Defining the role of the CRO

In the Summer edition of Eurofenix (issue #56) Bob Rajan and colleagues explained why a Chief Restructuring Officer (CRO) is so important. Here, Stephen Taylor expands on the subject with some further definitions of the role in question

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As has been noted, the term "Chief Restructuring Officer" originated in the United States where indeed the concept of Chief Officer first appeared.

It seems to me these days that one is simply a nobody without "Chief" something or "Officer" in one's title. The "C suite" so beloved of salespeople is becoming more and more crowded. As Bob and his team remind us it is not necessary for a "CRO" even to be an officer of the company and thus the term has become simply a generic for a specialist in a particular aspect of restructuring.

But what is that aspect? There are after all, plenty of other experts involved in even quite modest restructurings – lawyers, accountants, investment bankers and public relations gurus to name but a few. Anyone involved in this space must be keenly aware that the costs of employing all these people can be very large indeed and it is not without irony that it is the cost of advisors that eventually breaks the back of some companies. To add another person – still more, another firm – requires justification.

A CRO can be asked to fill many roles simply because there is no definition of "restructuring". Some parties favour a hands-on operational agent, able to transform a company's profit & loss account while keeping a tight rein on cash. I prefer to call such a person a "Chief Transformation Officer" where it is needed, but many stakeholders are right to say that it is the job of a CEO and his executive team to lead this work. Many CEOs would agree too and hence the deep suspicion that many have at the suggestion of employing a CRO: "but that is my job….".

It's not good enough – and bad politics – to counter this by saying that existing management are not trusted, unreliable or simply bad. This might be the case, but not as often as many in the restructuring profession would like to think.

At this stage of the economic cycle, seven years since the financial crisis that marked the turn from boom to bust, most companies have addressed the fundamentals of cost cutting. They would not be around today if they had not done so. Many directors and stakeholders are now more and more focussed on avoiding cutting too far, and on investing to ensure they stay ahead of the competition. This means making more of existing resources rather than taking them out. The need for a cost-cutting CRO is not so pressing.

In my experience the two big issues of the moment are strategic direction and balance sheet weakness, with a third element – the left field incident, such as a regulatory issue or business accident – often creating the trigger for something to happen. Interestingly, the stakeholders in these enterprises often have a very clear view of the way they want the business to deal with these matters – they just don't agree among themselves what that direction should be or how to get there. Hence the plethora of advisors to help them.

These experts have an important role to play. By definition they bring great

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expertise in their field to the table – be that industrial, legal, financial markets etc. But, as an old military saying goes, one should "*have the experts on tap not on top*". It is important that the stakeholders, including the board of directors as custodians of the company, remain as the principals.

So where does the CRO fit into this mix?

I like to characterise a board of executive or managing directors as being like lions. Lions are fearsome creatures respected by all as they look out over the wide open savannah. Unfortunately some lions find themselves passing through a jungle where the paths are narrow, the light is dim and the sights and sounds are very different to their normal habitat. Among other things there are other animals in the jungle who do not fear lions and often have no particular interest in helping them get out of the jungle. For a creature of the open spaces these places can be very scary and bring on stress and unpredictable and inadvisable behaviour.

When we hear creditors say they don't trust management, what they really mean is they don't trust management lions to behave in a way that jungle animals should behave. Even the legislators put in place rules for director behaviour that require them to act like jungle animals and threaten to bring various personal sanctions against them if they don't. Paradoxically these legislators are the very same politicians who extoll the virtues of entrepreneurship – lion behaviour – when things are going well in the open plain.

Leaving aside the very different role of Chief Transformation Officer, the role of the "Chief Restructuring Officer" is to act as a guide for lions as they cross this strange land. It is not the job of the CRO to usurp the role of the CEO or CFO, still less to ignore the board entirely as some kind of apparently benevolent dictator. Rather it is to work with them, explaining the territory and distinguishing that which looks scary from that which is truly dangerous. To do this the CRO has to know the jungle and its animals. He or she must fully understand the motives and incentives of all the parties, have their respect and find a way to accommodate them as best as possible. He must know too how to get the best use out of other experts, including when to bring them in, what questions and roles to ask of them.

Here I part company with Bob Rajan and his article. While of course there are circumstances where more resources are needed, the overlap of work between the company and its advisors and between different sets of advisors is a major contributor to the costs of the process. If an outside firm does the hard yards instead of the company staff, the latter never learn. If the advisors are falling over themselves, inefficiencies can kill the business.

This is why there is a growing trend towards using experienced individuals in this role rather than firms. With no internal pressure to sell in more professional time – often of quite junior staff – each advisor gets a clear role and experts do not find themselves squeezed out or unheard. Neither do the existing management or their often extremely talented, if frustrated, lieutenants. Lions can be lions but well behaved lions! Put more simply, entrepreneurs can be directed to focuss on what they were previously recognised as good at – creating value through their selling or production skills.

None of this should be seen as totally exonerating the board of directors from all the problems of the business. There is one important point to note. The CRO owes his or her duty to the company. It is not to the board of directors of the company or to any one individual who sits on it. While I believe that many senior managers, if properly directed and guided, can make a good contribution to rescuing a business, there are times when one or more of them simply have to leave. The company is not the same as the board, but instead is the embodiment of its stakeholders in proportions laid down by local law – that is one of the iron laws of the jungle. To bring in very expensive resource from the CROs' own firm, with very only limited experience or expertise in actually acting in a CEO or CFO role, is not the solution in these circumstances. Better to reach out through formal and informal channels to find the right individuals wherever they might be.

To summarise, "CRO" is a generic term encompassing a wide variety of possible roles to be performed by a hands-on, sleeves-rolled-up mid-term operational agent that I would call a "Chief operations /transformation/turnaround Officer," to be distinguished from another type of operational agent, chosen for a much shorter, transaction-focussed assignment to align parties and get the deal done. One might call the latter a "Chief Navigation Officer". It should be axiomatic that the person filling the role must be an expert in that specifically required area of need.

A key skill of the other advisors around the table is to understand the role that is needed and finding the right person to fill that role. Different people will be required according to the need. Finally companies should hire a CRO according to what that specific individual can bring to the table.

In many situations there already exists plenty of expert advice available externally and inside the company, even if sometimes the internal management needs firm guidance. The ability, therefore, to bring along some colleagues is of minor importance compared with the experience and skill of the individual concerned. ■

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