ARTICLE

Rethinking Bankruptcy

The Importance of Focusing on Talent

Bankruptcy is a formal process geared toward preserving stakeholder value. Often, the proceedings include negotiations between stakeholders that are arduous, time-consuming and expensive. Positioning the company for healthy and sustainable growth is often viewed as a post-emergence priority, as companies naturally prioritize the near-term financial realities threatening their very survival.

"Attracting and retaining talent can be challenging while going through bankruptcy — and in the weeks, months and years of work that may follow — since the company's image is typically tarnished. However, that is all the more reason to make it a priority."

The limited focus on financial concerns is certainly understandable and is exacerbated by the rise of pre-packaged and pre-arranged bankruptcies, which primarily focus on solving capital structure challenges (with minimal attention to operational changes to the business). However, some of the constraints that companies operate under during bankruptcy may be self-imposed or driven by conflicting priorities that restrict management's options and limit the ability to grow and thrive post-bankruptcy.

To gain real-world, quantifiable insights about the bankruptcy process, FTI Consulting recently conducted an in-depth survey of senior executives with direct experience leading large companies through bankruptcy. We then created an emergence playbook to help companies in their bankruptcy design and the execution of more effective strategies for achieving post-bankruptcy success.

FTI Consulting's full report, "Emerge to Grow: An FTI Consulting Report," provides a general overview of the bankruptcy process and landscape, including a broad look at the five key business dimensions of capital, cost, growth, technology and talent. In this report, we take a closer look at the talent dimension, which is critical to post-bankruptcy success but, according to the survey, is often overlooked during the traditional bankruptcy process.

Key Survey Findings Related to Talent

Our survey revealed critical gaps in the traditional bankruptcy process, with a clear need and opportunity for more effective emergence planning and increased focus on talent. According to the business leaders we surveyed:

Capital is the primary focus during bankruptcy. Of the five key business dimensions, capital was the top priority for most respondents (56%), followed by cost (34%). The other three dimensions were prioritized much lower: growth (8%), technology (2%) and talent (0%).

Even the top focus areas are often not substantially addressed during bankruptcy. Despite being high priorities, only a small minority of respondents said capital (26%) and cost (22%) were substantially addressed (or were expected to be substantially addressed) during the bankruptcy process. And the numbers were even lower for talent (14%), technology (14%) and growth (12%).

The bankruptcy process does not fully prepare emergent companies for success. Across all five dimensions, relatively few survey respondents believed their companies were substantially prepared for post-bankruptcy success. Technology ranked the lowest (14%), followed by cost (22%), talent (26%), growth (28%) and capital (32%). The speed of the bankruptcy process likely hampers the ability to address these topics.

Most companies in bankruptcy do not adequately address talent issues. The survey results reinforce the theme that talent issues are generally not addressed very well, or at all, during bankruptcy. Only 16% of respondents felt they did very well at putting an effective executive team in place, and only 6% felt they did very well at establishing retention programs and bonuses for key employees outside of the C-suite. The numbers were higher for team-building and cultural alignment (28%), and for identifying the strategic capabilities to be viable after bankruptcy (24%); however, they were still quite low.

All of this suggests that talent — especially retention — is an area that needs more focus during bankruptcy, particularly since attracting high-quality talent while going through Chapter 11 is difficult at best.

Focusing on Talent During Bankruptcy

When it comes to the bankruptcy process, there are a number of common myths and misconceptions that limit the ability of companies to position themselves for post-bankruptcy success (see the article by FTI Consulting entitled "Five Bankruptcy Myths That Stifle Success for Emergent Companies").

For the talent dimension, the primary myth is that companies must wait until after bankruptcy to address talent issues. Often, this myth leads to inaction at the very moments when leaders should be engaging their employees. In reality, companies need to look at talent issues early and often during bankruptcy, both to address immediate challenges related to culture and resistance to change and to help ensure they have the strategic workforce and talent capabilities necessary for future success.

Many companies make the mistake of thinking that employees who stuck with them through everything leading up to bankruptcy will surely stay through the restructuring as well (since the company will presumably be in a stronger financial position at the end of the process). However, the reality is that today's talent is more mobile than ever, and employees are increasingly making personal decisions about not only where they will work but also the extent to which they will commit themselves to going above and beyond to deliver for the business and its customers. Having company leaders demonstrate empathy and care for employees' physical, financial, mental and emotional health is a key driver of retention and future recruiting.

Another common mistake is assuming that, if the business is operating as usual, there is no need to provide employees with ongoing bankruptcy updates — and that more communication will just keep the bankruptcy top-of-mind and create distractions. In reality, ongoing court hearings, mailed legal notices, media coverage and other aspects of the bankruptcy process will be visible to many, if not all, employees. If a company does not explain and contextualize these events, employees will wonder what else the company is hiding. That is why it is important to proactively share regular progress reports and ensure leaders at all levels are prepared to address the questions that are invariably raised. Failing to take control of the bankruptcy narrative gives other parties, including recruiters from competing companies, the opportunity to fill the void with their own messaging – and makes company leaders vulnerable in ways that might prompt them to leave.

Speaking of communication, many companies mistakenly believe that all bankruptcy-related communications should come from the CEO. Although employees want to hear from senior leadership — particularly when the restructuring is first announced — the leaders employees trust most are often those with whom they interact on a day-to-day basis. If these frontline leaders do not have the information and training necessary to be credible ambassadors during the bankruptcy, their credibility and ability to lead in subsequent phases of the post-emergence transformation will be impaired.

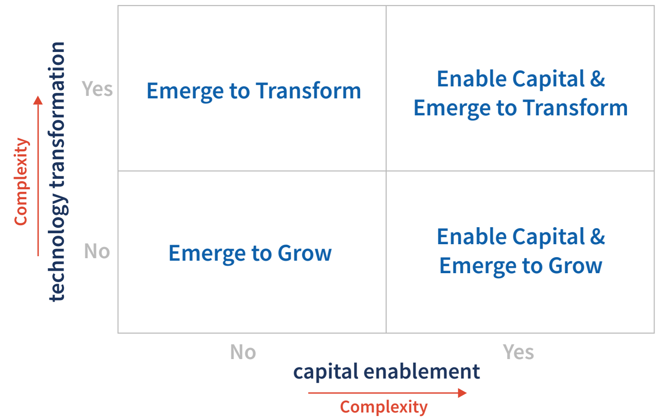
Another frequent mistake is targeting only the most senior levels of leadership with retention and incentive payments. The fear is that broader, more nuanced strategies will create haves and have-nots, generating friction within the organization. However, the ultimate goal of employee retention and incentive plans is to protect a company's future by ensuring it has the right mix of talent to compete and succeed post-emergence. As such, when designing incentive plans, it is important to consider not only title and tenure of employees but also their unique skills, knowledge and relationships. Retention plans need to be equitable, not equal — a nuance that can be clarified through effective communications.

FTI Consulting Emergence Playbook

In a conventional bankruptcy, the preferred time to think about making a bankrupt business stronger is during the Chapter 11 process, not waiting until after it emerges. In bankruptcy, a company has unique opportunities to focus on the more profitable aspects of its business and establish a stronger foundation for healthy, sustainable growth.

FTI Consulting's Emergence Playbook℠ can help companies in bankruptcy quickly develop effective strategies, plans and business/operating models that address all five core performance dimensions: capital, cost, growth, technology and talent. Of the five dimensions, the two that vary most widely — and therefore determine which playbook archetype is applicable — are technology and capital.

Figure 1 - Four Archetypes for Successful Emergence



- **Technology.** In some situations, profitable and sustainable growth is achievable through traditional mechanisms such as organic growth, market expansion and acquisition (an **"Emerge to Grow"** model). In other situations, however, profitable and sustainable growth can only be achieved through longer-term technology transformation — using innovative technologies to dramatically improve a company's performance and competitiveness (an **"Emerge to Transform"** model).
- **Capital.** Under either model, an emerging company might need to closely manage its liquidity and capital needs, particularly credit availability, before it can consider an aggressive growth or transformation strategy.

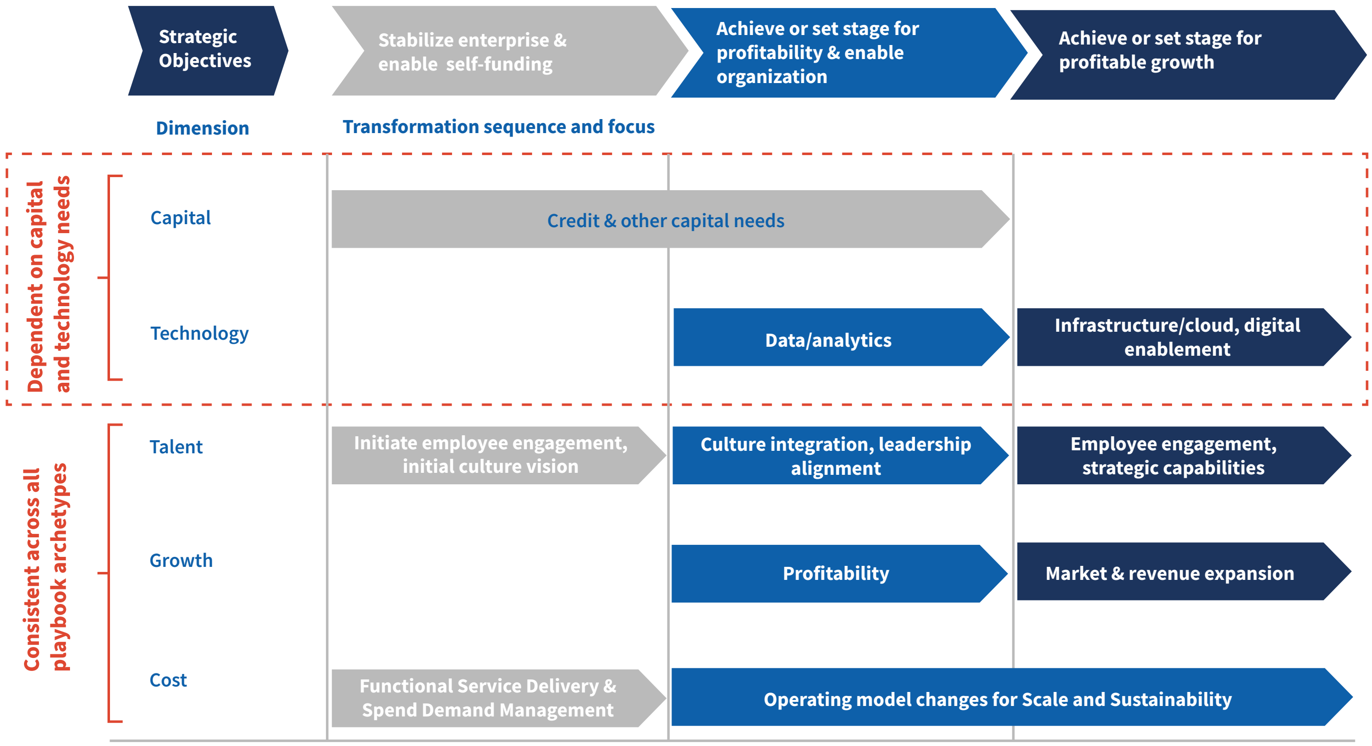
The resulting emergence playbook features four different archetypes that increase in complexity, risk and duration depending on a company's need for technology transformation and/or capital **(Figure 1)**.

Each of these archetypes provides a valuable starting point for post-bankruptcy planning that fits a company's unique needs and ultimately can help it thrive and grow after emerging from bankruptcy.

Putting the Playbook into Action

Each archetype in the emergence playbook requires a unique three-phase approach, but with numerous elements that are common across archetypes. The first phase focuses on stabilizing the business and generating immediate cost savings that can help the entire emergence process become self-funding. The second phase focuses on improving profitability and initiating organizational readiness. The third phase focuses on achieving profitable and sustainable growth. (**Figure 2**)

Figure 2 - The FTI Consulting Emergence Playbook℠ in Action



In our playbook, the talent dimension is a major focus in every phase of bankruptcy and emergence – and a top priority from day one.

How to Address Technology Issues During Bankruptcy

Attracting and retaining talent during bankruptcy can be difficult, since the company's image is typically tarnished by the process. However, that is all the more reason to make talent a higher priority.

Most organizations emerge from bankruptcy still needing to define the talent strategies and capabilities that will enable their long-term success, including: what new talent will be needed to effectuate their next-generation business strategies; how existing talent might need to work differently to achieve new goals; and how the company's culture, compensation philosophy, learning and development programs, and other key enablers will need to evolve. All these decisions take time — and implementing them takes even longer.

Deferring talent strategy until after financial restructuring is complete creates new uncertainties for employees just as they are starting to believe the worst is behind them. This might prompt them to leave rather than weather yet another storm of internal reorganizations and reprioritizations.

What can companies do to mitigate talent risks associated with bankruptcy? Although every company's journey is unique, our experience shows the key elements of success include:

- Clarified Purpose and Vision
- Sponsor Support at the Senior-most Levels of the Organization
- Engaged Leaders and Managers
- Efficient and Effective Communications and Engagement Strategies
- Organizational Development and Enablement
- Ongoing Monitoring and Measurement

Given the significant number of high-profile bankruptcies that have successfully been implemented over the past decade, employees are starting to understand that bankruptcy in many jurisdictions is not a death sentence. In fact, some employees who have been suffering through ongoing bankruptcy rumors and dwindling budgets might be relieved to see the company take more decisive action. However, even in the best situations, confidence will be shaken, and the brand will lose at least some of its luster. The question is, how much?

To be effective, leaders must be willing to put their ego aside to ask the tough questions about whether employees believe in the company's strategy, have confidence in the organization's ability to execute and believe they personally are getting the rewards and recognition they deserve, considering compensation, benefits and other perks. In many instances, there is a disconnect between leaders' understanding of what is important and where the company is heading and how their teams perceive the current state of playing. Bridging these gaps is essential for retention – and for getting employees to fully recommit to the future.

The other key input is to proactively consider the scope of change employees as a collective and individual teams will be asked to undertake and when those impacts will be felt. With these mile-markers in place, a company can determine how to most effectively inspire talent to come along in the journey, by:

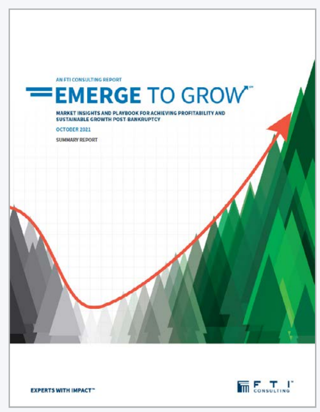
- Explaining the anticipated benefits at the team and individual level
- Gaining leader buy-in and support for the change
- Providing the training and tools necessary for success
- Actively encouraging employees to engage with new systems, processes, mindsets and ways of working
- Measuring adoption
- Recognizing successes
- Mitigating resistance

Conclusion: The Importance of Focusing on Talent

Since companies that undergo bankruptcy are taking the necessary and challenging steps to realign their businesses and maximize value for stakeholders, it is important that they emerge stronger and healthier. Yet the bankruptcy process has many legal and practical limitations that do not necessarily help emergent companies achieve the best possible outcomes during and after bankruptcy.

In particular, our survey shows that companies in bankruptcy need to focus more attention and resources on talent issues during every phase of the process. We hope the findings presented here can help stakeholders challenge commonly held assumptions and norms about bankruptcy that might not be relevant to their situations (and make more informed decisions), and use the survey insights and emergence playbook to help companies position themselves to reach their full post-bankruptcy potential.

Emergence Services Resources



Read the full Emerge to Grow Report and Emergence Playbook℠

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