

# THE VALUE OF A STRATEGIC REVIEW:

## *Mapping a Course to Enhance Corporate Value*

Undergoing a comprehensive strategic review can provide great value to the board, management, and shareholders. The following case studies, analysis, and results of research by *Corporate Board Member* and Houlihan Lokey delve into the issues surrounding this critical governance responsibility. *by Deborah Scally*

In today's dynamic and increasingly complex corporate environment, it's critically important for boards of directors to step back and evaluate how well the company is meeting its strategic objectives. With all that is involved in operating and overseeing a corporation today, even well-meaning boards may find their company veering off course. Focusing too sharply on short-term goals, getting ensnared in internal conflict, or allowing the company to grow too fast or in too many directions are just a few examples of issues that can sidetrack a company from its stated objectives. Thus, even when problems may not

be visible, it is a good idea for the board to periodically step back and assess the bigger picture by undergoing a comprehensive strategic review. Doing so will give directors the intelligence they need to support management and make good decisions that lay the foundation for a sound strategic plan that provides long-term value for shareholders.

### **Evaluating the landscape**

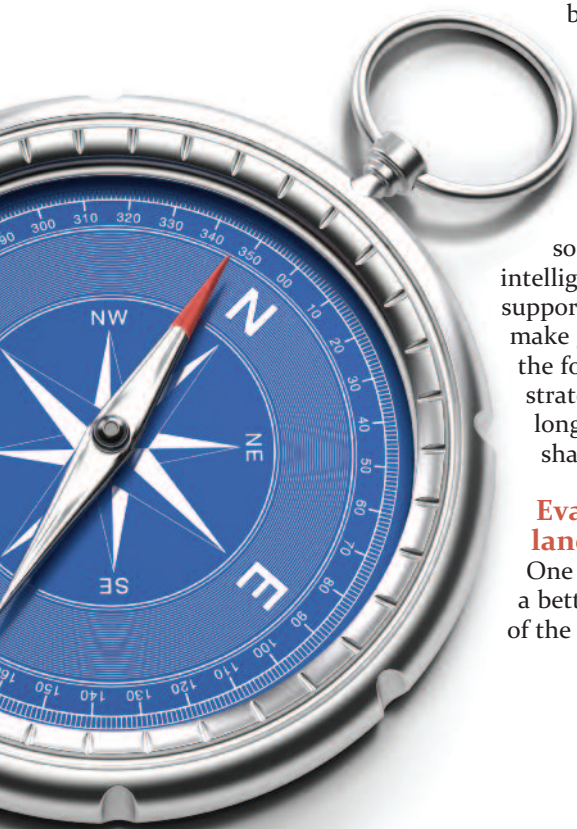
One of the best ways to gain a better understanding of the complete corporate

performance picture is for the board and management to participate in a comprehensive strategic review. This often-challenging yet rewarding process can be led and managed by persons inside the company or it can be facilitated by experienced third parties who are equipped to walk the company through the necessary steps along the way.

A recent study by *Corporate Board Member* magazine, in partnership with investment banking firm Houlihan Lokey, revealed that about a third of directors say their company has not had the need for a comprehensive strategic review. However, they are not foreclosing the option: The majority of those who have not yet taken that step (85%) say they are open to doing so in the future. For those who already undergo such a review on an annual basis, about 18% engage an adviser to assist in the process. Most who do so say the adviser assists mainly with mergers and acquisitions (65%), financial planning (56%), or to review options for the strategic use of excess cash (49%) (Figure 1).

About half of those who engage a third-party adviser report they do so simply because they routinely use strategic advisers to review the best options for shareholder value; another half did so because they were facing an important strategic decision and felt extra guidance was warranted. Again, decisions surrounding the company's M&A and competitive strategy rose to the top as the most important reasons to engage an adviser for the review (Figure 2).

Robert Hotz, senior managing director and co-chair of Houlihan Lokey, has overseen and served as consultant



on a number of strategic reviews and he says the issues that spur companies to undertake this process run the gamut. In some cases, performance may have become stagnant or there may not be a unified vision among the directors or management about the company's competitive strategy. Other times, the company may desire to expand its footprint, or it may want to broaden its products or services or acquire new product lines in order to gain market share, but it has no clear means or process for doing so. On the other end of the spectrum, a company's business lines may have multiplied beyond what is manageable—and profitable—and thus it needs to dispose of certain assets in order to concentrate on building a better, more profitable core. All of these situations call for the board to take a deep, meaningful look at its corporate objectives and relate those to its strategic plan.

"The most important reason for undertaking a periodic strategic review is to ensure that both the board of directors and management are aligned with respect to the key issues facing the company and its overall strategic direction," says Hotz.

Additionally, specific challenges related to financial planning often play a central role in the need for a strategic review. Capital management, liquidity planning,

and balance-sheet management are all critical functions that fall under the auspices of good corporate governance, but the board's regular review of these areas should be discussed within the context of the strategic plan.

For instance, cash-strapped companies that undergo a strategic review may identify product or service lines that are no longer adding revenue to the business. Thus, shedding those superfluous lines opens avenues for more efficient capital deployment. A strategic review can also help the board make decisions related to stock deployment, dividends, and the need for financial restructuring. The review's evaluation of the balance sheet may also uncover means of raising capital that are logical in the larger context of the corporate strategy.

Finally, while these examples are by no means exhaustive, a strategic review can help companies find solutions to operational challenges and ensure that the company is running as efficiently as possible, as well as to identify the human capital needed to fully realize the opportunities ahead. Taking the time to evaluate a company's processes, people, and policies can often mean the difference between a company that is producing tangible bottom-line results and one that appears to be running in place.

### The aid of advisers

While it is critical to have knowledgeable insiders—both executive management and the board—involved in this process, quite often, the objectivity of a third-party adviser can help a company debunk previous assumptions that may have led to performance challenges in the first place.

Advisers come in many stripes and can lend support in a variety of strategic areas. Investment bankers are well situated to guide the board and management toward an understanding of the company's financial options, including capital structure and planning, as well as to advise the company on potential transactions that will dovetail with the board's desired growth and expansion plans. Accounting firms, consulting firms, and attorneys also offer various services that provide specific corporate guidance.

Often, says Houlihan's Hotz, it's not only the expertise that is valuable but the new point of view the adviser has on the issues. "A fresh perspective from an objective and knowledgeable third party can be invaluable to both the board and management in reviewing alternative strategies," he says.

Thus, whether the board and management tackle the process from within, or whether an adviser is brought aboard to assist, once the company's management and board are armed with an understanding of the bigger strategic picture, all the gathered data is transformed into tools that will allow the directors and management to move the company in the desired direction.

#### FIGURE 1

Directors whose companies use a third-party adviser for strategic reviews typically engage them to assist with the following areas:

M&A and divestitures	65%
Financial	56%
Strategic use of excess cash	49%
Operations	47%
Financial restructuring	28%

#### FIGURE 2

Directors who rate the following reasons as important for having a review by an outside strategic adviser:

Guidance for an M&A strategy	51%
Review of the strategic and competitive landscape	36%
Review of the company's financial strategy/structure	35%
Advice on solving company liquidity problems	23%
Advice regarding corporate restructuring	22%
Operational review	20%

## CASE STUDIES

Understanding the value of a strategic review is best illustrated through real-life results. The following two case studies demonstrate how undertaking a comprehensive strategic review can provide positive performance results and help management and boards reach their long-term strategic goals.

### Standex: Seeing the forest behind the trees

As with any challenge, the first step toward progress is realizing there's a problem. To see how one recent strategic review played out, take the case of Standex International, based in Salem, New Hampshire. Standex, a microcap manufacturer of a variety of diversified products and services, has six distinct units, each with a specific product line, with few synergies among them. About three years ago, the board and management of Standex began to realize that the company's rapid growth and expansion had resulted in a strategy that was headed in too many directions to operate and manage in a meaningful way. Roger Fix, president and CEO of Standex, says his board understood it needed to get a handle on where the company was headed and, therefore, set in place a full-scale strategic review.

While the company had previously undergone top-down reviews in which executive managers led the charge and reported information about the units below them, Fix says that taking the opposite approach—a bottom-up review—allowed for a unique and more meaningful information exchange.

"The bottom-up approach helps employees all the way down the line think beyond the annual plan, moving their thoughts into a two- or three-year period," Fix explains. "It helps them think about what they have to do in year one and year two to get to the goal in year three."

Fix says there is also tremendous value for the board in such an exercise because a lot of information is generated that helps the board harken back to the long-range plan and provides a good foundation for future decision making.

"This process enriched and provided more detail to our directors about each business, in the context of a longer-range perspective, than they would ever otherwise see," he says. "With our board, we go through each of the business units, one by one. Our board is very interactive and the directors ask a lot of questions." Furthermore, each time they undertake the process, the results become richer and more useful. "We get a little better all the time," he notes. Having completed three strategic reviews in three years, Fix says he sees this process continuing because it's a process to which his board is dedicated. Moreover, he says, it just makes good sense. "Most of what we are doing here is just a good governance practice."

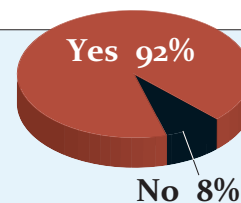
The scenario at Standex represents a situation in which a company has grown quickly, only to find itself somewhat overwhelmed by its own success. It's a lesson that proves that, in today's environment, where a company needs a strong core business that can withstand ups and downs and stay true to the corporate long-term strategy, it's critical to ensure the board and executive management can still see the forest for the trees.

### Synagro: Embracing a new strategic vision

Sometimes, more dramatic events spawn the need for the board to regroup and take a hard look at the company strategy. In January 2007, near the peak of the market, private equity investor The Carlyle Group purchased Houston-based Synagro in a \$772 million cash transaction that resulted in taking the former Nasdaq company private. The business fundamentals were solid, but growth had become stagnant, and Carlyle made it clear that new performance expectations would have to be met, recounts current Synagro president and CEO, Bill Massa.

**FIGURE 3**

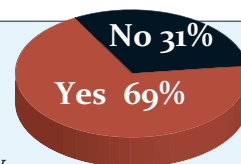
Is it appropriate for the board to move forward with a strategic review if it feels the review is warranted, even if management does not agree?



"The company was fundamentally strong and had a strong position in the market, but it was not meeting its potential," Massa explains, saying that management's previous approach was clearly too short term and reactive—rather than forward-thinking. The new sponsor quickly realized that the company lacked a defined strategy and soon identified that a different leadership approach was needed to drive the company forward. Explains Massa: "Carlyle said, 'We believe in the company, but the strategy has to start with the board.'" In late 2009, Massa was hired as the new CEO, and he immediately launched the strategic evaluation process that has since transformed the company. Massa describes laying the groundwork for a widespread

**FIGURE 4**

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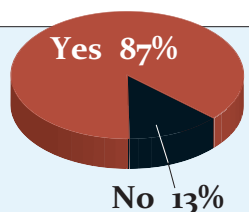
strategic review that was designed to involve every aspect of Synagro's business operations. In early 2010, he appointed a 20-person steering committee that, for the next 100 days, dedicated itself to identifying needs, challenges, and objectives throughout the organization.

Accomplishing this process, Massa concedes, takes some “deep soul searching.” After three to four months of work, about 15% of the company ending up touching some part of the plan design, which materialized into a 120-page document presented to the board. The culmination of the project involved a rollout to the entire company with much fanfare and even featured an open Q&A session, with Massa on the hot seat. “It was a big deal,” Massa says, but very well received.

While there is a printed version of the plan, Massa is quick to point out that the printed document is not the plan. Synagro’s strategic plan is more of a philosophy, though its structure and policies are clearly set out in the document. “It’s a strategy, and it’s going to evolve; it’s not going to sit on a shelf.”

## FIGURE 5

**Do you believe it is a director’s duty to push for a strategic review if the company is falling short of its performance expectations?**



The process has resulted in a philosophy that is much more proactive and opportunistic, but with an eye trained toward the horizon, Massa says. The bottom line for Synagro is that the company ended up with a fresh vision, new leadership, and a board and employee base that is much more cohesive with respect to the company’s common goals and objectives.

### Strategic planning: A governance mandate

When looking at companies like Standex and Synagro, it’s easy to understand the value they’ve gained from undergoing this admittedly involved and complex process.

“It is difficult to understand why a company’s management and board would not want to undertake strategic reviews on a periodic basis,” says Hotz, reiterating the value that the review can bring to the company. “It is hard to overstate the benefits of a fresh look at strategy and an agreement between management and the board as to the forward direction.”

Companies that have taken the time to painstakingly turn themselves inside out will admit that it’s not a painless process. And sometimes, the desire to do so is not unanimous.

There can be situations, for example, where a board feels strongly that it ought to move forward with a strategic review, but encounters resistance—or even refusal—from the CEO. In such a situation, 92% of directors surveyed for the *Corporate Board Member/Houlihan Lokey* survey agree that it’s appropriate for the board to move forward with such a review even if management does not agree (Figure 3).

Interestingly, when the tables are turned, a majority, though not as large, think that management has a similar prerogative. Sixty-nine percent of directors agree that it is appropriate for management to move forward with a strategic review if it feels the review is warranted, even if the board does not agree (Figure 4).

Finally, the survey asked directors whether they agreed it was a director’s duty to push for a strategic review when the company is falling short of performance expectations. Overwhelmingly, 87% of directors agreed (Figure 5).

The importance of taking such action from a governance standpoint cannot be underestimated, explains *Corporate Board Member* President and CEO, TK Kerstetter. “Corporate boards have three duties that form the foundation of an effective board: making sure you have the right CEO, monitoring risk for the long-term benefit of shareholder value, and ensuring that the company has a good strategic plan and direction,” he says. “If a board is not effective at performing any of these duties on its own, it shouldn’t hesitate to reach out to experts for assistance. These functions are too important.”

### Conclusion

In the end, the critical issue for directors is to ensure the company’s leaders—both at the management and board level—have a shared vision of corporate goals and a clear road map for achieving that vision. Moreover, taking the time to periodically review and update such a plan is just as important as establishing it in the first place. The company’s strategy must be a living, breathing philosophy grounded in good governance practices and supported by the board as well as management and employees, in order to assure the corporation’s future performance and to maximize shareholder value.



### HOULIHAN LOKEY

*Houlihan Lokey is an international investment bank with expertise in mergers and acquisitions, capital markets, financial restructuring, and valuation. The firm is ranked globally as the No. 1 restructuring advisor, the No. 1 M&A fairness opinion advisor over the past 10 years, and the No. 1 M&A adviser for U.S. transactions under \$3 billion, according to Thomson Reuters. Houlihan Lokey has 14 offices and more than 800 employees in the United States, Europe and Asia. The firm serves more than 1,000 clients each year, ranging from closely held companies to Global 500 corporations. For more information, visit [www.HL.com](http://www.HL.com).*