Restructuring with purpose: Leading through disruption to build long-term strength

The COVID-19 crisis will force many companies into some form of restructuring. Keeping a few purpose-focused principles in mind can help boards and leadership teams emerge with more agile, innovative, and resilient organizations.

No other crisis in living memory has revealed how interconnected and interdependent the world is than the COVID-19 pandemic. A key lesson for leaders has been the need to consider the dimension and duration of the impact of their decisions. In August 2019, Business Roundtable, representing CEOs of the largest companies in the United States, redefined corporate purpose to encompass all stakeholders.[1] Less than a year later, leaders everywhere have seen how truly reliant their organizations are on employees, contingent workers, supply chain partners, customers, communities, government, investors, and creditors.

At the same time, however, the urgency and magnitude of the crisis have made it hard for many leaders to step back and think about what's right for the business and all its stakeholders in the longer term. This is especially the case as more and more leaders—including those at the helm of well-run companies—are forced to undertake or at least consider a major restructuring. They and their teams may have little, if any, experience in doing so, having likely spent the past decade focused on issues such as digital transformation and growth—which puts further pressure on their ability to consider the wider picture. But decisions made in the heat of the moment, sometimes without the right expertise, could have long-lasting negative consequences.

1 Business Roundtable, "Business Roundtable redefines the purpose of a corporation to promote 'an economy that serves all Americans,'" August 19, 2019, businessroundtable.org.

To weather the storm, it's become more important than ever for boards and executives to think about what's best for the current and future stakeholder community—and what strategy and resources they will need in order to fulfill that responsibility. With this in mind, we offer a few guiding principles that can help leadership teams make decisions with better short- and long-term outcomes:

- **Mobilize purpose to lead change.** Having a strong purpose that aligns the entire organization and underpins all decisions allows the interests of all stakeholders to be considered, while enhancing performance, improving resilience, and fortifying the organization's culture.
- **Build leadership capabilities with purpose at the center.** Strengthening board and management expertise—while steadfastly preserving purpose, values, and culture—will increase agility without sacrificing long-term interests.
- **Employ purpose-led change communications.** Providing full and timely information will reduce fear and uncertainty during a restructure, while emphasizing how purpose will continue to anchor the organization will inspire creativity and initiative.

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Mobilize purpose to lead change

Steering a company through difficult times requires razor-sharp and dynamic operating and financial discipline. But a broader focus on issues that are impacting the world is also proving to be a winning formula. In the United States and Europe, companies with high environmental, social, and governance (ESG) scores have outperformed those with poor ESG scores since the S&P 500 peaked in February 2020.[2]

Companies committed to ESG typically have a strong, clear purpose that goes beyond commercial goals, using it to align their value proposition, strategy, business model, culture, and performance and to engage the entire ecosystem within which they operate. They understand the myriad needs of customers, employees, supply chain partners, and communities—and how they interrelate—which allows them to pivot more quickly to address those needs when circumstances change. Other recent research from Heidrick & Struggles also shows a strong correlation between purpose and perceived performance. We found that organizations where employees say there's a strong clarity of purpose are 2.1 times more likely to rate high on energizing leadership—and employees at these companies in turn rate their organization's performance two times higher than do employees at companies that score lower on energizing leadership.[3]

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Making decisions about the P&L, cash flow, and capital structure through the lens of a wider purpose also means that leaders—boards and executive teams—can consider what's important for all stakeholders and weigh both the long- and short-term trade-offs, even under the most pressing circumstances.

Companies widely recognized for being purpose-driven, such as Danone, IKEA, Patagonia, Unilever, and Walmart, have undoubtably been hit hard by the pandemic. But they understand that now is precisely the time to focus more, not less, on purpose. Danone, for example, saw a steep decline in sales of bottled water when bars and restaurants were forced to close—at the same time that it struggled to keep up with surging demand for dairy and other products that were being stockpiled by consumers.[4] But the company has kept its focus on sustainable value creation—guaranteeing wages until June 30, 2020; providing staff with extensive healthcare coverage and childcare services; giving bonuses to employees working on site; and offering €300 million in financial support to 15,000 small-business suppliers.[5]

2 Leslie P. Norton, "Sustainable companies are beating the market during the crisis. Will it last?," *Barron's*, March 26, 2020, barrons.com.

3 Alice Breeden, Becky Hogan, and TA Mitchell, "Bringing your organization up to speed," Heidrick & Struggles, September 12, 2019, heidrick.com.

4 Leila Abboud, "Culture war: How Danone kept making yogurt in the pandemic," *Financial Times*, April 27, 2020, ft.com.

5 Danone, "COVID-19 information," accessed May 20, 2020, danone.com.

Build leadership capabilities with purpose at the center

During a crisis, both boards and executive teams will need to be agile and possess specific skills to stabilize the organization and orient it toward future growth. However, these considerations should not outweigh longer-term goals and the organization's core purpose.

Consider augmenting the board with transformation-specific expertise while maintaining focus on shared values

Many directors don't have the skills and experience needed to turn around a company in a period of crisis. As they consult with a range of advisors and lenders on a variety of options, perhaps across multiple jurisdictions, it can be extremely challenging to decide on the best way forward.

Adding a new board member with deep restructuring experience—ideally acquired in a legal, consulting, or operational capacity—can provide valuable technical expertise, combined with an understanding of the wider context within which decisions must be made. In addition, it's worthwhile considering retired CFOs with cycle-tested restructuring expertise, who could provide valuable hands-on guidance to existing CFOs. Whatever his or her area of expertise, a new director must embrace what the organization stands for, keeping its best interests and those of its full range of stakeholders in mind.[6]

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Chairs should be particularly aware that adding a new board member in a fraught situation, and likely outside the prescribed nominating process, makes cultural fit a key consideration, too. New directors must be fiercely independent and willing to challenge their peers but also highly collegial and collaborative. A shared sense of purpose will greatly aid in achieving the desired board culture.[7]

Select a post-bankruptcy board with care

Although governments and central banks have moved quickly to support businesses during the crisis, many companies are being pushed toward US Chapter 11 bankruptcy, or the equivalent in other countries, and, with that, creditors have a number of key considerations as they take responsibility for building the board for the restructured business.

Unlike in prior crises, the power of nonfinancial stakeholders is now much more pronounced. So while strong financial and operating discipline will remain essential, even the most aggressive creditors are recognizing that they must consider the wider and longer-term impact of their decisions—and that the board plays a pivotal role in harnessing a common purpose and culture to restore long-term value.

This adds a critical dimension to the already daunting task of building a new board with the requisite technical and experiential criteria within weeks. Logistical complexities aside, there are number of attributes that directors should have, all of which are challenging to find. They must have well-rounded corporate experience and transformation acumen. They must be more hands-on than usual on a board; have an optimistic, future-focused mindset; be fiscally conservative; and have a heightened sense of responsibility to the new owners, who will have taken on considerable risk. The new board must also have a culture characterized by mutual respect, trust, and candor. Furthermore, all of these attributes must be aligned around a strong purpose serving all stakeholders.

Support executives in meeting immediate priorities and longer-term interests

Unlike the situation during the global financial crisis, many well-managed, well-governed companies have been among the hardest hit today, caught off guard by developments that no amount of planning could have fully prepared them for. Boards have a crucial role to play in providing the support that's needed. Indeed, in times of crisis, the most effective boards will be those that significantly step up their level of engagement with executives on day-to-day operations and that are willing to ask tough questions. Critically, they will also work to ensure that management decisions are consistently aligned with purpose and culture. The right level of communication and support can help leadership teams find innovative solutions that keep stakeholder interests at heart while pursuing fiscal discipline.

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6 Elisabetta Bartoloni and Shannon Bade, "Restructuring expertise: Bringing a new voice to the boardroom," Heidrick & Struggles, May 21, 2020, heidrick.com.

7 For more on key considerations for boards during this crisis, see Alice Breeden and Bonnie W. Gwin, "Boards and the COVID-19 crisis: Leading right now, preparing for the future," Heidrick & Struggles, April 13, 2020, heidrick.com.

Build executive teams with purpose in mind

As with boards, building executive teams during a restructuring requires a careful balance of retaining or adding the necessary leadership capabilities to lead the company through a turnaround and remaining loyal to the core purpose and culture of the organization.

Often, the right executive teams are already in place—but even the strongest are having to augment their capabilities in areas such as transformational leadership, cash management, and financial restructuring in order to meet unfamiliar challenges.[8] As new teams are formed to help stabilize the organization and look to future growth, they will accelerate results when they are led by the organization's central purpose and carefully consider how their choices will affect their full stakeholder community. Legacy executives can help ensure that values are maintained and work with newer teams to help them build that purpose-driven perspective as the company rebuilds.

CEOs, of course, are at the center of these new teams. In this context, CEOs must model purpose-driven decision making and provide a clear strategy that their organization can rally behind. Understanding the values and purpose that are driving the strategy can empower and inspire teams to mobilize around a central goal and make better-informed decisions more quickly. For example, when Starbucks announced in March that it was "pausing" seating in its cafes to allow for social distancing—one of the first major restaurant chains to announce such a drastic operational change—CEO Kevin Johnson explained: "As part of communities worldwide, we are navigating this crisis with nimbleness, learning, and adapting as new information is made available." His actions modeled Starbucks' value of "acting with courage, challenging the status quo" and brought clarity to a strategic decision that his teams could embrace.[9]

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Employ purpose-led change communications

Prolonged uncertainty about restructuring is detrimental to employees, and no more so than in a world already defined by uncertainty. It's a key risk to retention, with the most-qualified people often being the first to leave—shrinking the leadership pipeline just when strength is most needed. It's also a key driver of fear, loss of morale, and, ultimately, lack of engagement and productivity—at a time when creativity and agility are vital. Yet many boards and senior teams not only make organizational decisions too late but also communicate about them even more slowly.[10]

A clear and timely communications strategy, visibly led by the CEO and selected board members, ideally takes place on two levels. One answers questions about the restructuring process: why it's necessary, how long it will take, what path it will travel, when changes will happen, what the outcome will be, and whom to contact. The other humanizes the context within which the restructure is taking place, highlighting the small things that people in the organization are doing every day to deliver value and cope with change, which will help to inspire, motivate, and reduce anxiety. By providing smaller, more manageable projects and celebrating those incremental achievements, leaders can motivate teams and help them feel more in control. A deliberate and regular cadence of these messages is critical to ensure that communications are understandable to all stakeholders and they know when and where to find information.

Kodak filed for bankruptcy in 2012 and had been seeking a turnaround long before the pandemic. In April 2018, its chief marketing officer at the time, Steven Overman, explained that a balance of optimism and realism is vital. "To be part of a turnaround, you have to be really optimistic," he said. "Turnaround is not a sprint; it's a marathon, and it's a long marathon. It's generally at least a five-year journey until you start to really see the impact of what you're doing. And that means that for quite a long period of time, you're confronted with difficult news and challenge every day, and so it takes an enormous amount of optimism. Optimism is a strategy and a way of life, to see beyond what's immediately in front of you, and yet at the same time you have to confront what's immediately in front of you."[11]

8 For more of our insights on agile leadership, see Steven Krupp, "From blame to gain: Leading with agility in a crisis," Heidrick & Struggles, April 2, 2020, heidrick.com; and Lisa Baird, Steven Krupp, Amy Miller, and Mark Zorbas, "Agile HR: Leading talent through the COVID-19 crisis," Heidrick & Struggles, April 30, 2020, heidrick.com.

9 Rose Gailey, "Leading through the crisis by counting on purpose and values," Heidrick & Struggles, March 31, 2020, heidrick.com.

10 Andrew LeSueur, Krishnan Rajagopalan, and Sharon Sands, "Navigating top talent decisions for mergers and acquisitions," Heidrick & Struggles, August 20, 2019, heidrick.com.

11 Heidrick & Struggles, "Podcast episode 14: Lessons from the disrupted," April 2, 2018, heidrick.com.

Leaders who do best in helping their employees navigate a restructuring will find ways to emphasize how the new organization will remain aligned around its purpose and how its values and culture will continue to anchor decisions and behaviors throughout this period of change. This will give employees a clear idea of what they're working toward and a moral compass to guide initiatives and actions at a time when there is no precedent to follow.

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Restructuring will always involve difficult decisions for leaders, but in the current crisis, they are also having to make these decisions while the playbook is being rewritten. Boards and executive teams who are consistently guided by a strong purpose—and authentically and consistently communicate it throughout the organization—will find their choices easier and decisions able to be made more quickly, which will help to pull their organization out of the crisis faster while building long-term organizational vitality. As the pandemic increasingly reveals just how wide-ranging the consequences of our actions are, it has become clear that putting purpose at the core of business will help both companies and their stakeholders achieve greater resilience in the post-crisis world—whatever it may look like.

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