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Try Being a Startup: Successful Restructuring in Unstable Times

Andrey Streltsov

Moscow, 2022

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Restructuring used to be the lot of distressed assets and incumbents willing to change their business models to enter new markets. Now almost every company is up for this, says Andrey Streltsov, a Partner with Yakov & Partners.

Previously, it was believed that companies needed restructuring in order to:

- improve operations and business performance;
- resolve a shareholder conflict, increase the liquidity, or refinance a debt;
- successfully complete a complex M&A transaction, capture new markets, or consolidate the business.

Today all of the above are sometimes observed in one company. Businesses have to simultaneously improve operations, maintain sufficient liquidity, save their assets, develop new product lines, set up new partnerships, and break into unfamiliar markets.

How can they juggle and successfully complete all the three tasks?

The startup way of thinking

Given the context, a viable – and probably the only – solution would be to switch to the startup way of thinking. Even in a crisis, corporations are not necessarily keenly aware of the limited resources, while the responsibility for the result is diffused due to collective decision-making and multiple approval requirements. Besides, complex corporate structures and multiple procedures hamper their ability to quickly recognize mistakes and adopt a "test & learn" culture. To adapt to the new reality, they need to switch their corporate models to the product logic: from hypothesis and MVP to validation in the target markets and scaling up.

Startups swear by short-sprint implementation, i. e. the "build – test – change" cycle. The fundamental points include deployment of limited resources to multiple areas, constant collection of feedback, and a safe-to-fail environment.

The new matrix has nothing in common with the traditional corporate behaviors, when employees prefer to err on the side of caution, checking and rechecking each option many times over, and doing what they can to avoid the responsibility for the decision. That is why it takes them so long to decide on and get an approval for any project; and even then, they drag their feet as long as they can.

Key success factors for restructuring in 2022

Team support. Treat each team as if it were only recently formed. Support your people and make it clear that everyone is entitled to sometimes make the wrong decision. Put aside the conventional corporate logic that doing nothing is better than taking risks. As things stand now, any decision is risky, especially the “business as usual” attitude, while the payoff is potentially great. That is why employees should not be afraid to put forward and implement new initiatives.

Safe-to-fail environment. Failures are absolutely inevitable; they are the norm. Let’s face it: today we are basically creating new businesses out of old ones. Luck should be rewarded, and every mistake should be a lesson learned. This will help you to quickly wind down off-the-mark projects in a single sprint. You would be better off drawing conclusions after a “local” failure than dragging useless projects through multiple committees and burning though limited resources.

Optimal resource allocation. Unlike problems and issues, resources (especially managerial resources) are few and far between. Always set the priorities with the view to the bigger picture. Startups re-evaluate their goals and adjust plans almost on a daily basis. Corporations also need to learn how to quickly allocate resources to test ideas and projects and empower the most active and capable employees, those who both care and are ready to act. There is no harm in finding out that your yesterday’s priorities are irrelevant as long as you keep pushing forward.

In times of uncertainty, corporate governance should switch to the short-term step-by-step mode. This could be compared to walking through a swamp: take a cautious step, and if you do not lose your footing and feel solid ground under your feet, keep moving. Long-term strategies do not work when there is too much uncertainty. Scenario building and analysis are a great intellectual exercise, but right now it is more beneficial to focus on conceiving and implementing specific initiatives, such as reducing costs, entering new markets, and finding new sources of supply. In a time of uncertainty, low-cost “quick wins” bring more value than verified long-term “heavy-weight” projects.

Project offices as decision-making centers. Set up project or product teams within the company. That way, you will increase the speed and quality of idea implementation, and build a "machine" for generating new business solutions. Delegate authority to the team. This is quite a sound decision, provided that the scale of change and steps taken are clearly becoming more local rather than strategic. Only then will good ideas stop perishing during numerous approvals from “upstairs”.

The “cash effect”. Keep checking what this or that decision or project means in terms of money. Question and review everything. No project is off-limits anymore; no strategic goal or approved project should be implemented no matter what.

The new role of the CEO. Put aside the strategist, architect, controller, “manager of top managers” and other archetypes you learned from textbooks until better times. The most relevant role is a non-hierarchical team leader who guides and looks out for their team and has everyone’s back; one who makes sure all arrangements are honored, including those related to rewards for especially successful “life-saving” innovations. The CEO should retain the most important strategic function though: they ought to keep an eye on the big picture, relentlessly observing what’s happening in the corporation, on the market, and across the entire economy. The vision should be constantly communicated to the team in the form of instructions, adjustments, forecasts, and specific insights. The CEO does not have to regularly monitor initiatives and manage all the projects intended to save the company; their prerogative is to set the priorities and direction of movement. Another area of the CEO’s responsibility is to help teams move on to the next task by quickly and painlessly admitting failures. That allows to keep up high levels of team energy and motivation throughout the company.

Partnerships. In the new circumstances, narrow areas of expertise do not work. The time has come for unexpected partnerships and alliances. They increase the resilience and provide the necessary impetus for change. Companies team up with competitors to enter new markets. Procurement directors share best practices to restore disrupted supply chains. Complex quid pro quo deals are back. Because here is the deal: even a sworn competitor is better than an external administrator.

As the restructuring experience shows, adopting best organizational practices from startups allows to quickly capture positive results in incumbents, primarily thanks to the test & learn model.

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