

Beat: Business

One fatal step from riches to rags for flagship companies

Fatal step for flagship companies

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USPA NEWS - If anything, Covid has made fate more fickle for companies in the already-cutthroat world of business. In recent years, ill-fated businesses, previously deemed unsinkable, have shown how easy it was for a solid name to be wiped off the market. Behind these disasters, lies not only bad luck. Bankruptcies are fuelled, more often than not, by a string of managerial mistakes based on denial and market disorientation.

The tar babies

These bankruptcies are often the most scandalous and the noisiest in the media, because they contain an element of voluntary wrongdoing. Enron heads the list, after it hit the rocks following years of active stockholder misleading. Quite similar to a Ponzi scheme, in the sense that the fraud will flourish as long as markets rise, Enron had built an immense and intricate accounting network designed to hide numerous toxic assets inside daughter-companies, so as to keep them off the mother-house's books. Although the collapse, in 2000, left virtually everyone stunned, some analysts had correctly spotted signs of abnormalcy in the ever-lasting growth spurt. Fund manager Richard Grubman had asked, just days before the collapse of Enron, why "You're the only financial institution that can't come up with balance sheet or cash flow statement after earnings", causing a desperation-hiding fit of rage with Enron CEO Jeff Skilling. Indeed, Enron produced no financial statements in support of their claims of success, because it was unable to: the fraud had taken such massive proportions that even their advanced dissimulation techniques could no longer hide reality.

Added to the fact that too-good-to-be-true growth rates are, in the long run, inevitably suspicious, the refusal to produce official documents was a clear indication that something was amiss. In the end, it was one simple management decision, in the 1990s, to create a financial structure designed to hide losses, which caused the inferno, ten years later. Once this turn was taken, it was virtually impossible for management to exit this strategy otherwise than through bankruptcy.

The frog paradox

The old saying goes: "A frog dropped into hot water will leap out instantly. Dipped in cool water, with its temperature rising, it will let the gradual heat eventually kill it"^[1]. Likewise, many businesses which otherwise adequately reacted to sharp market shifts proved unable to adapt to slower trends. UK retail stores Debenhams are showing the world, and their unfortunate stockholders, what it means to lose the art, or lose touch. Once a thriving and modern venue, Debenhams stores are stuck in a rut with a sharp and unshakable drop in traffic. UK Guardian reporter Sarah Butler writes: "It is hardly surprising that no one is queuing for the department store's in-house fashion brands, some of which are linked to designers that few people under 40 will remember from the catwalk, and others that seem to have had a taste bypass.

After a bitter battle for control with Mike Ashley's Sports Direct group, Debenhams and its 25,000 UK staff are now in the hands of their lenders, including the US hedge funds Silver Point and Golden Tree, as well as Barclays and Bank of Ireland."^[2] Unable to embrace modern societal evolutions, Debenhams has persisted in "business as usual"^[3] and gradually lost touch with the most vibrant segments of its market. In the absence of strategy, a financial logic has taken over: investors are therefore operating severe cuts in the business, in the hopes to sell it for a dismal profit before it dies.

American company Kodak also virtually died from innovation lag and unresponsiveness to market evolutions. Consumers, naturally, have not ceased to take and use pictures: in fact, they're taking more pictures than ever before - but Kodak failed to stick to the market and its evolutions. Tech investment expert Poonkulali Thangavelu writes: "the company failed to keep up with many of the innovations brought by the digital age. As digital cameras became popular, reducing the need for its photographic film and cameras, Kodak ran into financial difficulties. The company ultimately filed for bankruptcy in 2012,¹ before reorganizing and emerging from Chapter 11 in 2013."^[4]

Bad omens

In the last gasps for air, companies will often display similar behavior: rapid changes in management, alongside frantic communication, assuring that all is well. The stillborn effort to reassure markets comes from the managerial overconfidence in their new strategy, their desire to reacquire public trust, and their inability to see that the inevitable has already happened. British banknote producer DeLaRue may well be the next example along those lines, after its apparent failure to adapt to the market's fundamental shifts. Cash is holding its ground facing the new payment technologies, but a drop has occurred nonetheless, which De La Rue seems unable to survive and to have been unable to prepare for. Additionally, the business of printing bills is investment- and tech-hungry, to design ever-more-secure designs, and it is unlikely De La Rue has the pockets to swing this type of investment anymore.

An emergency posting on the official website read: "De La Rue plc (De La Rue or the "Company") is today pleased to announce the appointments of Rt Hon Baroness Catherine Ashton and Margaret Rice-Jones as a Non-executive Directors of the Company. The appointments will take effect immediately." [?] This rapid nomination, which comes after several management reshuffles in recent years, is a classic sign of a company unable to surface, after years of lost momentum. In 2019, DeLaRue received its final blow when the UK entrusted a foreign company, and not UK-based DeLaRue, with the production of new UK passports. Management voiced their acute anger and pointed blame at the government, in yet another spell of oncoming doom. Acrimony towards large accounts is often considered by stockholders to be a swan song.

Let's face it: even with the best management, accidents will always happen, and companies dying are eventually a natural process. But these cases of "natural death" [?] are the exception, not the rule. In a majority of cases, businesses will let the temperature rise despite the obvious and ominous forebodings. Covid has changed little to this inescapable fate but will presumably accelerate downfalls. A really large reshuffle seems ahead.

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<https://www.uspa24.com/bericht-17857/one-fatal-step-from-riches-to-rags-for-flagship-companies.html>

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