
Corporate crisis management in Italy: execution, monitoring and performance analysis of recovery business and financial plans

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Abstract: This paper presents a thorough investigation of how corporate crises are managed in the Italian context. It offers an investigation of the legal, accounting, finance and managerial aspects that are involved in the formal resolution of the crisis. The paper adopts a qualitative methodology consisting in a critical review of both the academic and the practical literature to present a systematic overview of how recovery plans are executed, monitored and their performance analysed. The paper presents important insights for researchers, practitioners, entrepreneurs and managers interested in crisis management.

Keywords: crisis management; Italy; restructuring; turnaround; monitoring; finance.

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1 Crisis management and the protection of a company's value

Crisis situations can be defined as those in which companies lose one of the two fundamental equilibria in the business: the economic or the financial equilibrium.

The economic equilibrium is the ability to generate, in the medium-long term, a profitability for shareholders at least equal to the opportunity-cost of risk capital (*cost of equity*). Basically, this is the condition for creating value for shareholders. The investment made in the company increases in value when the expected returns are higher than those that could be obtained in alternative investments with the same degree of risk (fair remuneration). The economic equilibrium refers by definition to the medium-long term as it regards the firm's ability to produce fair remuneration (Rappaport, 1998; Morin and Jarrell, 2000; Botosan and Plumlee, 2002; Dallochio and Salvi, 2004; Tron, 2013).

A company is in financial equilibrium when it has all or some of the following characteristics: it controls in the short term the gap between monetary income and expenditure; it shows a financial structure consistent with the strategy followed; it highlights a dynamics of working capital in line with the evolution of turnover; it has a correct relationship between operating income and financial charges; it has a correct ratio between the economic value of assets and the value of liabilities; it has an optimal relationship between total cash flow and business development; it presents a financial structure that maximises the value of the company; it has an optimal corporate capital structure (Titman and Wessels, 1988; Leland, 1994; Bolton and Scharfstein, 1996; Stohs and Mauer, 1996; Johnson, 1997; Donaldson, 2000; Ozkan, 2000; Pavarani, 2006; Lemmon et al., 2008; Von Thadden et al., 2010; Rauh and Sufi, 2010; Tiscini, 2014).

According to the document "Principi di redazione dei piani di risanamento (*Principles for the preparation of recovery plans*)" (hereinafter *Principi*¹), the recovery plan is a document prepared by managers, with the support of specialised consultants, where strategic and operational actions (and the related economic and financial impacts) through which a company intends to defeat the crisis, are planned. The objective of a recovery plan is to restore the conditions of economic and financial equilibria (*Principi*, paragraph 1.2.1). Recovery plans are related to business recovery planning and business continuity planning (Phelps, 1986; Goh, 1996; Doughty, 2001; Botha and Von Solms, 2004; Cerullo and Cerullo, 2004; Alesi, 2008; Lindström et al., 2010; Sahebjamnia et al., 2015).

A recovery plan necessarily implies the existence of a current state of crisis in a company and the following willingness by the entrepreneur or managers to restore the physiological conditions of the business of a healthy company (Dubrovski, 2004). The state of crisis may be due to the worsening of economic results and to a future insolvency. The state of crisis can be diagnosed through appropriate economic and financial monitoring (*Principi*, paragraph 1.2.3).

Managers must assess not only the intensity degree and the progress of the crisis situation, but also the relationships that the company holds with the external stakeholders (Williams and Olaniran, 1998; Sweetser and Metzgar, 2007; Acquier et al., 2008; González-Herrero and Smith, 2008, 2010; McDonald et al., 2010). In fact, such relationships determine the residual degree of autonomy of the company in managing the crisis and the recovery process. Relationships with stakeholders are of fundamental importance because they influences the divergence or alignment between their interests and the interests of the company (Tiscini, 2014).

The crisis situation must be managed through specific recovery strategies. In order to prevent the company's crisis from causing failure, it is necessary to proceed strategically by changing the organisational structure, also innovating the strategic formulas and the planning and control phases (Guatri, 1995; Preble, 1997; Marra, 1998; Kash and Darling, 1998; Sapriel, 2003; Galeotti, 2008; Osadchy and Akhmetshin, 2015).

The company's decline is generally caused by a negative performance in terms of value. The crisis derives from this negative performance and deeply involves the company in all its complexity. The crisis is a process that causes the inability of current and future income cash flows to face the fulfilment of the obligations assumed (Goode, 2011; Galeotti and Garzella, 2013).

In order to be able to effectively managed a crisis situation, it is necessary to respect the conditions of *efficiency* and *equity*, thus avoiding the failure of the company (Franceschi and Tedeschi, 2014). Efficiency conditions are respected when it is possible to maintain the maximum between the operating value and the liquidation value, avoiding unnecessary value destruction, with a view to minimising the costs (both direct and indirect) of bankruptcy. Equity conditions occur when the principles of the *par condicio creditorum* and the *absolute priority rule* are respected. These principles impose the same treatment of all creditors, in compliance with the order of ownership of legitimate causes of preemption (*seniority*). The requirement of equity, therefore, concerns the definition of the correct mechanisms for the participation in the operating or liquidation value of the company (Milman, 1991; Wood, 2007).

The tools for managing business crisis must be able to guarantee: the right of creditors to obtain repayment of their credits; the interest of many stakeholders (especially employees); the interest of the community in relation to a correct allocation of resources used in the reorganisation of the company; the affordability of crisis management; the encouragement of virtuous behaviour (avoiding *moral hazard* phenomena); the elimination of companies whose recovery is not possible (Ambrosini and Tron, 2016).

As stated in *Principi*, the main purpose of the recovery plan is to bring together the consensus of the stakeholders (among which the lenders in particular) towards the reorganisation of the company. The recovery plan must be able to convince the stakeholders to join the project by risking, contributing with financial and operational resources, or by accepting the sacrifices (renunciation of credits, acceptance of deferrals,

partial loss of jobs, reconfiguration of the processes of procurement and sale, redefinition of the business model, etc.). The recovery plan is a guide for future actions, both for the management and for the stakeholders. It must allow all stakeholders to compare the expected outcomes with the results actually achieved, in order to grant any corrective actions and modifications to the recovery plan (*Principi*, paragraph 1.3.2).

2 Characteristics of a turnaround project

The planning for corporate restructuring, or turnaround, assumes the role of absolute pre-eminence in the management of business crises (O'Neill, 1986; Hoffman, 1989; Sudarsanam and Lai, 2001; Rasheed, 2005; Pearce and Robbins, 2008; Caputo and Tron, 2016).

According to *Principi*, once the causes of the business crisis have been diagnosed, the entrepreneur or managers must quickly define the guidelines for the recovery plan. The company's reorganisation plan must first of all illustrate the environment in which the company operates, the size of the company, the activity which is being carried out and its most typical and distinctive features (*Principi*, paragraph 5.2.1). This description is essential for crisis management and to obtain information on the level of the company dependence on the environment in which it operates.

The recovery plan must highlight the company salient facts from the recent past and the most remote ones, and the most relevant circumstances which led to the crisis. The survey must cover the technical, financial and human aspects, and must also be accompanied by an analysis of the performances particularly significant to understand the nature of the crisis in which the company is exposed (Caputo and Tron, 2016). Through the interpretation of the data, emerging from the aforementioned features, the managers and recipients of the recovery plan may draw preliminary conclusions regarding the causes of the crisis, first step for a crisis management (Müller, 1985; Pearson and Mitroff, 1993; Pearson and Clair, 1998; Pang et al., 2006; Booth, 2015). The survey must also highlight the past actions and remedies that have been implemented at the time of the crisis, assessing its effectiveness and timeliness. Once this examination has been completed, a conclusive part in which the various hypotheses based on the reconstruction actions that are expected to be implemented, including the execution time, the degree of feasibility and the presumable effects connected to them, must be formulated (Luzzana, 1986; Caputo and Tron, 2016).

The business plan, in line with *Principi*, must be drawn up taking into account the relaunch strategy that the managers intend to implement, the environmental conditions in which the company operates and the planned corporate restructuring operations, both internal and external. In fact, the recovery plan is a document that is aimed at both an internal and an external context (*Principi*, paragraph 1.3.3). This paper deals with the internal operations to be implemented for the resolution of the state of crisis.

Internal operations are all those activities designed to act on the company structure (e.g., staff reduction, rationalisation of management, etc.). Internal operations must produce effects on those areas that are considered inefficient, in order to guarantee a profitable future performance. As part of internal operations, the recovery plan must contain one or more alternatives to the main strategy. If the hypotheses on which the recovery plan is based do not occur, the plan must provide for alternative strategies. For

each alternative strategy, advantages and disadvantages must be highlighted, as well as costs and returns, based on a scenario planning (Chermack, 2005; Postma and Liebl, 2005). An alternative reconstruction project corresponds to each alternative recovery strategy. Among the various alternative projects, it is necessary to prepare a pessimistic project, a worst case scenario (Bozza et al., 2001). It is necessary to predict the economic-financial consequences of each recovery strategy. Most companies have a system able to calculate and simulate the economic and financial consequences of programs over a medium/long-term time horizon, showing revenues, costs and other prospective information, in some cases even informally (Anthony et al., 1999).

The economic and financial forecasts are characterised by an unavoidable uncertainty (Graham and Carmichael, 2012; Samonas, 2015). This uncertainty increases when forecasts are made in crisis situations. For this reason, the recovery plan must not be formulated on the basis of objectives that are difficult to reach and with a low probability of success. In fact, recovery plans should be based on the *best estimates* of each relevant variable.

Every forecast is intrinsically characterised by its own degree of risk of fulfilment. It is therefore appropriate that the assumptions and hypothesis underlying the formulation of the recovery plan are subjected to sensitivity analysis (Bhat, 2008; Brigham and Ehrhardt, 2008). Sensitivity analyses are the quantitative representations of the uncertainties to which the recovery plan is subject to. In *Principi* it is said that the *stress test* represents a particular case of sensitivity analysis, in which the “uncertainty factor” connected to the hypotheses is mainly considered according to a pessimistic connotation. The objective of the stress test is therefore to analyse the effects on the main economic and financial data of the recovery plan as the negative change in one or more of the assumptions considered to be critical (jointly and/or separately). This analysis makes it possible to verify the sustainability of the recovery plan and the keeping of the covenants, also in the light of scenarios that are worse than the base scenario (*Principi*, paragraph 9.3).

Together with the strategic and operational turnaround it must be planned: a) an investment policy; a working capital policy; a net financial position and its composition compatible with the target of the recovery financial plan.

The financial package included in the forecast plan shall guarantee the industrial actions planned to allow the re-balancing of the financial situation during the time horizon of the recovery financial plan.

The *action plan* and its continuous monitoring during the entire duration of the *turnaround* project represents an essential element for a correct implementation of the recovery plan (Caputo and Tron, 2016; Ambrosini and Tron, 2016).

3 Planning and execution of a recovery financial plan

A positive outcome of a recovery plan requires a careful planning of all the necessary interventions to overcome the crisis and identify the timing of each intervention. The time component is a constraint frequently underestimated by shareholders, administrators and managers when the company is facing a crisis situation (Ambrosini and Tron, 2016). The temporal aspect can be considered a real strategic constraint with respect to which the sustainability of the possible recovery strategies can be verified.

The macro-phases of the recovery plan can be outlined as follows:

- phase (1) strategy development;
- phase (2) negotiation with creditors of the restructuring proposal;
- phase (3) implementation of the recovery plan (*action plan*).

In the first phase, the anamnesis activities must be guided by the speed of execution, giving priority to the easiness rather than to the perfection of the solutions (“*fast is better than perfect*”) (Danovi and Quagli, 2010). Yet, at this stage, it is very important to closely monitor cash flow, rather essential under certain circumstances in order to face the first phase of consolidation without the help of new financial resources.

In the early stages of the recovery process, the communication of the reconstruction project is an important success factor (Williams and Olaniran, 1998; Sweetser and Metzgar, 2007; González-Herrero and Smith, 2008, 2010; McDonald et al., 2010). At the early stages of the process, communication will be mainly internal, such as a shared *tableau de bord*, or dashboard. The *tableau de bord* is a set of ad hoc measures linked together through a series of cause-effect relationships. Each measure expresses a certain stage of the process, so that the indicators can provide an overall picture of the general systemic functioning. It was created to provide, at different organisational levels, supporting information to achieve company objectives. The *tableau de bord* is a tool used in the context of advanced management control systems, which starts from the recognition of financial results, up to a more in-depth analysis of the physical, technical and operational causes of the deviations related to the results of each business process. It should not only concern economic-financial indicators, but must also allow the analysis of the efficiency of the company management and of the operating processes, the level of customer satisfaction comparing financial data with indices about the quality provided and perceived by the customer (Epstein and Manzoni, 1997, 1998; Wegmann, 2000; Bourguignon et al., 2004). The two main objectives of the dashboard are represented by: a) the control of the performance of the key variables (the so-called Key Performance Indicators) and of the key processes; b) a brief and complete reading of the deviations of the company results for the definition of corrective actions.

This internal communication will be aimed at acquiring the information to understand the company situation under different and relevant profiles (product life cycle, strategic positioning, analysis of company costs, closing and forecast of financial statements, financial position, tension situations with stakeholders and/or with particular categories). Afterwards, the communication will also be external, since it is necessary to obtain consensus from the stakeholders, communicating them the overall project of recovery. The external communication phase is very delicate, since failure to succeed involves, very often in this phase, the questioning of business continuity and the possibility of insolvency situations (Giacosa and Mazzoleni, 2011, 2012).

Further strategic elements for the success of a recovery plan are represented by the identification of the *governance* principles and by the persons selected to manage the *turnaround* process. There can be several solutions in this sense. Some scholars have pointed out that, in Italian companies, often occur the following possibilities: there are managers who are specialised in the management of *turnaround* processes or, otherwise, there is the direct management of the restructuring process by the business owner himself (Danovi and Quagli, 2010).

The following table summarises the strengths and weaknesses of the various *turnaround* process management solutions.

Table 1 The *turnaround* process. Comparison of management models

<i>Turnaround Manager</i>		<i>Entrepreneur</i>	
<i>Pro</i>	<i>Contra</i>	<i>Pro</i>	<i>Contra</i>
Experience in <i>turnaround</i> processes	Poor knowledge of the company actuality	Knowledge of the <i>business</i>	Not always objective in the choices regarding the reasons that determined the crisis
Discontinuity with respect to the previous management	More financial than industrial approach	Consolidated relationships with customers and suppliers and in general with stakeholders	Continuity with respect to the past
Carrier of new skills and culture	Possible carrier of internal conflicts	Strategic vision and industrial approach	Carrier of interests potentially opposed to those of creditors
Possibility of making objective choices	High cost	Union between decision-making power and resources available for the recovery plan	Poor knowledge of <i>turnaround</i> processes
Paid on the base of goals		Motivation to implement the recovery plan to protect economic and image interests	Centric decision-making and decisions based on emotionality

Source: Danovi and Quagli (2010)

It must be pointed out that a delicate aspect of the recovery financial plans is represented by their feasibility. According to *Principi*, recovery plans are achievable when they meet the following conditions (*Principi*, Chapter 5):

- they must be compatible with the characteristics and trends of the external environment (e.g. any growth in revenues must be consistent with the expected growth rates of the sector and with the competitive positioning of the company);
- they must be internally coherent, both from the point of view of the correlations among variables and the availability of resources (e.g. productivity improvements that are realistic and consistent with the technical returns of fixed assets and with the work rhythms of the staff);
- they must have a medium-normal degree of difficulty in their implementation, such that their realisation can be considered probable and, in any case, that their valuation is the *best estimate* of future events;
- they must be supported by concrete elements that demonstrate, even in the short term, an evolution consistent with the recovery plan (e.g. a binding commitment by a third-party lender if the recovery plan is based on the acquisition of new financial resources), and, in any case, the plan must lead to the resolution of the crisis over a maximum time horizon of 3–4 years.

4 Company organisation: a strategic resource in the recovery process

Organisational change is an important aspect related to recovery planning and turnaround process (Kanter, 1992; Armenakis and Fredenberger, 1997; Barker and Duhaime, 1997; Pearson and Clair, 1998; Carroll and Hatakenaka, 2001; Wang, 2008). After drawing up the recovery planning, the manager must establish which organisational structure is able to support and facilitate its implementation. The planned organisational structure must be able to ensure that the recovery plan is implemented in the most efficient and effective possible way, while at the same time recovering sustainable long-term competitive advantages that will allow the crisis to be overcome.

Since the organisational change may involve the insertion of new resources (human, material, financial, etc.), this should be highlighted in the recovery plan (*Principi*, paragraph 6.3.3). In particular, it is necessary to emphasise the consistency between the company resources that are expected to be introduced and the interventions that the reorganisation plan requires (*Principi*, paragraph 6.3.4).

Since the recovery plan implies the pursuit of a specific strategy, it is necessary to prepare an organisational structure to support the implementation of the strategy. The literature has largely focused on the strong links between strategies and structures (Chandler, 1962; Sloan, 1964; Cafferata, 2009; Paletta et al., 2016).

When designing a new organisational structure consistent with the strategies defined in the recovery plan, some questions must be inquired. These questions are useful to assess the operational feasibility of the recovery plan (Ambrosini et al., 2013):

- who will implement the recovery plan?
- with which professional skills and ability will this subject/team implement the recovery plan?
- what activities should be carried out to implement the recovery plan?
- which activities are crucial for the success of the crisis recovery?

The recovery plan, at least in the managers' intentions, is always "feasible" and suitable to restore the conditions of economic and financial equilibrium. As a matter of fact, however, many plans disregard expectations, even if the construction of the economic-financial *performance* indicators is based on the design of reasonable assumptions. One of the main causes of negative performances is that the recovery plan is not articulated with an adequate level of detail (Reina, 2003). Often, strategic, financial and organisational information does not reach sufficient levels of detail. Organisational information is often lacking, and this leads to negative performance in the implementation of recovery plans. It is not possible, in fact, to support the implementation of the actions foreseen in the recovery plan if it does not identify the operating procedures that allow, through a renewed organisational structure, to achieve the sequence of planned activities (Ambrosini and Tron, 2016).

The organisational element is therefore usually underestimated. Even if some industrial plans are complete, with regard to the planning of the new organisational structure, the phases of the organisational restructuring are often not synchronised with respect to the operational activities envisaged in the action plan. It should however be stressed that redesigning the organisational structure, especially in a recovery area, is a very complex activity that requires specific skills and a particular attention both at the

level of the “macro” organisational structure (roles, responsibilities, skills, processes, procedures, etc.) and on a “micro” cultural level (attitudes, behaviours, etc.).

The organisational redesign must focus on the main success factors that are, in turn, the basis of *change management* activities (Todnem, 2005; Graetz et al., 2006; Diefenbach, 2007). If the organisational changes determine significant interventions on the staffs and the number of employees, it is necessary to include information on the main business sectors and organisational units involved in the recovery plan. When the recovery plan involves reducing the workforce, the cost/benefit estimate must be provided. If, on the other hand, the recovery plan highlights the need to maintain and manage staff redundancies, it is necessary to face extraordinary costs and the relative timing (*Principi*, paragraph 6.3.4).

Interventions affecting the organisational structure must therefore be consistent with the industrial and financial strategy to ensure maximum support for the specific business actions envisaged in the recovery plan. The sequence of the various organisational interventions must also be synchronised to the *business* actions, according to the rules of prerequisites. The objective of the planned organisational structure will be to guarantee the sustainability over time of the performance forecast by the recovery plan, both in the *short* and in the *long term*.

5 Organisational recovery as an element of the *action plan*

The process of organisational recovery must follow three phases (Ambrosini and Tron, 2016):

- 1 the “assessment” phase;
- 2 the “design” phase;
- 3 the “implementation” phase.

The three phases must be managed by a multi-functional *team*, in order to adequately take into account all the sectors of the company involved in the redesign of the organisational structure. The team must be able to consider the results-objectives to be achieved at the business level, and on their basis to redesign the organisational structure.

In other words, organisational changes must be planned and have to be consistent with the changes envisaged for the *business model* of the company.

The process of organisational redesign must be managed by a *Chief Restructuring Officer* (CRO), i.e. a *manager/professional* who is responsible for the process of operational and financial restructuring of the company in crisis (Waisman and Lucas, 2008). The CRO embodies functions which range from liquidity management, to the implementation of the restructuring plan, to the selection and *training* of managerial figures that can strengthen the team. The *team* managed by the CRO must be set up and communicated in a formal manner to the entire company. The CRO takes on himself the responsibility of the management and implementation of the company’s operational, financial and organisational recovery process. The delegation of powers to the CRO, throughout the recovery phase, must be clear and well known within the company, and his hierarchical position must be of on of high *standing*. In particularly delicate and complex cases, this figure coincides with the role of General Manager or Chief Executive Officer of the company in crisis. The CRO represents the *change agent*, i.e. the catalyst

element of the set of processes subjected to complex and dynamic changes (Ford and Ford, 1995; Armenakis and Bedeian, 1999; Westover, 2010).

The key elements of a performing organisational model are apparently conceptual but in reality they have strong characteristics of concreteness and measurability. Concreteness and measurability are necessary since it is necessary to verify, as we proceed with the recovery, any possible deviations between planned objectives and actually achieved results. The analysis of the deviations is necessary to prepare adequate corrective actions during the implementation of the recovery project (Ambrosini and Tron, 2016).

There are some “macro” elements on the basis of which the organisational structure of the company must be redesigned. These elements are:

- *management* based on principles;
- *leadership*;
- involvement and authority;
- open communication;
- *focus* on *business* results;
- *focus* on the customer/consumer;
- regulation of organisational changes;
- learning-oriented environment;
- development of opportunities;
- transversal learning.

The organisational infrastructure must also be designed on the basis of “micro” elements in order to accurately and punctually calibrate the business interventions envisaged in the reorganisation plan. It is necessary, therefore, to compare the current business situation with the organisational structure that generated it (*analysis phase*), and then to identify all the strategic organisational steps necessary to achieve the expected business situation (*design phase*). The analysis phase (*assessment*) is perhaps the most critical because the causes of the crisis must be sought by evaluating systematically the different profiles of company management and identifying how much the crisis derives from an inadequate organisational structure. It will be necessary to conduct this diagnosis correctly as the assessment has to be as effective as possible and, above all, it has to be oriented towards the *actionability* of the recovery and business plan (Slatter and Lovett, 1999).

Once the assessment phase has been carried out, it will be necessary to proceed with the actual interventions aimed at the organisational change, which will have to follow the following steps (Ambrosini and Tron, 2016):

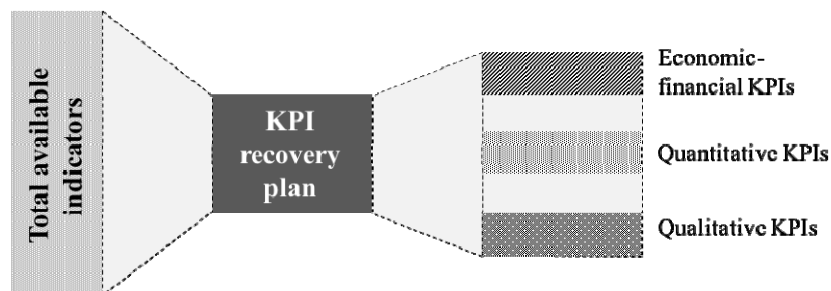
- to trace the causes that led to current results;
- to identify the problems/opportunities of the organisational design;
- to identify the operational strategy to carry out organisational change;
- to evaluate the operational strategy of organisational change.

Organisational change must be accompanied by a real cultural change (Bate, 1994; Schneider et al., 1996; Rashid et al., 2004; Alvesson and Sveningsson, 2016). In fact, cultural change is able to facilitate the implementation of the interventions envisaged in the recovery plan. In other words, cultural change must be functional to the realisation of all the activities forecast in the recovery process, which are fundamental for the expected performance (Tocquigny and Butcher, 2012). It is therefore necessary to provide:

- *sensitivity & stress* analysis: it provides simulations on the feasibility of the recovery plan based on the possible variability of the basic assumptions and, consequently, of the company performance;
- the *deployment* plan and the action plan focused on “*organisational leadership*”, which must be based on the careful matching between the “manager” and the “plan actions”, where the commitment allows a more controlled transition in the switch from strategy to concrete actions (Morgan et al., 2008).
- the *monitoring* plan, which provides for the preparation of the “*KPI scorecard*” (Key Performance Indicators), which allows the monitoring activities to be planned after the preparation of the recovery plan. The KPI scorecard allows to schedule the “*business reviews*”, during which the deviations are analysed and appropriate plans are formulated for the recovery of the eventual lost efficiency (*contingency*).

During each project phase, from the formulation to the implementation of the recovery plan, there must always be a reference to the relative operational KPI for each economic-financial KPI (with related organisational impacts). This identification will also facilitate the *deployment* and *monitoring* phases, allowing a simpler and direct allocation of resources in the restructured company organisation. KPIs can be both economic-financial and asset-type, as well as qualitative and quantitative indicators of different nature (Kaplan and Norton, 2001; Franceschini et al., 2007; Parmenter, 2015).

Figure 1 Individuation of KPIs



The whole process is characterised by a precise correlation of *underlying* fundamental operating variables and *derived performance* variables.

The correct execution of these phases determines the probability of success of the recovery plan, and the consequent achievement of the expected *performance* deriving from the execution of the plan itself.

The analysis of the deviations (so-called *delta-performance*), that should be carried out during the execution phase, between the *performance* envisaged in the recovery plan and the finalised one (*monitoring*), represents important occasion for evaluation and

improvement (*fine tuning*) of the operating parameters that govern the *performance*. In this way it is possible to develop the skills for the identification of the “basic” causes (of the *underperformance*) and of the relative contingency actions (and *back up*) to be performed.

6 Feasibility of the recovery financial plan as a result of a correct execution process (*deployment*)

In order to minimise the risk of a possible inadequate implementation of the reorganisation plan, the *Principi* provide for a specific *deployment* and *monitoring* phase to be described, together with the preparation of specific contingency plans in order to mitigate any unexpected unsatisfactory *under-performance*, which, in some cases, could undermine the success of the recovery operation (Paton and McCalman, 2008; Anderson and Anderson, 2010).

The feasibility of the recovery plan is the high probability that its correct implementation will record the expected performance.

Feasibility, therefore, is strictly related to an organisational redesign that is coherent, not only with a renewed strategic architecture, but also, and above all, with all the individual elements constituting the specific organisational structure (Child, 2005; Burton et al., 2006; Burton et al., 2011):

- skills;
- work;
- the organisational structure;
- decision-making and authority delegations;
- information and reporting system;
- performance-based remuneration system.

The organisational change required to successfully implement the reorganisation plan must therefore be well described within the recovery plan itself with an appropriate level of detail, representing the areas of specific assumptions of *accountability* of the actions defined to govern and manage the company (Reina, 2003; Lenahan, 2011).

Such detailed organisational analysis immediately allows the identification of the possible gap between the current situation that led to the crisis and the future situation envisaged in the recovery plan.

The approaches to cover this gap (technical training, management training, transfers and/or merging of functions, redefinition of responsibility and command strategies, etc.) must be included in the recovery plan and must, above all, be planned, on the basis of priorities and prerequisites, so that the new organisation is adequate to support the effective and efficient implementation of actions to support the recovery plan (Lewis, 2006; Slatter and Lovette, 1999; Butera, 2009; Trequattrini, 2004; Bianchi Martini, 2009; Foglio, 2011; Paletta et al., 2016).

Equally, therefore, to the economic gap analysis (which normally is articulated through the Key Performance Indicators of economic, financial and equity nature), it is necessary to structure the organisational gap analysis. In short, the *Action Plan*, which

expresses the ways in which the expected performance level will be achieved, is nothing but a system of representation of “Delta-KPI” (*Principi*, paragraph 8.8).

The Key Performance Indicators (KPI) subject to *deployment* and monitoring are usually the traditional parameters of economic, financial and equity nature (revenues, EBITDA, Cash Flow From Operations, Net Assets, Net Financial Position, etc.).

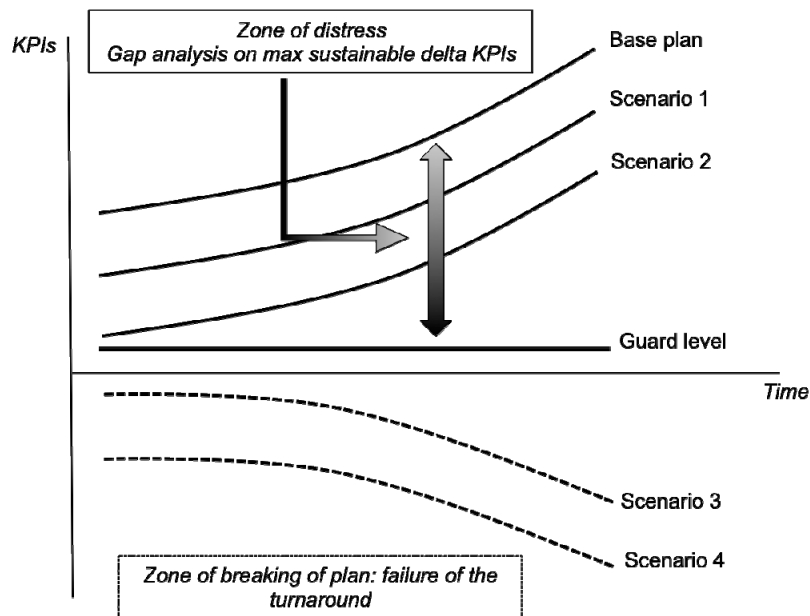
Based on the results of the sensitivity & stress analysis, it is also advisable to monitor the fundamental elements of the Circulating Capital (above all the inventory rotation and the collection times of the customers – DSO: *Days of Sales Outstanding*). In some cases, the KPIs have also a qualitative nature and are related to events well identified in the recovery plan, for example actions regarding organisational aspects (manager change, training, delegations of responsibility, etc.).

A *Delta-Performance* scheme of operational value, well-structured and segmented at the highest possible level of detail, can be used as an effective tool for the allocation of resources, thus ensuring the right *focus*, abilities and skills required for the inherent complexity level of the recovery plan.

In this regard, the *sensitivity* analysis of the “base” recovery plan will make it possible to predict, in addition to “breaking” scenarios of the recovery plan, also the “*delta-performance*” scenarios that will have to be subjected to a *deployment* control (Akao, 2004; Hino, 2006) and to a careful monitoring by the company management in order to guarantee the achievement of the objectives set out in the plan.

A graphical representation of the *Delta-Performance* scenarios analysis is shown in Figure 2.

Figure 2 *Sensitivity analysis e and determination of “delta performance” scenarios (Caputo and Tron, 2016)*



The figure described above identify both the line of the “Guard level” that the “default line”. Both must be constantly monitored and need appropriate deployment.

The *Deployment* consists of three critical moments (Ambrosini and Tron, 2016):

- 1 sharing with the entire company and the stakeholders the contents of the recovery plan;
- 2 assigning responsibilities in the action plans;
- 3 starting the preparation of critical KPI scorecards.

The assignment of responsibilities will start in concomitance with the launch of those operational changes needed to adequately support the taking charge of the plans by the appointed managers (training, reporting, organisational restructuring, etc.).

The time intervals characterising the start of a recovery plan are obviously limited and it will be highly unlikely to be able to plan all the actions with an appropriate chronological sequence. Therefore, during the start-up phase, the *Deployment* will have to serve an imperfect organisational structure which, in parallel, will be the object of a continuous re-engineering. This aspect, however, will not necessarily be a serious problem for the company *management*, if, during the drafting of the recovery plan, the *Delta-Organisation* has already been identified, analysed, redesigned and described with all the temporal references to build, as quickly as possible, the right business operating structure (Caputo and Tron, 2016).

The production of the *scorecards* related to critical KPIs, to be included in the recovery plan, is an equally important activity that, if well designed from the beginning and appropriately described in the plan, allows a broad measurability of the current and expected *performance*. In this way, it is possible to take note of the presence of a “control dashboard” that will allow the company *management* to have the opportunity to periodically check the correct achievement of the actions envisaged in the recovery plan (Kaplan and Norton, 1996; Lewis, 2006; Cerica, 2010).

The most important elements of the *scorecard* are two:

- 1 the correct definition of *targets*;
- 2 the correct definition of the measurement/reading frequency.

As far as the choice of targets is concerned, not only the values associated with the “base” plan but also those related to the safety thresholds identified in the *sensitivity* analyses should be taken into account. In particular, the adoption of two threshold values is recommended: the first one identifies the level of “*guard*” beyond which the *business* is at risk; the second one identifies the real level of “*break/default*”. The area between the guard value and the break/default value, i.e. the high stress zone, must be designed in line with the organisation’s capacity and speed of reaction. In other words, the *Delta-KPI*, in order to be restored in the range of the correct values, will require the execution of specific actions (so-called “*contingency*”) that the organisation will realise with a certain delay compared to the *Delta-KPI*, and this delay must not be higher than the “drift” time of the KPI towards the breaking/default threshold.

7 The *monitoring* of the recovery financial plan

The monitoring process must already be scheduled during the formulation of the recovery plan hypotheses. The same hypotheses on which the planned interventions are

based must be the object of the monitoring activity, during the implementation phase of the recovery plan (Caputo and Tron, 2016). The hypotheses (or “fundamental indicators”), once they have been formulated, during the planning phase, are always associated with the responsible managers, who are then appointed as *accountable* for those areas related to the hypotheses in question. Certainly, in every company dashboard (*KPI Scorecard*), the deviations of the economic-financial-equity indicators that represent the state of health of the company must be reported. However, the monitoring will allow a real “*basic root-cause analysis*” that will give more clarity on the reasons underlying the deviation of the *performance* values (Fiscal-Year-To-Date) from the values forecasted in the recovery plan.

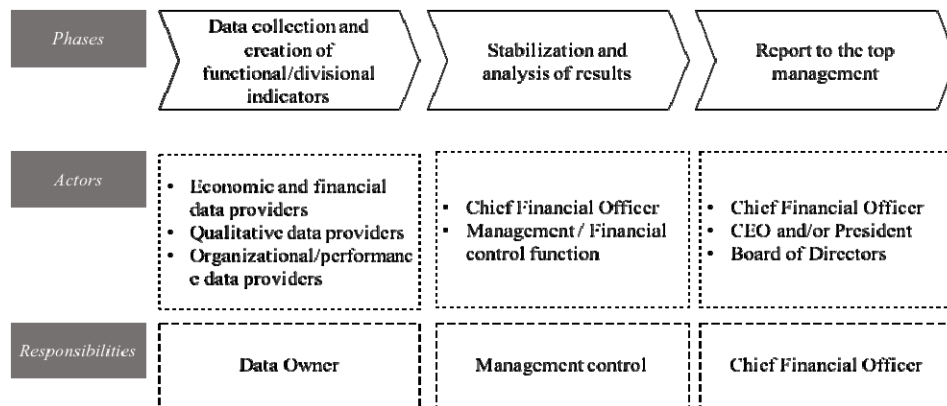
The basic steps for a reliable and effective monitoring process are the following (Ambrosini and Tron, 2016):

- defining, during the formulation of the recovery plan, the assumptions of the recovery plan and the relational algorithms for the correlation between these assumptions and the economic-financial-equity *performance* in a clear and precise manner;
- formulating the *sensitivity* analysis on the recovery plan’s assumptions and define the maximum variability that maintains the *performance* in the perimeter of business continuity. This variability/perimeter will then be used as a *landmark*, in the monitoring process, to increase the sensitivity in the management for the implementation of any corrective actions to avoid the entrance into the *default* perimeter;
- defining, during the formulation of the recovery plan, the accurate association between hypotheses; organisational managers, during the implementation of the recovery plan, will work to verify the variability of the performance as a consequence of the variability of the hypotheses;
- translating both the hypotheses and the performance indicators into operational terms for an efficient and concrete possibility of daily performance management. For example: instead of allocating a *target* of X M€ for stock/warehouse to the warehouse manager as part of a net working capital reduction action, the X M€ value is translated into the number of SKUs (Statistical Keeping Units, i.e. the number of references managed in the company), in number of rotation days or in a particular activation of *consignment goods policy* to be agreed with suppliers.
- institutionalising the *accountability* matrix, that is the association between the operational indicators (hypotheses) underlying the *performance* and organisational responsible, and the correlation of the sharing of the recovery plan leadership to the organisational levels to which this associative matrix refers to.
- institutionalise the monitoring process (*gap analysis*), keeping punctually and strictly the managers’ focus on the effects of the deviations of the operating indicators towards the deviations of the company’s *performance*.

The heart of the process for an effective *Monitoring* is represented by the institutionalisation of a cycle of periodic *business reviews* that must be incorporated into the previously illustrated *operational & corporate governance* process. These periodic *business reviews* will have a defined agenda focused on the identification of the

deviations of the operating parameters (underlying and related to the economic-financial *performance*) with respect to their objective value of the recovery plan for the *fiscal-year-to-date* reference period.

Figure 3 Monitoring framework



In order to facilitate the process of assigning responsibilities to the actions of the reorganisation and “contingency” plan in the event of significant deviations, it is recommended to use a table summarising the processes of “Deployment” and “Monitoring” through the KPI Scorecard, which represents the *performance* monitoring tool available to the company *leadership* and an analysis of the different performance scenarios of the recovery plan.

Once the reorganisation plan, in its basic assumptions and in the *sensitivity* analysis simulations, has expressed, with clarity and detail, all the actions that the company will have to pursue in order to achieve the objectives underlying the expected economic, financial and patrimonial *performance*, it is necessary to start the *Monitoring* phase.

Monitoring is a “never-ending process” that every company must have institutionalised to evaluate, with a certain frequency, the health status of the business (Akao, 2004; Lewis, 2006; Hino, 2006; Zanoni and Campedelli, 2007; Zanoni, 2009).

Principi are very clear on this point, stating that the monitoring activity will be facilitated if the recovery plan provides intermediate reference targets in relation to which the implementation of the recovery plan must be verified (*milestones*) (paragraph 9.1.6).

Monitoring is one of the most important processes of operational *governance* during the implementation of a recovery plan because the measurement of the current *performance* status towards the expected one is a mandatory condition to assess the execution of countermeasures in case of negative deviations.

Therefore, it is necessary to predispose a calendar (*business review plan*) in which the KPIs in question can be measured with a frequency aligned not only with the natural timing of occurrence (e.g.: number of orders, invoicing, delayed collection, payments, etc.), but also with the time of organisational reaction to prepare a *contingency* plan.

It is important to underline that in case of significant deviations it will be necessary to proceed with the drafting of a new recovery plan. Changes to the recovery plan can be considered substantial when:

- there is a discrepancy with respect to the contents and the provisions of the recovery plan, such as to affect the feasibility of the same and not allow compliance with the timing and methods of the process to overcome the crisis;
- the deviation cannot be absorbed by corrective actions and adjustment mechanisms, as they are not foreseen and/or not sufficient.

It should also be emphasised that a good monitoring process is not only a “mechanical occurrence” linked to the production of reporting (*scorecard*) and the analysis of deviations (*gap analysis*), but it is above all a cultural element because it implies, in the management of operational responsibilities, the *accountability*, which represents a real organisational engine, an expression of fundamental leadership for every successful company.

8 Conclusion

The present article has presented an investigation of the Italian system for managing corporate crises: in particular, the key aspects of the process of recovery planning have been analysed. The presence of a planned monitoring of the KPI's of *Delta-Performance* represents a distinctive element of a recovery plan's quality in which, since its creation, the critical elements have to be kept under control at intervals with different periodicities, in order to achieve the objective of restoring the economic, patrimonial and financial equilibrium of the company in crisis.

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Notes

- 1 "Principi di Redazione dei Piani di Risanamento" it is a document that has been developed for nearly two years by a group of about 40 academics, professionals and business consultants and that has been promoted and approved by ANDAF (*Associazione Nazionale Direttori Amministrativi e Finanziari* – National Association of Administrative and Financial Directors), AIDEA (*Accademia Italiana di Economia Aziendale* – Italian Academy of Business Administration), APRI (*Associazione Professionisti per il Risanamento d'Impresa* – Professional Association for Business Recovery), OCRI (*Osservatorio Crisi a Risanamento d'Impresa dell'Università di Bergamo* – University of Bergamo Business Recovery Crisis Observatory), AIAF (*Associazione Italiana Analisti Finanziari* – Italian Association of Financial Analysts), and CNDCEC (*Consiglio Nazionale Dottori Commercialisti e Esperti Contabili* – National Council of Chartered Accountants and Accounting Experts).