Viewpoint

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A CRO Can Make A Difference For A Troubled Business

By Jacen A Dinoff

In a continuing business climate where credit is still not flowing evenly in the marketplace, chief restructuring officers must demonstrate advanced understanding of the basic tools of turnaround management and employ creative techniques to help troubled businesses return to a more stable course and satisfy their creditors and other stakeholders.

Consider what a chief restructuring officer is and how that role compares to a financial adviser. The CRO works with management, investment bankers, counsel and all other stakeholders to help drive the restructuring process. Their role in the company includes:

- Leading the restructuring from within the operating activities.
- Bringing speed to stagnation.
- Assisting in evaluating different restructuring options.
- Identifying financial and operational events that could hamper the restructuring.
- Developing and coordinating an effective communications plan.
- Devising a contingency plan should the company ultimately decide to file for bankruptcy-court protection.

A CRO has a contractually defined span of control within the company while a financial adviser provides services via a dotted-line control, and their ability to influence but does not have real operating authority. While a CRO's specific powers will vary from assignment to assignment, minimum requirements typically include control of cash and spending. If retained, a CRO's responsibilities can further include hiring and firing, setting pay, negotiating contracts, initiating lawsuits and selling assets. However, the CRO may or may not have direct reports or direct control over operations versus financial advisers.

The CRO agreement (entered into with the company or its board of directors) will control if officers, directors or creditors challenge the authority or actions of the CRO. In certain situations, authority is limited to certain aspects of the operation to protect the CRO from liability (for example, for health care entities, the CRO agreement may have language stating the CRO has no control over medical decisions or medical personnel).

To perform a successful turnaround, the CRO must be aware of company's position in the restructuring life cycle which includes: crisis management to stabilization, evaluation and restructuring and capital issues and execution. While trying to implement short-term solutions, the CRO needs to exert authority early and effectively. Even with a limited role, the CRO can exert pressure to move the company in a certain direction (for example, by refusing to approve certain payments until explanations are received). Similar to advisory assignments, CROs can find themselves knowing a great deal more about the relative profitability and underlying issues of a company than the people charged with running daily operations because of the access to various stakeholders at all levels and in all divisions and locations.

In communication, the CRO must build internal and external messaging that demonstrates an image of transparency, and maintains consistency. Creditors consist of secured, unsecured and trade groups, each with differing perspectives on what is critical.

Managing expectations and providing the necessary visibility of process means that appropriate communication is of utmost importance as the CRO puts in place controls and protocols for forecasting and managing liquidity. To do so requires preparation of:

- A 13-week cash flow, which is essential for projection of the sources and uses of cash to determine potential shortfalls and points of excess cash.
- A 12-month financial projection with borrowing base, debt projections, etc.
- A "scenario analysis" to plan ahead for various outcomes.
- A liquidation analysis, which can determine whether the company's continued operation is diluting the relative value of the balance sheet or for liquidity management, the sale of non-performing assets and other non-core assets.

The CRO must work with company management to anticipate points of low liquidity and identify plans for avoidance instead of being reactionary, although allowing for reactionary is what cash flow management is all about. The process is forecasting intensive because managing liquidity is a daily process of

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action and reaction. Projections must be prepared and revised to account for trends in revenue, delayed asset sales or other circumstances with a commitment to following through with cash action plans. The CRO must lead the prioritization of spending, if cash collections are less than plan, corresponding disbursements need to be controlled but at the same time ensure that such priority items, as payments to critical suppliers, are addressed.

Managing liquidity means assessing resources and identifying opportunities to generate cash. The CRO must cut through decision-making delays to monetize assets and otherwise negotiate for new value through such steps as reviewing listed and unlisted balance-sheet assets and selling those assets that may be deemed valueless.

Recent turnarounds have demonstrated the difficulty of accessing the capital markets for viable financial solutions. The CRO must be creative in generating new value, such as through negotiations with vendors. Opportunities to leverage support of vendors include but are not limited to:

- "Freeze" balances with suppliers and offer matching pay down/credit. There is a risk of being held hostage by key suppliers.
- Extend payments such as property taxes or equipment lease payments. While interest rates may be high, the delayed payments generates near term liquidity.

Managing liquidity is more than cash-flow forecasting and monetizing assets; for a CRO, it is the necessity to redefine the culture of an organization and their way of forecasting, planning and managing. This process must be undertaken with an eye toward avoiding the most common pitfall of cost reduction, i.e. "cutting to the bone" which can in fact inhibit the organization's ability to create, fulfill and administer demand.

Managing liquidity, cost reduction actions and changing culture are not the only requirements for a successful turnaround. Management counts. The execution of the turnaround plan requires evaluating the leadership and underlying staff responsible for implementation. A CRO sees a successful turnaround from team effort. A well-run company typically leverages various disciplines to solve problems; a troubled company usually operates in silos.

While some companies will fail—it's the basis of capitalism—a well-prepared CRO can make all the difference in whether viable businesses survive.

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