficult to detect – to slow down progress. With this in mind, the CEO should make regular visits to plant and offices and hold town hall meetings. The CEO's performance in these meetings will set the tone, underline the values and ultimately assure success of the transformation.

The CEO must explain why the restructuring is required. One or two reasons is enough – and be prepared to repeat the reasons at other moments during your speech so that no one remains in doubt. Throughout the speech you should not be afraid to show your human side. On one occasion I used a story about my family lamenting all the time I was spending away from them in my efforts to save the company. The message that we were all suffering in different ways helped me to connect with my audience.

But do not overstress the misery. Celebrate success. Even in the early days of the restructuring there will be small achievements. People like success, and success breeds more success. Inevitably you will receive tough questions. Do not shy away from these. Use them as an opportunity to show your honesty but also your determination.

A restructuring programme should have no reverse gear. The audience will be looking for direction. After one town hall, I was amazed when people came to me to express their gratitude for action we were taking – even though some of these people had seen friends fired as part of the head-count reduction.

ENGAGE WITH THE MEDIA

It is better to tell your own story rather than have someone in the media tell it for you. So take every opportunity to talk to press. TV provides the most compelling platform for communicating your message. When on TV, smile but do not laugh. Remember that you do not have to answer every question. Instead give an answer that serves your purpose. Tradition dictates that a journalist starts the interview, but you are in control.

MANAGE THE BANKS

Two types of professional service firms enable a restructuring: banks and consultants. But relationships with the two could hardly be more different. Consultants serve the company, but in times of difficulty, the company must serve the banks. Debt payments take priority over dividends so be ready to cut dividends and restructure your debt with the banks to give yourself breathing space. Do not be afraid to ask for grace period from the banks – a time when no payments are made except for the interest.

These kind of arrangements require trust so always be honest. Show the banks that there is something for them in long term like cash sweep clauses in the restructuring documentation. It does not cost you anything – but the care must be genuine and backed up by actions. In particular, the restructuring plans must be credible. Take the trouble to brief the banks. Make them realise that you are putting your own neck on the line.

MOBILISE THE CONSULTANTS

Consultants can do a world of good. They have restructured companies before and they know the steps to take. Furthermore, their presence gives credibility to your efforts – both from the perspective of the banks and in the eyes of the board. However, do not over-rely on them. For a start, they are good at gathering and analysing data, but less qualified to execute change.

It is at those moments that they might be tempted to blame their short-comings on your people. Ask them to tell you by name who in your organisation is not helping and investigate yourself. If they are right, fire the person. If not, push the consultant to work harder with your people. This does not come naturally to them, but they can do it if given the right incentive. And the right incentive must be linked to successful transformation – not just the design, but the delivery.

One final caution: Consultants tend to create work for themselves once inside your company. Agree on objectives, and ensure that the partnership ends once these are achieved.

DEAL WITH YOURSELF

I cannot think of any job I have enjoyed less than CEO during a period of restructuring. I have had sleepless nights and my family showed me great patience. I have been targeted and criticised in the media and abandoned by my colleagues. But I take comfort that – as we say in Arabic – people only throw stones at the trees that bear fruit.

At the same time, I cannot think of any job I have enjoyed more. There is an intense satisfaction in knowing that a difficult task has been done well. But satisfaction is one thing, pride is quite another. Humility is the greatest asset any leader can have. ■

Mutlaq Ben Hamad Al-Morished was appointed CEO at Tasnee in January 2015. Previously, he was executive vice president corporate finance (CFO)at SABIC. He has also served as head of SABIC's metals business unit. Al-Morished holds a master's degree from Stanford University; an MSc in Nuclear Engineering from Princeton University; and a BSc in Nuclear Physics and Mathematics from the University of Denver.