Change Vision

# KNOW YOUR CUSTOMER

## THEPESIA's
## MODEL & EXPERIENCE

# “KNOW YOUR CUSTOMER” SHOULD MEAN

## What, Why, How ?

- **In depth evaluation of the client’s economic & financial fundamentals, its real capacity regarding**:
  - leadership
  - functional structure
  - corporate governance
  - business development
  - management: process management; cost management; information management; financial controlling; risk management, etc.
- **Evaluate effective capacity to generate profit, positive cash flow, in order to get growth and to service its debts**
- **Asses the reality, accuracy, consistency of the qualitative and quantitative information made available to the bank, in order to have an, as accurate as possible imagine regarding the Debtor’s future**

# STEPS TO BE FOLLOWED

- **Company's Initial Evaluation**
- **Set up Restructuring Program:**

  - defining Projects and Action Plans

  - Change Management evaluation: Change readiness & Change resistance based on Prosci's model

  - elaborating Project Management & Change Management packages

  - implementing Projects

  - Restructuring Program reinforcement
- **Company's Final Evaluation**

# COMPANY'S INITIAL EVALUATION

## Company's initial evaluation, consists of:

- **Functional Structure evaluation, based on: "Button" and "Processes & Information Concentricity" models**

- **"Gap analysis "**between the "as is" functional structure, corporate functions, processes, tools and the aligned practice, reconciliated with the Company's particularities

- **Company's financial radiography**

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# COMPANY'S INITIAL EVALUATION

## BASED ON THE FINDINGS:

- **Defining the measures which should be taken,** in order to address the deficiencies
- **Set up the SMART Action Plan** in order to implement the measures
- **Grouping the actions in projects** , in order to provide a real and efficient Project Management and Change Management for Company's restructuring

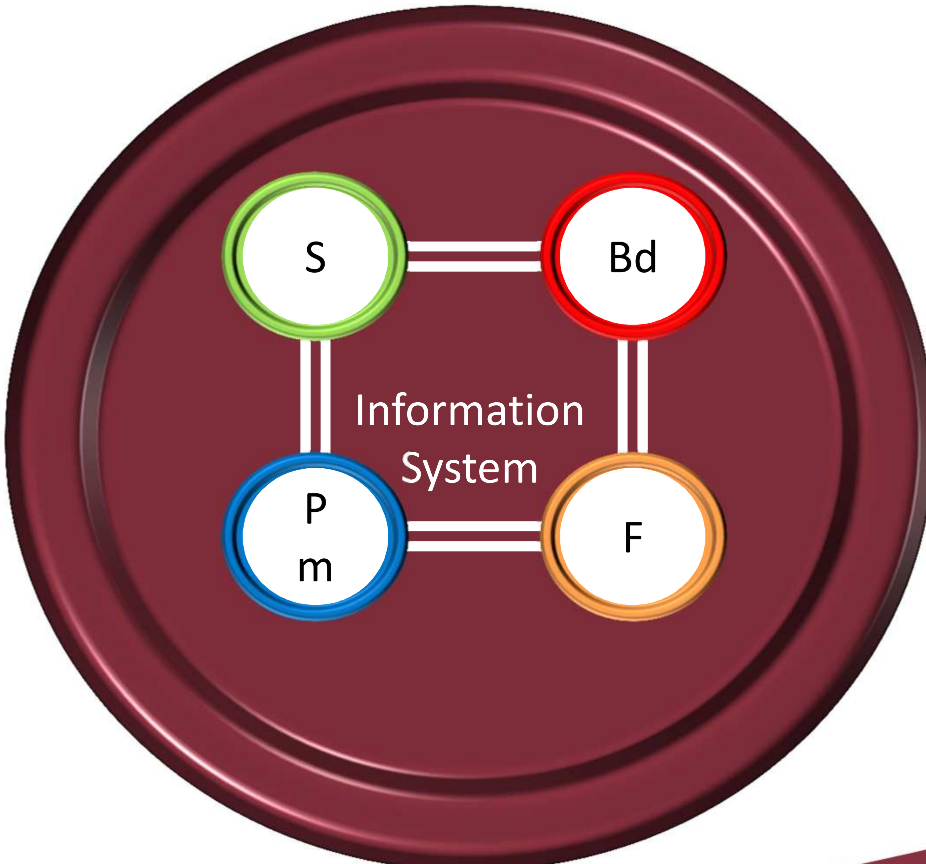
# "Button" model
# The five fundamental Corporate Function blocks

"S" Strategy

"Pm"process management

"Bd" Business development

"F" Financial



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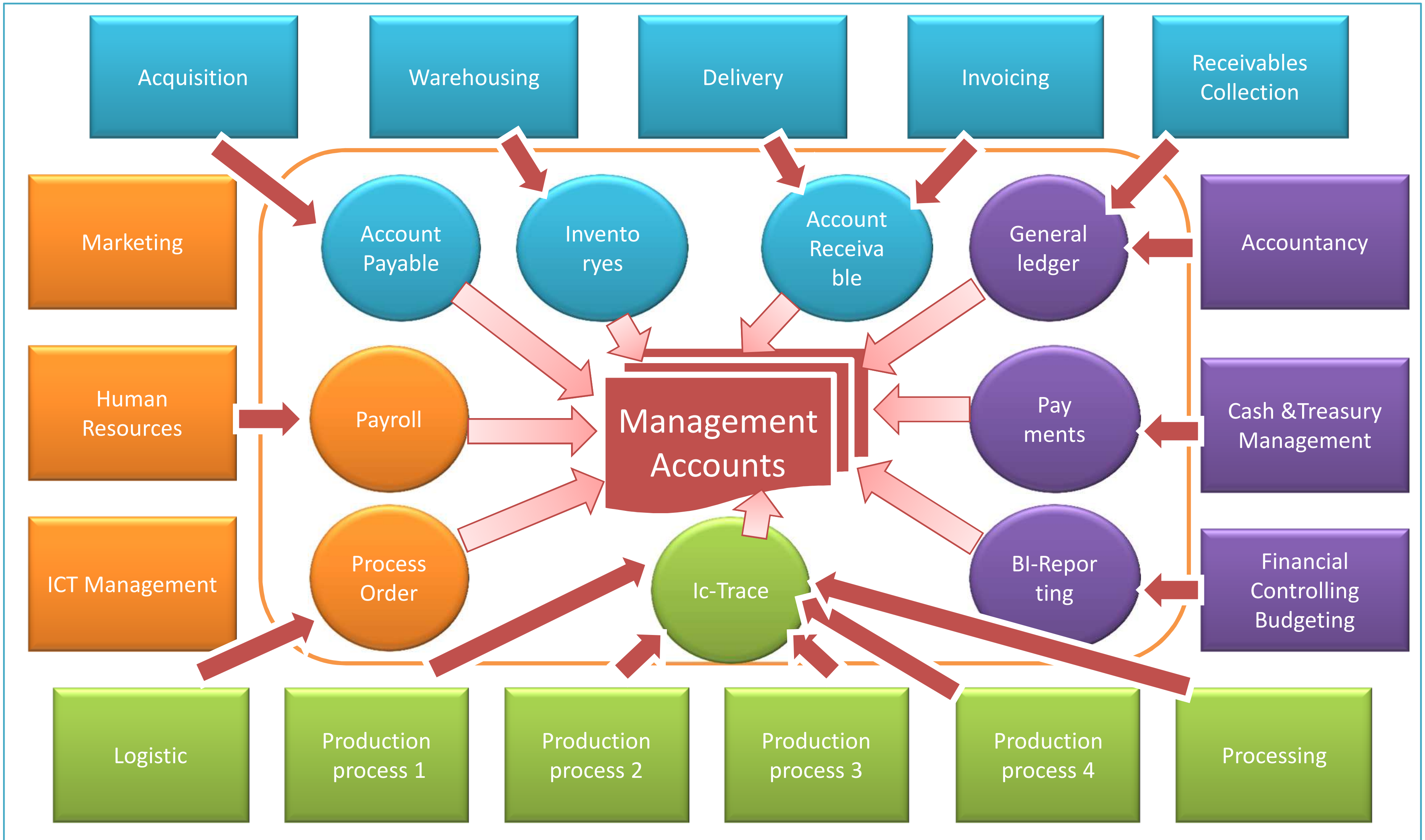
# Processes & Information Concentricity model



# FINACIAL RADIOGRAPHY
# building blocks

- Short financial audit revealing the findings with material impact over the Company's financial standing
- Reconciliation of the Balance Sheet, Profit & Loss Account, Cash Flow Statement with Financial Audit results
- Set up the reconciled BS, P&L, CF, so that to provide an accurate image of Company's real financial situation
- Budgets analysis ( including assumptions, ratios, etc.)
- Analysis of: debts, payables & receivables ( by aging, credit risk, insolvency risk, etc.) , float, fix assets & depreciation, stocks.
- Provisions analysis
- KPIs analysis: gross margin, EBITDA margin , net margin, debt service capacity indicators, etc.
- Group Connected Companies ( GCC) analysis

# Set up
# Restructuring Program

- Define Projects and Action Plans
- Change Management Evaluation
- Elaborate Project Management & Change Management as unique value proposition
- Implement Projects
- Restructuring Program reinforcement

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# OUR FINDINGS

## AFTER MORE THAN THREE YEARS OF CONSULTANCE EXPERIENCE IN THE ROMANIAN CORPORATE ENVIROMENT

# “S”
# Strategy
# 1

- **Most of the corporate leaders are “income management focused”.** Quite a few are “growth management focused”, have a real long term vision regarding the Company’s development.
- **Strategic management practice is almost inexistent**. Most of the companies do not have a strategy in the real sense. **So called strategies generally are done due to the banks or Management Authorities request**. **We encountered in some cases “I have the strategy in mind” answer**
- **The level of communication between leadership and management is a low one.** In general, there is a very low level of motivation for management. In many cases we have seen managers as “choice less doers”
- **In most of the cases there is a severe “silos culture“**

# "Bd"

## Business development

## 1

- **Business Development strategy is not correlated with the Investment strategy, and therefore, in most of the cases the companies experience severe cash management problems, a very low Debt Service Capacity, significant transfer of working capital in investments**

- **Most of the companies do not have a real cost management practice. They can not identify accurately the loss drivers and can not adress them**

- **Most of them have a quantitative culture, the focus being on sales and , eventually in Gross Margin.** Therefore, experiencing severe difficulties during the markets down turn. "You are what you measure" D Arielly

# “Pm”
## Process Management

- **Most of the companies do not have created and implemented work procedures.** The lack of procedures, for the most important processes, induces lack of: transparency, process discipline, measurability and accountability .

- **In many cases, even if the company has implemented ERPs, the work processes are not correlated with ERP processes** and , therefore, the information stream is not captured entirely and accurately by MIS system. **This decorrelation induces severe operational risks and a lack of confidence in the information generated by MIS**

# “F”
# Financial
# 1

- **In the most of the companies the functional structure is no aligned to the normal practice**.

- **Cost management, does not represent a general practice**. They do not control their product profitability, customer profitability. In most of the cases they do not know which are the loss drivers. Some of them have , eventually, an empiric way of calculation.

- **They do not generate management accounts reports.** In fact, there are not systemic tools to monitor the KPIs. Most of the reports are those asked by general fiscal norms, or by the banks. But, they do not use for there own management purposes

# "F"
# Financial
# 2

- **In many cases the financing strategy is not correlated , at all with the Company's business model, with its capacity to service the debt service, and therefore, generating severe difficulties and harmful relationships between banks and customers:**

  **- there were pretty much cases where the collaterals ( mostly commodities stocks, and inventories) have been vanished.** In fact , the banks were 100% exposed to risk

  - **short term financing instead of long/medium term financing for investments, with a totally inadequate structuring**

  - **investment financing instead of project financing, with totally inappropriate structure of collaterals**

# “F”
# Financial
# 3

Balance Sheets, P&L , Cash Flow adjustments, due to the above mentioned finding, have revealed, at the end of the process, a totally different financial situation of the Company, in many cases with a severe negative change.

The evaluation process, which unveiled a severe financial standing and an alarming debt service capacity, have imposed urgent measures to be taken

# Management Information System

- **Acquisition and implementing MIS decision was not based on an elaborated support.** In fact many companies did not have any kind of real analysis regarding their specific needs , functional specification, architecture.

- **In many cases the implementation process was inappropriate, partial, generating either uncontrolled overrun costs, or , in some cases even the postponement.**

- **The contracts between the Beneficiary band the Vendor is asymmetric in the Vendor's favor.**

- **The Company do not have a real control regarding physical & logical security of the system.** Does not monitor the Vendor's activity regarding their system.MIS functional capacity is under used. Company paid for more modules or applications than they really use, in fact.

# CONCLUSIONS 1

## Companies

- In most of the cases there is a lack of entrepreneurial, leadearship and management culture
- Lack of long term vision: income management vs.growth management
- Risk culture almost inexistent
- Decision are taken in general based on intuition (wild guess)
  and less based on analyses (educated guess)
- Lack of transparency and control, ”helped” by a silos culture
- Strong tendency toward “trouble shutting” and window dressing”, in order to get bank’s or management authority money.

# CONCLUSIONS 2

## Banks

- Much more control for money at risk, mainly where there are high exposure or companies in financial distress

- In some cases bank's control is a formal one. A multidimensional control should be approached. Most of the future problems are coming from up stream (leadership, business development, process management, etc

- The paradigm of relationship should be changed from a reactive to a proactive approach. Relationship manager should know, understand much better the Company

- Banks should "invest" more in customer's education

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# THANK YOU !