CHIEF RESTRUCTURING OFFICER (CRO)

Working as "Chief Restructuring Officer": Reporting from the Front Lines of Corporate Restructuring

EXECUTIVE INTERIM PARTNERS

WHEN FAILURE IS NOT AN OPTION

WORKING AS "CHIEF RESTRUCTURING OFFICER" (CRO): REPORTING FROM THE FRONT LINES OF CORPORATE RESTRUCTURING

What does a "Chief Restructuring Officer" do when taking on a new role in a distressed company?

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A Chief Restructuring Officer, also known as a "CRO," is often the last opportunity for companies in crisis situations to avoid insolvency or liquidation. Currently, many companies and their business models are in an existential crisis due to numerous economic and geopolitical challenges.

The CRO supports companies and their stakeholders as a turnaround manager during acute crises, coordinating and leading the implementation of restructuring measures as a restructuring specialist.

What does the work and role of these interim managers and experts in challenging restructuring situations look like in practice?

**DEFINITION
"CHIEF RESTRUCTURING OFFICER (CRO)"**

The Chief Restructuring Officer (CRO) is an interim turnaround manager or executive board member tasked with guiding companies out of an existential liquidity and profitability crisis. By steering and implementing the restructuring process and coordinating stakeholders, the CRO aims to avert the company's insolvency or liquidation.

The First Day in the Company

For an experienced Chief Restructuring Officer (CRO), it is a familiar situation and yet always a challenge: Within the first few working days, the CRO must introduce themselves personally on-site to the management team, the works council, and subsequently to all present employees of the distressed company during a company-wide staff meeting.

During this introduction, there is no second chance to make a good first impression. The CRO's brief speech must, on the one hand, gain the unconditional support and trust of the management team and employees while motivating and convincing them that the upcoming restructuring measures under their leadership will—and must—be successful.

At the same time, the CRO must, with uncompromising honesty, make it clear that the planned restructuring efforts will be very painful for everyone involved—including the employees—but are unavoidable.

The First Weeks

In the first four to six weeks, the CRO faces three critical tasks that must be accomplished:

Ensuring Short-Term Liquidity

The initial priority is typically to establish a reliable liquidity plan and ensure the company's short-term liquidity.

Developing a Restructuring Plan

Simultaneously, the CRO must draft a restructuring plan outlining the immediate turnaround strategy, detailing specific restructuring measures, and quantifying associated costs and effects. If a restructuring report compliant with IDW S6 standards is already available, an experienced CRO will validate its quantitative targets, design concrete operational measures, and introduce additional restructuring initiatives. The sustainability of the company's business model must also be critically assessed to ensure the restructuring efforts and associated costs are meaningful and effective.

Stakeholder Negotiations and Coordination

The CRO must negotiate with stakeholders—such as shareholders, financial institutions, works councils, trade unions, trade credit insurers, and employees—regarding their contributions to the restructuring.

Building trust and aligning the restructuring process with all parties are essential.

Negotiations with banks, mezzanine lenders, and shareholders for fresh capital (“fresh money”) and the extension of existing financing agreements are particularly crucial during this phase.

The CRO: Structured Yet Communicative

While maintaining strict focus on implementing the restructuring, the CRO must also leverage social skills to gain stakeholder support.

Establishing a steering committee for restructuring, comprising shareholder representatives and financial institution representatives (in the case of leveraged companies), can facilitate efficient communication and timely decision-making.

Effective communication is vital. This includes regular steering committee meetings and a "24-hour hotline" for the banking consortium, where the CRO should have all relevant financial KPIs and information readily available.

Equally important is maintaining a strong presence on the shop floor, holding employee meetings, meeting with works councils, and organizing weekly management meetings - all of which contribute to acceptance and success.

The Importance of Quick Wins and Symbols

An experienced CRO understands the significance of achieving quick wins. Demonstrable and measurable successes, such as securing liquidity through immediate measures like freezing capital expenditures, implementing working capital management (renegotiating payment terms with suppliers and customers), reducing personnel costs through special operational agreements, or terminating temporary workers, can boost morale and confidence.

Immediate cost-cutting measures for material costs, operational expenses, or personnel costs must be implemented in a way that conserves liquidity as much as possible.

In addition to quick wins, embodying the new corporate culture during a crisis is crucial. A CRO loses credibility if they arrive in a luxury car, stay at an upscale hotel in a neighboring city, or wear an expensive tailored suit. Seasoned CROs opt for modest rental vehicles, forego luxury accommodations, and settle for modest lodging near the company.

Similarly, selective layoffs that exclude management while targeting only workers or lower-level employees risk undermining support from the works council. Visible changes, such as subletting unused office space following layoffs, serve as tangible signs to employees that the company is undergoing transformation and embracing a new corporate culture.

TYPICAL SITUATIONS FOR DEPLOYING AN CHIEF RESTRUCTURING OFFICER

- **Impending or Acute Liquidity Crisis:**
  When the company faces an immediate or looming threat of running out of cash.

- **Impending or Acute Over-Indebtedness:**
  When liabilities significantly exceed assets, threatening the company's solvency.

- **Breach of Covenants:**
  Severe and potentially sustained violations of defined financial metrics critical for maintaining agreed financing terms with lenders.

- **Shareholder or Stakeholder Conflicts:**
  Disputes between shareholders or other stakeholders in the face of a looming profitability or liquidity crisis.

- **Lack of Trust from Financing Partners:**
  When financial institutions (e.g., banks, bondholders, mezzanine lenders, factoring companies) lose confidence in the management and/or shareholders of the distressed company.

- **Implementation of an IDW S6 Report:**
  Assisting in the operationalization of the measures and recommendations outlined in an IDW S6 restructuring report.

- **Sustained/ Escalating Operational Losses:**
  Particularly when the management lacks experience in handling crisis situations.

The CRO: Lone Wolf and Solo Fighter?

In complex restructuring scenarios, it has proven effective to establish additional roles alongside the CRO, such as a liquidity manager and a program manager. These individuals, like the CRO, are typically external hires rather than internal personnel.

Particularly in situations involving banking consortia - which are often divided over necessary measures and financial assistance - a high level of attention and time is required. A CRO tasked with implementing restructuring measures will greatly value the support of a *liquidity manager* experienced in dealing with banks during restructuring situations.

The liquidity manager acts as a critical interface with the banks, focusing on the primary restructuring issue: ensuring liquidity. They enhance transparency and work to restore the trust of creditors.

When the restructuring plan involves numerous projects – in general more than 30, often with overlapping and high-priority timelines - a capable *program manager* (or PMO or Program Office Manager) becomes essential for successful restructuring and supporting the CRO.

The PMO manager assists the CRO in defining objectives, timelines, and responsibilities for all restructuring projects and monitors progress in terms of quantitative outcomes, scheduling, and substantive goals.

If the CRO, liquidity manager, and PMO manager have previously collaborated successfully in other restructuring situations, this can significantly accelerate the implementation of measures and provide a critical advantage in breaking the mental downward spiral within the distressed company. Their established teamwork fosters efficiency and strengthens the company's capacity for recovery.

The Final Day

A CRO is always a crisis manager and a temporary turnaround specialist. Skilled restructuring professionals are often not the right fit for managing a company once it has successfully navigated the crisis and shifts to the ongoing development of its day-to-day operations.

A CRO specializes in handling exceptional restructuring situations, not in managing or leading a stable and successful company.

The CRO's final task is to support the shareholders and relevant stakeholders in selecting and onboarding their successor - even if this step effectively removes the CRO from the company. This, in essence, serves as the CRO's last restructuring measure.

CHECKLIST FOR THE COMPETENCY PROFILE "CHIEF RESTRUCTURING OFFICER"

Technical Skills and Experience

- ✓ Experience in restructuring situations
- ✓ Crisis management (including liquidity crises)
- ✓ (Re-)Financing (including negotiations with banks and loan agreements)
- ✓ Liquidity management
- ✓ Stakeholder management
- ✓ Implementation of measures from IDW S6 reports
- ✓ Access to a "restructuring network" (banks, consultants, lawyers, etc.)

Personal Skills and Experience

- ✓ Strong assertiveness
- ✓ High execution capability
- ✓ Leadership experience (C-level)
- ✓ Social intelligence
- ✓ Strong communication skills
- ✓ Negotiation abilities
- ✓ Resilience
- ✓ Conflict resolution skills
- ✓ Decisiveness

ABOUT
EXECUTIVE INTERIM PARTNERS

Founded in Munich in 2005, **EXECUTIVE INTERIM PARTNERS** (EIP) is a leading organization and owner-managed partnership of experienced interim managers at the C-level, specializing in special situations that require immediate entrepreneurial action.

EXECUTIVE INTERIM PARTNERS consists of seasoned top-level managers at the executive and board level, who guide companies back on track, successfully manage special situations, and capitalize on opportunities.

Unlike management consultants and intermediaries (providers/recruitment consultants), EIP partners personally take on temporary responsibility as interim executives or board members in your company to successfully implement restructurings, turnarounds, complex transformations, corporate sales, or M&A transactions.

The partners of **EXECUTIVE INTERIM PARTNERS** support you and your company as an interim manager, especially in special situations that require immediate entrepreneurial action, such as

- Restructurings
- Liquidity crises
- Refinancing/Recapitalizations
- Exit preparations and company sales
- Value enhancements/ Exit readiness
- Company acquisitions and integrations (PMI)
- Complex transformations
- Strategic corporate crises/Revenue and growth crises
- Operational turnarounds
- Leadership crises or leadership vacuums
- Digitalizations

All partners of **EXECUTIVE INTERIM PARTNERS** have a proven track record as managing directors and board members - as interim managers or in permanent positions. Approximately 80% of our mandates result from executive functions as interim managing directors or board members (e.g. as CEO, CRO, CFO, COO, CDO, or CSO).

Clients of **EXECUTIVE INTERIM PARTNERS** are medium-sized family businesses, corporations and portfolio companies of private equity firms.

ABOUT THE AUTHOR

Michael Hengstmann is the founder of and Managing Partner at Executive Interim Partners.

He is also a co-founding partner and Co-CEO at Management Capital Holding AG, a private equity firm investing in medium-sized companies.

Prior to joining Executive Interim Partners, Michael was a Partner and Managing Director at AlixPartners, the leading consulting firm for restructuring and turnarounds.

Before that, he was a Partner and Managing Director at One Equity Partners, previously the captive private equity fund of J.P. Morgan.

Michael started his professional career at a family-owned company. He later was Project Manager at Arthur Andersen and Partner and Managing Director at LEK Consulting.

Michael has more than 20 years of experience in executive management roles and complex restructuring mandates, specializing in interim management for operational and financial restructuring.

Michael served as interim Chief Restructuring Officer (CRO), Chief Executive Officer (CEO) and Chief Operating Officer (COO) in several German and international companies with a track record in successfully restructuring, refinancing and turning around companies in special situations.

He is serves and has served as Chairman or Member of the Supervisory Board at several companies in Germany and abroad.

Michael earned his Master of Science in Management with Excellence at Hult International Business School in Cambridge/USA (formerly Arthur D. Little School of Management) studied Business and Administration at the Universität of Duisburg/ Germany.

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