

Never let a crisis go to waste: Mastering your operations for a resilient recovery

"In the midst of every crisis, lies great opportunity." — Albert Einstein

The continuing global economic uncertainties, prolonged supply chain woes and inflationary pressures are testing the survivability of a growing number of businesses. To date, there are 28 listed companies classified under Practice Note 17 (PN17) and Guidance Note 3 (GN3), representing 2.94% of the total 954 companies listed on Bursa Malaysia. PwC's 26th Annual Global CEO Survey also revealed that 51% of Malaysian CEOs polled believe that their companies will not be economically viable in a decade if they continue on their current course.

As the market environment remains uncertain and the threat of recession looms, it is inevitable that the balance sheets and business models of many companies are under stress. It is a wake-up call for businesses to improve their operational efficiency and resource utilisation to reduce the burden on their balance sheet.

During a crisis, distressed companies tend to focus primarily on financial restructuring. Lenders also typically prefer to address the problem through debt restructuring by providing relief measures such as payment moratoriums, reduction of interest rates and extension of the loan repayment period. This may yield a short-term revival of the company. However, it is all the more critical to acknowledge that the underlying issues may involve inefficient processes and operations.

Operational restructuring key to successful and sustained revival
Operational restructuring comprises two critical elements. The first is early involvement in changing the downward momentum before the decline becomes catastrophic. The second is data visibility and tracking mechanisms to identify operational improvement initiatives and closely monitor the cash flow impacts of these initiatives.

As distressed companies go down the demise trajectory, the revival and control options significantly diminish. By focusing on operations early, we increase the realm of possibilities for recovery and therefore improve the chances of full recovery and future growth. Operational challenges can range from inefficient business models, excessive layers of management and products/services not priced effectively, to issues in supply chain planning, sub-optimal cost structure and low inventory visibility, for instance. In many cases, stakeholders are aware of the major operational opportunities. However, they may not recognise their value and the actions they need to execute to realise this value. Operational restructuring supports companies in rapidly assessing business operations and systems, identifying the intervention areas, prioritising initiatives to maximise value and executing transformation.

Taking control of the crisis through data visibility
We have observed that distressed companies find data availability a significant area of concern. Data unavailability and lack of basic data analysis/reporting procedures are among the key operational issues that bring companies into distress. It is also the root cause of management's hesitation in implementing the transformation exercises. Scattered business operations, inorganic growth, multiple disconnected systems and

low system usage discipline are some of the key factors for data unavailability and inaccuracy. To enable end-to-end operational visibility, it is imperative to have a robust data strategy to aggregate, cleanse, analyse and report data to take corrective actions proactively. Having a data-driven culture is a mindset, and there are ways to cultivate it amid the limitations companies could be facing in terms of size and scale of operations.

In addition, data visibility plays a crucial role in tracking and reporting the impact of operational initiatives on the company's cash flow. It reduces the stress of reporting the liquidity metrics to multiple internal and external stakeholders during times of distress. It enhances transparency and instils trust between the company and the lenders.

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Distressed companies could very well benefit from a well-thought-out digital intervention that connects different systems and applications, Excel-based tools and manual data sources to pull and store the information in a database, which acts as a single source of truth. This is followed by data investigation, analysis and bespoke reporting aligned with the reporting objectives. The solution enhances visibility on various operational parameters, provides near real-time updates and helps compa-

nies transform their operations during the crisis and beyond.

In conclusion, as more companies are juggling the pressures of economic uncertainties, business stakeholders (including lenders) are expected to play a more active role in the operational revival for sustainable and resilient recovery of distressed companies. This could create significant value for all stakeholders involved in the process. Enhanced operational visibility through data-driven monitoring acts as a catalyst for preserving and enhancing value in both buoyant and difficult times. ■

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