

# ***PRESS RELEASE***

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**For Immediate Release**

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## **SMP Advises World Bank on Privatization — Teaches Turnaround Management Techniques to Russian Bankruptcy and Privatization Agency Officials in Moscow**

**Annapolis, Maryland — Moscow, Russia** — Strategic Management Partners is pleased to announce that it has entered into a contract with The World Bank [International Bank for Reconstruction and Development] to advise government officials and leaders of private enterprises on privatization, turnaround activities.

SMP has been key in developing a course presentation to introduce proven concepts and train turnaround and privatization professionals, government bankruptcy and privatization officials in the Russian Federation, Central Europe and China. The three day course stresses western turnaround techniques, application of turnaround management in the region, converting defense related businesses to peacetime economic enterprises, privatization management, signs of companies heading for trouble, cash flow enhancement, soliciting strategic alliance partners, raising investment capital, developing exit strategies and negotiating the sale of company transactions.

Strategic Management Partners, teamed with the Hiram L. Pettyjohn Co., Inc. to develop the course. John M. Collard, Chairman, Strategic Management Partners, Past Chairman of the Turnaround Management Association and a Certified Turnaround Professional (CTP) said, “the course is unique in that it brings the applicable and successful techniques of turnaround management, corporate renewal and equity investing to a part of the world that itself is undergoing transition. The whole country is a study in turnaround strategy.”

Collard went on to say, “problems in this part of the world are much different than we normally think of when we undertake to turnaround a troubled enterprise. Two dimensions are added that must be addressed. First, where does the turnaround manager come from? In the western world we teach professionals how to be managers and how to market. They gain experience in healthy companies before they become turnaround managers. In Russia, the ultimate demand economy for the last fifty years, managers have not had to use, nor have they been taught either skill [Marketing nor Management].” So where these managers will come from becomes a real dilemma. Teaching them now has become one answer, but the process will take time.

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“The second added dimension is the concept of valuation, which affects both the initial purchase or investment and resalability of the company. Value is assigned to fixed assets by using ‘liquidation’ or ‘net asset’ valuation concepts. In a demand economy with inflationary accounting [which writes up assets, sometimes to increase collateral for additional funding], values on the books are usually overstated. Most business people are well schooled in DCF and other methods of applying value. What most miss completely, however is the concept of ‘operating assets value’, [the ability of the company to produce profits and cash flow]. There is little application of the concept of producing value for what investors or buyers are willing to pay,” Collard said. While this will change as time passes, stock exchanges mature, and transactions become more prevalent in the region, until then negotiations will be difficult.

The first course was presented to 50 attendees in Moscow and is scheduled to be given eight more times throughout the Russian Federation and former Soviet Union [again in Moscow, St. Petersburg, Ekaterinburg, Russia; and Almaty, Kazakhstan; others as scheduled]. It will be expanded to Central Europe, China and perhaps other developing nations depending upon country interest, support and available funding. David Ellerman, Restructuring Specialist, Regulatory Reform and Private Enterprise Division, Economic Development Institute at The World Bank, said “this course is exactly what is needed in the Russian Federation and other developing countries that want change management to take them into the Global Economy. It brings a detailed understanding of turnaround management and equity investing techniques to managers that have not had to deal with these issues before. The instructor’s years of experience added a depth to this course, with real examples, that was key to help this sophisticated audience grasp these difficult and complex ideas.”

In a recent session before the Russian Bankruptcy Law Reform Delegation, John Collard presented [testified] and discussed the role of the turnaround manager and equity investor in North America and how these roles could apply within the Russian Federation. While the bankruptcy laws in Russia [although on the books and clearly written] seem to have no teeth and are rarely enforced there is a move to make them more useful. The delegation debated whether to pursue the former manager and hold them financially responsible for the failure. Collard said, “this focus comes from years of finding fault as part of the Communist way of life versus finding solutions to save companies and save jobs.” Interestingly, Vasily V. Vitryansky, Vice-Chairman, Supreme Arbitration Court of the Russian Federation, after this discussion agreed and said, “change which produces revitalization of our companies and saves jobs is needed to rebuild our economy. We must look beyond the ways of the past and bring about change in our way of thinking as well.”

Because the equity holders (often banks or government have major shares) are responsible for the debts, managers have little or no responsibility for their actions. They can do what they like, are often not held accountable and can not [or with much difficulty] be replaced. This is a tough situation in which to enter a turnaround, when a fundamental of our western strategy is to build (replace if required) a qualified responsible management team to carry out the transition.

In this part of the world normal living is complex and fraught with rules and regulations. People seem to invent ways to slow down the process. They all quote the 'Law' as the rest of the world refers to a higher being. Domination as a way of life has had a profound impact that will be hard and time consuming to overcome. Many are willing to talk about change, yet they indicate that they can only change if the law allows it so. Collard adds, "I call this 'managing the ways and the means,' or trying to influence the way that change will occur when they have not dealt with the concept of where that change can take them."

The common denominator in all cultures is to save jobs. There are many companies in this part of the world that *ARE* the city or village. If the company goes, so do the villagers. Turnarounds in this part of the world are different and difficult. The turnaround can only begin with a fundamental change in culture, a culture that normally ignores and is always skeptical of foreigners, rarely accepts advice without much convincing, and has little clue of what the value of outside services are worth. If the mode of operating has failed to produce positive results for years, then it must be changed in order to compete in a global economy. Because many donor programs are prevalent in the region advisors are sent in from many parts of the world, all at no cost to the recipient country. When the recipient doesn't have to pay for these services [irrespective of quality] they have little respect for the value received.

The privatization movement in many countries has been a dismantling of the entire infrastructure — radical change in the purist sense. What before was a complete dependence upon the prior or next company in the food-chain of products [the ultimate demand economy] is now lost and companies are desperately searching for the customer who might buy whatever they have to sell. They are very creative, and attempt to invent a product for the market, irrespective of the cost to price ratio [normally at a loss]. As long as the product creates [or so they believe] work for the workers they have accomplished their goal. They miss entirely the concept that the goal should be to produce a product that will compete, generate profits and cash, which in turn will drive the factory and create new jobs. The change to a free-market economy will take generations. This is a challenge, an opportunity for wealth, and an education.

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End of Original Release. But, there is More à

## Turnaround Management Becomes Profession in Russia

Strategic Management Partners, an international turnaround specialist and equity capital investing advisory firm based in Annapolis, Maryland, has recently learned that their efforts have been a catalyst to establishing the Turnaround Management profession in Russia. Under contract with World Bank we developed a *'train the trainers'* course to teach turnaround management and equity capital investing techniques to Bankruptcy and Privatization Agency officials, and business leaders in Russia.

One measure of success; Boris Yeltsin has declared that *'Anti-Crisis Management'* [similar to U.S. Turnaround Management] is now a profession which requires certification to practice this professional activity. A course to train and certify these managers, based in part upon our original materials, is being delivered by Russians at Moscow State University for Economics, Statistics, and Informatics [recently renamed in conjunction with establishing the profession]; and at 24 regional centers across country. The whole six day course includes techniques of turnaround management and investing, valuation principals and methods, and Russian bankruptcy regulations.

John M. Collard, Chairman of SMP said, "the World Bank's [International Bank of Reconstruction and Development] effort to deliver infrastructure to help these developing nations help themselves, is in this case a success, and we are proud to be a part of it."

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