Third Edition • January 2022

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA
(Established by Act of Parliament No.15 of 1965)

CORPORATE FINANCE MANAGEMENT FACULTY

Newsletter

TOPIC: CORPORATE RESTRUCTURING AND RISK MANAGEMENT IN POST COVID -19 ERA

Contents

IN THIS ISSUE

1.0. INTRODUCTION

We are witnessing the full effects of the pandemic which has triggered a crisis that is having a major impact on economic activity around the globe and is still unfolding, producing devastating consequences in the economy and its players. As result of this crisis, many businesses will need to restructure, both operationally and financially (Olivares-Caminal, 2020).

No other event in recent decades has had such a massive impact on the global economy as the Corona virus crisis (Harmannet al, 2020). Before the Covid-19 pandemic, Big Pharma had been easing out of the vaccine business for decades. By 2019, the major vaccine makers supplying America had dwindled to a handful of large companies—Merck, Sanofi, Pfizer, and Johnson & Johnson. Because vaccines are only used once or twice—as opposed to medicines that people take daily—they are not profitable. The scale of vaccination programs also invites class action litigation if something goes awry(Burleigh &Forbes,2021).

Business risk is the exposure a company or organization has to consider that will lower its profits or lead it to fail. Essentially any circumstances that inhibit a company from meeting its financial goals and business targets qualify as a business risk. (Deshmukh,2020). Traditionally, business risks emerge from internal or external sources and affect businesses directly or indirectly. Some risks are quantitative (such as financial risks); the rest are qualitative risks (those related to operations, compliance, technology, strategy and reputation).

Risk Management is a process in which risks are identified and controlled proactively. It allows businesses to improve their chances of success by minimizing threats and maximizing opportunities (Athuraliya, 2021).The best way to reduce the negative impact risks may have on your business is to incorporate risk management techniques into your business structure.

Businesses make money because they take risks; however, the risks undertaken by an organization must be proportionate to its complexity and type. Yet, it is misleading to think that we know and understand all risks around us. To believe that we can manage all of them is an illusion. In the current scenario, the best example is the outbreak of the COVID-19 pandemic (Deshmukh, 2020).
The Covid-19 pandemic halted most corporate operations and locked most of the world's population inside their homes for health and safety purposes. The juggling act of complying with new sanitation standards,government restrictions,supply and demand constraints have exposed firms' capacity to face the new business environment shaped by the health crisis. In this novel environment, mergers, acquisitions and corporate restructurings have become key considerations for companies looking to realign their strategic plans to better compete let alone survive (Kooli & Lockson, 2021).

Corporate Restructuring is an action taken by corporate entity to modify its capital structure or operations significantly. Generally, corporate restructuring happens when a corporate entity is experiencing significant problems and is in financial jeopardy. The process of corporate restructuring is considered very important to eliminate all the financial crisis and enhance the company's performance. The Management of the concerned corporate entity facing the financial crunch hires a financial and legal expert for advisory and assistance in the negotiation and the transaction. Usually, the concerned entity may look at debt financing, operations reduction, or a divestment of portions of the company to interested investors.Whether it is a multinational corporation or astartup, risks are unavoidable- it is a part of any new or routine endeavor.

2.0. Corporate Restructuring Strategies in Post Pandemic Recovery

1. Disrupted: Refresh, Rethink, Redesign

For an organization that has witnessed disruption whether due to the pandemic or some other business trend, the impact may be relatively fleeting, and revenue might be starting to recover. In this case, a company may want to refresh its go-to-market model, brand positioning, or other parts of its strategy. By being willing to rethink its business, leadership may find new ways to thrive amid shifts in customer behaviors, supply chain interruptions and changes in capital requirements or availability. Where impacts are lasting, there may be reasons to redesign specific business processes (Deloitte,2020).

2. Disadvantaged: Reset, Rebalance, Reconfigure

Some businesses may find they have been displaced by changes in the operating environment, with their ability to bring products or services to market threatened or interrupted by the pandemic. There may be a need to reset relationships, making big changes in the supply chain, for example, or developing new customer marketing efforts. It might be necessary to rebalance the company's financial and tax condition, strengthen the statement of financial position, or make better use of available capital.

A company may need to reconfigure its workforce, reducing the number of employees or dramatically changing the mix of job titles. Liquidity management, cost savings and margin improvement, restructuring and turnaround asset sales and managed exit as well as crisis management and communication are reasons to redesign specific business processes (Deloitte, 2020).

3. Distressed: Reconnect, Reconstruct, Restore

When a company find itself significantly distressed, in need of a turnaround, it becomes vital to reconnect with shareholders and debt holders, along with other stakeholders such as employees and, certainly, customers. A company in distress due to the pandemic, or because of longer-term trends or missteps, may now have to reconstruct itself, which includes making changes in capital structure. If successful, these steps should lead directly to a longer-term mandate to restore faith in the company and its purpose, with customers first and foremost, but ultimately with all stakeholders. Some companies may reach a level of strain that requires difficult issues to be addressed urgently, using the tools and proceedings that fit the narrow, textbook definition of restructuring. Even at this point, the focus should remain consistent and should be about finding, preserving, and enhancing the value of the resources and assets of the organization (Deloitte, 2020).

3.0. COVID-19: A New Business Risk Category

COVID-19 has emerged as an unusual business risk with nobody imagining the scale and intensity of its impact. It is affecting organizations directly and indirectly, qualitatively and quantitatively. The outfalls of the pandemic, such as lockdowns, remote working and misinformation, have qualitative and quantitative implications on businesses and industries. For instance, the lockdown period in certain countries resulted in furloughs and lay-offs.

The sudden call for remote working led to a large number ofemployees operating in unsecured environments. In turn, this has led to an unprecedented spike in cyber-attacks. Even as businesses reopen, employees will work in the new normal where social distancing is the norm. This factor will affect their efficiencies and productivity (Deshmukh, 2020) and compel businesses to rework their propositions to suit the new world order – this has provided an impetus towards digital transformation.

At the individual level, there is an increased focus on well-being and psychological welfare. The quarantine period has provided opportunities for knowledge management and up skilling. Once COVID-19 is over, many organizations will redefine their vision to suit the new world order. This will entail building teams with new capabilities, conduct themselves with a renewed sense of responsibility and embrace emerging risks in the new environment.

4.0. The Nuances of Risk Management

Risk Management is a structured manner in whichorganizations can protect themselves from downside risks. The discipline of Enterprise Risk Management (ERM) refers to an integrated and joined-up approach of managing risks across an organization and its extended network. It involves identifying hazards, assessing potential implications, developing and implementing responses for mitigation and establishing a risk monitoring process.

5.0. Five Ways to Improve Enterprise Risk Management Post-Pandemic

In thelight of the COVID-19 pandemic, how corporations approach Enterprise Risk Management requires a re-assessment (Bruce, 2020).The response to the global COVID-19 pandemic is directly shaping how corporations view and manage risk. These unprecedented times warrant a re-appraisal of how companies assess uncertainty.
Traditional Enterprise Risk Management (ERM) frameworks suffered from shortfalls before the response to the pandemic. The following five points highlight common deficiencies in ERM frameworks. The accompanying proposed actions are provided to address them, presenting opportunities to improve ERM approaches.

1. Time Horizon

Typical risk identification and assessment focuses on an annual time horizon, aligned with the corporate reporting calendar. This has led to a constrained appraisal of longer-term threats and opportunities and has hindered investment in resilience measures for some organizations.
Prior to the pandemic, this short-term thinking started to change with, for example, investors driving corporations to understand the potential impact of a changing climate to their business models. This emerging practice should become a standard even in the wake of covid-19 in order to ensure corporations focus not just on continuity measures, but on the fundamental sustainability of the business model(Bruce, 2020).

2. Reporting

ERM reporting has suffered from producing risk heat maps that provide little insight or value. While, risk reporting may assure the efficacy of control measures, ERM has often failed to provide insight on the relevance of "high impact, low likelihood" exposures such as the COVID-19 pandemic. Determining the extent of focus that should be spent on "low likelihood" exposures is difficult to achieve, but due consideration of risk exposures that are considered plausible but unlikely, should ultimately improve resilience if an event were to occur. To reduce vulnerability to shocks, organizations should:

- Report on risk trends (growing or decreasing in threat);
- Increase use of scenario analysis;
- Prioritize focus on contingency measures(Bruce, 2020).

3. Expert Judgment

There has been a reticence in ERM to rely on expert judgment as a form of risk assessment. The use of models and statistical techniques to measure risk has all but usurped any form of judgment, with a common view from risk managers that any form of qualitative assessment is redundant, subjective or erroneous.
Expert judgment of risk exposures should complement statistical modeling, particularly where historical loss experience and other data is insufficient to build reliable models. With sustainability as the primary goal of ERM, post-pandemic risk managers should view elicitation of expert judgment as a legitimate assessment of risk(Bruce, 2020).

4. Pragmatism

One of the factors that have contributed to ERM's lack of perceived value has been a shortfall in pragmatism. All too often risk frameworks are abundant with risk terminology and over- engineered or inflexible processes, leading to stymied engagement in ERM, with a consequential lack of considered input into the process of risk identification and assessment from a wider range of stakeholders.

Risk guidance, codes, standards, industry bodies and even regulators have not helped this lack of pragmatism, as they encourage practices that read well on paper, but lack commerciality in practice. For example, a risk appetite statement has many beneficial attributes, but rarely in practice has provided value.

Viewing risk management through a commercial lens should help to re-orient ERM as a valuable discipline to provide foresight and insight. A governance structure that has ERM reporting directly to strategy or finance should help in this regard (Bruce, 2020).

5. Risk Assessment

The impact of the pandemic is pervasive throughout an entire business' operations. ERM tends to focus more on "bottom-up" approaches — using risk control self-assessments — and less on "top- down" assessment. Building on the themes above, a shift to greater use of scenario analysis as an assessment technique will help corporations with the following:

- Focus on those events that matter;
- Engage expert judgment; Consider risk correlation and inter-dependency; and
- Help assess organizational resilience (Bruce, 2020).

6. CONCLUSION

As the need arises to gain a deeper understanding of the effect of COVID-19 on the future of the organization, the role of Risk Management will remain critical to the success of the organization. Risk Management will be required to ensure appropriate actions are taken to mitigate the impact of disruptions by developing and implementing enhanced risk management practices.

In practice, there has been a shift in the role of ERM, from a complementary service to a strategic business partner. However, there may still be a long way to go in some organizations. Hopefully, ERM will grab the opportunity that COVID-19 created to accelerate this shift (Loon,2020).For many, ERM has gradually moved to a state that resembles a negative feedback loop — focus on short-term; reliance on bottom-up controls assurance; abundant technical jargon; lack of commerciality; and reporting that is deficient in insight and value.

This has led to difficulty in embedding process and disengagement from the business, resulting in an ongoing decline in quality risk reporting. The measures outlined above should help corporations to place sustainability and value as the primary objectives of ERM.

A pragmatic process that elicits expert judgment, designed with a commercial mindset, and that directly supports finance and strategy will create value through insight and foster engagement. This will help organizations place ERM where it was always intentioned, to reduce uncertainty and volatility (Bruce, 2020).

Restructuring activities are grouped into three segments along a continuum. At one end are simpler measures that may be entertained by a company that has been disrupted, as indeed most companies are today due to the pandemic. In the middle are more aggressive steps appropriate for a business that has been more deeply disadvantaged by its current circumstances. At the far end of the spectrum, are measures for a company that's clearly distressed, including those in need of the reorganization tools that fit within any narrow definition of restructuring(Deloitte, 2020).

REFERENCES

Athuraliya,H(2021).The ultimate list of visual management techniques. Retrieved from https://creately.com/blog/diagrams/risk-management-techniques/

Bruce, W (2020). Five ways to improve enterprise risk management post-pandemic. Retrieved from https://www.willistowerswatson.com/en-US/insights/2020/05/5-ways-to-improve-enterprise-risk-management-post-pandemic

Burleigh and Forbes (2021).How the covid-19 vaccine injected billions into big Pharma-and made its executives very rich. Retrieved from https://www.forbes.com/sites/forbes/digitalcovers/2021/05/14/virus-book-excerpt-nina-burleigh-how-the-covid-19-vaccine-injected-billions-into-big-pharma-albert-bourtta-moncef-slaovi/?sh=3d513ccc7d80

Deloitte (2020).Corporate restructuring strategies in post pandemic recovery retrieved from https://www2.deloitte.com/US/en/pages/consulting/articles/corporate-restucturing-post-pandemic.html

Harmann, W, Haghani, S and Sievers, G.(2020).Covid-19 has hit the economy hard-The need for restructuring-explodes.html retrieved from https;//www.rolandberger.com/en/insights/publications/covid-19-has-hit-the-economy-hard-The-need-for-restructuring-explodes.html

Kooli, C and Lockson, M (2021).Impact of covid-19 on mergers, acquisitions and corporate restructuring retrieved from http://www.mdpi.com

Loon, B (2020).The ultimate list of visual management techniques retrieved from https://home.kpmg/nl/home/insights/2020/05/risk-management-during-the-covid-19 era.html

Olivares-Caminal, R(2021).Corporate restructuring in times of covid-19:Anew insolvency law assessment to facilitate corporate rescue retrieved from https://www.linked.com/pulse/corporate-restructuring-times-covid-19-new-insolvency-rodrigo?article=6727351885969272832

To join your preferred faculty, kindly make your request by mail to:

faculty@ican.org.ng and **contactcentre@ican.org.ng**

For more information, please contact the following:

Faculty Office Direct Line: +2349053847531

ICAN Contact centre phone numbers:
017100311, 016309354, 015200430

WhatsApp (chat only) : 07040327465

Email: faculty@ican.org.ng, contactcentre@ican.org.ng

Or visit ICAN Faculties Office:

The Institute of Chartered Accountants of Nigeria Annex Office, 82 Murtala Mohammed Way, Ebute-Metta, Lagos
www.ican-ngr.org

LinkedIn/ The Institute of Chartered Accountants of Nigeria
Facebook.com/ICAN1965
Instagram: ican_ng