

THINK ACT

BEYOND MAINSTREAM



April 2016

Chief restructuring officer – Coach or commander?

Leadership and communications in crisis situations

THE BIG

3

SPECIAL
HOW OUR
EXPERTS
SEE THE CRO
→ P.6

-30%

This year's study respondents rate liquidity management as significantly less relevant. By contrast, they feel that the challenges posed by market conditions, personnel management and change management are gaining in importance.

Page 7

Half

of those interviewed believe that restructuring projects call for a more directive leadership style.

Page 10

84%

of our respondents aspire to a "high level of transparency" when communicating with external stakeholders, while 74% believe that effective internal communications should be "highly proactive".

Page 13

Coach or commander? Both! Why chief restructuring officers need to be more than authoritarian leaders.

The demands on chief restructuring officers (CRO) are growing. Their work is increasingly international in scope and change management is more important than ever in restructuring projects. Not to mention the fact that we are currently working in an extremely disruptive environment. Media coverage leaves us in no doubt that corporate turnarounds – whether in industry, financial services or any other sector – are increasingly transcending national boundaries. Nearly every company in business today with a headcount of 500 or more operates internationally. What does this imply for the role of CROs? Chief restructurers still need to have a sound grasp of the figures, but at the same time, they must get people from different cultural backgrounds to buy into the restructuring concept. This means taking account of different stakeholder interests and actively involving the various groups in the change process. To achieve this, CROs must have professional communications and leadership skills – and in light of increasing internationalization, successfully deploy them across cultural divides.

These challenges tie in with the findings of our 2015 CRO Survey. In that study, we asked nearly 90 re-

structuring experts in Germany about current trends in the appointment of CROs and what skills CROs with an entrepreneurial mindset need to master. This second edition places the focus on two key aspects: leadership and communications in crisis situations.

By definition, leadership relates to the ability of an individual to influence, motivate and enable others to contribute toward the attainment of collective goals within organizations¹. The collective goal in a crisis situation is quite often simply to get the company back on firm footing, isolate the healthy core and restore its competitive edge. According to Harvard professor Rosabeth Moss-Kanter, turnarounds are when leadership matters most. She has outlined how CROs can draw on their leadership skills to make a fresh start. The key, she says, lies in replacing secrecy with dialog, establishing a culture of mutual respect instead of blame and scorn, sparking initiative and overcoming the feeling of helplessness.

FROM KPI MANAGEMENT TO CRO SOFT SKILLS

So how do Germany's top CROs manage this today? Half of the restructuring experts we surveyed said they

¹ As defined by the Global Leadership and Organizational Behavior Program (GLOBE)

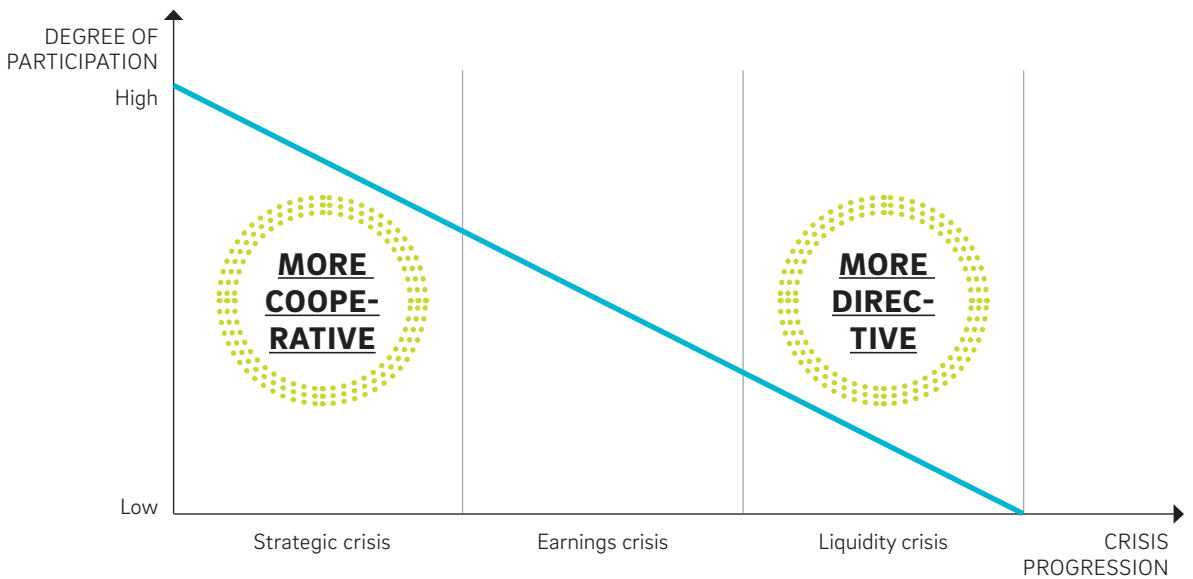
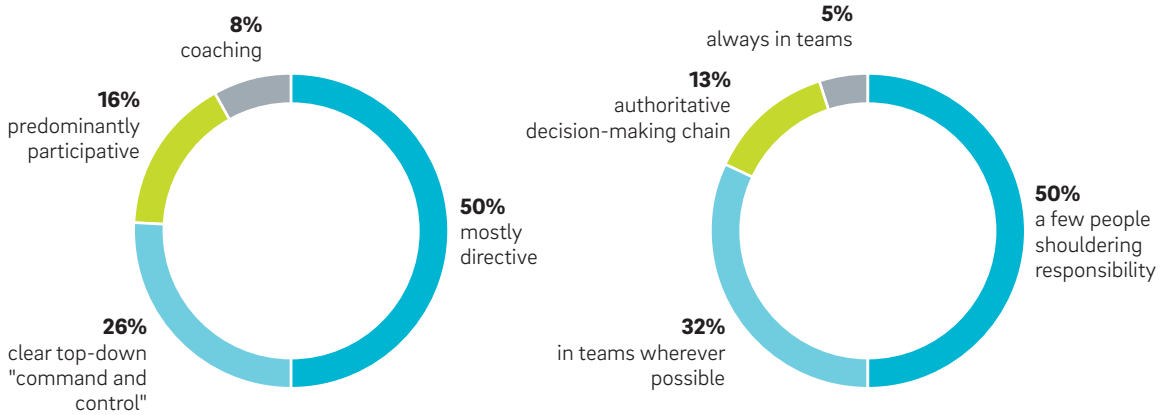
4 THINK ACT

Chief restructuring officer

A

THE CRO'S ULTIMATE CHALLENGE: LEADERSHIP

Traditional leadership styles: most restructuring experts favor leadership by the few with little participation. [% of respondents; n = 42]



Pressure to act increases/options diminish

favored a small circle of decision-makers and relatively little participation, arguing that CROs should not let go of the reins. Some warn against too much "grassroots democracy". When it comes to matters of substance, the consensus is that CROs must remain firmly in the saddle. → **A**

If you come across as indecisive or fail to establish clarity from the start, you're doomed to failure. Ideally, CROs exude a high level of integrity and trustworthiness, are consistent and don't make promises they can't keep. By contrast, around 30% of the experts choose to make decisions in a team setup wherever feasible. This ties in with statements made by some of the respondents. Several argue that an authoritarian

"Implementation under time pressure can work only with strict authoritarian leadership or targeted participation aimed at getting everyone on board."

QUOTE FROM OUR SURVEY

style of leadership is no longer appropriate today. These findings may seem contradictory. That is because many CROs are still not called in until late in the restructuring process, when there is little scope for consultation and participation. This does not mean, however, that the latter are not recognized as necessary steps. An authoritarian leadership style works well in acute crisis situations; it also proves effective when it's all about cutting costs. However, we are also seeing an increase in the importance of strategic aspects and of developing a sustainably viable business model. In over a third of all cases, CROs are themselves involved in developing the restructuring concept, and over recent years have had to get increasingly diverse stakeholder groups on board to back the realignment. → **B**

The CRO's task is to handle this situation with an approach more multifaceted than authoritarian leadership. Different leadership styles suit different crisis situations – and should be adapted accordingly. We have deliberately simplified our diagram in order to illustrate the two poles of the leadership spectrum: the inte-

grative, cooperative approach on the one hand, and the clear, command-and-control approach on the other.

In reality, the remedy often lies somewhere in-between. Clear, directive leadership is called for where companies face acute crisis situations. For the duration of their appointment, CROs must adopt a different ground speed, impart a sense of urgency from the outset, encourage decisiveness and create transparency. They need to introduce incentives and sanctions. However, for the realignment to become ingrained within the organization, a cultural shift has to occur. Yet corporate culture is slow to change. To help make this happen, CROs must adopt a participative leadership style and communicate on a broad basis where they want to go and why. Ideally, they will succeed in combining the two approaches – openness, cooperation and integration leading to cultural change on the one hand, and clear guidelines, sanctions and incentives for overcoming the impending threat on the other.

This tallies with the above-mentioned assumptions about leadership in acute crisis situations. If the CRO is not brought in until late in the day when the crisis is already in full swing, these are the management patterns we would initially expect to see. In a strategic crisis, there is still scope for an open and constructive dialog about how to assess the situation and find practical ways out of it. In an earnings crisis, this is already more difficult. And at the final level of escalation, directive leadership is all that really helps in a liquidity crisis.

"The new generation of CROs are team leaders who can only be successful if they have a strong team."

QUOTE FROM OUR SURVEY

TEMPORARY STRUCTURES EFFECTIVELY SUPPORT CHANGE

Appropriate interim support structures are an important prerequisite underpinning every successful restructuring project. A steering committee is usually set up, along with a project management office (PMO), which reports to it. To ensure that this temporary organization really does support the change process, it is important to keep a few points in mind:

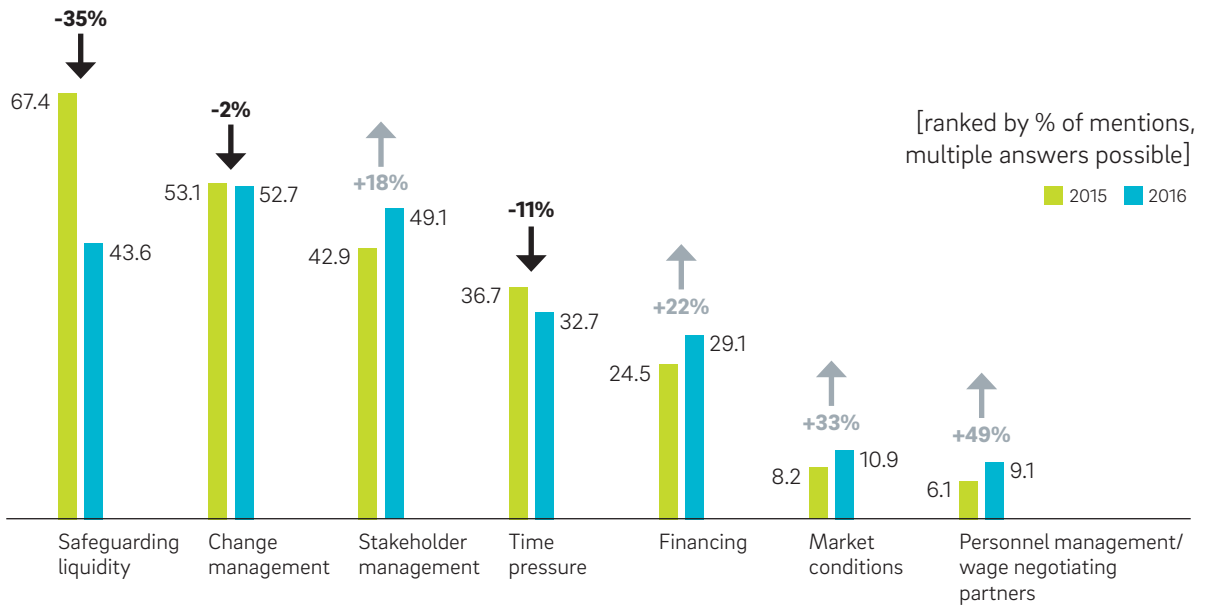
B

HOW OUR EXPERTS SEE THE CRO

Important spheres of action

The CRO's priorities have undergone a marked shift. Among the top three, classic liquidity management has lost relevance, with market conditions and personnel management now calling for more attention.

THE MOST DIFFICULT CHALLENGES ARE ...

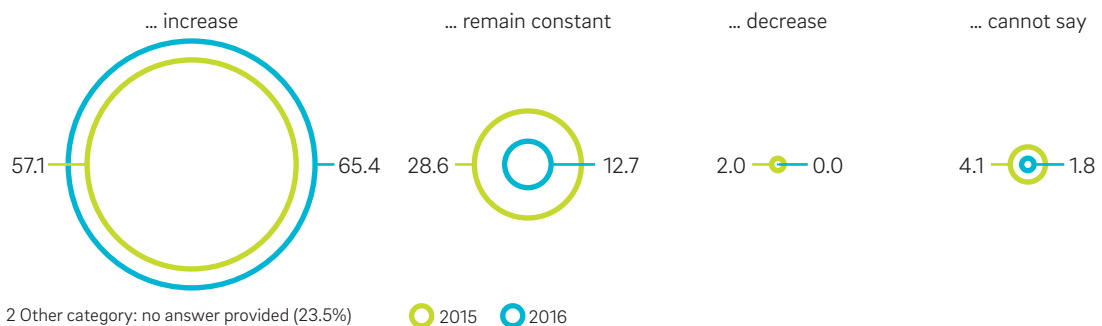


Relevance today and tomorrow

The CROs we interviewed anticipate continued demand for their skills in the future.

CRO PLACEMENTS WILL ...

[% of mentions²]



For the second time, we questioned nearly 90 restructuring experts about trends in the appointment of chief restructuring officers. The core findings are that while their role and priorities are shifting, their overall significance is continuing to grow.

Initiators

According to our respondents, over half of all CRO mandates are awarded by the financiers. This has not changed compared to the previous year.

THE APPOINTMENT IS INITIATED BY ...

[% of mentions²]



What role the CRO assumes in the organization

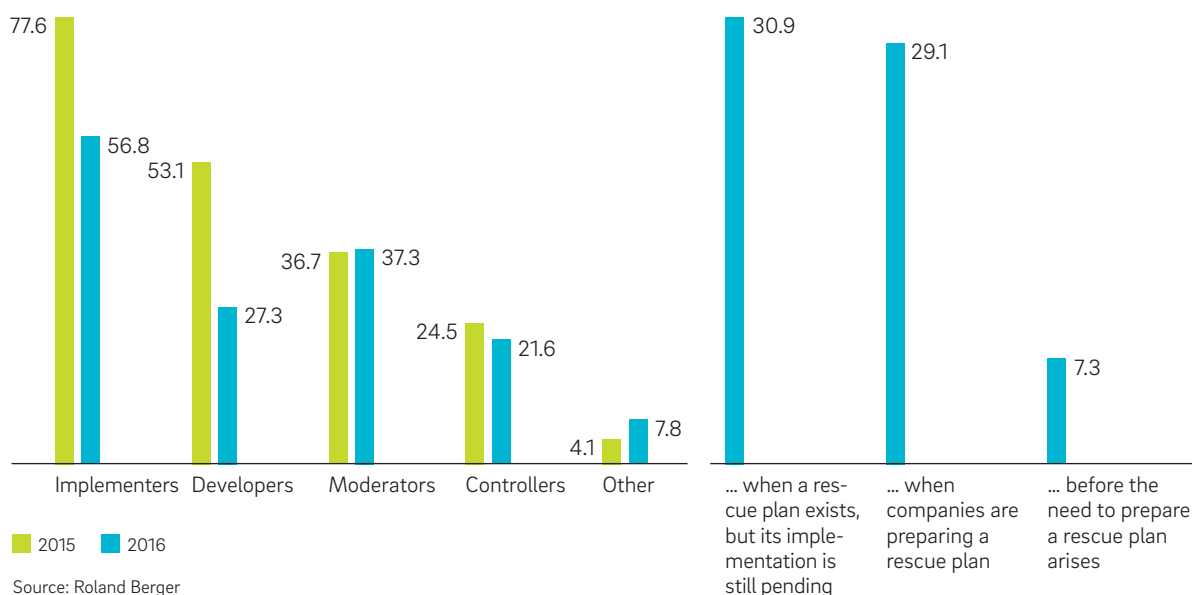
The CRO's tasks continue to focus on the role of implementer, although this is cited less frequently. The role of developer has declined sharply in importance, while the role of moderator remains consistently important.

CROs ARE SEEN AS ...

[ranked by % of mentions, multiple answers possible]

CROs ARE APPOINTED MOST FREQUENTLY ...

[top three by % of mentions]



Source: Roland Berger

8 THINK ACT

Chief restructuring officer

Mission and vision. The restructuring must be geared to a clear quantitative and qualitative goal. This should comprise a conceptual description of the realigned company and the principal reorganization measures. It should also incorporate an integrated planning policy, with the target profit and loss statement an important point of orientation.

Commitment. There must be clarity about who is responsible for delivering specific measures, milestones and effects – this may sound obvious, but in fact it isn't. Ownership must be clear-cut and at a sufficiently high level of management. What's more, delivery owners must report on the measures they have implemented and may not delegate this task to others. Appropriate escalation mechanisms, sanctions and incentives should be defined.

Control. The PMO, together with the financing and accounting teams, has control over project-related planning. Ideally, it should be staffed with a mix of internal and temporary external resources. The PMO must update the status of ongoing measures at least every two weeks and ensure that a suitable monitoring system is in place. This office also acts as a buffer, keeping the burden of project administration off the shoulders of the operating units.

Division of tasks. The PMO should have a purely regulatory function and remain neutral at all times; otherwise, you run the risk of overstating the progress of implementation. Responsibility for the individual measures should be clearly assigned to other delivery owners. We recommend dividing all ongoing measures equally among the senior executives or members of the management board. The advantage of doing so is that senior management then identifies with individual actions and can provide information on their status at any given time.

Stakeholders. There needs to be joint and early definition of which stakeholder groups should be involved in the venture on an ongoing basis. We recommend drawing up a stakeholder matrix and having it reviewed at the regular status meetings. Here, too, each key stakeholder group should be assigned to a person who is responsible for keeping them informed and involved.

Decision-making processes. In restructuring situations, decision-making processes need to be faster and shorter than in normal business operations (exception to the rule). If a decision leads to deviations from the charted course, this must be signaled immediately. Within the

scope of project organization, it is important to identify liaisons for financing, accounting, human resources and IT matters, who should be closely involved in the process. Their involvement is usually more intensive during the early stages of the transformation.

External support. Taking top managers away from their own responsibilities to enable them to supervise the restructuring project would jeopardize normal business operations. In the worst case, the transformation could even harm their standing and make it difficult to subsequently reintegrate them into the organization. Bringing in support from outside the company can alleviate this problem.

REALIGNING THE ORGANIZATION

Sometimes even the normal structures and workflows within the organization need to be recast in the course of the restructuring process. CROs should therefore be given a seat in the main governing bodies of the organization. This ensures they are always in the know, and at the same time, they can serve as a source of fresh stimulus and ensure consistency with the restructuring measures already taken.

In this context, it is vital to review and adapt the existing meeting and reporting structures at the beginning of the whole restructuring endeavor. The point is to question whether the present meeting structure is efficient. Does the system have any overlaps? Are the participants properly defined (the necessary functions present, no doubling up, decision authority)? Is the agenda clear? Is the information on which to base decisions provided on time? Are appropriate records kept? It is also advisable to look at which meetings are no longer necessary or may need to be changed because certain issues are already going to be addressed within the project organization in the restructuring phase. To ensure that everyone is kept up to date, we recommend the usual practice of including a status report on the progress of the turnaround on the agenda of relevant meetings.

A question of perception? Absolutely! Why professional communications is an important tool for the CRO.

US psychologist Paul Watzlawick observed that it is impossible not to communicate. In addition to content, all communication has an interpersonal aspect – and is therefore closely linked to the topic of leadership. Today, the main focus of communications in any transformation process is usually the visible performance of the CRO and the objective success of the project. However, communication and perception as a result of social interaction are in fact far more complex. In our experience, two other dimensions are equally decisive for success: character and likeability. No matter how well they perform, anyone seen as lacking character or likeability will not be perceived positively either by the general public or by key stakeholder groups – and at the end of the day, they will not achieve their strategic goals.

The goal of every CRO has to be to stay in the driver's seat throughout the turnaround process. When communicating with relevant stakeholder groups, this means three things: First, making their performance visible and consolidating their authority by demonstrating expertise and problem-solving ability. Second, building and strengthening trust in the CRO by showing them to be someone who is approachable and a person of integrity. Third, as a good communicator, the CRO has to reconcile the interests of key

stakeholders with the restructuring concept and build consensus on important questions, for example by showing respect for their various positions and being open to their arguments. → [C](#)

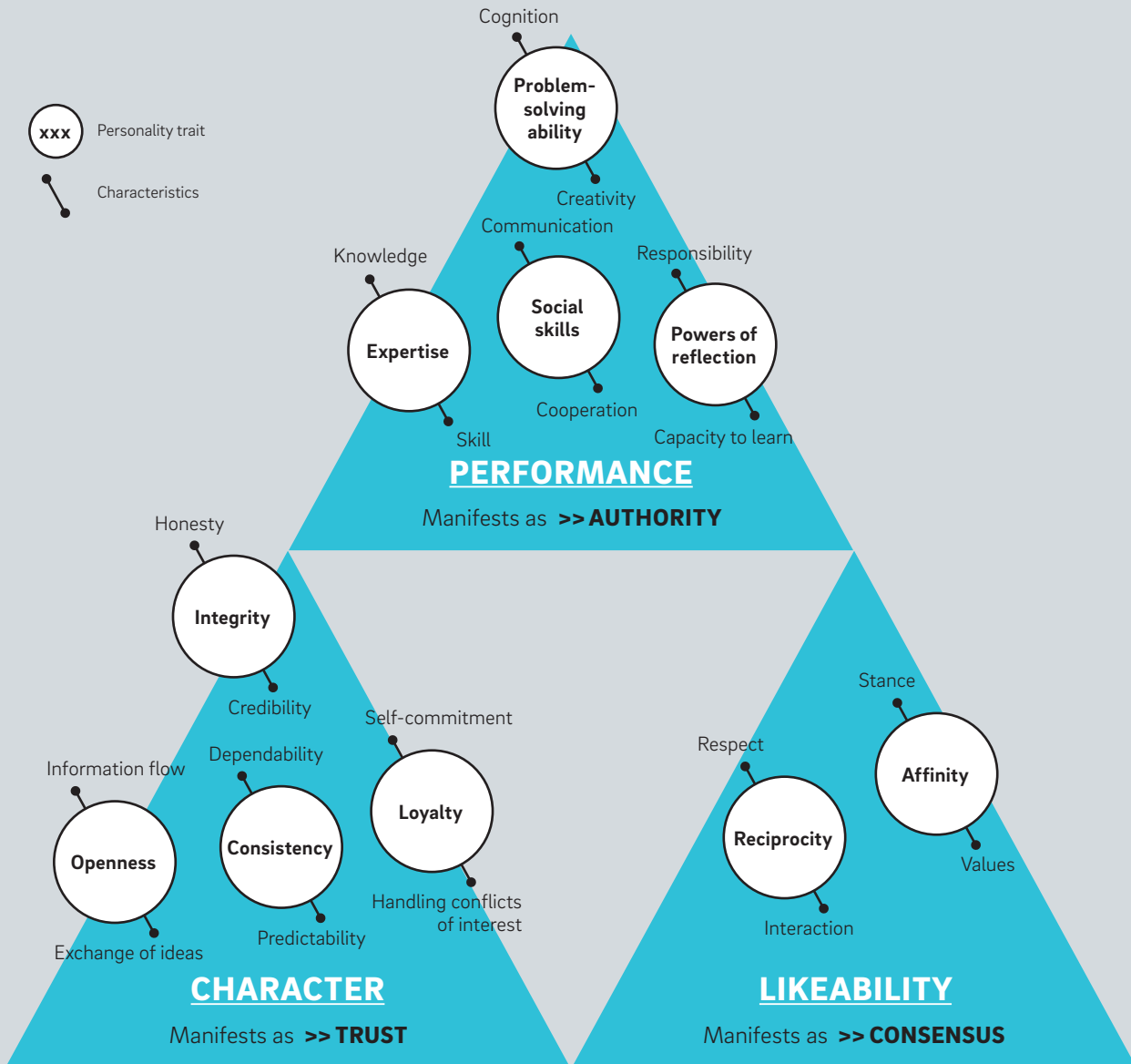
PERCEPTION BEATS PERFORMANCE

Communications cannot prevent a company that is experiencing economic difficulties from going under. Nevertheless, CROs should not underestimate its strategic importance for the overall success of the project. Practical experience has shown time and again that a good restructuring plan which is poorly communicated or not communicated at all is about as much use as a poor program. At worst, a turnaround that appears to be successful in terms of key performance indicators may no longer be accepted as such because its success is lost in the communicative cross-fire. Consequently, investors may withdraw promised funding or suppliers and customers may lose their trust – and no longer supply or buy in the future. Ineffective communications with internal stakeholders can cause uncertainty among the workforce. Staff turnover increases as a result and highly skilled, flexible employees throw in the towel – in many cases the very people that ailing organizations are most reliant on to deliver the rescue plan.

C

THE THREE PLAYING FIELDS OF PERCEPTION MANAGEMENT

Our strategic approach is ideally designed to position the CRO as a key personality in the realignment process and direct the outward presentation of the restructuring project. Measures must target the organization's weak points and blind spots.



The new demands on corporate communications generated by the web- and media-based society in recent years have not made this task any easier. Numerous stakeholder groups – often with a critical stance and driven by strong motivation – want to be part of the communications chain. Many highly active stakeholders, such as investor representatives, also have an extensive communications arsenal at their disposal. Distressed companies must therefore be on alert practically 24/7, because negative sentiment can quickly go viral on the web and blow up into a full-fledged communications crisis.

"Every instance of undirected communication – be it within or outside the organization – can cause the restructuring process to falter."

QUOTE FROM OUR SURVEY

Communication in organizations often lacks the impact, agility and targeted precision needed to adequately respond to these conditions. A hesitant and conservative communications policy, hierarchical command structures, departmental silos or the inability to exploit digital channels frequently make crisis situations even worse instead of supporting the transformation. Organizations need to take a more strategic approach to communications and concentrate on developing a clear profile, carefully harmonizing their activities and ensuring consistent and coordinated communications across all channels.

PREPARING FOR AND ANTICIPATING WORST-CASE SCENARIOS

CROs are initially confronted with a situation in which a lot of negative communications about the company are floating about in the market. Therefore, before the start of the restructuring project, they must agree with the management and wage negotiating partners on a mobilizing message that ties in with the seriousness of the situation the company is facing, describes the challenge ahead and points to a viable course of action. The

thrust of the message may be anything from "growth" or "new beginning" to "preserving the healthy core".

Which stakeholders are relevant? Our respondents consider top management to be the most important internal stakeholders, followed by employees and second-level management. As the most important external stakeholders, they list financing banks, followed by customers and suppliers. CROs need to get these classic stakeholders on board, but they must also arm themselves against resistance from other corners. Who might potentially dig their heels in or stir up a fuss, and for what reason? Are there any issues with the topicality, relevance, prominence, momentum or identification potential to make them newsworthy enough to hit the headlines? To what extent might this impinge on the company's capacity to act, and what damage – material (e.g. buyers' strike) or immaterial (e.g. loss of image) – might it cause? For such worst-case scenarios, it's a good idea to have communications strategies and appropriate messages up your sleeve.

MANAGING COMMUNICATIONS

CROs are both the beacon and the anchor of a restructuring project. This makes them authentic and tangible, but also puts them in an exposed position. They must take a long, hard look at themselves and ask whether they are willing and able to assume the role of the "face of restructuring communications". If they are at all in doubt, or if the scale of the overall project is simply too vast, engaging a communications expert as spokesperson for the restructuring may be the way to go.

The first step is to define and tailor the key messages for the individual restructuring stages to match the interests of the stakeholders. These messages are then linked to a storyboard and timeline that defines individual measures for the appropriate channels. This plan is the central control element. Our respondents take a relatively open approach to communications: → **D**

73% advocate proactively selling the restructuring to external stakeholders. In internal communications, 84% of the experts favor a "largely open" policy. Asked how often information should be communicated, 64% of our respondents replied that external stakeholders are informed as and when the situation demands. Another 27% communicate regularly on a weekly basis and 3% consider daily information to be useful.

"CROs must know their role. They are not the mouthpiece of the owners."

HUBERT THIERMEYER

ver.di Regional Director for Trade in Bavaria



How do employees (and their reps) view the CRO: One topic – two interviews

Question: How do you view the restructuring landscape today?

Hubert Thiermeyer: The number of restructuring initiatives has increased. Having said that, not everything that goes by the name of "restructuring" necessarily is. Many organizations believe they can shape change on their own. That is a big mistake. Our experience is that management is rarely ready to commit to fundamental structural changes. They are usually under pressure to make a decision quickly, and that prevents them from examining things too closely.

What are the consequences of this?

Say the company has failed to make important investments or missed the boat on a market development: it is hard to judge your own mistakes objectively and rectify them properly. Change driven from within the company tends to focus strongly on managing costs. This nearly always has negative consequences for the employees, rather than helping to safeguard the company's continued existence for the long term.

What is so special about having a CRO involved in the restructuring project?

For employees, it is a good sign when a CRO supports the realignment. CROs see the company's strategic direction from a new angle. They are expected

to be professionals who have innovative and creative ideas for salvaging the company that go beyond pure cost-cutting. With CROs, companies have the chance to take a fresh approach, drill down to the core of the problem, and look for medium- and long-term solutions.

What kind of communications do employees expect in crisis situations?

There is a tendency to underestimate how much employees understand about strategic realignment. They know only too well that their jobs depend on the company's commercial success. CROs should therefore communicate clearly from the word go and take the time to explain in detail what the ultimate goal of the restructuring is and how they intend to get to that point.

What mistakes can a CRO make in the role of communicator?

Let me put it this way: there are certain principles that can help CROs to keep the process on track. They can and should position themselves as a trustworthy communicator. Not everything that is communicated outside of the company can always be controlled one hundred percent. However, the more facts CROs present that then become reality, the more credible their communications become. They have

to have the courage to go public – provided there really is something worth communicating. By contrast, it goes without saying that they should never speculate or add fuel to rumors.

How should communications be shaped in the context of negotiations?

There is a simple formula: drive a hard bargain, but play fair. In negotiations, both sides have to put their interests on the table. Negotiations become tricky when they are not conducted on an equal footing. All parties should endeavor to speak the same language, to meet the other halfway. It is also important to get all of the key stakeholders around the table and draw on the available expertise to help turn victims of change into owners of change.

You mention interests – whose interests does the CRO represent?

CROs represent the interests of the restructuring project and are responsible for making it a success. They must know their role; they are neither the mouthpiece of the management, nor the agent of the owners. Any conflicts of interest will only serve to confuse matters. This applies in equal measure to the employee representatives, who should not be too blinded by the business administration perspective.

"The only tactic that works in a crisis situation is absolute transparency."



DR. BURKARD GÖPFERT

Expert in labor law with the law firm Baker & McKenzie

Question: Where can CROs go wrong when discussing personnel measures with wage negotiating partners?

Dr. Burkard Göpfert: Most managers tend to charge straight in and have absolutely no patience and no feel for informal talks. We, on the other hand, make "personnel policy". We work with what we call benchmark papers that are very gently worded: this is completely different from negotiating an M&A contract, for instance.

What has priority in this conflict situation?

In practice, two points emerge over and over again. First, CROs must satisfy the other stakeholders that they do not plan to exit the company until a solution has been delivered. Employees in crisis-ridden companies can be especially hard to convince. They have seen a lot of consultants come and go who have presented various concepts. None of these have led to much, and the company is still in dire straits. Second, CROs must get a grip on all communications with the works council and the trade unions. In crisis situations, these communications can easily get out of hand. Sometimes, for this to work you need to lay down the law – along the lines of: "Anyone who talks to the works council again without consulting the CRO first will be summarily dismissed."

What kind of communication tactics are successful in crisis situations?

Many people think that salami slicing or delaying tactics can help make unpleasant truths easier to swallow. But that is a fallacy. The only tactic that works in a crisis situation is absolute transparency. The CRO should state in no uncertain terms what is true and what is false. For example: Have we ever made money with this product/on this market? Yes or no? Only if the CRO points things out unequivocally will everyone in the company know where they stand. And only when these truths are on the table can we start to talk about how to treat the people who work for the organization.

When and how should the CRO involve the wage negotiating partners?

That cannot happen soon enough – even if there is not yet a ready solution. "We are holding talks and will keep you informed of our progress on a weekly basis" is sufficient. Employees want to know that problems are being addressed. Ahead of the actual negotiations, you should informally sound out the positions and possible compromises. Once official negotiations have begun, the pressure from all stakeholder groups – customers, suppliers, families or the press – is strong. Then it is a case of presenting results promptly to avoid causing too much anxiety.

What is the best way to communicate the outcome of negotiations?

Many managers are worried about entrusting the communication of personnel measures to others. I believe this is a serious mistake. If they collaborate on a basis of trust with the wage negotiating partners, CROs can take a back seat when it comes to communicating personnel measures. The negotiating partners have their own communications objectives. For example, they must demonstrate to their members that they have had a hand in creating the compromise. Moreover, communications from the trade unions often carry far more weight with employees than statements made by the management.

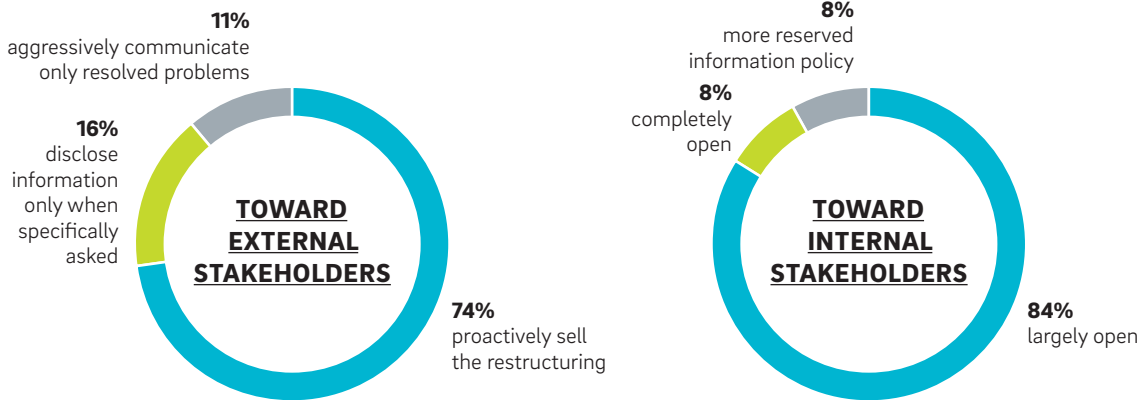
What causes negotiations on personnel measures to fail so often in practice?

The fact that representatives from both sides are not prepared to accept responsibility for a compromise. The management is afraid of not having achieved enough. And the works council fears that it hasn't been tough enough. That's why we include mediators, judges or arbitrators in the process. These are the third parties that help ensure that the responsibility is shouldered by as many different participants as possible.

D

THE APPROACHES FAVORED BY CROs ...

[% of respondents; n = 42]



Source: Roland Berger

In communications with internal target groups, 39% say they provide information when important events occur, 35% communicate weekly, and 25% daily.

MONITORING AND FOLLOW-UP

Many organizations make the mistake of measuring the success of communications exclusively against output-driven criteria such as press clippings or the number of intranet postings. However, companies can obtain real transparency about how effective a campaign has been only if they do a before/after comparison of how opinions and attitudes have changed as a result of the messages communicated. How many unique visitors did it attract? How has the brand image altered? How many leads did it generate?

It is especially important in crisis situations to closely monitor social networks. The specifics of channels such as Instagram, Twitter or Facebook, as well as employer ranking platforms, necessitate quite different responses. It's a good idea for a task force to keep an eye on comments posted, gauge their impact and moderate or even steer things in the opposite direction if the situation escalates. The other communicators also need to be informed about the situation on the social media front, as any rumors circulating

there are the starting point for communications with employees and media coverage.

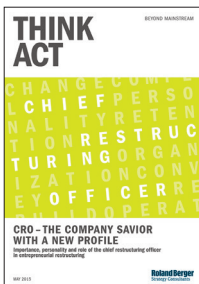
Once a communications crisis is over, the problem should not be wiped off the agenda and forgotten. The internet never forgets. And while the exposé in the local paper may well have been refuted long ago, if worst comes to worst it can still rank first in a search query. Even years down the line, it can continue to provoke critical questions from journalists, confuse potential job candidates or unleash a wave of indignation in the social networks.

Restructuring will remain a challenging mission now and in the future. And as leadership and communications continue to become more professionalized, it is all the more important that CROs stay abreast of the latest developments and share their experiences. Indeed, there is no other way for them to regularly evaluate and hone their skills or build up a network of suitable experts. ♦

ABOUT US

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FURTHER READING



CHIEF RESTRUCTURING OFFICER – THE COMPANY SAVIOR WITH A NEW PROFILE

Importance, personality and role of the chief restructuring officer in entrepreneurial restructuring

The role of chief restructuring officer (CRO) is changing: from a restructurer of companies in acute crisis situations, often brought in by external stakeholders, to an interim CEO who also takes responsibility for corporate strategy. This is the outcome of a study in which we questioned top CROs and restructuring experts about trends in the appointment of these specialists.



A MATTER OF PERCEPTION

How managers use Perception Value Management to succeed in the web- and media-based society (German only)

According to this study, more than twice as many managers' careers fail because their actions are perceived negatively than because of objectively poor performance. The study shows how managers use Perception Value Management to succeed in the web- and media-based society and thwart the power of critical and active stakeholders to obstruct change.

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