

VIEWPOINT

A New Paradigm For Managing Communications In A Turnaround

By David Silver, APR



David Silver

In the wake of the Wall Street scandals that have caused public companies to file for Chapter 11 and restructure fundamentals by getting rid of bad assets, dysfunctional executives and enormous debts to make the company financially whole again, a new paradigm has arisen that will help distressed companies communicate to the bondholders, employees and vendors before, during and after a bankruptcy: The IR-PR Nexus.

The IR-PR Nexus integrates key communications functions on Wall Street and helps create transparency for public companies by converging investor relations and financial public relations. The investor relations executive ensures that a client's publicly traded securities are fully valued relative to a company's earnings growth prospects, and the financial public relations executive works with the business media to position clients, their services, products and executives in order to create a favorable identity in the media and the court of public opinion.

When handling the bankruptcy filings of distressed public companies, there are times when turnaround professionals shouldn't communicate restructuring particulars until the issues are worked out in court. But for the most part, messages should be communicated before, during and after the bankruptcy.

Before filing for bankruptcy, which can be an arduous process, the investor relations component of this paradigm is very important because the media and analysts covering the company, shareholders and institutional investors need to be kept informed of changes at the company. But once a public company files for bankruptcy and during the restructuring period, the public relations function becomes a strong component in a company's communications to bondholders, vendors and employees who must know the status of the restructured company on a daily basis. Questions to be answered are: Is the company coming back stronger? Could it go public again in the distant future?

How the company handles the public messages is crucial in creating a positive image for its target audiences in trying to create a new beginning and not a tragic and forgotten death for the distressed company.

Public relations plays a crucial role in this segment of the distressed company's restructuring because the public relations professional works together with the bondholders to make sure that the company's messages are on target to the employees, vendors and the Street. In the restructured company, shareholders probably will get close to nothing, but bondholders will be secure and creditors may get very little or a lot, all based upon the issues resolved in bankruptcy court. Public relations professionals must understand how to work with the attorneys who are involved in these distressed situations and actually help manage the process with all of these audiences.

Declaring Chapter 11 bankruptcy is, in fact, the end of a public company, but it is also a new beginning with many competing interests, including those of vendor creditors, employees and bondholders. All these dealings take place in the public eye, which may be the biggest hurdle to overcome. If the company is well known in

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One of a series of opinion columns by bankruptcy industry participants.

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the investment community, there will be an avalanche of media inquiries the bankruptcy filing is sure to provoke. Working with the bondholders and lawyers, the public relations professionals must make sure that the news strategy doesn't invoke the "we-are-going-out-of-business" scenario.

The media must be managed in this process as well as possible. In these complex legal situations, many reporters and producers don't really understand the financial numbers they must be able to communicate to their reading audience. Many times public relations professionals are also at a disadvantage in not understanding the concept of accounting and bankruptcy issues, making the communications with the media even more complicated.

In these situations, educated public relations and investor relations professionals form the paradigm with classes in accounting, finance and economics, which will allow the professional to communicate correct information on the financial health of a company in bankruptcy along with some machinations on the basics of bankruptcy. The professional should become the public face of a distressed company, not the investment bankers or the lawyers trying to work out the deal, during this phase of the restructuring.

The financially educated public relations executive is now well respected in corporate circles and also in the legal arena. In a groundbreaking ruling in a federal court in New York in 2003, a judge ruled that legal advice that is intended to shape public opinion and is part of discussions among lawyers, public relations executives and individuals under investigation is now protected under attorney-client privilege. This specialty by public relations professionals is fast becoming a sought-after benefit for law firms and in-house lawyers at investment banks working on these deals.

After the company emerges from bankruptcy, new expectations greet the newly born business entity. This is where the investor relations part of the paradigm could re-emerge if the company is contemplating going public again in a year or two. The financial public relations executive is busy formulating strategies on how to help the company gain back a good reputation with its target audiences because a company's reputation is its No. 1 asset.

The IR-PR Nexus paradigm is crucial in helping distressed public companies communicate to its public before, during and after a restructuring or bankruptcy. The successful companies that emerge from bankruptcy using this new paradigm will be able to deal with bondholders, vendors, investment banks, attorneys, creditors and employees in a credible manner. Managing in a turnaround using the IR-PR Nexus keeps a company transparent as it seeks to rejoin corporate America and regain its financial bearings.

(Opinions expressed are those of the author or authors, not of Dow Jones Newsletters.)

David Silver, APR, is president of Silver Public Relations, a financial public relations and investor relations firm based in Los Angeles. His firm provides strategic public relations and investor relations counseling and advice for Wall Street companies in distressed situations or in bankruptcy. He is the author of the book chapter "The IR-PR Nexus" in the Bloomberg Press book, "The New Investor Relations: Expert Perspectives on the State of the Art." He can be reached at info@silverpr.com