

Restructuring: Strategy, Execution, and Value Creation

Overview

Restructuring is a strategic process through which a company realigns its financial, operational, and organizational structure to improve performance, adjust the business with current economic, operational and business challenges and position itself for sustainable growth. It can be proactive (to drive efficiency and growth) or reactive (to stabilize during financial or operational stress).

When & Why Companies Restructure

Organizations typically initiate restructuring for a variety of strategic and financial reasons, including stabilize performance, improve efficiency, and create a stronger foundation for future growth.

- **Underperformance:** Persistent margin erosion, costs increase, or business units fail to meet expectations consistently
- **Market Changes:** Responding to shifts in customer demand, competition, or technological disruption or any major impact due to economic and business environment
- **Growth & Transformation:** Realigning operations to support expansion, digital transformation, or new business models and discontinue end-of-life products or technologies
- **Merger & Acquisitions:** Streamlining or consolidating operations, capture synergies and eliminating redundancies after mergers or acquisitions
- **Portfolio Optimization:** Divesting non-core assets or operations and focusing on high-value business
- **Financial Distress:** To manage liquidity and declining cash flows issues, reduce debt, covenant breaches, or avoid insolvency.

Types of Restructuring

Restructuring often involves multiple dimensions executed together:

- **Operational Restructuring:** Improving efficiency through cost reduction, process optimization, footprint rationalization (plants, offices, geographies), scalability or supply chain changes
- **Organizational Restructuring:** Realignment of leadership, workforce, and governance
- **Strategic Restructuring:** Business model transformation, exiting non-core or underperforming markets/business market, or entering new markets or business lines
- **Financial Restructuring:** Debt refinancing, recapitalization, liquidity management or covenant resets and amendments
- **Portfolio Restructuring:** Divestitures, carve-outs, spin-offs, strategic acquisition, or focus on core assets

Key Steps in a Restructuring Process

1. **Assessment & Diagnosis:** Identify root causes and performance gaps, evaluate financial health, and operational performance
2. **Strategy Development:** Define clear objectives, priorities and restructuring roadmap aligned with business goals
3. **Stakeholder Alignment:** Engage lenders, investors, board members, and leadership to build consensus
4. **Execution Planning:** Detailed action plan with timelines, roles, ownership, and accountability
5. **Implementation:** Execute financial, operational, and organizational changes and initiatives such as cost reduction, refinancing, or organizational changes
6. **Monitoring & Adjustment:** Track performance, progress, manage risks, and refine actions to ensure sustainable outcomes

Success Factors

Successful restructuring depends on disciplined execution and strong leadership:

- Early and decisive action with disciplined execution
- Clear strategic priorities
- Strong liquidity, working capital and cash flow management
- Stakeholder alignment and transparent communication
- Data-driven decision-making
- Robust governance and accountability
- Effective change management and talent retention

Value Proposition / Benefits

A well-executed restructuring delivers both short-term stabilization and long-term value:

- Sustainable cost structure and enhanced profitability
- Sharper strategic focus
- Increased operational agility and efficiency
- Improved liquidity and financial stability
- Restored investor, shareholder and lender confidence
- Stronger platform for growth and value creation
- Risk mitigation with reduced financial and operational vulnerabilities, strong control and governance

Accounting & Financial Reporting Considerations

Restructuring is not only an operational and strategic exercise—it has significant accounting, financial reporting, and audit implications. Proper treatment is critical to ensure transparency, compliance, and stakeholder confidence.

Key areas include:

- Recognition of Costs: Recorded when a formal plan is approved and obligations are incurred
- Accruals & Provisions: Must be probable, estimable, and supported by documentation
- Timing of Charges: Recognized in the appropriate reporting period
- Asset Impairments: Triggered by changes in business outlook or asset utilization
- Discontinued Operations: Applicable when exiting a significant business line
- Disclosures: Transparent communication of costs, timing, and progress
- Auditor Alignment: Early engagement to validate assumptions and treatment
- Internal Controls: Strong governance over estimates, approvals, and reporting

One-Time vs. Ongoing Costs

A critical element of restructuring is distinguishing between one-time (non-recurring) and ongoing (recurring) costs.

- One-time costs are directly related to restructuring actions and are not expected to continue once the initiative is complete (e.g., severance, exit costs, facility closure, lease termination cost, advisory fees related with restructuring, shut down or transition cost, assets impairments and write downs etc.)
- Ongoing costs are recurring expenses required to operate the business and not tied up to one-time restructuring event (e.g., salaries, rent, operating expenses, etc.)

This distinction is essential for:

- Accurate financial reporting (excluded from adjusted earnings to show true operating earnings)
- Evaluating true underlying performance
- Maintaining credibility with investors and auditors

Misclassification can distort earnings and lead to compliance risks or restatement

Common Grey Areas

Some costs fall into judgmental areas and require careful evaluation:

- Retention bonuses: One-time (if tied to restructuring), but must be clearly justified
- IT system upgrades: One-time if directly linked to restructuring; otherwise, ongoing
- Consulting fees: One-time if specific to restructuring program
- Temporary duplicate costs (“stranded costs”): Often transitional but must not be misclassified



- Classification of expenses: Including ongoing payroll or overhead in restructuring charges, continuing to label recurring costs as “one-time” across multiple periods, or over-accruing restructuring reserves to absorb future operating expenses

Best Practices

- Establish clear accounting policies defining one-time vs. ongoing costs
- Maintain detailed documentation linking each cost to restructuring actions
- Review classification periodically with finance and auditors
- Ensure consistent treatment across reporting periods
- Provide transparent disclosure of what is included in restructuring charges

Key Takeaway

Restructuring is not just a cost-cutting exercise—it is a comprehensive transformation of the business. When executed with discipline, transparency, and strategic clarity, it strengthens financial health, improves operational performance, and positions the organization for sustainable long-term success.