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Financial distress and corporate restructuring: a case study

Estrés financiero y reestructuración corporativa: un estudio de caso

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ABSTRACT

This article analyses the turnaround strategies that can help a company to recover from a situation of financial distress. This study presents an innovative dynamic approach that follows the financial distress lifecycle from its beginning to its resolution while focusing on the Spanish context, which differs from the Anglo-Saxon context traditionally considered in previous studies. The methodology of the case study is employed in order to explore, on an in-depth basis, the features of the resolution of financial distress situations. To this end, the single case of a large Spanish listed company is examined over the period of 2008 to 2017. Our case study shows that the company undertook a wide range of restructuring strategies at a private level that are usually applied by distressed firms. However, for a long time, the company largely focused on debt restructuring. This lengthening of the restructuring process coupled with a weak recovery suggests a system for solving the situations of corporate financial distress that is not agile and that may also be relatively inefficient. The findings provide valuable support for practitioners in developing a successful restructuring response, and for policymakers in designing appropriate legislation on insolvency.

Keywords: Financial distress, Corporate restructuring, Recovery strategies, Corporate turnaround, Case study, Spanish context.

RESUMEN

Este artículo analiza las estrategias de reestructuración que pueden ayudar a una empresa a recuperarse de una situación de estrés financiero. Este estudio presenta un enfoque dinámico innovador que sigue el ciclo de vida de las dificultades financieras desde su inicio hasta su resolución, centrándose en el contexto español, que difiere del contexto anglosajón considerado tradicionalmente en estudios anteriores. La metodología del estudio de caso se emplea para explorar, en profundidad, las características de las situaciones para resolver el estrés financiero. Con este fin, se examina el caso de una gran empresa cotizada española durante el período de 2008 a 2017. Nuestro estudio muestra que la empresa emprendió una amplia gama de estrategias de reestructuración a nivel privado que suelen aplicar las empresas en dificultades. Sin embargo, durante mucho tiempo, la empresa se centró principalmente en la reestructuración de su deuda. Este alargamiento del proceso de reestructuración unido a una débil recuperación sugiere un sistema de resolución de situaciones de crisis financiera empresarial que no es ágil y que además puede resultar relativamente ineficiente. Los hallazgos aportan un relevante apoyo para los profesionales en el desarrollo de una respuesta de reestructuración exitosa, y para los legisladores en el diseño de leyes adecuadas sobre insolvencia.

Palabras clave: Estrés financiero, Reestructuración empresarial, Estrategias de recuperación, Transformación corporativa, Estudio de caso, Contexto español.

1. INTRODUCTION

Many companies experience financial distress at some time in their life when they have insufficient cash flow to meet their financial obligations (Gilson, 2010). This situation could lead the company to default or even to bankruptcy (Wruck, 1990). Consequently, given the complexity and universality of the phenomenon (Krajewski *et al.*, 2020), it is of major importance to ascertain and understand how companies should be restructured so that they can recover and avoid liquidation. This knowledge is relevant not only for researchers, but also for the various agents involved in these complex processes, such as shareholders, creditors, management, the general economy, and even regulators (Koh *et al.*, 2015).

The financial literature on financial distress has shown interest in identifying the various strategies that can contribute towards the recovery of the company. However, further progress in business restructuring research is necessary, due to certain limitations and opportunities shown in previous studies. Following Schweizer and Nienhaus (2017), we highlight two current research gaps. Firstly, most empirical studies are only based on cross-sectional data. Moreover, longitudinal sample studies are scarce and usually utilise short horizons. However, the very nature of the recovery processes of companies in difficulties suggests that all restructuring strategies should be analysed over time since recovery usually involves long periods (Holder-Webb *et al.*, 2005; Jostarndt, 2007; Schweizer & Nienhaus, 2017; Sudarsanam & Lai, 2001). Secondly, empirical studies outside the Anglo-Saxon world, especially that of the US, remain scarce (Hotchkiss *et al.*, 2008; Jostarndt, 2007; Schweizer & Nienhaus, 2017). Yet these processes are influenced by the institutional environment of each geographic area, defined by aspects such as the regulation of insolvency and bankruptcy, and the development of financial markets and the banking system (Davydenko & Franks, 2008; Franks *et al.*, 1996).

For all these reasons, this article strives to examine the restructuring strategies of a financially distressed company, from its beginning to its recovery, in Spain. Spain has been selected since it presents a particularly interesting environment. On the one hand, a regulation of insolvency situations has conditioned the response to situations of financial distress (Stanghellini *et al.*, 2018). In Spain, the use of the formal (in-court) insolvency proceedings continues to be few and far between, and therefore the majority of Spanish companies, especially large companies and enterprises groups, prefer out-of-court restructuring solutions to formal proceedings (Stanghellini *et al.*, 2018). On the other hand, Spanish companies, including large firms, have been markedly financed with bank debt and not with public debt as is normal in Anglo-Saxon countries (De Jong *et al.*, 2008).

In accordance with Holder-Webb *et al.* (2005), who establish that mixed evidence regarding the effectiveness of restructuring is partly due to methodological limitations, and following previous corporate turnaround research that recommends investigating single events over longer periods of time in order to attain greater knowledge regarding these complex situations (Pandit, 2000; Schweizer & Nienhaus, 2017), we chose the case study methodology (Yin, 1984), which is widely used in numerous research areas (Duh *et al.*, 2009; Hogan & Lodhia, 2011). The case analysed corresponds to the company Sacyr in the period from 2008 to 2017. Sacyr is a large Spanish listed company with presence in multiple countries, and was mostly financed with bank debt. In 2008, this enterprise group embarked on a stage of financial distress that did not end until 2017. This large company preferred out-of-court restructuring solutions as is usual in the Spanish context. This case study allows us to investigate the far-reaching series of restructuring strategies carried out and the relations between them; moreover, this study also allows us to explore the pattern of financial distress resolution of a large, listed company using informal proceedings and to compare the financial performance before and during the restructuring process.

The rest of the article is organised as follows. Section 2 briefly reviews the previous literature regarding the corporate restructuring strategies and the resolution of financial distress situations. Section 3 contains the context, the methodology, the case study, and the restructuring strategies to be studied. Section 4 performs the empirical analysis. Finally, Section 5 presents the main conclusions of the study.

2. LITERATURE REVIEW

Extant literature shows that companies under financial distress carry out a variety of restructuring strategies to recover from this situation. These restructuring strategies can be grouped into four typologies (Sudarsanam & Lai, 2001): managerial, operational, asset, and financial restructuring.

2.1. Managerial Restructuring

Managerial restructuring of top management, including Chief Executive Officer (CEO) and chair of the board, is usually associated with situations of financial distress. Managers who can be considered the cause of financial distress may be replaced with new teams to implement the necessary corporate restructuring (Lohrke *et al.*, 2004), and banks and lenders could even demand managerial restructuring to maintain their trust in the company and continue their financial support (Slatter, 1984). Gilson (1990), Gilson and Vetsuypens (1993) and Koh *et al.* (2015) observe a higher level of dismissal of CEOs in distressed companies.

2.2. Operational Restructuring

Sudarsanam and Lai (2001) define operational restructuring as those initiatives that seek to stabilise company operations and to return to profitability through cost control. These operational restructuring initiatives can generate cash flow and enhance efficiency, at least in the short term; however, companies that recover from financial distress are more focused on those restructuring initiatives with medium- and long-term impact in cash flow. Moreover, although managers accomplish operational restructuring with the aim of creating efficiencies, adding value, and improving earnings performance, the empirical evidence shows mixed results regarding the effectiveness of these initiatives (Holder-Webb *et al.*, 2005).

Therefore, operational strategies may be a necessary but insufficient factor for firm's recovery from distress (Koh *et al.*, 2015; Sudarsanam & Lai, 2001).

2.3. Asset Restructuring

Asset restructuring tends to be mainly associated with asset divestments. Asquith *et al.* (1994) indicate that the sale of assets increases cash flow and furthermore, this measure is usually related to the success in restructuring the companies' debt. Jostarndt (2007) and Koh *et al.* (2015) also underline that the substantial sale of assets exerts a positive impact on the recovery of the company under distress.

On the other hand, those company initiatives that involve a redefinition of its business portfolio can also be considered as asset restructuring, by cancelling unprofitable product lines or business areas and focusing on the most profitable areas (Shleifer & Vishny, 1992; Sudarsanam & Lai, 2001). This redefinition of the portfolio may entail making new investments that would help companies recover from financial distress (Sudarsanam & Lai, 2001), although the reduction of investments in that period of distress has also been associated with recovery (Koh *et al.*, 2015). In general, asset restructuring is seen as an initiative that adds value if the company takes advantage of this measure to sell underperforming assets and to redistribute new resources towards better uses (Atanassov & Kim, 2009).

2.4. Financial restructuring

When companies find themselves in financial distress, their main objective is to undertake financial restructuring that reduces the strain associated with their debt and interest payments. Financial restructuring can be separated into two strategies: debt-based strategies and equity-based strategies. In the former strategies, debt restructuring plays a key role. In a debt renegotiation, financing conditions can be modified by lowering capital and interest, extending maturity, or by using debt-equity swap (Gilson, 1990). However, lenders may also tighten conditions and demand capital and interest payments earlier, reduce credit, or increase guarantee requirements (Asquith *et al.*, 1994). In samples from United States companies, Asquith *et al.* (1994) and Koh *et al.* (2015) find no relationship between the improvement or tightening of the financing conditions and the result of the recovery from the situation of financial distress.

The previous literature has also shown the relevance of banks in debt renegotiation and, consequently, in the resolution of financial distress (Franks & Sussman, 2005; Gilson *et al.*, 1990; Mangena *et al.*, 2020). Debt renegotiation can be easier to solve if the company maintains the majority of its debt with financial institutions. As a result, the debt structure would probably be simpler and with little diversity of lenders, which would reduce the informational asymmetries between creditors and the company (Gilson *et al.*, 1990). In this vein, Asquith *et al.* (1994) observe that the level of secured debt affects negatively to the probability that a company in financial distress will recover. This factor would be related to the pressure that creditors with secured debts exert on the company to go into bankruptcy, thereby preventing their guaranteed payoff from being diluted in the debt-restructuring process.

Apart from restructuring debt, raising additional finance in the form of new loans can also provide a recovery strategy in a financial distress situation (Sudarsanam & Lai, 2001). Nevertheless, Koh *et al.* (2015) do observe that an increase in debt during the distress period reduces the probability of recovery.

On the other hand, equity-based strategies may include equity issuance and dividend cuts. Firstly, the issuance of shares does not change the payment obligations associated with previous debts, but it does change the capital structure and generates new cash flows (Hotchkiss *et al.*, 2008). Jostarndt (2007) recognises that a company is more likely to be successful in its restructuring if it issues capital in the process. Secondly, the company can also reduce or cut dividends to retain cash flows and to meet the demands of creditors collaborating in the recovery (DeAngelo & DeAngelo, 1990; Koh *et al.*, 2015). However, a significant effect of changes in companies' dividend policy is not always observed on their recovery from financial distress (Sudarsanam & Lai, 2001).

Finally, in relation to empirical studies referring to the Spanish case and to the effects of the different restructuring strategies to resolve the financial distress situation, these are found to be very scarce given the difficulty of obtaining information, especially in informal insolvency proceedings. However, the study of Rico *et al.* (2020) can be highlighted, which examined the turnaround strategies for a sample of SMEs that use the formal (in-court) bankruptcy proceedings. Moreover, for large firms, Padilla and Requejo (1999) find that manufacturing firms in distress reduce their employment significantly[1].

3. METHODOLOGY AND DATA

3.1. Spanish context

The Spanish context has been chosen for its several differentiating characteristics that make it a very interesting institutional environment.

First, regarding the regulation of insolvency proceedings in Spain, the law during the period of our study came into force in September 2004. This regulation has already undergone many reforms in the last eighteen years with major changes in in-court and out-of-court proceedings. Spanish regulation has improved substantially with the reforms, but has remained relatively inefficient, particularly regarding in-court proceedings, since more than 90% of formal insolvency proceedings end in liquidation (García-Posada & Vegas, 2018; Stanghellini *et al.*, 2018). The high costs and the length of the formal insolvency process would justify why so many procedures end in the liquidation of the companies. These reasons, together with the fact that companies lose control during in-court restructuring processes, would explain the reluctance of Spanish companies to use formal proceedings compared with other countries (García-Posada & Mora-Sanguinetti, 2012; García-Posada & Mora-Sanguinetti, 2014; García-Posada & Vegas, 2018; Stanghellini *et al.*, 2018).

[1] In Spain, previous research on insolvency has focused fundamentally on the prediction of business failure, in resolution of insolvency and in the efficiency of the regulation on insolvency proceedings (Aguiar-Díaz & Ruiz-Mallorquí, 2013).

Faced with this situation, the United States presents a flexible regulation system that favours the resolution of insolvency situations, which can be articulated both in-court and out-of-court, although in-court processes remain very frequent (Hotchkiss *et al.*, 2008).

A second noteworthy feature is that Spain, unlike Anglo-Saxon countries, has a financial system with a bank-based structure rather than market-based structure, which implies that most companies, even large ones, have depended mostly on banks to obtain loans (Palacín-Sánchez & Di Pietro, 2016). Consequently, in Spanish distressed companies, renegotiation of debts in informal proceedings is preferred by most large companies, as well as by their financial creditors who have a strong influence in these processes (Stanghellini *et al.*, 2018). The main advantages of this option with respect to formal insolvency procedure include the cost savings of the process, the ability to control the process, and the prevention of potential adverse publicity (García-Posada & Mora-Sanguinetti, 2012).

Finally, and related with the creditors, Tirado (2018), in a series of interviews with participants in Spanish informal financial distress processes, such as lawyers, banks, insolvency practitioners, and consultancy firms, has observed that different behaviour can be identified during debt renegotiation depending on the creditor: while national banks are more inclined towards refinancing, foreign banks prefer to exit the financing process and recuperate what they can on their investment.

3.2. Methodology

This work examines the strategies that contribute towards the recovery of a large company in a situation of financial distress throughout the entire life cycle of this process. Our research uses a case study with a longitudinal approach to illustrate the dynamics of the restructuring process. This longitudinal examination provides a systematic way of observing the events, collecting data, analysing information, and reporting the results over a long period of time (Zainal, 2007).

The case study methodology in our research is appropriate for the following reasons. Firstly, our object of study fits the definition of a case study. According to Yin (1984, p. 23), the case study research method is defined "as an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used". Secondly, it is in accordance with previous corporate turnaround research that recommends investigating single events over longer periods of time to attain greater knowledge regarding these complex situations (Pandit, 2000; Schweizer & Nienhaus, 2017). Thirdly, there is an absence of studies of this nature in Spain due to the difficulties in obtaining detailed data on the whole process at the macro level. Finally, the empirical literature associated with financial distress has also used the case study methodology (Kam *et al.*, 2010; Sanz & Ayca, 2006).

The case studied is that of a large Spanish listed company that has undergone a situation of financial distress and has managed to recover without formal insolvency proceedings. The financial literature considers that a company is in a situation of financial distress if its cash flows are insufficient to satisfy its financial obligations (Gilson, 2010). Therefore, we consider that a company is financially distressed if its earnings before interest, taxes, depreciation, and amortisation (EBITDA) are less than its financial expenses for two consecutive years (Asquith *et al.*, 1994; Gomes-Mariano *et al.*, 2021; Jostarndt, 2007). In addition, to ensure that the company really did experience financial difficulties, the relevant facts of the type 'Loans, credits and guarantees' reported by the companies that renegotiate their debt have been consulted on the website of the Spanish National Securities Market Commission (CNMV). On the other hand, since our focus is on the life cycle of financial distress from its beginning to its resolution, and following Koh *et al.* (2015) and Sudarsanam and Lai (2001), two years in the positive regarding the previous ratio is needed for the company to be considered as having recovered from such a situation.

The selected company is that of Sacyr, which was a large Spanish listed company with presence in multiple countries and operated in various business areas, among which the real-estate sector and construction sector were prominent. Figure 1 presents the interest coverage ratio (EBITDA divided by financial expenses) of Sacyr from 2006 until 2017 (including the two years immediately prior to distress in order to maintain a broad perspective of the situation). By observation of its interest coverage ratio, Sacyr was considered to be in a situation of financial distress from 2008, and in 2017 managed to escape from this situation after two consecutive years with an interest coverage ratio value greater than unity[2].

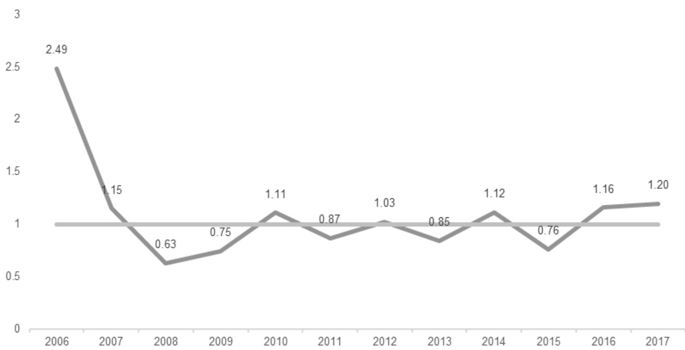

Figure 1
EBITDA/Financial Expenses (2006-2017)
Source: Authors' own, based on Sacyr data.

Sacyr's period of financial distress coincides with the global economic and financial crisis that began in Spain in 2008. This unusually long crisis featured periods of low or negative economic growth. Compared to other countries, Spanish firms suffered the most during and in the aftermath of the financial crisis and over a prolonged period (International Monetary Fund, 2012), the construction and real-estate sectors remained two of

[2] With regard to the length of the process, the case of Sacyr was far from the process of restructuring in other countries, which usually takes a much shorter time, at least in formal proceedings. Thus, Denis and Rodgers (2007) showed that a reorganisation process in case of financial distress in United States lasts a median of 2 years. On the other hand, the median duration of this process is 3.8 years in Germany, 1.4 years in UK, and 3 years in France (Davydenko & Franks, 2008).

the most severely affected sectors (Anghel *et al.*, 2020; Cuadrado-Roura *et al.*, 2010; Martín-García & González-Arias, 2011).

The information employed in carrying out the analysis is derived from very diverse sources, such as the company's annual financial statements, relevant information, newspaper articles, and other publications on Sacyr in this period. Much of this data is available on the company's web page and from the Spanish National Securities Market Commission (CNMV) web page. All this has allowed us to access information regarding accounting data, ownership data, data on the board of directors, and data on corporate restructuring activity.

3.3. *Company background*

The background of the company is briefly reviewed, with particular focus on the two years prior distress situation, although this company was founded in 1986[3]. Certain firm-specific factors are considered that may be relevant in the recovery of the company under distress, such as debt structure, account-based performance, and ownership and control structure (Gomes-Mariano *et al.*, 2021; Koh *et al.*, 2015; Sudarsanam & Lai, 2001).

A. Debt structure

In 2006 and 2007, the enterprise group presented a high level of indebtedness associated with an intense process of growth of the group, both organically and inorganically (in 2006 and 2007 investments were made of 11,415 and 1,290 million euros, respectively). Specifically, in 2006, significant equity stakes in three large companies were purchased using debt for financing[4]. This brought the net debt to 18,357 million euros in 2006 and 19,726 million euros in 2007, with the ratio of financial debt divided by total resources of 0.89 and 0.88, respectively. Based on the available information, Sacyr had not issued debt in the financial markets, which implies that its debt restructuring necessarily involves renegotiation with banks.

B. Account-based performance

Table 1 shows a series of traditional accounting measures of company profitability and debt coverage in the two pre-distress years. On the one hand, the low profitability of the asset stands out, which reflects that the heavy investments did not generate sufficient profitability and were possibly unsuccessful, and, on the other hand, the debt coverage with cash-flow ratio was not very high, which shows financial tensions derived from the aforementioned high level of debt and the low profitability of assets (according to these levels of debt coverage ratio, Sacyr's debt should have a speculative grade rating by Moody's and therefore a high credit risk). To sum up, this analysis shows that Sacyr was exhibiting both financial and operational problems in the years previous to financial distress.

Table 1
Financial characteristics of Sacyr in the pre-distress period

	Pre-distress (2006-2007) Mean
ROA	3.13%
ROE	22.95%
GD/EBITDA	17.25
EBITDA/FE	1.82

Note: Return on Assets (ROA) = Earnings Before Interest and Taxes/Total Assets; Return on Equity (ROE) = Profit After Tax for Ordinary Shareholders/Shareholders' Equity; EBITDA = Earnings Before Interest, Taxes, Depreciation, and Amortisation; GD = Gross Debt; FE = Financial Expenses.

Source: Authors' own based on Sacyr data.

C. Ownership and control structure

In the year before the financial distress situation arose, the ownership of Sacyr was concentrated in a few blockholders who were individuals; two main shareholders were founders of the company, with stakes of 13.75% and 13.50%, respectively, and another two shareholders had significant stakes of 10% and 9.13%, respectively. Moreover, one of Sacyr's controlling shareholders was the chair of the board of directors and the group's chief executive officer (CEO). The ownership concentrated in a few blockholders is more common practice of the corporate governance system in Spanish listed companies compared with those in the Anglo-Saxon context (Crespí-Cladera & Garcia-Cestona, 2002; Mangena *et al.*, 2020). Blockholders as controlling shareholders could supervise the restructuring strategies and even press for the implementation of certain strategies, such as managerial restructuring (Gomes-Mariano *et al.*, 2021; Josdarndt, 2007; Koh *et al.*, 2015).

3.4. *Types of restructuring strategies studied*

As noted above, corporate restructuring has been grouped into four typologies: asset, financial, operational, and managerial. The strategies considered are chosen and defined in accordance with the previous literature and the data available from the company. Asset restructuring covers asset divestments and new investments. With respect to financial restructuring, debt-based strategies include new debt and debt refinancing, while equity-based strategies cover new share issues for cash and reductions or cuts in dividends per share with respect to their value in the pre-distress year. Regarding operational restructuring, the same criteria are assumed here as in Sudarsanam and Lai (2001), whereby the evolution of the operational cash flow shows the effects of all types of operational restructuring. Finally, management restructuring initiatives include the removal of the CEO (Gilson, 1990).

Quantitative restructuring variables are taken mainly from the company's cash-flow statement, although several are also considered from its balance sheet and income statement. Quantitative data, whenever possible, is complemented with qualitative information.

[3] A more detailed presentation of Sacyr and its economic environment is presented in Appendix.

[4] Those three companies were the French construction company Eiffage, the Spanish concessions company Europistas, and the Spanish petrochemical company Repsol.

4. EMPIRICAL ANALYSIS

Restructuring strategies are first analysed individually, and secondly we carry out a comprehensive analysis of them all in order to identify the most significant strategies and the patterns followed in the restructuring process. For individual analysis, quantitative restructuring variables are defined in absolute terms, while for joint analysis, variables are defined in relative terms by dividing by pre-distress year total assets (Sudarsanam & Lai, 2001). Finally, the success of restructuring strategies is analysed by estimating the joint impact of all recovery strategies on a series of accounting measures of company profitability and debt coverage over the financial distress lifecycle.

4.1. Individual analysis of each corporate restructuring

A. Asset Restructuring

Figure 2 presents the evolution of divestments and new investments in millions of euros from 2008 to 2017. Sacyr made a large volume of asset sales during the period of financial distress[5]. In many cases, these operations have been associated with debt restructuring processes. At the same time, Sacyr continued to make new investments, although they remained below the amount of divestments in most years, thereby reflecting a certain downward trend in investments, which can also be understood as something positive in a stage of financial distress (Koh *et al.*, 2015).

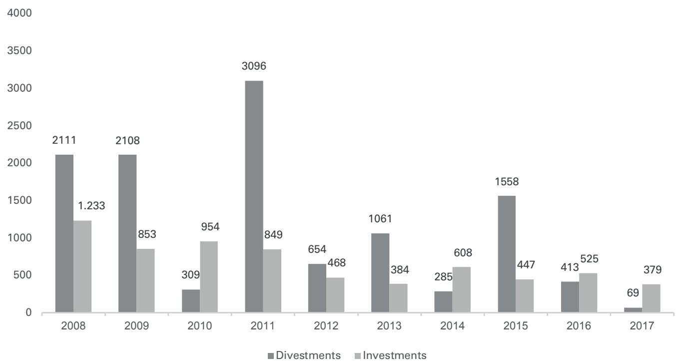

Figure 2
Divestments and Investments
(in millions of euros) from 2008 to 2017
Source: Authors' own. based on Sacyr data.

Lastly, Sacyr reordered its activities, by abandoning the real-estate business and their construction and increasing the relative importance of its concessions, infrastructure, and services[6]. This restructuring can be positively related to the recovery of the enterprise (Sudarsanam & Lai, 2001).

B. Financial restructuring

With respect to debt-based strategies, due to insufficient cash flow from the group's businesses and the need to reduce debt, the company had to combine debt repayments, deferrals of certain debt repayments, and new financing and renewal of lines of credit and loans, apart from utilising the resources derived from the significant sale of assets. The changes in debt can be observed in Figure 3, which shows the new debt and the financial repayments, in millions of euros, that are produced during the period of financial distress. In general, in net terms, the group's financial indebtedness decreased every year except for the last year in which the recovery had already started.

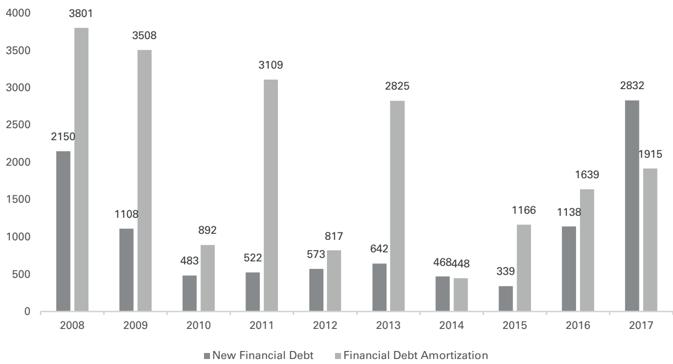

Figure 3
New financial indebtedness and financial debt repayments
(in millions of euros) from 2008 to 2017
Source: Authors' own based on Sacyr data.

Sacyr, as previously mentioned, had its debt with financial entities. This circumstance encouraged financial entities to begin a path of debt renegotiation in order to ensure the long-term sustainability of Sacyr. The low informational asymmetries between the company and the lenders (Gilson *et al.*, 1990), and the interests of the enterprise group and the lenders fostered these negotiations in an environment of a major economic and financial crisis.

The following renegotiations were included among the main debt restructurings. Firstly, there was the renegotiation of debt of 1,430 million euros of a subsidiary of Sacyr in 2010 (representing a percentage of 6.70 over the assets of 2007), in which the company froze the payment of interest and principal for five years in exchange for adding real guarantees and increasing the interest rate. Secondly, there were successive renegotiations of the bank loan associated with the acquisition of a significant equity stakes in the petrochemical company Repsol, which amounted to more than 5,000 million euros (representing a percentage of 24.07 on assets of 2007) with a six-year bullet maturity, and a series of associated real guarantees. The first and most important of these renegotiations took place in 2011, although the renegotiations of that loan were maintained until 2017 when that credit could be cancelled.

Regarding new debt, it is worth stressing that Sacyr issued convertible bonds in financial markets for the first time in its existence: 200 and 250 million euros in 2011 and 2014, respectively. Thanks to this issuance, Sacyr diversified its funding sources. This type of bond has certain characteristics that make them very suitable in a situation of financial distress. Convertible bonds are a flexible tool which gives a company with financial distress money and time to find the best appropriate choice. On the one hand, this resource could help to reduce corporate debt in the future because is an in-

[5] Its large divestments included: the sale of its stake in Eiffage in 2008; the sale of its subsidiary of infrastructure concessions Itínere in 2009; the sale of half of its stake in Repsol in 2011; and the sale of its subsidiary Testa in 2015.

[6] More information about this can be found in Appendix.

direct way to inject equity into the capital structure (Stein, 1992); and on the other hand, these bonds could be repaid at maturity thereby reducing corporate debt and without the need to change the ownership structure if the company had cash to meet debt payments. This second option was chosen by Sacyr, which amortised both issues, the first in 2016 and the second in 2019, when the recovery of the company had already begun. Furthermore, convertible bonds enjoy the advantages of offering lower explicit interest rates and balance the conflict of interests between management and shareholders, thereby rendering them an effective mechanism for controlling the agency problem (Green, 1984).

With respect to equity-based strategies, Sacyr made several capital increases in successive years of financial distress, the most relevant were the 2010 emissions of 401.3 million euros, the 2011 emissions of 96.1 million euros, and those of 2014 of 166.2 million euros. These emissions reduce the probability of a company entering into liquidation (Jostarndt, 2007). Furthermore, the company also changed its dividend policy during the situation of financial stress and, as of 2008, it commenced the non-payment of dividends, except in 2011 and 2015 in which it paid a residual amount of 0.10 and 0.05 euros per share, respectively, compared to 0.58 euros per share distributed in 2007. Following Koh *et al.* (2015), this measure contributes towards recovery.

C. Operational Restructuring

Figure 4 presents the evolution of operational cash flow from 2006 to 2017. At the beginning of the financial distress period, in 2008, Sacyr carried out operational restructuring which could generate operational cash flow; however, this trend was not maintained in the long-term[7]. These results suggest that the operational restructuring is related to short-term adjustments, which helps in the recovery of the company by improving cash flow until other types of restructuring are concluded (Sudarsanam & Lai, 2001). These results are also in line with those of Holder-Webb *et al.* (2005), who do not provide evidence regarding the post-restructuring operational effectiveness.

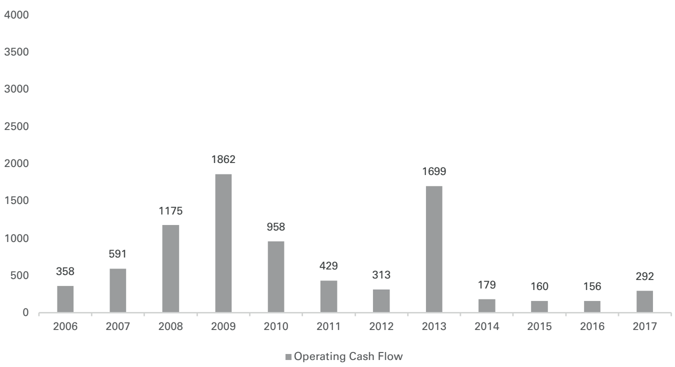

Figure 4
Operational cash flow (in millions of euros) from 2006 to 2017
Source: Authors' own, based on Sacyr data.

[7] In 2013, there was a sharp reduction in inventories due to the sale of the subsidiary Vallehermoso. This exceptional circumstance had a very positive impact on operational cash flow.

D. Managerial restructuring

The CEO/Chair of the pre-distress year continued until October 2011, when the shareholders' meeting, on the proposal of the board of directors, approved his dismissal due to conflicts with other Sacyr shareholders. Gilson and Vetsuypens (1993), identify a higher level of dismissal of CEOs in companies in a situation of financial distress. The new executive chair of the board was a founder of Sacyr, member of Sacyr's senior management, a director, and a relevant shareholder of the company with a 6% stake (Jiménez, 2011). In Sacyr, this managerial restructuring has been favoured by concentrated corporate ownership structure where significant shareholders pressed to change the CEO/Chair[8]. This negative relation between ownership concentration and financial distress have been shown in previous research (Gomes-Mariano *et al.*, 2021).

A few months after this dismissal, Sacyr managed to renegotiate a large part of its debt with a bank union. Therefore, this managerial restructuring made the process of financial renegotiation possible. These findings suggest the propensity for a firm to change CEO in times of distress and show the relationship between a change of CEO and financial restructuring. However, we have to bear in mind that the replacement of the CEO/chair occurred in the middle of the restructuring process (2011), for which many of the strategies were adopted during his term.

4.2. Global analysis

Table 2 shows all restructuring strategies by Sacyr over the financial distress lifecycle. Each strategy is measured by dividing its cash flows generated or drained by pre-distress year total assets[9]. These figures would indicate relative importance of each strategy within the global restructuring process.

Although almost every corporate restructuring is attempted throughout the life cycle of financial distress, the first two years of the process and the fourth year have been more intense in terms of mobilising cash flows in relation to the total volume of assets in 2007. In this vein, in the last years of the financial distress process, various strategies presented a residual role (with relative weights lower than 1%).

The most relevant strategy is that of debt restructuring. Each year, debt amortisation is usually the most intense strategy. The second most relevant strategy is asset sales. New financing, such as another debt-based strategy, appears as the third most important measure; in the first years, new financial debt was the key to providing liquidity to the business group. Operational restructuring and new investments are the fourth and the fifth relevant strategy, respectively, and were particularly more intense in the first years.

[8] A group of shareholders controlled, among others, by the new chairman and other classic shareholders, managed to remove the previous chair of the board in 2011, with the aim of aligning the strategies of the Sacyr with those of Repsol and its chairman. Consequently, this substitution had its origin in the existing conflict between the outgoing chair and senior management and the chairman of Repsol (Jiménez, 2011).

[9] Managerial restructuring is not considered due its qualitative nature.

Table 2
Restructuring strategies from 2008 to 2017

Concepts	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Cumulative total for each strategy
Debt Amortization (% Total Assets 2007)	12.80	11.80	3.00	10.40	2.70	9.50	1.50	3.90	5.50	6.40	67.60
Divestments (% Total Assets 2007)	7.09	7.08	1.00	10.40	2.20	3.60	1.00	5.20	1.40	0.20	39.20
New Financial Debt (% Total Assets 2007)	7.20	3.70	1.60	1.80	1.90	2.20	1.60	1.10	3.80	9.50	34.40
Operating Cash-Flow (% Total Assets 2007)	3.90	6.30	3.20	1.40	1.10	5.70	0.60	0.50	0.50	1.00	24.30
Investments (% Total Assets 2007)	4.10	2.90	3.20	2.90	1.60	1.30	2.00	1.50	1.80	1.30	22.50
Equity Issue (% Total Assets 2007)	0.00	0.00	1.35	0.32	0.00	0.00	0.56	0.05	0.00	0.00	2.30
Dividends (% Total Assets 2007)	0.60	0.00	0.00	0.10	0.00	0.00	0.00	0.10	0.00	0.00	0.80
Cumulative total for all strategies	35.80	31.7	13.40	27.30	9.50	22.20	7.20	12.50	13.00	18.40	

Notes: Total Assets of 2007 equals 29,777 million €. Debt amortisations and new financial debt are measured by the cash flows expended/received divided by pre-distress year total assets. Divestments and new investment are measured by the cash flows received/expended/pre-distress year total assets. Operational cash flows are measured by the cash flow generated/pre-distress year total assets. Equity issue is measured by cash raised by equity issue/pre-distress year total assets. Dividend is measured as cash flow expended divided by pre-distress year total assets.

Source: *Authors' own, based on Sacyr data.*

Dividend reductions or omission of dividends were maintained for most of the period. Finally, the issuance of shares played a residual role throughout the process; this may be due to the drop in the Sacyr stock price at the end of the financial distress lifecycle by 95% compared to the value in 2007. The lack of enthusiasm among investors to support the enterprise group was therefore to be expected.

The high level of debt of the company when the financial distress began and the difficulty of dealing quickly with its repayments (through many debt renegotiations and many highly relevant divestments associated with the process, all in a context of a severe economic and financial crisis) would explain the lengthening of the restructuring process.

4.3. Effectiveness of restructuring strategies

The success of Sacyr's restructuring strategies can be measured not only by means of recovering its interest coverage ratio to levels above one, but also by recovering profitability levels prior to the situation of financial distress (Sudarsanam & Lai, 2001). Table 3 presents the profitability and debt coverage indicators, already shown in Table 1, for the entire period of financial distress, and distinguishes the two years of initial distress from the subsequent years. After ten years of restructuring, it can be observed that the return on assets remains very low, while the return on equity has recovered without reaching pre-distress levels. The latter is in line with the results shown by Holder-Webb *et al.* (2005) regarding the return on equity in the years subsequent to the restructuring. The indicators of debt coverage with cash flow have almost reached the level of those of the pre-distress period but continue to show financial tension, which forces the company to continue to monitor its financial structure (its debt would continue to have a speculative investment grade according to Moody's).

Table 3
Sacyr financial characteristics in the pre-distress period and in the distress period

	Pre-distress (2006-2007) Mean	Initial Distress (2008-2009) Mean	Distress post initial two years		
			Total Period (2010-2017) Mean	Sub-period (2010-2015) Mean	Sub-period (2016-2017) Mean
ROA	3.13%	0.63%	1.44%	1.28%	1.92%
ROE	22.95%	−12.16%	−22.48%	−32.46%	7.46%
GD/EBITDA	17.25	26.49	17.01	18.40	12.85
EBITDA/FE	1.82	0.69	1.01	0.96	1.18

Note: See the note in Table 1 for the definitions of the variables.

Source: authors' own based on Sacyr data.

5. CONCLUSIONS

In this study, an examination is made of all the restructuring strategies that a large company in a situation of financial distress undertakes from its beginning until its recovery. To this end, the case methodology is followed, and the analysis of a large Spanish listed company, which was in a situation of financial distress from 2008 to 2017, is taken as a reference. This temporal analysis aids in the understanding of the dynamics of restructuring processes.

Our findings show that the company has undertaken a wide range of restructuring strategies at a private level that are usually applied by distressed firms, such as the sale of assets, refinancing and renegotiations of debt, reductions or cuts in dividends, a change in the executive presidency, and operational restructuring. However, the company has, for a long time, largely focused on debt restructuring. This lengthening of the restructuring process coupled with a weak recovery suggests a system for solving the situations of corporate financial distress that is not too agile, although it should be borne in mind that this period of financial difficulties in Sacyr coincided with the global economic and financial crisis of 2008, an unusually long period in Spain.

Our findings suggest implications, not only for academics but also for the various players that intervene therein: investors, top management of companies; and even legislators. For academics, our study show that restructuring processes are multidimensional phenomenon that require disaggregation for a complete understanding. For top management of financial distress companies, they should also be very aware of the complexity of the restructuring processes and therefore the difficulty of valuating the consequences of these events. Consequently, they should use all the strategies at its disposal to achieve recovery to the company in financial distress. In many cases, it will be a long road, but it will help take the company forward and that the debtors recover their investment. For investors, whether they are shareholders and creditors, they should also put themselves at the service of the company in financial distress to achieve its recovery. Debt renegotiations are fundamental strategies for the company to get ahead and require the collaboration of all parties involved. Finally, the regulators should put the recovery of the company ahead of the rest of the objectives if the future viability of the company is possible. In this way, companies should be able to use all available reorganization strategies, both at formal and informal level, without considering that one option or another could inevitably lead them to liquidation. This is precisely what the latest regulatory change in Spain has sought[10].

Overall, our study has allowed us to explore the pattern of financial distress resolution of a large, listed company and highlight the most relevant variables related with the situation of financial distress and its resolution. However, our study present the limitation that a single case is analysed, therefore, for future research, it would be convenient to shift from our investigation of the case study to a quantitative methodology that considers a sample of companies with a single-country perspective or even multi-country perspective. This could help to attain a more comprehensive understanding of the resolution of corporate financial distress.

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[10] In September 2022, a new insolvency law came into force in Spain, which involves adaptation to the European directive that sought to harmonize this issue in the countries of the European Union, giving rise to substantial changes in the insolvency regulation procedure in Spain.

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APPENDIX

The current Sacyr group has its origins in 1986, when the enterprise "Caminos y Regadíos" was founded by four partners, beginning its activity in civil engineering work. In 2003, it was renamed Sacyr Vallehermoso after the merger of Sacyr with Vallehermoso. Furthermore, Sacyr was listed on the Spanish Stock Market in 2004. Finally in 2013, the company changed its corporate name to Sacyr S.A. (Sacyr, 2018).

In 1996, Sacyr began its internationalisation and diversification of its activity with a process of growth of the group, both organically and inorganically. Among the most relevant events that have influenced the progress of the group were the acquisitions of foreign and Spanish companies since the year 2000, such as the Portuguese company Somague and the French company Eiffage (construction sector), the Spanish companies Vallehermoso and TESTA (real-estate sector); the Spanish company Europistas (concession sector), and the Spanish petrochemical company Repsol. Thanks to all these corporate acquisitions and the creation of certain business divisions, until 2014, the Sacyr group operated in five business areas: construction, concessions, industrial, real estate, and services.

Sacyr's period of financial distress, from 2008 to 2015, coincides with the global economic and financial crisis that began in Spain in 2008. This unusually long crisis featured periods of low or negative economic growth. Compared to other countries, Spanish firms suffered the most during and in the aftermath of the financial crisis, and over a prolonged period (International Monetary Fund, 2012), the construction and real-estate sectors remained two of the most severely affected sectors (Anghel *et al.*, 2020; Cuadrado-Roura *et al.*, 2010).

In Spain, the construction sector carried more weight in the GDP than in other countries (Martín-García & González-Arias, 2011). According to Cuadrado Roura *et al.* (2010), the main causes of the expansion and the subsequent fall of the Spanish real-estate market were the speculative factor, the growth of the population, the disposable income of households, and the easy access to financing for the acquisition of housing. The Spanish economy had accumulated significant imbalances in real-estate prices and excessive indebtedness of firms and families, both with a strong negative effect in this sector. The strong volatility of residential investment and housing prices generated extremely negative cyclical implications, which affect the construction sector, as a result of the bursting of the real-estate bubble. Furthermore, the Spanish case also shows difficulties in reducing the leverage of companies and families, which exerted negative effects on the financing conditions of firms (Ortega-Regato & Peñalosa-Ruiz, 2012).

Reduction of the indebtedness rates of households and non-financial corporations and the real-estate adjustment led to an intense decrease in demand. This situation was translated into severe problems in the construction sector and real-estate sector, and hence led to problems for Sacyr, which after a period of strong expansion, suffered an intense stage of financial distress that coincided with the global financial crisis.

Sacyr was a high-risk company at the end of 2007, with substantial leverage. The firm was also characterised by a major investment in cyclical assets (such as financial investments and real-estate businesses). When the crisis started, the risks taken by the company implied the worsening of the results. Bearing all the above in mind, the distress situation of the firm was due to a mixture of high leverage and the 2008 crisis.

The construction sector, despite the latest global financial crisis, continues to bear an impact on the economy. However, in the case of Sacyr, the crisis led it to intensify its internationalisation and diversify its activities, thereby abandoning the construction and real-estate sector in 2015 and managing to survive the crisis. At the end of 2017, Sacyr had become a global group listed on the Spanish stock market that operated in nearly 30 countries with 73% of the portfolio's income coming from abroad. Moreover, Sacyr presents four differentiated areas of activity: engineering and infrastructure, concessions, services, and industry.

Finally, with respect to the ownership structure, Sacyr presents an example of a large Spanish company (Crespi-Cladera & Garcia-Cestona, 2002). Sacyr is listed on the Spanish Stock Market, although corporate control remains in few hands of businesspeople and families who are both allies and competitors in the fight for power (El Periódico, 2014).