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Communication is vital to business turnarounds

Vincent Marino

A QUESTION I frequently get asked is: "What do banks require from us when our business is in trouble? What are they looking for? What do they want?"

There are no easy answers because each bank operates its "business rescue" department differently. It is safe to say that the underlying principle of the relationship between bank and other stakeholders is communication.

Communication limits surprises, builds trust and credibility.

The business owner must make certain that there is a regular flow of information, that it is open and honest, but never reckless or to the detriment of stakeholders. A relationship between the bank/investor and its client does not morph neatly parcelled up when a contract/loan agreement is signed; it has to be worked on and nurtured.

In good times, a company is accountable to its shareholders and to a lesser degree to its employees. In bad times, its main responsibility shifts to the interest of all stakeholders, including banks, bondholders, trade vendors, employees and customers.

The communication strategy in a turnaround is to create awareness about the company's vision, plan and commitment to achieving a positive recovery of the business and to facilitate the development of a proactive company image in the minds of the stakeholders. The success of the turnaround plan depends upon the ability of the owner to communicate how the plan will satisfy the stakeholders.

In the communication mix, what needs to be decided is:

- What needs to be communicated — how much information must be communicated;
- How to communicate the relevant information;
- To whom should the information be communicated — is it relevant for all stakeholders to share in the information;
- How often should the information be communicated — fortnightly, monthly; and
- Where should the information be communicated — web page, downloads, news bulletin boards.

Information communicated to the various stakeholders should contain the same message. In times of business crisis giving preferential or privileged information to one group of stakeholders over another group can lead to conflict, which in turn puts pressure on the business and may distract owners/stakeholders from the crisis on hand.

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No disparities in the information disseminated should exist.

From a bank's point of view: What do banks/investors look for when your business is in trouble and you require a cash injection? Points to consider:



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- What type of relationship do you have with your bank?
- Don't wait till the last minute to approach the bank;
- Does the business owner understand the constraints "imposed" on the bank — for example losses are an important form of bankers evaluation; banks cannot carrying on flogging a dead horse;
- Has the business owner complied with the bank's requests — for example a turnaround action plan, additional surety, speed up accounts receivable, slow down accounts payable, prepared cash flows;
- Does the business have sufficient funds to see it through for the next three months;
- If money is lent will the business stabilise;
- Has the business had dealings that have had a negative effect on finances but are unlikely to recur?
- Were these previous events the cause for the business to be in a position where it cannot meet its liabilities when they fall due?
- Does the operation have a good core business that is capable of generating profits over a period if it were allowed to continue trading?
- Can the business afford contributions to its creditors if all of its liabilities were placed in a "moratorium", and these creditors were willing to wait for their money during the course of an arrangement? and
- If you have not been able to generate profits in the past, how will you do so in the future?

From a business's point of view, what do businesses want from banks?

- To take a greater interest in the business/owner;
- Have a general understanding of the business;
- Don't call only when the company is in trouble;
- Don't call only to lend more money and then disappear when the business is in trouble;
- Have you got the resources to assist a business turnaround — for example someone to help with a turnaround plan, industry information;
- To deal with only one person — when the business is in trouble.
- If
- Provide feedback promptly: "my business is in crisis, I can't wait";
- Don't try and sell a turnaround/rescue package; and

Do not guess what I need — let's work out a plan together.

It is the owner's duty to present a balanced picture of the company's position to its stakeholders. This is essential for business survival. While owner/managers are capable of running their business's daily operations, the skills required to manage a turnaround are different.

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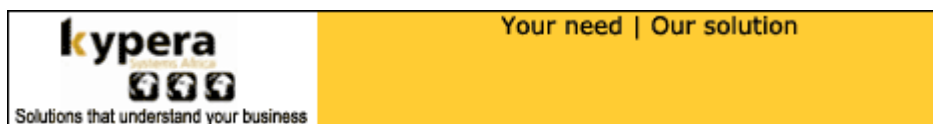
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