Breakup or evolution? Putting your company back on track

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Leadership often entails making difficult decisions, which can lead to dramatic changes in a company's ownership and/or management.

Unexpected sector-wide changes can test the abilities of even the best executives. A competent executive should, however, be able to gauge whether or not the company's ownership or governance structure must change as a result. And crucially, they mustn't be afraid to push for reform.

However, when faced with such a decision, many executives get caught up in a vicious circle involving owners and managers: to safeguard their own positions of power, the former refuse to adopt the necessary measures, while the latter fail to drive the required changes in the ownership structure.

The authors of this paper — with financial support from the international investment group 2iG and the law firm of B. Buigas — analyzed the decisions made by governing bodies and consultants during the restructuring processes of more than 50 companies from a range of sectors.

From the data obtained, two divergent paths for executing change in company ownership and management were identified: evolution or breakup.

Evolution

When a company is facing wide-ranging change in its sector or competitive positioning, its governance and management processes can evolve in three different directions.

- *Loss of value.* This occurs when a company fails to improve its worsening position, due to ineffective ownership and management. Those in charge either fail to act in time, or adopt inadequate strategies that fail to stem the tide. Managers who take their companies down this path tend to hide behind positive short-term results, a comfortable asset structure or their own fixed assets.
- *Perfecting the exercise of power.* In some — though sadly, far from all — companies, power resides in the hands of gifted, conscientious managers, who are able to consistently generate value. With such experts at the helm, the company is much more likely to implement the required changes to its power structure and strategy — if necessary, breaking the circle of ownership and power.
- *Progression in the exercise of power.* This is a path halfway between the previous two, where those involved are aware of the risks of the first path, but can't move forward at the pace required by the second. It implies a series of evolutions that not only maintain and increase value, but also contemplate the possibility of an eventual rupture with the circle of ownership and power.

Breakup

Breakup implies important changes in the ownership structure, with important ramifications for the company's entire power structure.

Drastic changes in ownership and/or management structures are needed if the company is failing to fulfill its social function, if there is a lack of unity and commitment or if governance becomes impossible. There are three possible types of rupture.

- *Synergetic breakup.* This leads to the incorporation of new management personnel better equipped to exercise power, not to mention possible synergies with other companies and institutions that can add value to the company's businesses.
- *Speculative breakup.* This is carried out by organizations specialized in restructuring companies, such as by reorganizing their resources or incorporating expert personnel. Often these organizations make influential decisions regarding the power structure and break with the speculative intention to sell the company to a third party.

- *Capricious breakup.* This occurs when management is dominated by people who, while hungry for power, lack the necessary skills to put it to good use, or who desire to get rich quick with no regard for the long-term consequences. Such managers take decisions that lead the company to start losing value, eventually culminating in its collapse.

In pursuit of rational decisions

In nearly all companies, power resides in the hands of those who hold the greatest share of capital and who, at least in theory, make decisions based on economic criteria.

In reality, though, the decision-making process is often plagued by information gaps and uncertainty, inadequate technical expertise or even conflicts of personal interest.

In order to make rational decisions, companies must combine formal decision-making power with the moral authority that comes from professional expertise. At times, this means replacing those figures who, while continuing to exercise power, have lost all authority.

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