

# DIRECTORS MONTHLY

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By Suzanne Hopgood

## Required Skill Sets for a Workout CEO

**Bringing a company back from the brink of failure takes planning, commitment, and a lot of trust.**

Typically when I am hired to stabilize troubled companies, much has happened to affect the ability of the company to prosper and compete. The issues I face frequently start with default of debt covenants, usually monetary defaults, which means the company not only lacks adequate funds to pay its debt, but it may not have enough money to continue operations.

This is usually the last step in a long series of management failures that ultimately resulted in the debt default. Along the way, the company has typically lost its key talent and has experienced a high level of turnover in key positions. That turnover results in customers not being well served and confusion or total lack of interest in following prescribed corporate policies and procedures, which leads to violations in labor, discrimination, and harassment laws, often generating expensive litigation. Also, the cash handling procedures have been affected by turnover and lack of follow-up.

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### About NACD

**National Association of Corporate Directors (NACD)**, an independent not-for-profit organization founded in 1977, is the country's only membership organization devoted exclusively to improving corporate board performance. The NACD conducts educational programs and standard-setting research, and provides information and guidance on a variety of board governance issues and practices. Membership comprises board members from U.S. and overseas companies ranging from large publicly held corporations to small over-the-counter, closely held, and private firms. NACD lists all interested members on The Director's Registry, which is used by member companies and others that seek qualified directors. With chapters in many major cities providing educational programs and networking opportunities, NACD operates at both a national and local level. To educate the corporate community and to provide networking links among NACD members, the NACD holds an annual Corporate Governance Conference, where it presents a Director of the Year Award.



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The end result of this breakdown is typically a significant amount of theft, both at the point of sale and at the corporate accounting/wire transfer area. In other words, the lenders are distressed, the customer is not being served, the employees are unhappy, and the vendors are concerned, tightening their contract terms just at the time when the company can't afford to pay sooner. The last—and most devastating—is the breakdown of employee culture, which has frequently changed to one of pervasive theft.

What is a workout CEO to do?

### Coping With Multiple Crises

**Focus.** It's important to understand how serious the issues are. There will be 100 problems uncovered every day. Only the "life threatening" ones can be dealt with immediately. Problems fall in one of three buckets:

- "Life threatening." Deal with this one immediately because it can put the company out of business, either in the short or long term. There are usually two or three of these a day.
- Represents the company's future opportunity for success. Protect this opportunity, so the workout doesn't destroy the company's ability to be successful in the future.
- Needs to be addressed at some point in the future. Neither "life threatening" nor an opportunity. Put on a list and ignore it—for now.

**Make decisions quickly with little or no information.** Understand that some decisions will be wrong. The worst thing one can do, however, is not take immediate and decisive action. Spending too much time analyzing whether to use the bilge pump or assign a team to use water buckets on a sinking ship will result in the worst outcome.

**Develop a talented team.** The most important part of a workout is to identify the existing talent in the organization. Frequently, seasoned leaders have left; look for a team of very talented younger people who need direction. They have boundless energy, an unlimited desire to learn, and are grateful to be in a position of responsibility beyond where they would have been in a successful company. Building a team quickly is critical. Team leaders don't always come from the expected areas. The IT guy, for instance, may have the best intuitive financial talent in the company. He may then become your most trusted financial analyst. It is always fascinating to see how people either rise to the occasion or sit in their offices waiting for the latest storm to blow over.

**Keep an eye glued to cash flows and financial reports.** It is remarkably easy to run out of money in a troubled company. If bank statements have not been balanced for a period of time (not unusual in this situation), there is no way of knowing what commitments are out-

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standing. Rebates promised to customers may significantly reduce revenue.

### Plan For a Better Future

The first step in returning to "normal" is to assign someone in the accounting and internal audit departments to secure the existing cash, so that it comes from the point of sale to the home office and into the bank. If the company truly is out of cash, understanding bankruptcy law and having a bankruptcy counsel on board early on is critical, since there are personal liabilities associated with FICA, some state sales taxes, and some creditor claims.

Next, formulate a 3-month, 6-month, 1-year, and 3-year plan. Lenders, shareholders, employees, and vendors should know what needs to be done for the company to return to normal.

During the process, maintain a high level of communication with employees, shareholders, vendors, and lenders. Establish a regular communication vehicle with each group, so they know they will hear from management regularly with continuous updates.

### Not for the Faint of Heart

Workouts depend on a high level of integrity, honesty, and total forthrightness with vendors, employees, lenders, and shareholders. They need to know how serious the situation is and what will be done to improve it, and over what period of time.

The most important part of a workout is gaining the trust of all those who are involved. ■

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**Director Summary:** A workout CEO hired to turn around a failing company needs to separate "life threatening" problems from those that can wait. Gain the trust of all stakeholders early on, and communicate plans and timetables. Seek talented personnel, often in unexpected places.