

A FOUR-PHASED RESCUE PLAN FOR TODAY'S TROUBLED COMPANIES

Patrick F. Dolan

In the wake of unprecedented numbers of company failures, many businesses are now scrambling to elude a similar fate. The author offers a program for rescuing today's troubled companies.

Positive cash flow has become the top priority for both businessmen and bankers in today's economic environment. Indeed, many businesses are now scrambling to elude financial failure, which in recent months topped companies in numbers unprecedented since the Depression.

Dun & Bradstreet reported in February 1983 that business failures had averaged 629 per week for the first five weeks of 1983, in contrast to 612 per week in 1932. Although substantially more businesses are operating today than fifty years ago, and casualty rates in relation to total concerns are considerably less severe than they were in 1932, this early 1983 failure rate is 55 percent higher than the same period in 1982. An evaluation of recent business failures with those of 1932 can be seen more accurately in the following Dun & Bradstreet failure rate calculations per 10,000 businesses.

| Year | 1932 | 1979 | 1980 | 1981 | 1982 |
|--------------------------------|------|------|------|------|------|
| Failed businesses (per 10,000) | 154 | 28 | 42 | 61 | 89 |

In tandem with these business failures, bank loan losses and nonperforming loans, those on which inter-

est payments have not been met for a protracted time, in many cases, have more than tripled in the past year. And the worst may still be to come. Most lending institutions cannot safely absorb such a default rate—to do so is to endanger their capital base, competitive position, and future earnings growth.

Is there a solution? Banks and businesses must work together to build strength and stave off insolvency. In fact, many lending institutions are now dedicating more resources to rescue their "troubled" customers. Such rescues require the total cooperation of the company's management, bankers, and business advisers to:

- Evaluate risk of bankruptcy.
- Diagnose problems.
- Plan turnaround.
- Monitor recovery.

This article reviews the main causes of recent business failures, proposes a strategic information cycle to aid failing companies and keep healthy ones on track, and describes a four-phased rescue plan for businesses, bankers, and advisers to turn around troubled firms.

Why Have Businesses Failed?

The causes of a company's problems will determine, in part, whether it can survive, and the type of outside

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professional services it may need. The major causes of the large number of business failures and troubled companies in the United States from 1980 to the present have been:

- A change in Federal Reserve policy.
- Structural changes in the economy.
- Appreciation of the U.S. dollar.
- Bad management.
- The domino effect.

- Rapid changes in new technology.
- Deregulation of certain industries, and less government support for weak companies.
- International shifts in comparative advantage.

A Change in Federal Reserve Policy

October 1979 marked a change in Federal Reserve policy that in time may prove to be a dividing point between two different economic worlds. At that time the Fed took a monetarist approach to reducing inflation: It switched from controlling the level of interest rates to controlling the amount of money in circulation. Simply stated, the Fed decided to control the supply of money—irrespective of demand—and allow the market to set the price of credit, namely the interest rate. This new inflation-fighting policy had two results:

- A recession began, thereby reducing demand for goods and services.
- Interest rates quickly rose to record levels.

Companies were locked into target debt/equity capital structures that can be changed only with time. As debt came due, companies were not in a cash position to pay off these loans because of their low recession profits. Instead, most of them opted to refinance short-term in expectation of falling rates. But in 1982, interest payments were at an all-time high—76 percent of after-tax profits.¹ Rates did not come down in time for many companies, and they are now unable to service their debt.

Structural Changes in the Economy

The restructured U.S. economy has five sectors: energy, agriculture, high technology, services, and old-line manufacturing.² All are governed by new rules. The conventional pre-1980 strength of the United States—the basic manufacturing industries of automobiles, steel, machinery, textiles, and appliances—have recently experienced the most pressure from:

- Higher fuel costs.
- Lower productivity growth rates.
- Intense international competition.

Higher Fuel Costs

OPEC producers almost quadrupled the price of oil during 1973-1974: It went from \$3 per barrel to \$11. And they nearly tripled the price in 1980, raising it to \$34 from the 1978 price of \$13. These higher oil prices rendered two exogenous "shocks" to the economy when they were instituted. Reinvestment of petrodollars in the United States or in dollar-denominated assets, however, mitigated the shocks of 1973-1974 and 1978-1980 somewhat. But higher energy costs meant that the methods of producing the goods and services demanded by the public had to be restructured. And, since capital and energy had now both become so expensive, management coped with the new situation by substituting labor. The United States generated 15 million jobs (9 million net) between 1973 and 1980 in mostly low-skilled service jobs. (In contrast, the economies of the Common Market between 1970 and 1982 failed to create a single net job.³) Consequently, the United States absorbed the greatest number of young people ever into its labor force—perhaps the decade's greatest achievement by management.

Lower Productivity Growth Rates

When oil prices were mounting from \$13 to \$34 per barrel, during 1978 to 1980, the substitution of labor for energy and capital intensified. This new, in general less experienced, labor force, plus an accompanying reduction in reliance on machinery, in turn resulted in reduced productivity.

Productivity measures the volume of goods and services the economy produces in each hour of paid work. Increased productivity produces more output at the same level of input. In essence, greater productivity increases a company's profits without requiring additional investment. Lower productivity results in lower profits or larger losses, which in turn endanger a company's financial solvency.

For the five years ended December 1982, productivity growth in American business was exactly zero. The Bureau of Labor Statistics reported productivity figures for the period 1978 to 1982 as follows:

| Year | 1978 | 1979 | 1980 | 1981 | 1982 |
|---------------------|------|-------|-------|------|------|
| Productivity growth | 0.6 | (1.3) | (0.9) | 1.4 | 0.2 |

¹ "Fortune Forecast, After the Profit Plunge," *Fortune*, Jan. 24, 1983, p. 32.

² "America's Restructured Economy, Sagging Productivity," *Business Week*, Special Issue, June 1, 1981, p. 55.

³ Ian Hargreaves, "Unemployment in Europe, The Crises That Growth Alone Will Not Solve," *Financial Times*, Jan. 7, 1983, p. 13.

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The recent productivity gains were achieved from a larger reduction in hours than in output. Total productivity actually declined. For example, the gross national product (GNP), a measure of the country's total output in goods and services, declined during the three-year period of 1980, 1981, and 1982. In the fourth quarter of 1982 the real GNP contracted at an annual rate of 2.5 percent. In 1982 the rate of the economy's decline was 1.8 percent, producing the worst showing in thirty-six years.⁴

As *Business Week* reported in 1981, "It may be more than coincidence that the sharpest declines in productivity occurred . . . [at the same time] oil prices were going through the roof."⁵

Greater productivity increases a company's profits without requiring additional investment.

Intense International Competition

Foreign countries are gaining a greater share of world trade. For example, the foreign share of the U.S. car market increased from under 18 percent in 1978 to almost 28 percent in 1982, and the Japanese share alone of the U.S. compact car market approached 50 percent.⁶

Foreign competition generally either underprices similar-quality U.S. goods in the domestic and foreign markets or produces higher-quality goods at similar or higher prices. South Korea is one of the low-cost producers; its labor and production costs are much less than those of the United States, and the government subsidizes goods for export. West Germany is a higher-quality producer of capital goods but at prices similar to those of U.S. goods.

West Germany is also very successful at selling higher-quality and higher-priced goods in the U.S. market. In 1982, BMW and Mercedes increased their retail sales in the United States over those of the previous year by 25 percent and 8 percent respectively.⁷

When the consumer is price-sensitive, lower production costs and government subsidies help foreign goods undersell similar U.S. products. Naturally, this increase in foreign competition has seriously affected the U.S. economy. As Donald Bibeault noted in *Corporate Turnaround*, "Foreign price competition has existed for many years and has had a particularly devastating

effect on industries such as shoes, consumer electronics, and steel. While there are domestic success stories in each of these industries, failure rates have been high."⁸

Rapid Changes in New Technology

Innovations in technology permeate every aspect of our daily lives. New technology usually increases competition among industries, companies, and product lines, resulting in lower costs to the ultimate consumer. Although these technological changes offer many advantages, they can also negatively affect a company's fortunes at least five ways:

- They can make current products obsolete or less competitive; for example, hand calculators have replaced slide rules, ballpoint pens have been substituted for fountain pens, computers have made many clerical jobs obsolete and of course added many other jobs, and more recently the satellite dish may replace cable in nonurban areas.
- They can change the methods and costs of production, rendering current methods uncompetitive; for example, Japanese auto manufacturers use robotics to a much greater extent than any U.S. auto manufacturer, substantially reducing the overall cost of production and thus underpricing U.S. compact cars.

New technology usually increases competition among industries, companies and product lines, resulting in lower costs to the ultimate consumer.

- They can make it possible to produce substitute products and services, thereby reducing market size. Plastic, for example, has replaced steel in many products, including cars, thereby reducing the size of the steel market.
- They can also change consumer preference, giving consumers alternatives; for example, jet planes made much ocean liner and railroad travel obsolete, just as television has replaced certain radio programming.
- Finally, technological innovation in one field can contribute to advances in another; the National Science Foundation believes that the new "supercomputers" are crucial for national defense, economic growth, and advances in science in coming decades.⁹

⁴"Week in Business, Real GNP," *The New York Times*, Business Section, Jan. 23, 1983, p. 24F.

⁵*Business Week*, note 2 *supra*, at 61.

⁶Richard Lambert, "Foreign Share of U.S. Car Market Rises Again," *Financial Times*, Jan. 10, 1983, p. 3.

⁷*Id.*

⁸Donald B. Bibeault, "External Reasons for Decline," in *Corporate Turnaround*, Ch. 4 (1982), pp. 27-33.

⁹Philip M. Boffey, "Panel Warns of Computer Lag," *The New York Times*, Jan. 19, 1983, p. D6.

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Deregulation and Less Help From Government

The current Administration is committed to free enterprise and less government involvement in business. It deregulated some industries such as transportation virtually overnight. Many companies could not compete in the new environment.

The Motor Carrier Act of 1980 has dramatically changed the environment in which motor carriers now operate. The easing of entry requirements has resulted in a multitude of new or expanded carriers. During fiscal year 1981, the Interstate Commerce Commission reported receiving 28,414 applications from existing carriers for permanent expanded operating rights, approved 97 percent of the applications, and granted permanent authority to 3,702 new carriers—a 125 percent increase of grants for expanded authority and a 437 percent increase in the number of new carriers entering the market as compared to fiscal year 1979.

The combination of expanded authority and influx of new carriers has not only drastically altered the way in which carriers compete but has also resulted in an expanded set of needs for success. Between mid-1980 and December 1982, 200 ICC-regulated carriers went out of business, and an additional fifty-one regulated carriers were in financial difficulty; others are still struggling to cope within the new environment. And it's not only the trucking industry that has been affected. The airlines have also faced increased competition, as has the banking industry. The failures of Braniff, for one, and of small financial institutions, especially among the thrift firms, can be tied directly to the effects of deregulation.

International Shifts in Comparative Advantage

The theory of comparative cost advantage dictates that a country produce only those goods for which it has a comparative cost advantage so as to employ its economic resources efficiently. Lower foreign production costs, a rapidly appreciating dollar, and, in certain industries, foreign government subsidies have placed American products at a significant cost disadvantage. As the United States falls behind in certain industries, such as automobiles, ultimately its higher-cost products cannot compete in the market.

At this point a country has three choices:

- Subsidize the domestic industry.
- Create barriers against foreign competition, such as the Trade Agreement Act.
- Let the industry determine its own destiny, thereby permitting lower-cost foreign producers to gain a greater share of the domestic market.

The United States has chosen the first and second options only sparingly. The present Administration's commitment to free enterprise and less government involvement in business dictates that it choose to follow the third option: The United States is now getting out of those businesses in which it does not have a comparative advantage, be it in terms of cost, technological innovation, or human resource management. The theory of comparative advantage is now beginning to be applied.

As a country loses its competitive advantage, it has three choices: subsidize domestic industry, create barriers against foreign competition, or let the industry determine its own destiny.

Appreciation of the U.S. Dollar

By the end of 1982 the U.S. dollar had appreciated 36 percent against key currencies since the Federal Reserve policy change of October 1979. This dramatic appreciation seems to be directly related to the change in the Fed's policy, the new political climate at home and economic weakness abroad, as well as to the Administration's decision to allow the exchange rate to be determined in the market, with limited U.S. Treasury intervention. The dollar's appreciation has two effects on U.S. business: It increases the cost of goods for export (today over 20 percent of U.S. goods produced are for the export market), thereby making U.S. goods less price-competitive abroad; and it reduces the cost of imported goods, thereby making U.S. goods less price-competitive at home. Thus U.S. producers sell fewer of their products both at home and abroad.

Bad Management

Bad management has often been cited as, almost exclusively, the main reason for business failures. But certainly, although bad management has contributed somewhat, it is responsible for only what is most likely a small part of the currently very high number of business failures.

Management responsibility breaks down into strategic, financial, and operational. Strategic management, which is becoming more and more important as the economy, competition, and technology change dramatically, can be blamed for failing to anticipate changes in an industry segment and lacking a winning strategy. Financial management is guilty of advocating

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overly aggressive capital structure and not permitting the company to have a sufficiently flexible financial position. Operational management can be said to be responsible for business inefficiencies. Certainly, bad management has contributed to the crop of business failure, but much less so than the experts would like us to believe.

On the basis of a study of 1,700-plus businesses in the PIMS data base, Dr. Sidney Schoeffler, managing director of the Strategic Planning Institute, outlined nine findings that apply to business. His third finding was: "The laws of the marketplace determine about 80 percent of the observed variance in operating results across different businesses." Thus the characteristics of the served market, the business itself, and its competitors constitute about 80 percent of the reasons for the business's success or failure; management's operating skill, or, in some cases, luck, constitutes about 20 percent.¹⁰

The Domino Effect

When one company fails, it may also bring another company down with it. This is the domino effect. A clear case of the domino effect can be seen in the example of Astrocade Inc.'s failure in turn toppling Nitron Inc., a California company. *The Wall Street Journal* reported in February 1983 that the financial problems of Astrocade, Nitron's principal customer—which in December 1982 filed for protection under chapter 11 of the U.S. Bankruptcy Code—have caused Nitron to default on nearly all its financial obligations and to furlough about two-thirds of its work force.¹¹

A failed company's unsecured creditors, normally its suppliers, are the most vulnerable to the domino effect. The greater the troubled company's losses are, the greater the losses that the suppliers will likely suffer. As Anthony Rudge, chairman of Barclay Bank's Birmingham U.K. board, has said:

A bank is in a very difficult position when talking about companies on the brink of collapse. Our instinct is to try and keep them afloat for as long as possible; in so doing we are providing a sort of social service. The trouble is that the longer you go on doing that in a declining situation, the greater the peril for the unsecured creditors and at the end of the day we have to recognize that 30 percent of the creditors of that company are going to be our customers. There is a domino effect in these sorts of situations. The more money they (suppliers) lose, the greater their peril.¹²

What Can the CEO Do?

Clearly, many of the factors contributing to business failures occur outside management's domain. Nevertheless, management must deal with the overall environment—internal and external. Many companies may not survive, certainly in the longer term. But many other companies that could have survived will also fail because they did not act in time.

The problem remains that the CEO of a troubled company may not know for certain what specific factors are affecting the company. Accordingly, he may embark on a rescue mission blindly, with no assurance of success. If the CEO undertakes such a mission, he must first ask and get answers to five critical questions, comprising what this author calls the strategic information cycle (SIC):

- Where am I now?
- What am I predicting for my industry segment?
- What are my options?
- What is my strategy?
- How do I implement?

These five SIC questions apply to all companies. They have no easy or correct answers, but they must be answered if a company is to survive. The answers will determine a company's *short- and long-term* viability.

A Four-Phased Rescue Approach

I developed a four-phased rescue service for a company and its creditors to address these questions and, as a result, turn around troubled companies: Phase I—Determine a bankruptcy risk "score"; Phase II—Undertake a diagnostic study; Phase III—Review or prepare the turnaround plan and cash flow projections; Phase IV—Monitor and control turnaround plan progress and cash flow results.

The "troubled" company rescue plan is a structured approach to a complex problem. These four phases are interdependent and can be conducted only sequentially, as the outcome of Phase I will determine whether Phase II should be performed, and so on. The decision tree in Exhibit 1 shows the dependency of one phase on another. The examples in Exhibit 2 illustrate some ways consultants can help in one or more of the phases.

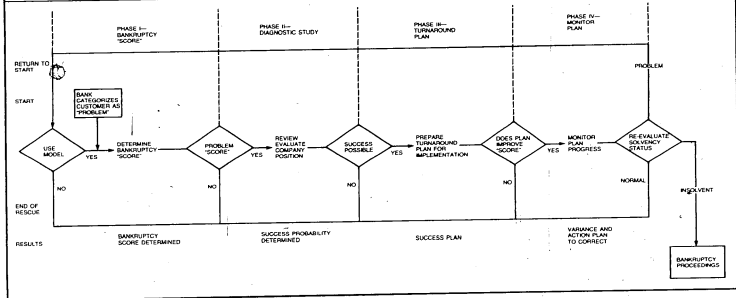
Phase I—Bankruptcy "Score"

What is the probability of the firm going bankrupt? Normally the CEO of a troubled company, its bankers,

¹⁰ Sidney Schoeffler, *Nine Basic Findings on Business Strategy*.

¹¹ Nitron Inc. Defaults on Most Obligations, Cites Customer's Woes," *The Wall Street Journal*, Feb. 8, 1983, p. 8.

¹² William Hall, "Company Rescues, The Upturn That Never Seems to Come," *Financial Times*, Sept. 10, 1982, p. 18.

EXHIBIT 1
"Troubled" Company Rescue Plan

EXHIBIT 2
Possible Consultant Involvement During Rescue Plan

| | Example 1 | Example 2 | Example 3 | Example 4 | Example 5 |
|--------------------------------|--------------------------|--------------------------|--------------|--------------|--------------|
| Phase I— Bankruptcy "Score" | Consultants | Bank | Bank | Bank | Bank |
| Phase II— Diagnostic Study | Consultants | Consultants | Consultants | Consultants | Bank |
| Phase III— Turnaround Plan | Consultants/Bank/Company | Consultants/Bank/Company | Bank/Company | Bank/Company | Bank/Company |
| Phase IV— Monitor Plan | Consultants | Consultants | Consultants | Bank | Consultants |

and its business advisers will want the answer to that question before they commit additional resources or take new action. Creditors typically examine a financially distressed company's profitability, liquidity, and leverage ratios. The investment community now uses mathematical forecasting methods to flag potential bankruptcy. These methods are advances on earlier practices that used one-variable-at-a-time financial ratios.

Two basic assumptions are implicit in all bankruptcy risk score models:

- The published consolidated financial statement, on which the models are based, reflects true economic

events; i.e., the published financial data are correct.

- Resources, principally cash, can move freely from one business unit to another (which in reality is not true).

When a troubled corporation has more than one major business, the model users can break the corporation into business units and apply a variation of the risk model to "score" each business unit and reconcile the sum of the individual risk scores with the overall corporate risk score. This approach mitigates the limiting effect of the assumption that resources can move freely among units and focuses further turnaround work on those entities with the lowest "scores."

"Where Am I Now?"

As part of this analysis, a troubled company can request a computerized report from the firm providing the bankruptcy risk score model, showing:

- Its current corporate score and division scores.
- A history of the firm's bankruptcy risk scores.
- A comparison of the corporate score with those of other companies in the same industry or other industries.
- A sensitivity analysis of each of the factors that make up the score.

The diagnostic study will reveal the company's strengths and weaknesses and spotlight areas for both immediate and long-term improvements.

At this stage, the company must make a decision whether to call a halt to the rescue attempt or proceed to the next stage. This decision is normally based on the following factors:

- The results of the "scoring."
- General information about the company gathered during the study, such as the extent of its declining market share.
- An understanding of the industry, such as whether or not the market is shrinking.
- The bank's own estimate of the loss it would absorb given a liquidation environment.

The most widely known and best acknowledged model, the ZETASM Risk score, is designed for both manufacturing and retail companies. It is a computerized credit scoring model developed by Zeta Services Inc., a financial consulting firm. The model examines various aspects of a firm's financial condition, weighs the importance of each of seven variables, and uses the sum of the weighted values to produce the "ZETASM Risk score," a unique index, positive, negative or zero, that measures a company's vulnerability to financial failure. A below-zero score suggests that a company may have trouble meeting its financial obligations. Currently, more than thirty institutions subscribe to the ZETASM Risk model, which covers 2,600 public companies in the data base of Compustat Services Inc., a subsidiary of Standard & Poor's.¹³ ZETASM is

¹³"Companies That Edge Financial Strain," *Business Week*, Corporate Finance, May 17, 1982, p. 110.

also used to assess the financial stability of private companies and various divisions of public companies.

Phase II—Diagnostic Study

If the company proceeds further with the rescue, the CEO may decide to form a review team composed of his key executives, business advisers, and bankers to determine whether the company can survive in its present form—and if not, to prepare or evaluate a turnaround plan.

The ZETASM Risk scores quantify a company's bankruptcy status and pinpoint those measurements that contribute most to the adverse score. Where a firm has more than one major division, the scoring system classifies divisions according to their financial strength. The information from the scoring procedure is used to focus the diagnostic study.

The review team will evaluate the firm or division and the position it holds in the industry or market segment. Such a diagnostic study identifies a company's strengths and weaknesses and explores opportunities to improve its marketing, production, financial, and research and development efforts. The team uses this information to pinpoint areas with short-term, hard-savings potential and to highlight the ways in which the company can rescue its business.

At the start of Phase II the CEO of the troubled company may wish to get help from independent industry experts who know where to look for problems and who have the analytical tools to target opportunities for improving financial stability.

"What Am I Predicting for My Industry Segment?"

During this phase of the strategic information cycle, the study team will also analyze the structure and dynamics of the industry in which the firm operates and predict possible important changes. This aspect of the study is critical—a company must anticipate important industry changes, whether in suppliers, distribution channels, products, markets or competition, to stay in business. Ideally, the team should forecast each element that may change the company's industry segment and then relate that change through to the likely company operation to be affected.

At this stage, the company has answered the first two questions: Where am I now? What am I predicting for my industry segment? The study team then evaluates how the company can tackle immediate problems and how it is positioned to meet predicted industry changes.

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Phase III—Turnaround Plan

Planning is the foundation stone of a company's survival. Using the results of the diagnostic study as a guide, the company is now ready to design a turnaround strategy to improve cash flow immediately and, subsequently, profitability. Accordingly, cash flow projections must be one of the main outputs of the turnaround plan.

Dislocation is inevitable as the U.S. economy moves from an industrial to an information-intensive base.

The factors making up the bankruptcy risk model "score" highlight possible actions to take, such as reducing unproductive assets. The diagnostic study will reveal the company's strengths and weaknesses and spotlight areas for both immediate and longer-term improvements. Both tools are essential in reviewing or preparing a company's turnaround plan.

"What Are My Options?"

Before deciding on a concrete strategy, a company facing possible bankruptcy should formulate a set of alternative action plans and evaluate the financial impact of each alternative. This objective can be best achieved in these four stages:

- Select an alternative or set of alternatives.
- Project the financial impact of each alternative or set of alternatives; this step includes producing a balance sheet as well as profit and loss and cash flow statements.
- Enter the projected financial data in the ZETA™ Risk model to get a projected score.
- Evaluate the financial impact of each alternative on the company's ability to survive.

This process can be properly executed only with computerized planning models. Numerous planning models integrate possible actions of management with uncertain economic conditions to help assess how the company might fare in the future. A major advantage of computerizing such a model is that many courses of action and many possible economic conditions can be evaluated in a short time, which gives the decisionmaker a much better understanding of the inherent risks in each. Rapid and reasonable projections combined with sensitivity analysis can supply the necessary information to select the best option. A computerized

cash flow projection model is an excellent method of evaluating the effects of management alternatives.

"What Is My Strategy?"

The final turnaround plan may include strategies for:

- Accelerating cash flow.
- Consolidating product lines.
- Reducing inventory and accelerating inventory turns.
- Closing facilities.
- Reorganizing.
- Restructuring the capitalization.
- Liquidating assets, as well as reducing unproductive assets and speeding the profitable turnover of productive ones.
- Divesting subsidiaries.
- Merging with another firm.

Each company's problems, however, are unique. Each plan will be different. Investment bankers can help the firm to obtain special financing and restructure debt, divest subsidiaries, and, if necessary, find a compatible merger candidate. Whatever strategy is selected, it should improve cash flow and the company's projected ZETA™ Risk score, strengthen the firm's position in the industry, and enhance its long-term viability.

The company has addressed four of the five questions. It now has a strategy it must implement to survive.

"How Do I Implement?"

Since key management from marketing, production, finance, and research and development participated in addressing the SIC questions as part of the rescue team and identified one strategy to follow, those same people have the implementation mechanisms, namely people, systems, and structures, to achieve results. These executives should prepare an implementation plan showing time frames and results to be achieved under the CEO's direction. The CEO can direct and monitor the implementation process.

Retaining and motivating key management must surely be one of the major concerns of the CEO and the company's stakeholders. Peter T. Chingos, principal in charge of executive compensation for Peat Marwick's Northeast region believes that:

The retention of key management is critical for a company's survival during the implementation of a turnaround strategy. Often a company cannot afford to provide meaningful salaries and incentives. Instead, it offers capital accumulation opportunity that can provide the executive with substantial wealth if the company is turned around. This compensation method could be designed so that the plan does not result in a charge to earnings.

Two of the more widely accepted capital accumulation programs strategies for faltering companies are:

- Stock options that are granted either at the fair market value or at a discount.
- Restricted stock, which is an award of company stock based on future service.

Both long-term incentive approaches carry a general restriction that the executive must stay with the company for an agreed-on time.

Phase IV—Monitor Plan

The fourth major component of a rescue strategy is continuous monitoring and control of progress toward achieving the turnaround plan and the cash flow projections based on the plan. Here the rescue team

identifies the subcomponents of the plan and the cash flow that contributed to variances and it recommends solutions. The team integrates this review function with the computerized planning model, using the projected values from the planning model as the basis for judging the turnaround plan's results.

Conclusion

America is in transition. The restructuring of the U.S. economy—from an industrial economy to an information-intensive one—accelerated in the past three years, prompted by the five primary causes previously discussed. America's basic manufacturing industries will continue to contribute a declining fraction of GNP. Dislocation is inevitable.

Companies in basic manufacturing, their business advisers, and their bankers must work together to make the transition less painful for all sectors. The four-phased rescue system proposed here gives all three of these groups the strategies they need to turn failing companies around. The strategic information cycle gives them diagnostic questions and revealing answers to rescue their companies and then maintain their continued health. These tools and analyses, and others like them, are essential for economic resurgence in the mid-1980s.