

## IT'S BIGGER THAN INSOLVENCY

Mark Korda and Ben Pollack discuss the pros and cons of insolvency firms diversifying into restructuring and turnaround consulting.

On day one of the National Conference, ARITA CEO John Winter hosted a conversation between Mark Korda and Benjamin Pollack entitled: 'It's bigger than insolvency'. The session focussed on the opportunities and challenges of diversifying into restructuring and turnaround consulting.

In a free-flowing discussion Korda and Pollack consider the relative merits of specialisation and diversification, responding to market changes, overcoming the 'corporate undertaker' stigma, and finding purpose in your work. Here are some of the insights shared and issues raised.

### SPECIALISATION vs. DIVERSIFICATION

Given the cyclical nature of the insolvency market, one might imagine diversifying into restructuring and turnaround is a good way to smooth out the peaks and troughs of appointments. While he is in favour of diversification, Korda can also see the merits of specialisation. He related a conversation with a 'very senior investment banker' around the time KordaMentha was founded:

*He said, 'Mark, why don't you guys just be as good as you can and be at the top of the insolvency game, and when it gets quiet just take holidays?' ... He was essentially saying, 'be focused'. He's an investment banker and for a few years he didn't have much work on, but when they do well, they do really well. When you drop back, well, it's the market. You can't do much about it.*

*So I'd just be very good at what you do. That's one way of looking at it ... You might just want to do insolvencies, but do them really well.*

Both Korda and Pollack agreed that successfully negotiating the peaks and troughs can be more about experience in the industry than offering a wider range of services. Korda said:

*Having done this for a long time, you always know that this market goes up and it goes down. So we've dealt with most of the non-bank financial institutions, we've dealt with most of the managed investment schemes, and we've dealt with some of the large corporates that got into trouble because of M&A activity. It will always go up and come down, which makes it interesting.*

*You can always see it happening, and anybody that's been caught now with way too many staff or way too many partners only has bad management to thank.*

Pollack, too, is in favour of diversification, but warns of the risks of a firm moving too far away from its core specialisation:

*You've got to know your limits of your diversification and know how far you can stretch ... Look at all the businesses that you work with. How many fail or become distressed because they try and diversify too quickly away from their core specialty?*

Korda's response indicates he is well aware of the risks of diversification:

*If you asked me what keeps me awake at night I'd say, in the last four or five months we will have hired six partners that are not restructuring or insolvency, and we absolutely think it's the right thing to do, but boy, it keeps me awake at night still!*

### GIVE THE MARKET WHAT IT WANTS

Pollack believes that success in business comes from reading the market and taking advantage of shifting market dynamics:

*Being in the right spot at the right time is the key determinant of long-term success. And that's been proven across thousands of businesses, across multiple business cycles. It's more rewarding than market share, [and] it's more rewarding than portfolio mix.*

He said maintaining market relevance and evolving with the changing demands of the client base are two compelling factors which firms need to consider if they want to expand into restructuring and turnaround.

*For me the number one benefit is around relevance. I think it is a dynamic market, [and] change is the only constant ... There will always be an element of the insolvency and restructuring work, but I think we just need to look at where the market's going.*

Pollack said that as a first generation business PPB Advisory is imbued with an 'entrepreneurial spirit' which drives the firm to seek out fresh opportunities:

*There's this real energy and momentum within the business to not stand still, do something a little bit different and look what's out there ... I think it's inherent in [our] culture to be looking at where ... the opportunities are.*

He also acknowledged a culture shift in the insolvency profession in Australia, influenced by the U.S. legal model and financial markets, observing:

*I think in recent years you've started to see the big Australian banks and the major creditors showing preparedness to work with good businesses that are distressed.*

#### **THE 'CORPORATE UNDERTAKER' STIGMA**

One of the challenges for any firm that does insolvency appointments as well as restructuring consulting is the

negative connotations that can attach to a company that hires a 'corporate undertaker' to help them restructure. This can lead to serious consequences for the hiring company, including unflattering media attention, loss of market confidence and diminishing share value.

As a result, when seeking help, many struggling companies will reject perfectly capable restructuring and insolvency firms to avoid the corporate undertaker stigma. How can the profession deal with this challenge?

One solution used by KordaMentha is to have a suite of brands. So for example, if a company prefers not to appoint KordaMentha to review their business, they can appoint 333 Advisory, KordaMentha's sister brand. But Mark Korda warns it's not sufficient to just change the label, and recommends also tailoring a team to suit the client's unique situation.

But both Korda and Pollack agree that the corporate undertaker stigma is part and parcel of the restructuring and insolvency profession and firms need to accept it and get on with it. Korda said:

*There will always be a group of clients that may not use the KordaMentha brand ... So that's a piece of the market we can't play in – let's get on with life. The reason we get most of the work is for one reason and one reason only, and that is competency. So if you've got the competency you'll get most of the work. But there is a piece that we just have to accept that we're not going to get ... But boy, it's good getting all the rest though!*



John Winter, ARITA, and Mark Korda, KordaMentha

photo: Adam Hollingworth

Pollack suggested that the way firms are perceived can be influenced by how they position themselves and the messages they communicate to the marketplace. He cited the decreased usage of the word 'recovery' to describe the work of the profession as evidence of the change in the way the profession presents itself. He said:

*Look at [your] website as a small window into your organisation. How do you actually describe yourself? ... If you are looking to diversify you've got to think about the messages that you put out into the marketplace, how you position yourself with the media, and the types of things you comment on. Are you commenting on the insolvency statistics that ASIC put out every quarter? Is that really where you want to have your brand associated?*

#### AVOIDING CONFLICTS OF INTEREST

Managing conflicts of interest is a concern for firms considering expanding into restructuring and turnaround. Korda and Pollack agreed that being a 'niche player' or 'boutique firm' presents fewer conflicts than larger, broader-based firms have to deal with.

They also agreed it's important to consider the big picture and have a clear strategy from the outset. Pollack said:

*If you've got a clear strategy – you know where you want to be, you know the markets that you want to be in, the positions you want to take – that guides a lot of your decision making ... And scenario plan; there's multiple roles, there's multiple parties. The first one may not be the right one.*

#### ADVICE FOR SMALL-TO-MEDIUM FIRMS

What advice do Korda and Pollack have for small-to-medium firms who are considering adding restructuring and turnaround to their service mix? Both agree the way you position your firm in the market is critical.

*Pollack: You don't want to have the position as the corporate undertaker. You'd want to be someone who works with clients to improve performance and where possible turn things around. You have the ability to do it, both through formal and informal means.*

*Korda: I wouldn't put a big label on: 'I'm a restructuring and turnaround guy'. I would say, 'I can be your trusted business advisor and I'll help you get through this problem and you'll become a long term client.' Rather than 'I will make 50 grand out of the liquidation' sort of mentality. I think that would be very rewarding for the small-to-medium-size practitioners.*

#### PURPOSE CAN BE THE DRIVING FORCE

While not dismissing the attractiveness of increased profits, Korda suggests there's value in *looking inside* for your firm's purpose, as well as *looking outside* for opportunities to diversify. He cited a 'past doyen of the industry', David Crawford, as an exemplar of always focussing on maintaining a business rather than just recovering creditor value.

*At KordaMentha, we have a sense of it's the right thing to do to help a company through: 'It's the right thing to do a turnaround; it's right by the firm and it's right by me morally.' ... And we embed that thinking into our set of values ... If you can help businesses ... there's profitability in that, but there's also a great sense of purpose for your firm. ▲*



Ben Pollack, PPB Advisory

photo: Adam Hollingworth