The quiet transformation
Impact of the corporate performance trend on the role of the Chief Restructuring Officer: Results of the 2017 CRO Study
Corporate performance programs are in vogue. The levers to get a company back on track for success are very similar to those for restructuring. It is essential to wait for the optimal time before launching an intervention. The pressure must be great enough to ensure momentum within the organization, but the options available must be insufficient to return the company to success on their own.

In times like this, management places high demands on executives. That is why it makes sense to involve a CRO in corporate performance programs. His or her role will differ from that in a traditional restructuring process, as we have described in studies in recent years.

While financial skill may be important to a corporate performance program, the ability to inspire people is even more significant. Whereas the CRO is comparable to an emergency physician in a restructuring process, he or she serves more as a fitness trainer in a corporate performance program.
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   New abilities for new challenges in this new sphere
Chapter 1:

Restructuring or corporate performance management?

The emphasis is shifting, but the fundamental logic remains the same: Without a crisis, there is no pressure for change.
When the economy is strong and financing conditions are favorable, the need to discuss the topic of restructuring does not present itself. For many the term has negative connotations, but according to the modern understanding of entrepreneurial restructuring, the focus is on the business model and its sustainability and less on cleaning up the balance sheet or making cost reductions. Therefore, private equity investors have always tried to avoid the word restructuring in order not to label their own portfolio assets as in need of repair.

Our 2017 survey of 135 leading restructuring experts in German-speaking countries indicated that the substantive focus has shifted somewhat. The trend is moving toward less invasive methods (corporate performance programs), which is the right path, since they have proven to be very effective in the past. Using this method, a company in the consumer goods industry succeeded in increasing its EBIT margin by 16.5 percentage points between 2014 and 2017 against a base case without a performance program, while an energy provider even improved the margin by 24.1 percentage points. For a vendor in the food retail industry, the increase was 3.6 percentage points, and for an automotive supplier it was 2.7 percentage points. Our respondents have identified the following drivers of the trend toward corporate performance programs:

More agility in uncertain times. The danger of being left behind overnight is greater than ever. This is caused, for example, by the threat of terror, weakening business conditions in the emerging markets, currency volatility, the sustained debt crisis in the EU and new protectionism – but also by digitization and the profound changes in customer behavior that it brings. The time to respond is constantly diminishing. Linear planning is little use in this environment. Flexibility is what’s needed.

Corporate performance requires a longer lead time. For many participants, the term “restructuring” conjures images of reckless cuts. If a company is restructuring it must mean it is fighting for survival. This is often not the case, but the impression it gives must be taken seriously. Our respondents have observed that managers are increasingly opting for softer approaches that everybody agrees to if they still have sufficient leeway.

Revenue enhancement programs that run in the background are frequently preferred. However, they require "The way things are now, the CRO frequently cannot respond quickly enough to adjustments on the cost side as the revenue side collapses due to an obsolete business model."

( Participant in the 2017 CRO Study)
sufficient time before they take effect. These programs must therefore act as the starting point – as long as the company is not already experiencing a liquidity crisis.

**Alternative financiers enter the picture.**
Banks proceed objectively and according to their own strict regulations when it comes to classifying a company as a restructuring case. However, the significance of funds and other institutions as financing partners is growing since they are rather reluctant to classify an asset as a restructuring case and are not subject to the same strict regulations as the banks. A discreet and natural option for these financiers is to impose timely and suitable corporate performance programs.

**The new generation wants to take part in the transformation.**
“Generation Y” attaches significantly more value to actively participating in their career development than their predecessors. The transformation process itself demonstrates this. Instead of submitting to a restructuring plan, this generation strives to help shape change processes through a collaborative approach. In a liquidity crisis, this is possible only to a limited degree due to time pressure and legal constraints. However, it can succeed assuming a timely intervention in a revenue crisis.

**New mediation process could be a game changer.**
Currently, new statutory regulations for a pre-insolvency restructuring mechanism are being discussed – the so-called mediation process. During a balance sheet clean-up, it should be made easier for banks and other entities to sell their receivables to other investors at this stage. If this should happen, there is a risk that companies will become the plaything of purely financial interests. They therefore have a heightened interest in gaining control of their difficulties before the regulations under this mechanism take effect.

**CORPORATE PERFORMANCE OR RESTRUCTURING?**
The distinction between these two areas is starting to blur. This can sometimes make it difficult to impose a plan that is suitable for the situation at hand and to make the right management decisions. What exactly is it that distinguishes the two terms?

Figure → shows the typical course of a crisis: From normal operations with fluctuating revenue, the company drifts into a strategic crisis, in which the net revenue is typically still positive but is coming under pressure. If management does not take action, a revenue crisis will follow in which earnings shrink. In the initial stage, net revenue declines rapidly but is still positive, but afterwards earnings turn negative and continue to deteriorate. If this trend is not halted, a liquidity crisis will follow, the end result of which may be insolvency. Management must adjust to the respective situation. During normal operations, the company has control over its decisions. If it comes to a strategic crisis, management frequently engages strategic consultants to analyze where the problems lie and to propose adjustments. Generally, this occurs mainly when there is structural change in the respective industry. Corporate performance programs typically occur in the next stage, the revenue crisis. However, restructuring in the classic sense is only necessary in a liquidity crisis.

**THE OPTIMAL TIME**
The question of the right time to intervene poses a dilemma for stakeholders. Two opposing developments must be weighed up. During a crisis, pressure intensifies. At the same time, the available options diminish. This would speak for companies intervening as early as possible. On the other hand, our project experience shows that a certain readiness to change is necessary in order to set a transformation in motion in the first place. It might sound cynical, but a bit of a crisis is needed for any reorientation to succeed. If this impetus is missing,
A: When to take action?
The focus of transformation activities is shifting – they often begin early on, during the revenue crisis.
**B: Quick or slow, loud or quiet?**

Corporate performance versus restructuring: A different context requires a specific type of mediation and different emphasis.

<table>
<thead>
<tr>
<th>Revenue crisis – Corporate performance</th>
<th>Liquidity crisis – Restructuring</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Methods</strong></td>
<td></td>
</tr>
<tr>
<td>- Reduction of headcount/overhead costs, portfolio cleanup, revenue growth</td>
<td>- Reduction of headcount/overhead costs, portfolio cleanup, revenue growth, financing/refinancing</td>
</tr>
<tr>
<td><strong>Intended effects</strong></td>
<td></td>
</tr>
<tr>
<td>- Usually 10-20% reduction, medium term</td>
<td>- Usually &gt;20% reduction, short term</td>
</tr>
<tr>
<td><strong>Type of communication</strong></td>
<td></td>
</tr>
<tr>
<td>- More &quot;quiet&quot; (PR)</td>
<td>- More direct, open, occasionally &quot;loud&quot; (PR)</td>
</tr>
<tr>
<td><strong>Change management</strong></td>
<td></td>
</tr>
<tr>
<td>- Crisis possibly not sufficiently well-known, therefore actions appear very prominent</td>
<td>- Crisis known, therefore greater focus on implementation, change secondary</td>
</tr>
<tr>
<td><strong>Stakeholders</strong></td>
<td></td>
</tr>
<tr>
<td>- Essentially management, shareholders, employee representatives, possibly the public</td>
<td>- As for corporate performance (left), but also with a focus on financiers</td>
</tr>
<tr>
<td><strong>Engagement of professionals</strong></td>
<td></td>
</tr>
<tr>
<td>- Usually management, shareholders (&quot;corporate&quot;)</td>
<td>- Usually management and shareholders, influence from other stakeholders (incl. financiers), frequently &quot;bank-driven&quot;</td>
</tr>
</tbody>
</table>

Source: Roland Berger
A sense of crisis is needed for a reorientation to succeed.

Chief Restructuring Officer 2017 – Roland Berger Focus

then that does more harm than what other available options or less pressure bring to the equation. Therefore, the right time to intervene is more in the middle, when there is still sufficient leeway to act. At this point the pressure is controllable, while the readiness to change offers sufficient stimulus for the project. Unfortunately, it is not always possible to deliberately aim for this point in time. Situations continually arise, such as changes in the regulatory environment, that through no fault of the company lead to a liquidity crisis so quickly that there is no way around traditional restructuring.

Essentially, the methods of corporate performance management and restructuring are quite similar – both in terms of methodology and critical stakeholders. Even in corporate performance programs, costs are reduced, portfolios cleaned up and revenue boosted. Restructuring usually has a strong financing component, which means that communication has to be very open and direct. Where net revenue is still positive but significantly trails the competition, a quiet transformation is recommended.

CORPORATE PERFORMANCE – MANAGING THE QUIET TRANSFORMATION

Change management is the defining factor of corporate performance programs in situations where the crisis is still not pressing enough to be used as a driver of change. As a result, success depends on whether or not it is possible to generate a sense of urgency within the company in another manner. Employees need to be mobilized, even though there is no visible pressure to act. Usually companies in a revenue crisis do not want the fact that they are taking action to become public. Therefore, communication must be much more circumspect than in a restructuring process, in which we can and must call a spade a spade.

"Ruling by decree" in a liquidity crisis permits very sharp cuts, which means that restructuring usually leads to rapid and sweeping results. In programs that run quietly, the effects are much more limited. The advantage to this approach is that damage to a company's image can be avoided and less substance is destroyed along the way.
Chapter 2:

Focus on new abilities

The CRO plays a key role in corporate performance programs – and becomes a Chief Transformation Officer.
If corporate performance programs gain significance in a company, the job description for the CRO must reflect this. But what expertise is required? This question is thematically linked to studies we have conducted in recent years.

In 2015, we determined that CRO expertise was also increasingly in demand in Europe and Germany. Chief restructure...
C: 2017 results: Our experts’ view of the CRO
For the third year in a row, we surveyed 135 restructuring practitioners on trends in the companies’ of Chief Restructuring Officers. The response rate was approximately 50%. The key findings are that their use stagnates when the economy is performing well, and that the CRO is increasingly in demand as a moderator.

FOCAL POINTS IN THE WORK OF THE CRO
Despite current trends, our experts still view financing as the most important task of the CRO.

[Top 3 responses rated as “very important”]

<table>
<thead>
<tr>
<th>Task</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ensuring corporate financing</td>
<td>65.4</td>
<td>57.1</td>
<td>58.3</td>
</tr>
<tr>
<td>Organization/management</td>
<td>23.3</td>
<td>12.7</td>
<td>28.6</td>
</tr>
<tr>
<td>Personnel cost management</td>
<td>1.7</td>
<td>0.0</td>
<td>1.7</td>
</tr>
</tbody>
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RELEVANCE TODAY AND TOMORROW
Good economy – little restructuring: Participants expect a smaller rise in the use of CROs than they did last year:
THE ROLE OF THE CRO IN THE COMPANY

The CRO is perceived as more of a moderator than in past years. However, as before, this view is much more prevalent when an existing plan is being implemented in the company.

CROs are viewed as ...

- Implementers: 68.3% (2017), 56.8% (2016), 77.6% (2015)
- Moderators: 45.0% (2017), 37.3% (2016), 36.7% (2015)
- Developers: 31.7% (2017), 27.3% (2016), 18.3% (2015)
- Controllers: 13.3% (2017), 7.3% (2016), 24.5% (2015)

[CROs are viewed as ... (Ranked according to % of responses; multiple responses)]

CROs come into play ...

- When a rescue plan is in place and needs to be implemented: 52.9% (2017), 28.3% (2016), 29.1% (2015)
- When companies are in the process of preparing a rescue plan: 58.8% (2017), 13.3% (2016), 7.3% (2015)
- Before a company needs to prepare a rescue plan: 33.3% (2017), 30.9% (2016), 40.0% (2015)

[Top 3 according to % of responses]

Almost unchanged:
Banks are the leading financiers

- 2017: 66.7%
- 2016: 59.7%
- 2015: 64.7%

[Additional category: No response]

Source: Roland Berger
How, when and at what cost does the transformation influence the bottom line? That is what matters.

CORPORATE PERFORMANCE – SETTING THE STAGE FOR TRANSFORMATION

Who can meet the company’s needs as described? As a rule, consulting firms with restructuring as a strong part of their corporate DNA have an advantage over traditional strategic consultancies. In a corporate performance program, according to the restructuring experts we surveyed, the measures that are going to be taken must be determined from the beginning. And then it is not just a matter of working through this catalogue of measures. What is much more important is to have an understanding of when, under what conditions and at what cost the measures influence the company’s bottom line. The implementation management, P&L modeling and follow-up measures may not differ from the methodology applied in a restructuring process. Therefore, we would not recommend using an interim manager for such projects, but instead appointing an experienced Chief Restructuring Officer.

If and when a CRO is in place, their work must focus very closely on managing the transformation. This does not mean that the CRO must be renamed Chief Transformation Officer. What matters is the underlying idea that alongside an understanding of corporate figures, the ability to motivate people with different backgrounds to get on board with the transformation is essential. How does this differ from their traditional role? In a restructuring process, the CRO must quickly address problems in the open. The CRO needs direct access to employees as he or she engages in continuous dialogue with financiers and labor law experts. With corporate performance programs, however, things do not necessarily work the same way. The company may need a more indirect, discreet approach. The transformation often takes place in smaller steps. This requires an even higher degree of integrity, trustworthiness, credibility, reliability and predictability than before. As a transformation facilitator, the CRO must create a sense of urgency, provide infor-
D: What turns CROs into CTOs? They must know their trade ...
For the respondents, the focus on the P&L is an important part of the expertise profile.

[Diagram showing the importance of various competencies, with colors indicating levels of importance: very important, important, important to a certain degree.]

- Effective and transparent measures tracking, measuring not just activities but also P&L effects
- Structured implementation that is organizationally separate from day-to-day operations, e.g. by setting up a transformation management office
- Early and structured communications (internally and externally) that tell a consistent story
- Management of support functions, especially including financial modeling

Source: Roland Berger
... and they must possess the right soft skills. Tact plays a key role in the quiet implementation of corporate performance programs.

Source: Roland Berger
mation, and implement cuts without endangering the reputation of the company, either internally or in public. In short, cooperation takes precedence over command and control.

Corporate performance programs often come along as a wolf in sheep’s clothing and are actually just traditional restructuring processes. We recommend evaluating the situation of a company very thoroughly and objectively – regardless of economic trends or the external impact of certain words. Only then can a CRO or CTO assume their proper role and make the right decisions. It can be illuminating to draw analogies with the field of medicine when looking at the various roles and types of decisions involved here:

Facing strategic difficulties, the “patient company” would call in a classic strategy consultant – a fitness coach, who analyzes the situation and formulates a training program that the patient company must complete by itself. In a revenue crisis, depending on the urgency, the patient company needs a personal trainer that will stay by its side for a longer period. This trainer ensures that the company’s fitness (profit) level, which is still strong, improves. Should it worsen, a general practitioner is summoned to encourage a healthier lifestyle and prescribe medication and long-term therapy to support the patient’s change.

If the patient company falls further into distress, a rescue team consisting of an emergency physician and a trauma surgeon enters the picture. The urgency in this situation is plain to see. Everyone stops asking about the patient’s readiness to implement the proposed measures. In the end there should hopefully be no need to call in a disaster response team to search through the rubble for survivors.

The CRO must first create a sense of urgency. The management style must emphasize cooperation.
Imprint

WE WELCOME YOUR QUESTIONS, COMMENTS AND SUGGESTIONS

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Navigating Complexity
For the past 50 years, Roland Berger has helped its clients manage change. Looking at the coming 50 years, we are committed to supporting our clients conquer the next frontier. To us, this means facilitating navigating the complexities that define our times by providing clients with the responsive strategies essential to success that lasts.

Think:Act Booklet
Chief Restructuring Officer - Coach or Commander? (2016)

Authoritarian management is a thing of the past: The second CRO survey focuses on leadership and communication. Mobilizing the company’s self-healing powers is what it’s all about. Influencing the perception of the rescue plan is critical to success.

Think:Act Booklet
CRO - The company savior with a new profile (2015)

Entrepreneurial restructuring: The priorities of the CRO are shifting from liquidity management to a stronger consideration of market conditions. The CRO not only functions as a restructuring expert in a crisis, but also assumes strategic responsibility as interim CEO.