Financial crisis &
Restructuring for sustainable growth

Speaker: Vu Quang Thinh, MBA

Background and types of restructuring

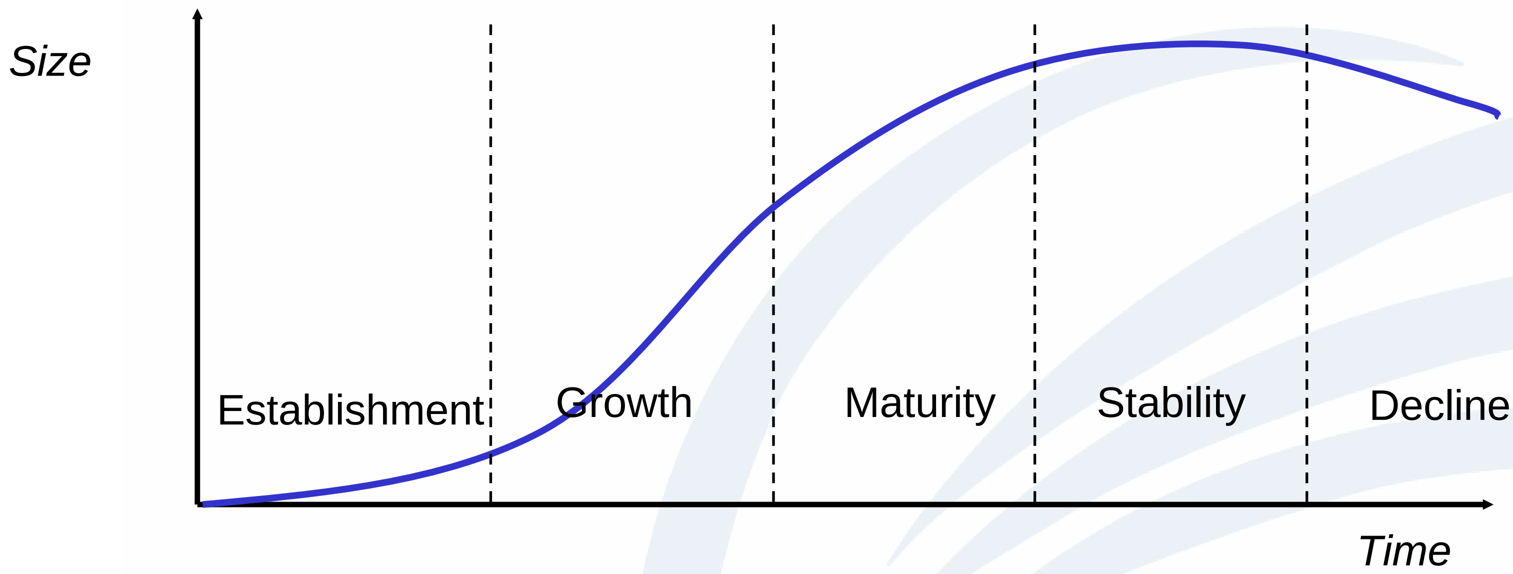
- ✓ Restructuring refers to a series of closely-related processes: dealing with losses, restructuring debts by financial institutions, and re-engineering operation, organization, human resource, strategy, products, technology

- ✓ Financial restructuring and operational restructuring are linked together to increase corporate value, improve performance and competitiveness.

Financial and Operational Restructuring

- ✓ **Financial Restructuring: changing capital structure**
  - Mergers and acquisitions deals in America, especially in 1980s
  - State-owned enterprise liquidation and privatization in Europe, the early 1990s
  - Capital and debt restructuring of industrial corporation after financial crisis in Europe, the late 1990s
  - Can be implemented under pressures of new owners, board of debtors, commercial banks, AMC, or government's interventions
- ✓ **Operational Restructuring:**
  - Changes of strategy, products and market leads to changes in organizational structure and operations
  - Selling unused assets, downsizing, price and salary adjustment
  - Can be implemented under pressures of environmental changes that requires higher effectiveness in order to avoid being merged or acquired

Growth phases of an enterprise:



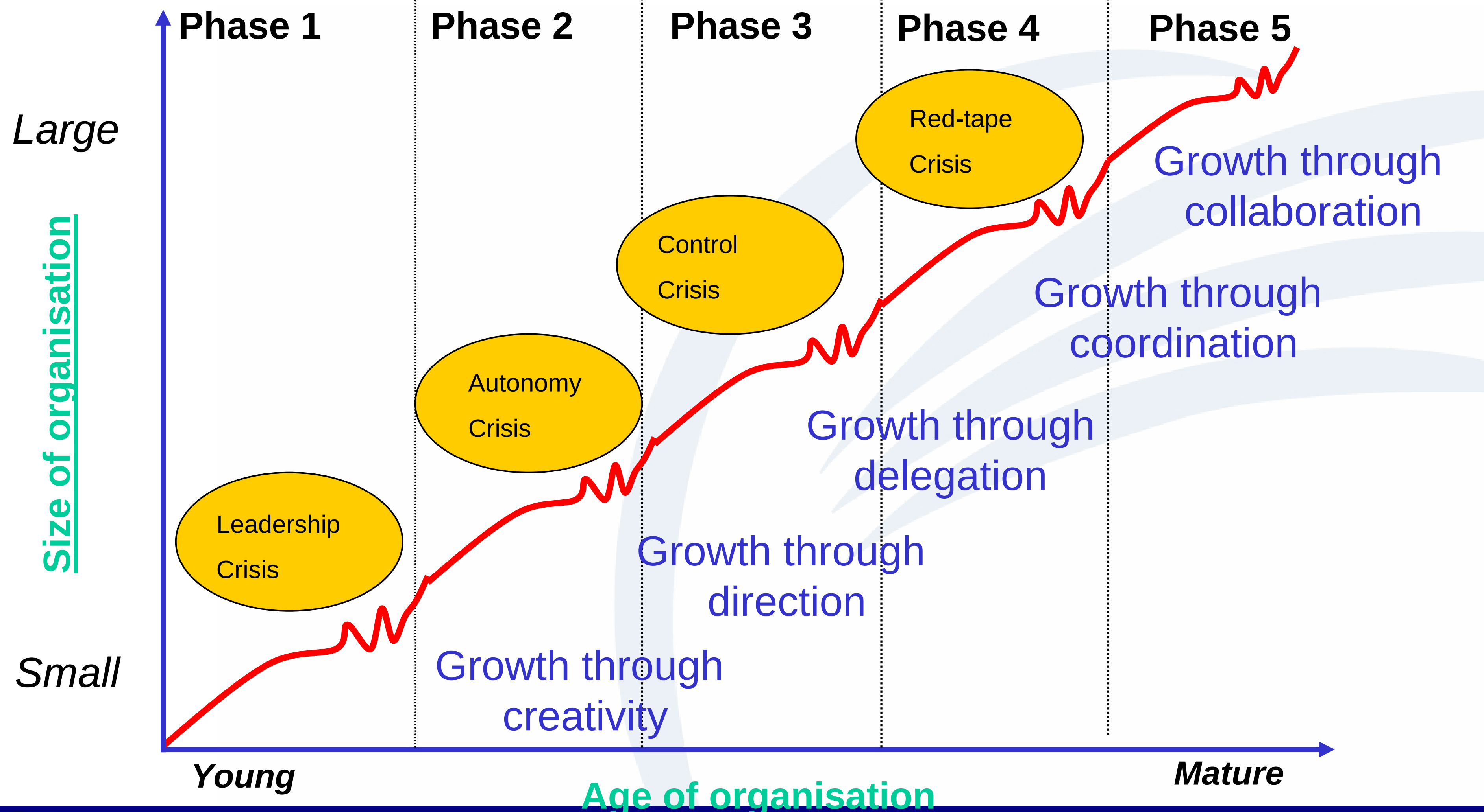
- The world has witnessed many crises, some enterprises have disappeared and some others have appeared and grown.
- From the 1930s, after the Great Recession of the last century, modern management tools have been developed and more perfect.
- Is there any relationship between size, level of complexity and management tools?

Growth and Conflict

- ✓ Peter Drucker asserts that an increase in enterprise size will require a disproportionate increase in the complexity of its management system and functional units. The organization will grow to a point where it needs to transform its nature.
- ✓ Andrew Grove, former president of Intel, believes that an enterprise’s success in this phase may contain causes of failure in the next one and therefore, there is always a time when any given enterprise must fundamentally change its business model.
- ✓ According to Larry Greiner (HBS), the model of business growth has five evolution and revolution phases, at each phase, the enterprise has to face various managerial problems, and the managerial solutions adopted in each stage can be the cause of crises that limit enterprise growth in the next stage.

Five phases of corporate growth

(Evolution and Revolution as Organisations Grow, Larry Greiner, Harvard Business Review, 1972)



What influences corporate growth?

- ✓ **Besides external issues such as opportunities and ability to approach resources?**
- ✓ **Which are enterprises' own problems?**
  - Strategic direction and resources allocation
  - Ability of application of scientific management tools
  - Ability of implementing and managing evolution and change processes

Features of each development phase of enterprise size

Phase 1: Establishment and Recognized Existence

- Small-sized limited companies
- Not clearly divided functional departments/ units; friends & relatives often hold key positions; having difficulties in recruiting & keeping employees; low investment for training
- Enterprise owner spends all effort and time on producing, improving & launching products; no market & customer survey
- Flexible management; simple information channels; no care for plan & budget
- Fewer than 7 managers

Phase 2: Growth and Expansion

- Industry-scaled production; 1 to several product lines, setting up branches or subsidiaries, decentralized management
- Clear organizational structure, unclear horizontal coordination ; backward compensation system, subjective appraisal criteria
- Difficulties in expanding distribution system & developing products
- Scientific accounting & finance system, account receivables, account payables, not but not for managerial work
- Paying attention to plan-based management, ISO as a marketing tool
- 7 to 14 managers

Phase 3: Consolidation

- Having concern about integrated brand management, group strategy
- Having a clear duty separation but problems in delegation and control
- Having conflicts between management levels about share and income policy, not having a motivating compensation package
- Paying attention to plan, strategic budget; having problems with new investment
- Having needs of attracting institutional investors and public offerings
- Over 14 managers

Critical point (1)

PHASE 4
MNCs?

PHASE 3
Consolidation

PHASE 2
Growth &
Expansion

PHASE 1
Recognized
Existence

Restructure organization and change to charter-based management

Key successful factors:
Sensitivity and creativity

- Crisis of leadership
- Conflict between convenient management and requirement for production of scale
- Centralized decision-making process and informal communication channels
- Conflicts between growth ability and recruitment of professional managers
- Capital from familiar sources not enough financing for development

Critical point (2)

Continue to restructure, focus on empowerment, restructure product portfolio under group mechanism

PHASE 4
MNCs?

PHASE 3
Consolidation

PHASE 2
Growth & Expansion

PHASE 1
Recognized Existence

Growth through direction

- Crisis of autonomy
- Working environment is tough and lack of creativity
- Conflict between work requirement and level of delegation for middle managers
- Systems of financial and production management

Critical point (3)

Restructure organization toward matrix, ERP, CRM, and share publishing solutions

PHASE 4
MNCs?

PHASE 3
Consolidation

PHASE 2
Growth &
Expansion

PHASE 1
Recognized
Existence

Growth through delegation

- Crisis of control
- Traditionally pyramid-styled organization structure has become an obstacle to needs of product and geographical integration
- Need of centralized information processing
- Need of owning shares of group and motivation to managers
- Having no solutions for 'quality' investment

What are solutions?
Restructuring & Management Innovation

- ✓ If restructuring is the optimal choice, why don't you choose?
- ✓ All in all, human resource is the most important concern.

29 frequently-used management tools in 6 groups

Organisation and Human Resources	Work division	**Sales and Marketing**	CRM Application
	Job Description		Sales Management by Objectives
	Compensation Package		R&D Budget
	Job analysis	**Corporate Planning and Strategy**	Division Business Plan
	Performance Management		Annual Company Business Plan
	Training & Budget Planning		Mid and Long-term Business Strategy
	Successor Planning policy		Merger & Acquisition Plan
	Key Performance Indicators (KPIs)		Public Offerings Plan
Accounting - Finance	Application of Accounting Software	**Corporate Governance**	Charter/ Handbook of Governance for Board of Management (BOM)
	Periodical governance report		Separation between Board of Directors (BOD) and Board of Management (BOM)
	Annual budget/ financial plan		Periodical Meetings of Board of Members/ Board of Directors
	System of cost tracking and allocation		Periodical Meetings of Board of Management and Heads of unit
Production and Operation Management	Production/ Operation Processes		Internal Audit Mechanism/ Processes
	Application of Production/ Operation Management System		Independent auditing
	Processes Review and Restructuring		

THANK YOU