



# The role of management in turnaround operations

The interim management option

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## Soluzione Temporary Management

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# AIFI

La gestione straordinaria  
delle situazioni di crisi d'impresa

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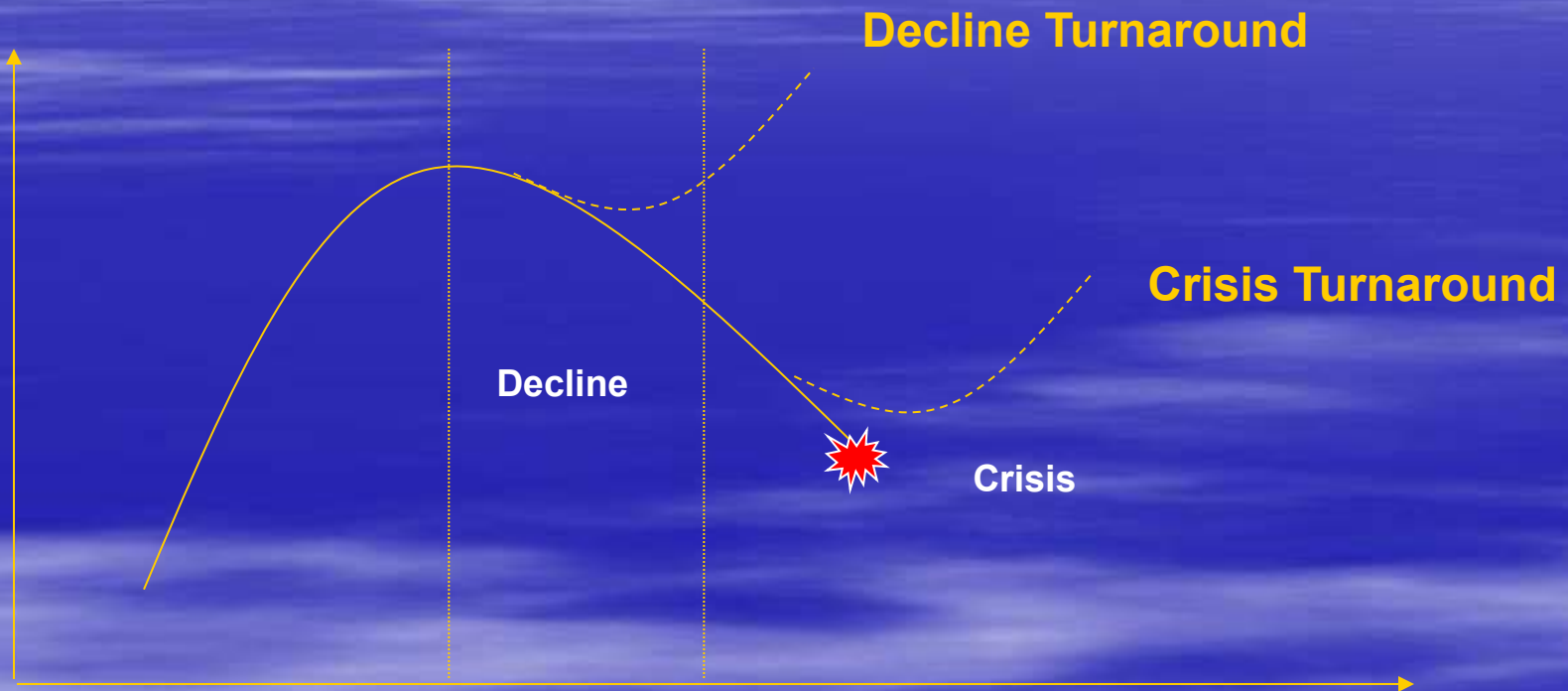
Quaderni sull'Investimento nel Capitale di Rischio

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# Presentation topics

- The basics of Interim Management
- The interim roles in Special Situations: Global Coordinator (CRO/CTO/CEO), interim functional managers team
- Working with SMEs in crisis time
- The Italian situation today

# A quick refresh



Entrepreneur  
Family group

Interim  
Manager

New  
Shareholders?

time

# Crisis and decline

Decline, i.e. the loss of company value over time, can be considered a quasi-physiologic passage

Crisis is an extraordinary fact, characterized by a long lasting and serious situation of instability, with strongly negative economic results, significant unbalance in the financial flows, reduced credit capability, insolvency



# Special Situation

- We have a Special Situation when a company is no more focussed on its core business, but all the activities are concentrated on survival rather than continuity
- In cases of **business discontinuity** and potential **risk for the life of the company**, shareholders and management must be able to:
  - define and implement projects aimed to reorganize the most troubled functions and areas in order to get back to the value creation mode
  - restructure the company, looking for the resources required to grant the **continuity** (mainly management and capital)

# Perception

The top management is much more absorbed by the extraordinary tasks related to the crisis rather than by than on the normal business tasks

<b>Figure 1</b>		
<b>Responsibilities</b>	<b>Management Time Required</b>	
	<b>Historic Mode</b>	<b>Turnaround Mode</b>
Business Operations: Focus on customers, products, manufacturing, sales, and other typical growth, profitability, and capitalization issues.	80%	20%
Corporate Governance: Manage liquidity (or lack of it), bankers, trade vendors and credit issues, lawyers, and a range of liquidity-induced manufacturing and customer service issues.	20%	80%

# Some crisis indicators

## ■ Financial

- late presentation of balance sheet
- high CFO turnover
- shortened payment terms by suppliers
- new finance hunting
- focus on finance activities
- focus sull'attività finanziaria
- unreliable reporting

## ■ External

- fights in the Board
- generalized and open management conflicts
- acquisitions hunting
- continuous changes in strategy
- opening of new offices without a rationale
- increase of NEDs



# Only few factors for failure

Main factors identified by researchers

- Inadequacy of management
  - Slatter (73%), Gething (84%)
- Control systems substantially missing
  - Slatter (75%), Gething (60%)

# Some basic truths

Quite often the beginning of a crisis start with the apex of success

The best restructuring strategy is to avoid it being a “no option” decision

KFS is to understand the change signals:

- Trespassing some thresholds
- Detect the so called *trigger events*

# Crisis – a general risk today

The global crisis has an impact on every company:

- on those in good shape, with the crisis infecting through clients, suppliers or banking system
- on those in decline mood, due to the shorter time available before entering a real crisis
- on those in bad shape, with the amplification of an already difficult situations

# Crisis – The psycho factors

## Entrepreneur

- The first to remove even the thought of crisis

## Management and personnel

- Skills related to ordinary management
- Maybe accustomed to growth and development
- For sure not ready to live in difficult periods

# Role of external Advisors

- Re-establish the missing leadership
- Keep focus on the agreed direction
- Keep and motivate the right people
- Get credibility
- Give reliable figures
- Relieve di-stress and over pressure on people
- Make the organization reactive and not passive
- Communicate and give transparency



# Interim Management (IM)

IM is the temporary provision of

**highly qualified and motivated managers,**

to manage **a company** or **a specific function**, with the goal of giving continuity to the organization, by increasing the existing skills and solving specific critical moments, either **negative** (turnaround, restructuring, reorganization) either **positive** (growth, new businesses, internationalization). In these cases a permanent role it's generally unnecessary and/or impossible to find on short notice. The manager has all the **powers** needed to meet the objectives of his assignment.

# IM differs from Consulting

- Not a matter of contracts
- But a matter of skills and behaviours
- And also a matter of responsibility and management
- Beware of the change management trap!

# IM as a third way

IM is an alternative way to get resources to support the existing management in a company, beside the traditional permanent manager (in Italian: *dirigente*) and management consulting from which differs

- for the type of problems to be solved
- for the type of solution required

# The Interim Manager

The typical profile of a European IMan:

- age over 45
- multi-experience: 5 company changes and up to 10 different roles in his career
- more than 20 years as a permanent
- more than 3 years as an interim
- aware of selling know how and experience
- no more interested in the traditional career

# What an IMan is not

- Not simply a very good manager
- Not a desperate job hunter
- Not a consultant
- Not one who could do it: he/she has done it and knows how to do it



# Mindset

- Goal oriented
- Personal satisfaction comes from achieving ambitious goals in a short time
- No interest for the *political* component of a traditional career
- Attracted by change
- Likes to decide what to do
- Enthousiast, passionate

# When an interim manager

- Transition management (sudden and unexpected managerial gaps)
- Management of special projects
- Crisis management
- Competence management
- Change management situation, especially in cases where timing is crucial (more than the quantum leap is critical the time to do it)

# IM in special situations

In special situations the motto is **MOVE FAST, MOVE WELL**

- Very short time to find the right manager/s
- Need of resources that can be deployed with short notice
- Need to have manager/s very fast
  - in understanding the key drivers of the business and of the company
  - in planning their action
  - in implementing their plans
- Concentration on problem solution

# Crisis and IM

In special situations, some of the main IM characteristics are a winning factor:

- fast response in every step of the process
- “third party” objectivity
- the degrees of freedom allowed by an interim solution
- specific functional skills
- competence in extra-ordinary situations
- psychological skills to live and move in difficult periods
- no complications at the end of the project

# Investors & Management

In special situations there is a close intertwining between investors and management

- the investor must rely on the management in order to get his way out
- managers are often ready to make the “big jump” to entrepreneurship

Only through the constant focalization on the value creation finalised to get the capital gain, there could be the right tuning between management and the spirit and objectives of the financial investors



# Investors & Management (cont.)

The IMan is a powerful resource to integrate and complement an existing management team

The interim manager, in facts:

- is already an entrepreneur in a way
- has the right age (generally over 50), which means the right experience, motivations, personal goals, maturity
- typically has a strong goal orientation
- moreover, he/she works for fun!

# Investors & Management (cont.)

- He/she's an agent of change
- Having worked in various industrial sectors has the right flexibility and mental opening
- He/she is not distracted by a personal agenda (career goals, internal status goals, etc.)

# Interim roles in Special Situations

There are various interim roles in Special Situations

- Global Coordinator of the entire process, often known as
  - Chief Restructuring Officer (CRO) or
  - Chief Turnaround Officer (CTO)
- The CRO/CTO may also have the CEO role
- In many cases there is an interim team with one or more functional IMan involved (e.g. operations, HR, finance)

# Global Coordinator – CRO/CTO

- Multidisciplinary manager with particular regard to bankruptcy procedures
- Long experience in turnaround and liquidation
- Skilled group leader of professional groups
- Deep knowledge of the “crisis tools” and capacity to manage the chrono-plan of the restructuring
- Positive approach, authoritative, a born leader
- Aware of the interim nature of his assignment
- Cold blood, fast in thinking, fast in acting

# CRO/CTO = CEO?

In Special Situations the CEO is normally replaced

- in SMEs generally the CRO/CTO also acts as a CEO
- in big groups there could be two different interim roles
  - the new CEO to run the business
  - the CRO/CTO as a dedicated role supportive to the CEO (e.g. a pan European turnaround project for a Japanese multinational)



# The Special Situation teams

- Quite often the complexity and the wide span of areas to be dealt with require a team of professionals with complementary skills and responsibilities
- There could be a managerial interim team composed by one or more functional IMans (typically the Operations Director, the CFO and sometime the HR Director)
- There is also a professional team made up of resources specializing in extraordinary finance: debt restructuring, “corporate engineering”, M&A, tax & legal
- The investor must supply and coordinate all these resources

# Special situations agenda

## The special situation team agenda

- Strategic level
  - Industrial plan and financial assessment
  - Feasibility of the industrial restructuring
  - Feasibility of the supporting financial restructuring
    - working capital
    - converting credits to SFP: innovative instrument, kind of semi-equity
    - new finance
    - crisis tools according to the new bankruptcy law
  - Detailed global restructuring plan
  - Way out plan

# Special situations agenda (cont.)

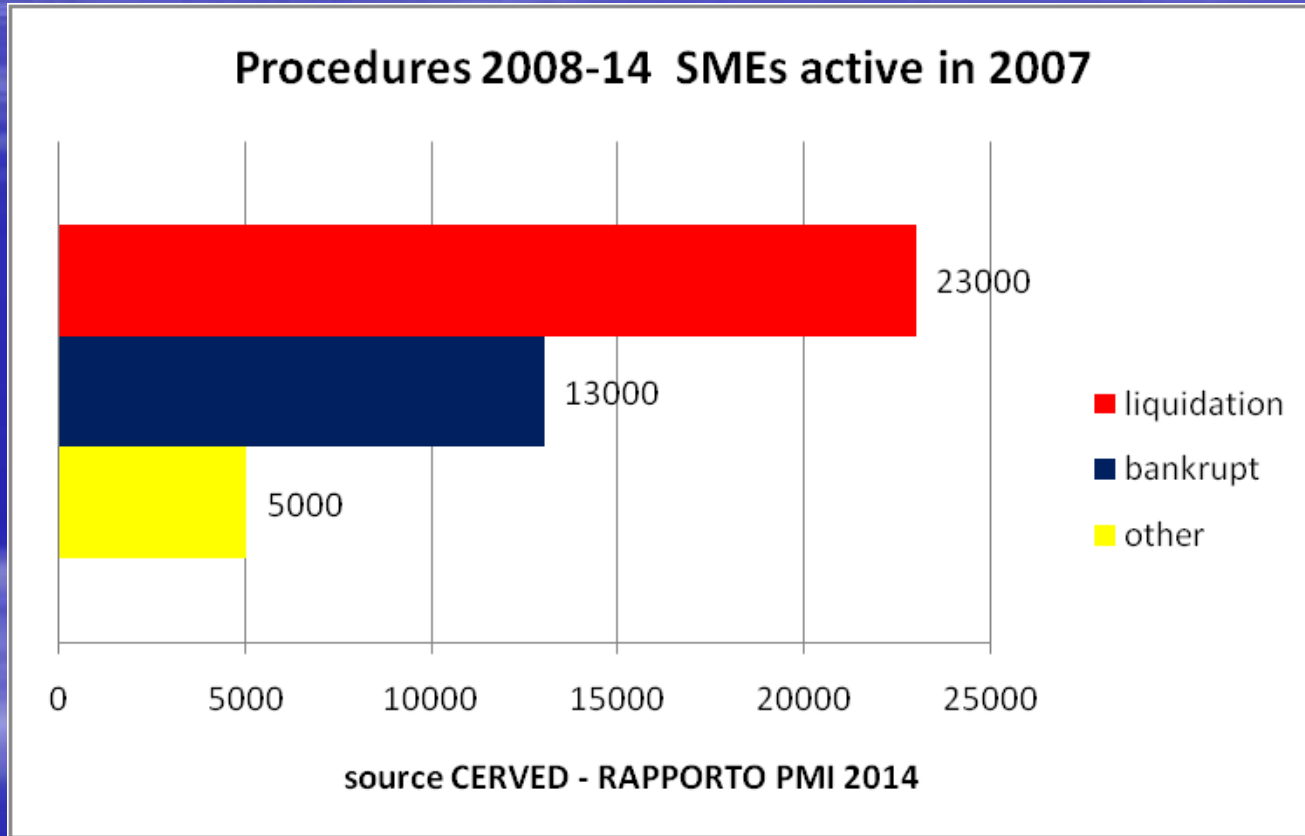
## The special situation team agenda

- Operational level
  - Protecting company assets from third parties actions
  - Industrial relations
  - Suppliers management
  - Credit collection
  - HSE management
  - Asset evaluation (inventory, fixed assets)
  - Evaluation of potential partial dismissals

# SMEs facing serious crises

- 98% of Italian SMEs' financial debt is bank related (Source: Cerved), more than Germany, Spain, France and big companies
- There are today 24.000 SMEs in the risk area with a total amount of financial debt around 71 bill. € and a high default probability
- The overall ratio financial debts/equity has improved from 115,5% (2007) to 90,4% del 2013, but still with a structural problem of cash in many cases
- The expected rate of SMEs entering the risk area and facing default is higher than in the recent past due to the overall crisis period

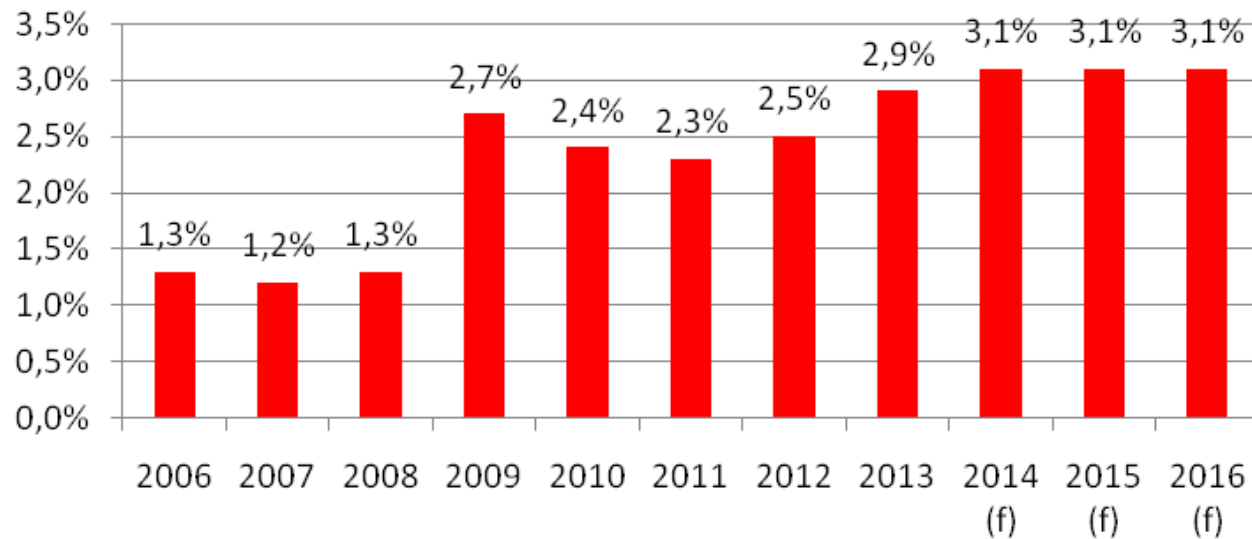
# Special situations - history





# Special situations - trend

## SMEs - facing potential crisis (%)



source CERVED - RAPPORTO PMI 2014

# IM & SMEs in general

SMEs show a general need for managerial competences (and not for permanent managers) to be injected in a company by managers who will

- facilitate and accelerate the entire change process
- be able to induce new mentality and new approaches on a long lasting base (the train conductor example)

# Factors for success

DOs before activate a project:

- clearly define project goals and areas of responsibility
- identify and relate with the proper internal client
- plan how to introduce the manager
- give powers
- agree project duration and continuation options
- plan what will happen after the end of the project: knowledge transfer, internal or external successor, ...

# Factors for success (cont.)

**Consensus of all the operational shareholders**

Not simply a problem of majority ...

**Powers to the IMan**

An IMan with no powers means an ineffective weapon

The typical entrepreneur: “... should you need something, then speak to me ...”

# Factors for success (cont.)

## Organizational environment and behaviours

- No compromise to keep on board family members and/or family related managers blatantly not up to the task
- The IMan must not be delegitimated by unproper behaviors and attitudes of the entrepreneurial group, including the unwilling endorsment of delegitimation “from below”



# Factors for success (cont.)

## **Communication**

It must be made known and clear to everybody what the manager is there for

## **IM is not a panacea**

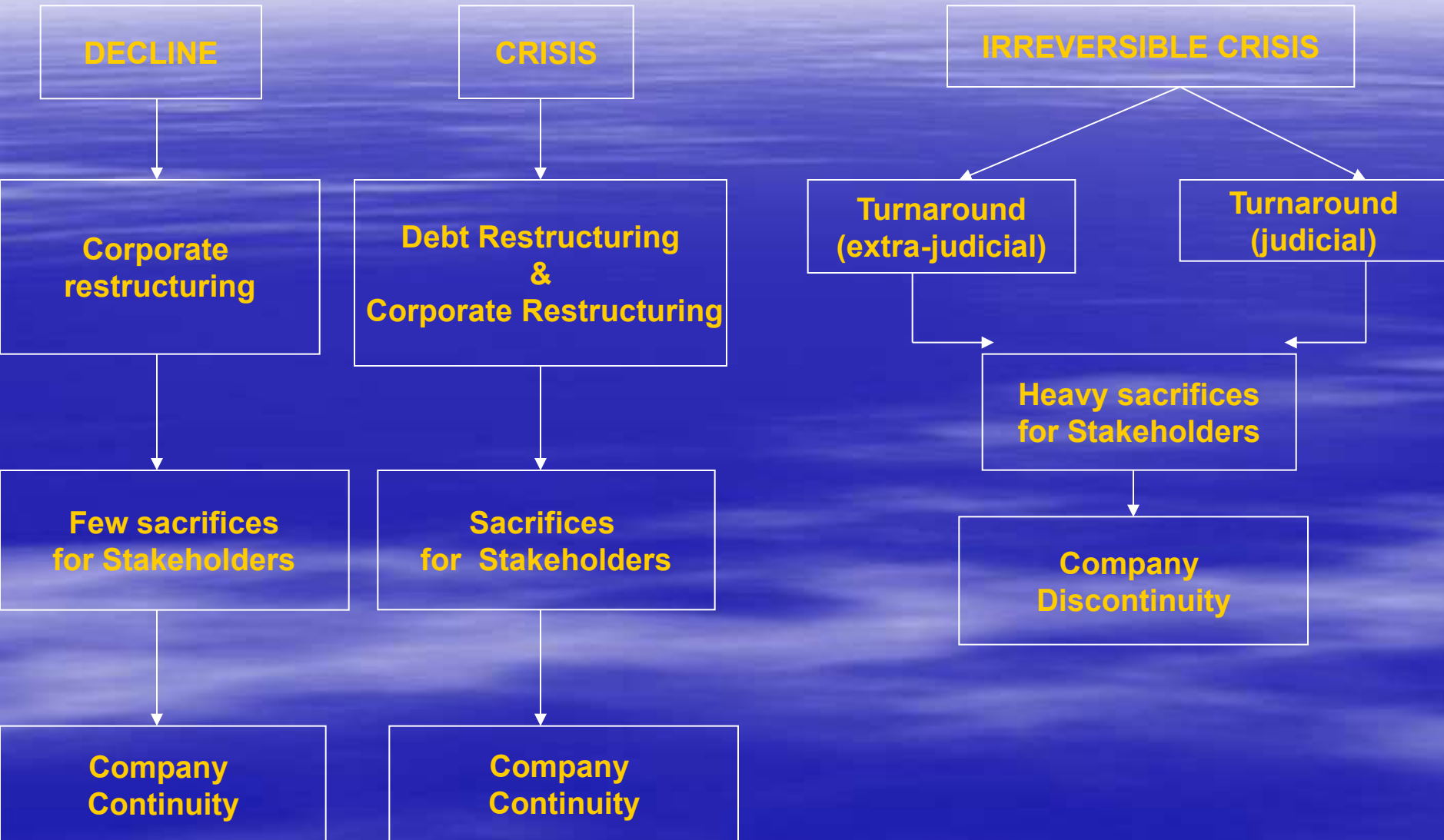
In cases of overt and irreversible crisis a limited interim engagement (e.g. in operations or in commercial area) cannot succeed: a real turnaround is necessary

# Public financing for IM in SMEs

Many examples at national and local level

- bipartisan project of law Mosca-Cazzola (2010)
- regional law in Friuli Venezia Giulia (law nr.4, 3/2005, also known as Bertossi)
- regional law 7193 (1997) - Regione Umbria
- specific tenders in various regions (e.g. Emilia Romagna, Toscana)
- the recent voucher for temporary export management projects

# Alternative paths



# A modular approach to IM

- **Anti-cyclical and preventive action** - restructuring and functional reorganization in one or more of the areas under pressure
- **Decline** – wider restructuring led by a new CEO, often with the support of an IM team (mainly operations and finance)

# A modular approach to IM (cont.)

- **Reversible crisis** – Actions for decline plus debt restructuring and with significant sacrifices requested from shareholders
- **Irreversible crisis** - real turnaround characterized by the intensity of change and by the involvement, with heavy sacrifices, of many stakeholders groups