

# Turnaround Topics II

BY CARL S. LANE AND DUNCAN S. BOURNE

## Interim Officers: Critical Skills for Critical Situations



**Carl S. Lane**  
Willow Tree Consulting  
Group LLC; Chicago



**Duncan S. Bourne**  
Wynnchurch Capital  
Ltd.; Chicago

Carl Lane is a managing director with Willow Tree Consulting Group LLC in Chicago and has more than 20 years of experience in financial advisory consulting and as a corporate executive. Duncan Bourne is a managing director with Wynnchurch Capital in Chicago and has more than 30 years of experience in turnarounds, performance improvement and special situations.

In the current economic environment, management teams can find themselves in perpetual flux as their organizations attempt to refocus on key markets, leverage strategic advantages and improve cost structures. Over the long term, management team changes are typically accomplished through succession planning, organized outside searches and designed turnover. However, management teams often encounter acute situations where gaps in the management team's capabilities can increase risk to the organization and hamper the organization's ability to compete successfully. Hiring an interim officer<sup>1</sup> is often critical to the successful execution of key operational and strategic initiatives, or is needed as a short-term solution where gaps exist in senior management's skills and abilities (see Chart 1).

### Common Situations

The four most common situations where interim officers are hired include the following: (1) the organization is contemplating a merger, acquisition or sale and requires specialized expertise for a short time frame; (2) the organization is experiencing financial or operational distress and management does not have the necessary expertise or sufficient experienced manpower to address the situation quickly; (3) the organization has encountered an abrupt departure due to actual or alleged improprieties and such issues have made long-term hiring difficult; and (4) a key executive has resigned and the organization needs an extended time frame to properly identify, evaluate and hire new senior leadership.

For example, in a bankruptcy or restructuring, the company's board of directors commonly engages a chief restructuring officer (CRO) to focus solely on turnaround and restructuring activities. The hiring of a CRO is often at the insistence of the company's lenders or another party-in-interest. A CRO is usually "battle tested" and can be very helpful during tense situations and in handling tough negotiations. The CRO often also provides side benefits: When the assignment is complete and the CRO departs, many of the negative feelings created during the restructuring phase go away with that person.

Owners of a closely held business that are pursuing a sale may employ a chief financial officer (CFO) on an interim basis. The interim CFO will

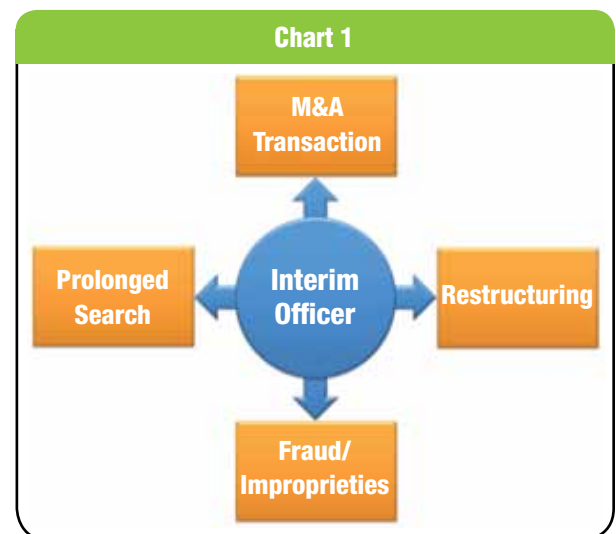
most likely have led other companies through sale processes and other transactions. Having another senior executive with the right technical background clearly helps. More importantly, however, the interim CFO is well experienced in closing the deal.

Private-equity deals are also good situations for interim officers. Private-equity groups (PEGs) often buy companies that they expect to restructure or combine with an add-on investment. PEGs expect quick results, like hiring entrepreneurs who have bought, fixed and sold companies at least once, if not several times. Interim officers do a good job of accelerating change and implementing performance improvements at companies that will ultimately be sold or taken public.

### Key Characteristics and Skills

Organizations seeking to hire an interim officer should focus on the key characteristics and skills that make an interim officer successful. The key characteristics and skills are encompassed in five primary areas: (1) decision-making, (2) communication, (3) relationship development, (4) strategic management and (5) transition planning. Though the mix or balance may be different, these key characteristics and skills are strongly held among all successful interim officers.

While industry or sector experience is always a valuable trait, it is less important for the interim officer who brings specialized expertise and process capabilities to the situation. Furthermore, as interim officers often "land" at a new situation just as tensions are at their highest (e.g., restructuring, sale of a company,



<sup>1</sup> "Interim officer" is used herein to refer to all senior interim-management positions. The names "interim executive" and "interim manager" are also commonly used to describe similar roles.

etc.), soft skills are critical. Ultimately, organizations should still evaluate all candidates broadly, and personality and cultural fit are always fundamental considerations (see Chart 2).

## Decision-Making

The successful interim officer possesses confidence and experience that have been gained in similar situations and that are invaluable in guiding an organization through the evaluation of strategic alternatives and making difficult decisions. Existing management does not often have the expertise that is necessary to navigate unique business or industry transitions. The interim officer can bring his or her broad experience from prior roles to direct the organization more effectively through the transition and reduce the risk of delay or failure along the way. The interim officer will quickly take control, make tough decisions, deal with uncertainty and chaos, and challenge “business truths” and information. These competencies are addressed below.

- *Take control.* While every situation is different, most interim positions are driven by a lack of management capacity. In such situations, it is imperative that the interim officer elicits control very early upon arrival to send a definitive message that he or she is a leader.

- *Make tough decisions.* It is very common, especially in distressed situations or where the leadership departed abruptly, that management will be experiencing decision-making paralysis due to the complexity of the situation and the extent of the issues to be addressed. The successful interim officer must be able to break through the paralysis and make the tough decisions.

- *Deal with uncertainty and chaos.* It is not “business as usual” in any interim officer situation, and there will be a higher level of uncertainty and even looming chaos. The interim officer is more comfortable in these situations due to his or her prior experience with similar circumstances and broader background. The interim officer is also more flexible in his or her decision-making and is willing to change direction as the situation evolves.

- *Challenge “business truths” and information.* The interim officer must be ready to challenge the status quo and the very strongly held beliefs of the organization. Statements like “we’ve

always done it that way” and “that’s just how our industry works” are signs that “group think” is likely limiting the business initiative. The interim officer also needs to heavily scrutinize the information and data being utilized by the organization for making decisions. Inadequate or poor information, often generated by antiquated processes or byzantine systems, is prevalent in underperforming and distressed situations. Mergers and acquisitions often require special *ad hoc* reporting that is susceptible to inaccuracies, and alleged fraud puts all accounting and financial data into question. The interim officer must act quickly to gain access to reliable and relevant information in sufficient detail to make business-critical decisions.

## Communication

The successful interim officer is an accomplished relationship-builder and a tireless communicator. Given the limited term of the interim officer, he or she cannot wait for regular periodic meetings or other standard business dealings. Instead, he or she must devise and execute a communication plan that has a bias to proactive interfacing with stakeholders. The communication focus is highlighted below.

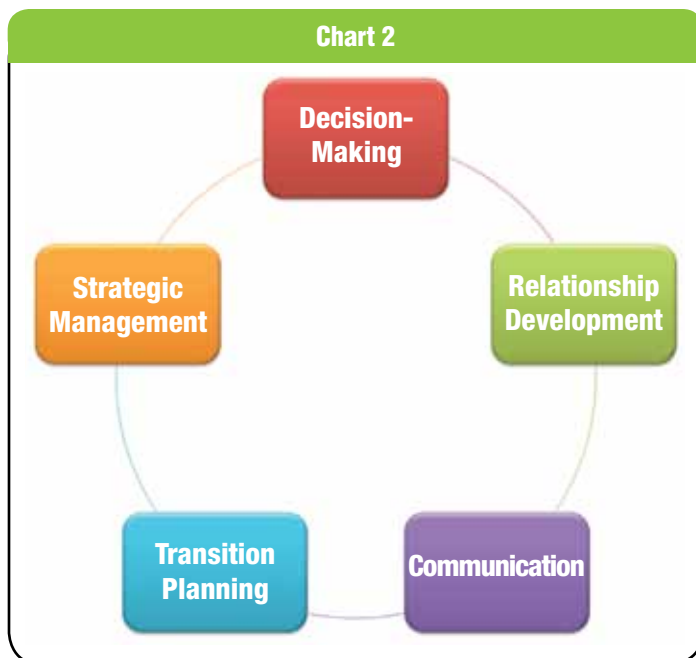
- *Quickly build relationships with stakeholders.* It is important for the interim officer to recognize that his or her responsibilities extend to all stakeholders, especially when there has been management turnover and uncertainty exists regarding the strategic direction or viability of the organization. The interim officer should quickly reach out to key stakeholders and develop lines of communication, especially with the stakeholders who could be negatively impacted. In distressed situations, it is extremely important to build relationships with creditors, such as banks, and rebuild their confidence in senior leadership. In transactional situations, it is important to communicate with employees regarding the impact of the transaction on the organizational structure. While the information may not always be positive and uncertainty will surely exist, a lack of information will lead to disruptive rumors and often result in unnecessary employee anxiety.

- *Communicate, communicate, communicate.* An overarching theme in many of the key characteristics outlined herein is communication. While communication is always important, its importance is amplified when there has been management turnover, the company is distressed or the organization is undergoing strategic change. The interim officer should utilize all forms of communication to send a clear and consistent message to all stakeholders.

## Relationship Development

The successful interim officer is adept at quickly building constructive relationships with key stakeholders within and outside of the organization. Stakeholder relationships are often strained or even nonexistent when there is a management void, especially when the organization is distressed or management departed under problematic circumstances. The interim officer needs to have an impeccable reputation and should use his or her impartiality to build or resurrect important connections. The interim officer will be visible and accessible, build trust and confidence, and promote a positive work environment. These activities are expanded upon below.

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- *Be visible and accessible.* To effectively manage during a finite time period, it is imperative that the interim officer builds both formal and informal lines of communication with all employees. Informal communications often provide added insight into the issues facing the company and surface ideas for resolving them from the employees who deal with them on a day-to-day basis. Even in this increasingly connected world where communications devices are in everyone's hands "24/7," the interim officer needs to be highly visible and accessible to gain access to required information. While "management by wandering around" (MBWA) may be a cliché, it is often extremely useful for increasing visibility and accessibility, particularly when time is of the essence.

- *Build trust and confidence of employees and management.* Building trust and confidence in a short time frame can be difficult, especially when the interim officer is an outsider and may be injected into a volatile business environment. However, it is imperative for the interim officer to develop trust and confidence quickly to gain the support for key business-critical decisions. Having other senior leaders or employees undercutting such decisions can be disastrous for both the organization and the interim officer's reputation. First, the interim officer should initially spend some time "selling" other officers and employees on his or her background and experience. Remember that just because the board of directors or chief executive officer believes that the interim officer has the necessary skills, it does not mean that others will automatically agree and support the interim officer in achieving his or her objectives. Second, the interim officer should present sound reasoning and analysis to support early decisions. The key is to demonstrate knowledge and expertise so that focusing on areas of particular strength will be useful. Lastly, the interim officer needs to be forthright and honest in all dealings with management and employees as early missteps are difficult to overcome.

- *Avoid blame and distribute credit.* Given the heightened importance and total number of important decisions that will take place during an interim assignment, there will likely be some unfortunate failures along with the desired crucial successes. The interim officer can use the failures and successes to enhance his or her relationship with management and employees by avoiding blaming others and distributing credit where credit is due.

### Strategic Management

The successful interim officer is exceedingly organized and an exceptional project manager. As discussed, it is not uncommon for management teams to be overwhelmed (the proverbial "deer in the headlights") by the complexity of the situation and sheer number of potential activities during an M&A transaction, a restructuring or a forensic investigation. The project-management competency allows the interim officer to catalyze action undertaken by the organization, directing the organization to deal with the unique issues and additional outside demands encountered during such situations. The interim officer will clearly define roles and responsibilities, identify the key focus areas, and prioritize and delegate. The interim officer will also define his or

her goals consistent with the transactional milestones that govern his or her term. These undertakings are expanded upon below.

- *Clearly define roles and responsibilities.* The managerial responsibilities of senior leaders vary from company to company and can be impacted by the same factors that led to the need for an interim officer. Therefore, it is extremely important for the interim officer to clearly define his or her role and responsibilities at the outset of the assignment, which should be done initially through the employment contract or engagement letter and subsequently reinforced through discussions with other senior leaders and subordinates.

- *Identify key focus areas.* When management is being stretched thin, they may be working on many projects or issues but successfully completing or resolving very few. In these instances, it is imperative that the interim officer rely on his or her experience to identify the key focus areas (important and urgent) and to limit the pursuit of tangential activities (urgent but not very important). In distressed and transactional situations, the focus should be on short- and medium-term projects that will directly impact the near-term performance or the success of a transaction.

- *Prioritize and delegate.* Similar to identifying key focus areas, the successful interim officer will prioritize the key projects and clearly assign responsibilities with definitive deadlines for each project and other key milestones. The interim officer can also use the status updates and debriefs to assess the quality of the management team, which can be extremely useful if the interim officer's role includes reshaping a key department or operation.

- *Goals should be consistent with the term.* As the interim officer will primarily be evaluated for his or her performance and the performance of the organization during the finite period, goals should always be defined with this in mind. While the organization's long-term strategies should not be neglected, the interim officer should ensure that key projects are substantially completed because the remaining management team may not have the skills or desire to complete ongoing projects.

### Transition Planning

Lastly, the successful interim officer recognizes that an efficient transition is critical to the organization's long-term success and enhances his or her reputation. If the transition is incomplete or ineffectual, the strategies and business processes implemented by the interim officer will potentially collapse. The perceived value of the interim officer's services will diminish if the remaining management team cannot expand upon or at least sustain what was introduced by the interim officer. The interim officer needs to plan and prepare for the transition and follow up even after the formal arrangement has ended. The two most essential transition steps are discussed below.

- *Plan and prepare for transition.* A smooth transition from the interim officer to the full-time officer will not only be more efficient and effective, but will also leave a good last impression. The interim officer should perform his or her duties while recognizing this certainty. As such, it is a good practice to keep well-organized records and even work

programs for key tasks and activities. The interim officer should assist with the transition process and would typically have some overlap with the full-time officer. Additionally, the interim officer should assist with identifying, recruiting and evaluating full-time candidates as he or she will have a deep understanding of the challenges facing the new officer.

- *Follow up.* The interim officer should also make it a practice to periodically follow up with his or her replacement and other key stakeholders. This follow-up not only provides an opening for the full-time officer to ask you that question he or she “has been meaning to call you about,” but may also help in identifying other situations where interim assistance may be needed.

## Conclusion

Organizations seeking to hire an interim officer should identify and assess the different mix of skills that interim

officers must have in order to be effective. Those skills include decision-making, communication, relationship development, strategic management and transition planning. The interim officer should also have specialized expertise and relevant experience to deal with the current situation and the critical issues that the organization is facing. However, organizations certainly should not ignore the “whole package,” and they must ensure that the interim officer’s personality melds with the other officers and managers and that there is a good cultural fit with the organization. **abi**

**Editor’s Note:** *For more in-depth information, purchase The Chief Restructuring Officer’s Guide to Bankruptcy: Views from Leading Insolvency Professionals (ABI, 2013), available at [bookstore.abi.org](http://bookstore.abi.org) (members must log in first to obtain special pricing).*

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