

## BANKRUPTCY & CORPORATE RESTRUCTURING

# Do we really need more chiefs? The case for the CRO

BY DEBORAH HICKS MIDANEK

As restructuring processes around the globe evolve, the US experience of establishing a Chief Restructuring Officer as a means to facilitate corporate recovery is getting attention. The CRO, a credible outsider working from within the company to review the situation, develops an objective analysis of its prospects, and implements the plan to achieve recovery may have value in other venues.

### Outsiders on the inside

CROs play a complex role, different in each situation. They operate from inside the client company, serving in temporary positions with broad responsibility. Typically engaged by the company's board of directors, they work in close coordination with the incumbent management team.

CROs step into rapidly changing environments, working to bring the benefits of experience, detachment, and independent judgment to bear. As a temporary participant, the CRO need disturb neither the existing management structure nor the perceptions of key customers and suppliers, especially critical when the company is under fire. Unencumbered by pre-conceived assumptions or obligations, the CRO can often cut to the heart of the matter and move the process forward quickly and effectively.

### Analysis, implementation and communication

In engaging a CRO, a company sends an important signal to its constituents that it is taking its difficulties seriously, and will confront tough decisions. Typically, outside parties watching companies struggle are concerned that management may be too close to the problem, and can get stuck in denial. Often confidence of stakeholders rises as an independent outsider skilled in navigating the restructuring waters arrives to assist a beleaguered management team.

Once engaged, the CRO must move quickly. While working to gain the trust of company management and employees and to reassure the stakeholders, cash resources must be assessed. The company's liquidity determines the amount of time available to define problems and implement solutions.

Liquidity understood, the CRO approaches the most critical aspect of the job: properly defining the problem. While financial difficulty is clearly the major symptom, its causes can be difficult to diagnose. The CRO's challenge is to work through the various layers of financial reporting, operating processes, competitive and legal environment, management structure and ability, overhead structure, supply chain issues and myriad other aspects to boil messy complexity down to the key performance drivers. With a good definition of what's wrong in hand, various solutions can be developed.

The CRO then moves toward establishing a goal and a timetable for achieving it. Working from the company's now clear definition of the problem(s), possible solutions and their risks and rewards can be explored and a course of action chosen. Clear, consistent communication is required, along with careful management of expectations of all, from

employees to vendors, from customers to creditors to keep the credibility of the effort high. Through that clarity, and through executing a careful plan well, the CRO helps re-establish the company's credibility – typically easier for an outsider with no baggage than for existing management.

With the problems defined and a plan adopted, the CRO is already in the midst of implementation. As distinct from outside advisers, CROs are inside the company, sleeves rolled up and working to change negative trends and improve the outcome. CRO responsibilities for implementation can cover a broad range of activities, often including overseeing financial restructuring, negotiating new financing, and managing relationships with creditor constituencies, assessing core business operations, management, facilities, and operating practices; and identifying and implementing cost reductions and operational improvements.

### Finding the right CRO

Clearly, the job of a CRO is demanding and difficult to do well, and calls on a wide variety of skills. To be effective, a CRO must have excellent communication skills and the integrity required to preserve detached compassion and respect for all parties involved, in order to gain the trust required to move forward toward improved outcomes. The CRO must also have experience in successfully guiding companies through adversity and be conversant with the various legal and financial processes involved.

Importantly, though, in achieving the critical aspects of proper diagnosis of the problem and ultimately the implementation of robust solutions that drive enterprise value forward, the CRO must understand how companies work and what it takes to lead people through adversity. Expertise in operating companies, whether in the client's industry or not, goes a long way to helping the CRO recognise and help to change attitudes that inhibit success. He must be able to think actively, not passively about developing solutions to problems that appear intractable. The successful CRO must be able to lead through influence rather than explicit power, as he cannot achieve recovery alone, and when he is gone the people and processes will have to stand on their own.

### When value is maximised, everyone wins

If companies and stakeholders can respond early in the distress cycle to bring in a gifted CRO whose role is not to threaten but to clarify, not to usurp power but to move all parties toward a common understanding of their responsibilities, not to passively analyse and criticise but to actively participate in implementing a clear course of corrective action, companies' fortunes can often be turned around without ever going near a court proceeding. All of us around the globe should wish to see this outcome more often. ■

---

Deborah Hicks Midanek is the President of New York based, Solon Group, Inc.  
She can be contacted on +1 (917) 853 3598 or [dhmidanek@solongroup.com](mailto:dhmidanek@solongroup.com)

---