MOTERE CONSULTING

The Chief Execution Officer: Leading Distressed Organizations

Leading distressed organizations requires not only a different skill set from other managers, but also a different mindset. The challenges are unique and the Chief Execution Officer (CEO) brings together specialists such as workout bankers and investors, they also ensure all stakeholders--investors, employees and the management team--work together to proactively drive the needed changes.

The CEO recognizes the importance of integrating cultural factors with other strategic initiatives. Culture shifts when it becomes apparent an organization is going to be bought or merged. Executives show signs of discontent through frustration, confusion, doubt and anger. The result is a lack of commitment to follow through and execute the strategy to the fullest extent.The CEO frames and treats cultural issues just like other Key Performance Indicators (KPI's).

Organizational culture is created by leaders actions, what they pay attention to, what they reward and punish and how they allocate resources. No two cultures are identical because no two management teams are identical. A need exists to determine strengths, shortcomings and blind spots. Motere's Executive Presence Report identifies leaders' strengths and tendencies and thier ability to execute.

The reality is the culture won't change unless the leader holds the skills and the mindset to drive execution. Management teams in distressed organizations often face shifts in priorities. They are mostly concerned with putting out fires rather than strategy execution. Few executives experience a turnaround situation in the course of their careers. What's needed is an execution specialist. The turnaround is carried out parallel to business operations. Both are critical to a successful turnaround.

The most notable turnaround failure is the Daimler-Benz/Chrysler merger in 1998. Daimler-Benz acquired Chrysler for $37B, but failed to integrate Chrysler into their culture. Chrysler was finally sold to Cerberus Capital Management for $7B in 2007. In a mere nine years, the deal lost 80% of the original value. Daimler-Benz imposed its culture on Chrysler rather than integrating the best aspects and weaning out the most ineffective. Leaders failed to focus on execution and placed too much emphasis on strategy. Simply, leaders were overly theoretical and lacked practicality.

The Chief Execution Officer

The CEO is presented and accepted as a change agent acting on behalf of the organization, the investors, the employees and all stakeholders. The mission of the CEO is to execute strategy to gain the full extent of ROI. An interim executive specializing in financial and operational distress, the CEO bundles all the tasks in a comprehensive manner, guides the process, and reaches agreements with all stakeholder groups. Fundamentally, the CEO implements the operational and financial measures that meet the objectives of the organization and its stakeholders--an execution specialist.

In the 2008 article, "The Big Exit: Executive Churn in the Wake of M&S's" published by the Journal of Business Strategy, the question was posed how culture can improve the ROI made by investors. The researchers found organizations lose up to 21% of their executive workforce each year up to ten years after an M&A. Obviously, stability is a problem, but underlying issues such as communication, teamwork and execution are contributing factors to the brain drain. A leader skilled in execution has a better chance of preventing the rate of mass exodus while at the same time fulfilling commitments to all stakeholders.

Effective CEO's increases stakeholder confidence by creating transparency and communicating consistently. They organize uniform systems of reporting by measuring whether objectives are realized and deadlines are met. Finally, these CEO's resign once the organization is stable and a new management team can be put in place. This sends a signal to the workforce and customers that normalcy has returned.

Conclusion

CEO's have a two-fold purpose: mitigate as much risk as possible and expedite ROI. While most deal makers realize whether they have an effective execution specialist after the terms are agreed, there are processes that exist to measure those skills before the deal is consummated. Investors can identify the strengths, tendencies and blind spots of the existing management team to confirm if they need to bring in an interim Chief Execution Officer. The assessment is conducted during the Letter of Intent phase.

A number of benefits are realized:
- Preserves the deal
- Maintains the original vision of the acquisition
- Provides quantitative data on presumably soft areas
- Identifies positive and negative aspects of the culture

Leading distressed organizations present a very different set of demands from those in the course of normal business. It requires an expanded skill set along with a unique mindset. The management team is consumed by the crisis, but the CEO helps managers focus and execute the strategy. The Chief Execution Officer significantly increase the likelihood a positive outcome for the organization, the employees, the investors and all stakeholders.