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## World Economic Crisis

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### Corporate Renewal

Recent events in the news and our portfolios have had us all jumpy about the world economic crisis, and I wish I had solutions for it, but I don't. Financial crisis from the perspective of a corporation is more familiar and may provide insights to discover solutions for these problems. Many times a lender, owner, private equity or management team knows there are problems, but can't identify the root cause. Serious threats to a firm's viability are often not visible on the surface. A company in crisis needs to objectively dig down into the operations to discover the root of the problem. Only when the true problem is identified can a solution be crafted. The professional term is **Corporate Renewal** -- activities directed at the improvement of a company's condition. Corporate Renewal includes:

1. **Corporate transformation** -- The process used by well managed companies to learn "what are we doing wrong?" And "What can we do better?"
2. **Turnaround management** -- the process of discovering what's wrong within a company and then design and implement activities to improve identified issues, and
3. **Crisis management** -- actions designed to save a troubled company nearing extinction.

As with turnaround management, world governments must ensure that the true problems are identified before designing and implementing changes necessary for a thriving economic future. Solving the wrong problem is not a success.

An example of how this was accomplished on the corporate level occurred at a company with problems management described as *personnel performance issues*. The business was exceptional in that payment was received in advance of work performed. The company funded fast growth with this money. The firm did not have a CFO and the controller was completely over his head. Lack of quality management combined with great growth created cash shortage.

The first step in this turnaround was to closely monitor cash, forecast the next 13 weeks and provide management with the tools to manage and anticipate cash requirements. This fixed the immediate problem but didn't address the strategic issues.





Although the company was operationally and managerially segmented, the interdependent relationship among the business segments was not recognized in the financial reporting. Measureable financial goals couldn't be set to hold managers accountable. By designing financial relationships among these divisions and reporting on those relationships executive management could be provided with direct feedback on performance allowing management to ***discover the roots of growth<sup>sm</sup>***.

This new reporting model for the first time put a spotlight on how profits were actually generated. Finally, as a result of the independent assessment, accountability was improved enabling management to optimize goals for each member of the team and hold them individually responsible. More importantly, the President recognized that **"if we do this, everyone will know what's going on"**.

Just as with the recent economic crisis, what should be rational information (not data), easily read and managed, can dissolve over time, through poor design, incorrect or outdated procedures, into a tangle of inexplicable data and "poor performance." Let's hope someone will get to the bottom of our global economic woes and ***discover the roots of growth<sup>sm</sup>*** for our country and the world.

By the way, we also fixed the Controller/CFO performance issue with a new person.

### ***Discover the Roots of Growth<sup>sm</sup>***

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## **About CFS**

Corporate Financial Solutions provides confidential discovery and resolution of crucial financial issues for businesses in transition.

Founder Debra Pauli brings senior level experience, on site, to evaluate issues crucial to minimizing risk. CFS has repeatedly been able to protect assets, enhance value for the seller or limit after purchase losses for a buyer by discretely drilling down to the bottom of financial information until the solid realities of business performance are known.

As a trusted adviser, you can be assured that CFS will provide your client with the support required confidentially and with expertise.

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