*Strategic Management*, 9e: Chapter 10 study guide

Evaluating options when the business is in trouble: Corporate rescue

Much of strategic management evaluation makes the perfectly normal assumption that the business will continue. The strategic choice is therefore about selecting the best option to achieve the purpose of the organisation at an acceptable level of risk. But what happens when this assumption is wrong? How do you evaluate options for a business in serious trouble?

Whole books have been written about the corporate rescue of businesses in trouble[[1]](#footnote-1). In essence, they are founded on four key principles that cover the four stages of the rescue process:

1. **Is the company capable of being saved?** Before embarking on a detailed evaluation of rescue operations, it is important to make a judgement on this basic question. Some companies are beyond saving for several reasons. Assuming that the company can be saved, then it is appropriate to explore question 2.

2. **How can we stabilise the core operations?** Notice that the phrase is not about profitability yet. The main aim is to generate cash flow and to move towards breaking even. Typical actions here include cutting costs, reducing borrowings, chasing creditors and safeguarding the main elements of the business, especially key customers and suppliers.

3. **How can we redevelop the business model?** When a business is in trouble, it means that there is something fundamentally wrong with its business model, i.e., the formula that summarises the essential elements of strategy that will deliver the company’s profits – there is more on the business model in Chapter 20. Rethinking the business model means reviewing the way that the company differentiates itself from its rivals, the way that it employs its resources and partners and the way that it interfaces with its customers. There is more on business models in Chapter 20 of this text.

4. **Where can we find a growth strategy?** While it is true that some organisations do not need to grow, it is highly likely that companies needing to be rescued will also need to consider their future growth. Companies requiring help will usually need to approach financial institutions to raise new funds. In response, many financial institutions will want a five- or ten-year plan with projections about future sales, profits, cash flow and related issues. All this means that a growth strategy will be needed.

Although excluded from the above questions, the final issue in corporate rescue concerns the **stakeholders** of the company. Stakeholders are always important but their interests become more acute when a company is in trouble and the risks are much greater. Thus, the evaluation of options needs to be keenly aware of the stakeholders – the owners, the senior managers, the employees, etc. Each may well have different perspectives on the options that are available: for example, the owner may wish to recover funds invested while an employee will be concerned about keeping a job. The resulting options may then include a sale of the company, a further investment or perhaps a merger with a rival. Each of these possible outcomes will have a different impact on the stakeholders.

1. One of the best is Stuart Slatter and David Lovett (1999) *Corporate Turnaround*, Penguin Business, London. [↑](#footnote-ref-1)