BOOK REVIEW: “INNOVATION IN FINANCIAL RESTRUCTURING: FOCUS ON SIGNALS, PROCESSES AND TOOLS”

by

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“Innovation in financial restructuring: Focus on signals, processes and tools” deals with a fundamental question in the ongoing financial restructuring debate. A debate that is fueled on a global scale after any economic or financial crisis. This book seeks to determine and analyze the operational actions and the different choices, issues, and alternatives related to the financial restructuring process, both theoretically and practically.

The economic stages during the life of a company can be characterized by crises and uncertainty of future perspectives, to the detriment of the ability to operate successfully in a competitive environment (Kang, Lee, & Na, 2010; Dallocchio et al., 2013; Koh, Durand, Dai, & Chang, 2015). Often economic, finance, and major health (e.g., COVID-19) crises lead to an organizational and financial restructuring aimed at saving the firm and its capacity of creating value. Faced with a crisis, the objective is to subject the composition of the company’s financial structure (debt/equity) to in-depth analysis in order to identify alternative modes of value creation (Tutino & Ranciaro, 2020; Demirgüç-Kunt, Martinez Peria, & Tresse, 2020). Properly managed financial leverage is a way to generate economic profitability in a company. Good management results in maintaining a level of debt within certain limits (Kraus & Litzenberger, 1973; Boubaker, 2007; Di Donato & Tiscini, 2009; Maia, 2018). In this context, one necessary step in any financial restructuring is to determine the debt capacity of the company (López Lubián, 2014). When a company is involved in a corporate restructuring after sending distress signals, it is important to determine the debt capacity of that company and the optimal capital structure the company should have. Having decided the amount of debt and the capital structure associated with financial restructuring, an additional important point is

to select the type of debt to be used (López Lubián, 2014).

The restructuring process could lead to a simple restructuring of the debtor's financial obligations in response to a change in economic conditions (Pawlina, 2010). It usually takes the form of rescheduling, a compromise, conversion of debt to equity, or a combination of all three. It should be distinguished from the turnaround, which consists in a pervasive reorganization of both debtor's financial obligations and operational processes (Paoloni, 2020). Any financial restructuring process is aimed at establishing a plan that enables accounts payable to be settled as quickly as possible without jeopardizing business continuity and the generation of positive free cash flow (Tutino & Ranciaro, 2020). According to the authors of this book, there are three main objectives for financial restructuring: a stable capital structure adequate to the enterprise value and cash-generating capacity, a structure that reflects stakeholders' interests, and a structure that restores the risk profile to the original credit available. When a company sends distress signals and struggles serving its debt, it will often consolidate and adjust the terms of the debt restructuring, creating a way to pay off bondholders.

The financial structure of the company must invariably be renegotiated to align it with the needs and capacity of the new business that arises (Pawlina, 2010; Rastogi & Mazumdar, 2017). A financial restructuring becomes necessary in companies where the balance of stakeholders' risks-rewards has been impacted. Financial restructuring plans differ from one company to another and from one context to another. They are restricted by legal frameworks of the jurisdiction of the head office of the firm. They ultimately seek to accommodate the different objectives of creditors while respecting the capacity of the debtor. This book emphasizes that the restructuring processes is a lengthy and demanding mechanism that enables an exchange of reliable information upon which a debtor and its creditors can then design a restructuring plan.

Restructuring a failing company means introducing changes that will make it viable and profitable once again and to implement changes so that it will generate enough free cash flow to cover the service of debt and satisfactorily remunerate shareholders (López Lubián, 2015). Financial restructuring could be either judicial or extrajudicial and, for either option, if it does not succeed, liquidation proceeds because of the restructuring process failure. Liquidation is a better choice than restructuring only if the company is worth more dead than alive. Beyond a simple change in the terms and conditions of the debt, restructuring involves a process of adjustments and improvements in terms of the company's strategy, its asset management, and its capital structure (Tutino & Ranciaro, 2020).

This book illustrates the organizational complexity that is created during the phase of strategic and operational alignment of the various stakeholders represents one of the critical points that should be paid attention to for effective and efficient management of the

entire process and its completion. Risk management is very important during the process of financial restructuring and its implementation. The decision of holding or folding the debt must be taken, according to a risk management strategy. A hold strategy implies acceptance of the risks and costs of retaining distressed debt, with a constant review of the process. The exit strategy/sell the debt, regulated by the terms of the facility agreement, should be taken care of in reviewing LMA standards for debt trading.

Dedicated to an analysis of a restructuring process case study in BTA Bank, the book's last chapter enables a better understanding of the reality and complexity of this process and the tools that can be used-leveraged by creditors and debtor. The Bank Case study illustrates how the process of financial restructuring should be actively managed, adjusted, and could lead to success at the end.

This book is an important contribution to the ongoing discussion on key questions relating to financial restructuring and is highly recommended for students, scholars, managers, and practitioners interested in processes and tools on new financial restructuring.

To deepen the analysis of this issue, future researches may study the financial restructuring in different contexts; which will make it possible to analyze the effect of the regulatory frameworks on the restructuring tools and the success factors of the latter. In addition, a study on a larger sample will make it possible to make comparisons and draw conclusions on good practices and recommendations.

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