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Understanding Corporate Lifecycle and Restructuring

Economist Kenneth Boulding once said that all organisms, be it social or economic, exhibit a "lifecycle" of birth, growth, decay and death[1].

Business organisations are often likened to living organisms and as time moves on, they change and evolve. And just like living organisms, a typical business lifecycle revolves around four stages: birth, growth, maturity, and decline.

Life cycle stages:

Between these different stages, businesses are likely to face challenges, and may have to make changes in leadership, management and thinking – or risk early decline[2] and perhaps, eventually, failure.

Many businesses finally choose to restructure when facing financial distress. The most common forms of restructuring are managerial, operational, asset or financial restructuring[3].

Managerial Restructuring - This form of restructuring includes changing top management, often the CEO and board of directors.

Operational Restructuring – This involves process changes to improve efficiency, reduce cost and overheads, as well as changing a business' culture and environment.

Asset Restructuring – Here, companies often divest businesses that are not core operations or unprofitable, allowing a firm to concentrate its portfolio on the main order of business.

Financial Restructuring - This takes place when changes are made to a firm's capital structure in terms of leverage[4]. Share issuances are another way in which distressed firms can generate funds to support operations.

Lifecycle

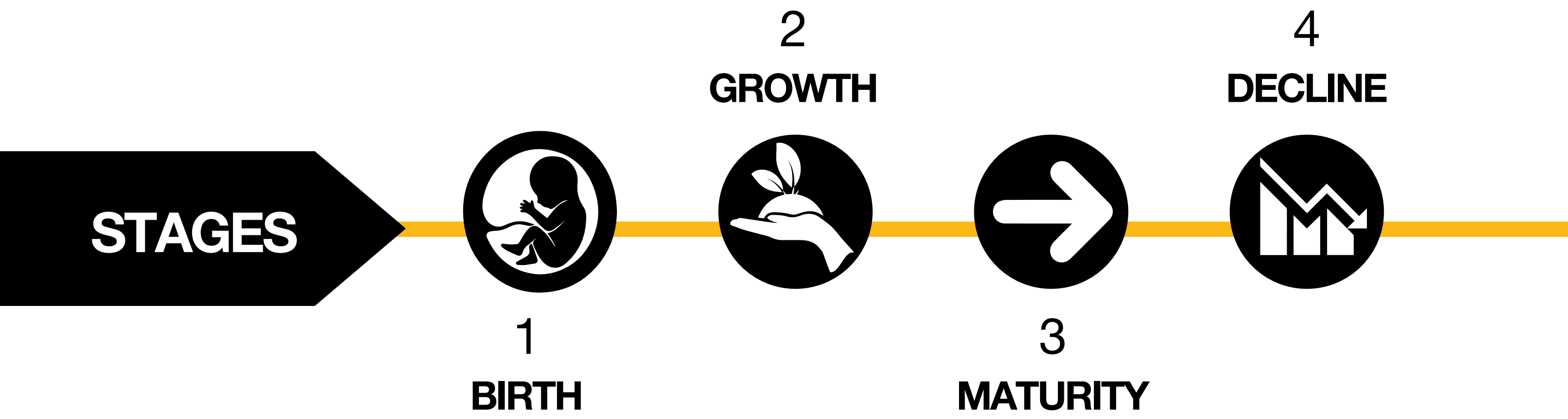
At each stage in a firm's life cycle, its ownership, management, organisation, business focus, organisation, assets, finances and more, differ greatly.

Tools that are available to a firm in the mature stage might not be available to one in birth stage. Methods that might be applicable to a firm in its birth may be irrelevant to one in its decline.

1. ***Boulding, Kenneth (1950).***
A Reconstruction of Economics. New York, USA: Wiley & Sons. P. 26-34
2. ***Mohapatra, Sanjay (2013).***
Business Process Re-engineering. USA: Springer
3. ***SzeKee Koh, Lele Dai and Millicent Chang (2015).***
"Financial Distress: Lifecycle and Corporate Restructuring". Journal of Corporate Finance, April 2015.
4. ***SzeKee Koh, Lele Dai and Millicent Chang (2015).***
"Financial Distress: Lifecycle and Corporate Restructuring". Journal of Corporate Finance, April 2015.

In fact, businesses do not necessarily progress in a linear way through the different lifecycle stages, as firms can skip stages or even "regress" back to an earlier stage[5].

5. Miller, D & Friesen, PH (1984), "A Longitudinal Study of the Corporate Life Cycle", Management Science, 30 (10), 1161-1183.



STAGE
STAGE 1: **BIRTH**

Firms in this stage are still small and founder/owner-managed with simple and informal structures. There is a strong focus on innovation to differentiate themselves against established competitors. At this stage, firms tend towards risk-taking to gain market share.

If businesses do face distress at this early stage, they are unlikely to undergo management restructuring as the founder-managers are more likely to make use of operational restructuring to reduce costs or improve processes and workplace efficiency.

STAGE 2 **MATURITY**

At this stage, firms concentrate on growth rather than profit. As a result, they may overextend themselves and end up with too much debt to finance capacity expansion. There is also the possibility that firms will lose sight of their core competencies by over-diversifying into sectors which they have limited experience.

Growth firms do make use of operational restructuring to resolve problems. Their growing size and financial capability would also enable them to engage in asset and financial restructuring.

By 2017, its 8th year of operation, Uber was a fast-growth firm operating in 600[6] cities globally. However, allegations of sexual harassment and unethical business practices sparked a customer exodus to competitors such as Lyft in 2017.

Under pressure from shareholders, customers and authorities, Uber underwent a sweeping management reorganisation. Founder Travis Kalanick resigned as CEO, executives implicated in various misconduct were fired and processes were put in place to ensure more oversight by a strengthened board of directors.

Former Expedia CEO Dara Khosrowshahi is now leading the company and its first ever Chief Diversity and Inclusion Officer, Bo Young Lee is making major inroads into changing Uber's corporate culture[7].

Firmly back on track under new leadership, Uber is expanding once again, having launched its new Uber Bike service and planning for a 2019 IPO.

6. ***Bhuiyan, J (2018), "Uber powered four billion rides in 2017. It wants to do more — and cheaper — in 2018."***
Retrieved from www.recode.net/2018/1/5/16854714/uber-four-billion-rides-coo-barney-harford-2018-cut-costs-customer-service
7. ***Booth, B (2018) "A year later, what Uber has done to revamp its troubled image."***
Retrieved from www.cnbc.com/2018/06/20/a-year-later-what-uber-has-done-to-revamp-its-troubled-image.html

STAGE 3: **MATURITY**

At the maturity stage, firms tend to be large with hierarchies based on specialisation and differentiation – and this inadvertently stifles innovation[8].

However, these formal structures are necessary to cope with the many needs of complex business operations. The main aim of mature businesses is the smooth functioning operations in a well-defined market.

As decision-making often no longer rests on the shoulders of the owners, restructuring often involves infusing new leadership to revitalise the company. Mature firms also can tap markets for capital needs or shed unprofitable businesses to concentrate on core products/services.

US' largest retailer Walmart saw itself losing business to online competitors such as Amazon in the last few years. In order to remain competitive, it began to restructure its business model to place more emphasis on e-Commerce.

Walmart reduced new store openings and bought online retailer Jet.com in a US$3 billion deal. By the end- 2017, Walmart's market share in the online US market came in at 4.3%, third behind Amazon and eBay[9].

*8. **Abraao Freires Junior, Karine Lima De Cravlho, Reinaldo Pacheco Da Costa (2009),***
"The Contribution of Organizational Life Cycle Theories for Management Accounting Research, POMS 20th Annual Conference, Florida, USA.
*9. **Cheng, A (2018)***
*"Walmart's E-commerce Tactics Against Amazon Look To Be Paying Off ." Retrieved from www.forbes.com/sites/ **andriacheng/2018/08/16/walmarts-ecom***

STAGE 4
DECLINE

A declining business is stagnant, with decision-making featuring a high level of conservatism and centralisation[10]. Common challenges include shrinking market share and fewer sales.

Businesses here tend to resort to operational and asset restructuring such as cutting prices, consolidating, or selling subsidiaries to remain afloat. These firms are forced to be risk-averse in their strategies as they cannot sustain potential losses.

The Mah Sing Group first started life in 1965 as a plastic trading company, transitioning to become a plastics manufacturer in 1982.

Despite being listed on the KLSE's 2nd Board in 1992, the company found that growth was slowing, margins were thinner and competition intensifying.
Group managing director Leong Hoy Kum decided that a new path was needed for the company and began to shift the company's core focus away from plastics into property. Eventually Mah Sing launched its first development in 1994.

Today, The Mah Sing Group is known as a leading property developer. They are a shining example of how a declining business can transition into a resounding success with the right leadership.

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