

Director's Guide: Report On Interim Management

Given Today's Increased Demands On Directors And The Challenge Of Finding The Right CEO, It's Not Surprising That Boards Are Turning To Interim Executive Management.

Source:  Directors & Boards

Publication Date: 01-JAN-06

WHAT ARE THE KEYS to making the interim management option a successful solution to a leadership challenge? What about the pros and cons of hiring a single individual versus a firm specializing in crisis management? And just what is it that makes interim executives particularly well suited for a succession opportunity? DIRECTORS & BOARDS turned to five experts for their insights and advice.

When to use interim executive management

KEN HILTZ Managing Director, AlixPartners

A BOARD MOST OFTEN SEEKS interim management when its company faces a crisis and the directors conclude that present management is unable to handle the situation. The crises that lead boards to this conclusion commonly result from financial or legal pressures, including loss of confidence by the financial community due to underperformance, financial statement errors and restatements, or allegations of violations of laws, as well as pressures from lenders and key investors stemming from underperformance, poor communication, or failure to accurately communicate business issues.

The use of interim executives was well publicized earlier in this decade when a series of high-profile bankruptcies exposed criminal activities by company management. The trend of large bankruptcies involving corporate malfeasance has, we hope, passed, but the use of interim executive help is not limited to such high-profile crises. Corporate challenges, in fact, come in many forms. In addition to legal and financial issues, companies may face strategic, operational, marketing and sales, or regulatory problems, or crises may arise from natural disasters, communications, or public relations debacles. Ultimately, if the board feels that management is ill equipped to handle an escalating situation--whatever its cause--it may decide that an interim executive is needed.

The choice of an interim executive versus a permanent replacement is influenced by the company's current and unique situation. An interim executive will know what steps to take to reestablish a company's credibility and rebuild confidence, returning it to solid footing as quickly as possible. For example, if a board finds itself in a volatile situation--with the company's very survival in doubt--the directors will have a high sense of urgency to move quickly and restore stability, turning to an interim executive experienced in reorganization leadership. This kind of interim executive should have financial and operational expertise, be able to manage a variety of stakeholders, and know how to drive the reorganization process to a conclusion in a timely manner.

[ILLUSTRATION OMITTED]

Once the crisis has been resolved and the organization has returned to normal business operations, the board can place a permanent executive who focuses on managing and growing a healthy company.

Ken Hiltz is a managing director with AlixPartners, a firm dedicated to solving operational and financial problems for large and middle-market companies globally (www.alixpartners.com). The firm has over 450 employees in its Chicago, Dallas, Detroit, Dusseldorf, London, Los Angeles, Milan, Munich, New York, San Francisco, and Tokyo offices.

Interim management: Friend or foe?

CONSTANCE DIERICKX Consultant, RHR International

WHEN BOARDS DECIDE to hire an interim executive team, the key question directors should ask themselves is this: Why?

Is interim management needed to execute a strategy that represents a dramatic deviation from the past? If so, was the need for a mid-course correction foreseeable? Alternatively, is interim management needed because the existing leadership team has failed? The answer to these questions will determine how effective an interim team is likely to be.

If existing leadership is not at fault, an interim team should be able to act quickly and nimbly. If the goal of the change initiative is short-term results, it's best for directors to communicate this expectation up-front, giving interim managers "permission" to make quick, short-term decisions. Absent such permission, many managers view short-term decisions as shortsighted. (It's akin to the difference between a technical and a fundamental approach to investing; both have value and can yield positive results, but most people find it impossible to apply both perspectives.)

Another way for boards to jump-start change is to encourage the interim team to enlarge their worldview. When existing leadership is not at fault, the need for interim management typically stems from unforeseeable market changes or external shocks. Going forward, it's worth encouraging management to think the unthinkable--that is, to consider a wide range of external scenarios and contingency plans.

If existing leadership is at fault, the board must be realistic about what went wrong and why. It's always easy to blame management, but the board should consider who hired them, and by what process. Do the board's hiring criteria need to be changed? What about the board's oversight process? One word of caution: Beware of the "old team bad, new team good" syndrome. Pitting the interim team against the existing team is not constructive under any circumstances.

In all cases, hiring an interim executive team is a tremendous opportunity for boards to review themselves and the effectiveness of their relationship with management. By asking several questions--How did I interact with the old management team? Were my interactions and oversight effective? What changes can and should I make going forward?--directors can strengthen the value they bring to the boards on which they sit.

Dr. Constance Dierickx is a consultant for the Atlanta office of RHR International (www.rhrinternational.com). Prior to joining the firm in 1998, she was a consultant in the department of psychiatry at the Medical College of Georgia. She serves on the board of the Board of Directors Network, a not-for-profit based in Atlanta.

The need for speed and fresh perspectives

STEVE PANAGOS Managing Director and National Practice Leader, Kroll Zolfo Cooper

BOARDS TURN TO interim management for several reasons. One is the need for speed. When thrust into a sudden transition--perhaps caused by the resignation or termination of a key executive, or a liquidity crisis--time is not on a board's side. If malfeasance is involved, this can trigger a whole host of issues that eat up time and resources. Hiring an interim team trained in crisis and change management is a way for a company to keep focused on running the business without getting slowed down by distractions.

Another reason boards turn to interim management is to get a fresh perspective. Because they are independent, interim executives can often tackle problems that cannot be resolved internally. In many ways, they are better positioned to make the tough or unpopular decisions that may be in the best long-term interests of the company.

Given today's increased demands on directors and the challenge of finding the right CEO, it's not surprising that companies are relying on interim executive management. Boards are increasingly turning to outside resources who can fix the corporation--while simultaneously undertaking a search for a permanent CEO. Many boards see that this parallel path approach makes sense: It's not only a better use of resources but also helps attract better CEO candidates.

[ILLUSTRATION OMITTED]

It's critical for boards to understand the pros and cons of hiring a single individual versus a firm specializing in crisis management. Firms offer more depth of experience. They are equipped to manage the inevitable cascade of issues facing the company, such as other resignations, terminations, and litigation. While a single individual may be cost-effective in the short term, a firm can tackle issues of leadership, accounting, finance, and operations all at the same time. This is typically a better long-term investment.

Hiring interim executive management is not a casual decision. It's about chemistry as well as skill sets. Directors should interview candidates in person and ask explicit questions such as: "What needs to be done? Who is going to take the lead role, and what is his/her background? What will this cost?" To find a good fit, directors should also ask themselves this critical question: "Do we want a caretaker or someone to make changes?"

Steven G. Panagos is a managing director and the national practice leader of the Corporate Advisory & Restructuring practice of Kroll Zolfo Cooper LLC (www.krollzolfocooper.com). His work on more than 70 different engagements has involved companies such as Boston Chicken, Coleco, Enron, Federated Department Stores, ICG Communications, Maidenform, Morrison Knudsen, and Polaroid. He was named president and COO of Krispy Kreme Doughnuts in January 2005. He has held a number of interim management positions, including chief restructuring officer and interim CEO of Penn Traffic, chief restructuring officer of Metromedia Fiber Network, and interim CEO of Crown Brooks.

The upcoming shortage of executive talent

VINCENT J. PAPI Managing Director, Boyden Interim Management

CORPORATE AMERICA is facing a talent shortage at the upper levels of management.

The approaching retirement of the baby boomers, a lack of mid- and senior management between the prime ages of 35 to 50, and fewer people entering the workforce are factors that will have a significant impact on organizations during the next three decades.

One alternative for companies without a strong executive bench is the use of interim executive managers. This pool of talent will come from retired C-level officers and senior managers who can step in when required to resolve crises or provide strategic direction for projects and programs.

They are an ideal solution because they understand the importance of company values, internal politics, and culture. They are also flexible, willing to commit for short periods, and comfortable working a level or two below where they might if they were hired for a permanent position.

There are a growing number of experienced executives who want to work on interim assignments rather than full-time traditional assignments. Just as important, this new breed of manager is committed to the interim work model and enjoys the challenges each new assignment brings. They bring their own extensive know-how to companies, permanently transferring a broad-based wealth of experience and skills to the teams they lead.

Interim executives also do not need to worry about political issues within an organization. By

not being encumbered with organizational processes, they will be free to offer perspectives that may be currently lacking. And, unlike consultants, they are responsible and accountable to the company managers who will implement or monitor the results of their efforts.

Interim executives can be on board within days as opposed to weeks or months. This is particularly essential in crisis management. Combined with their experience, this allows them to be immediately productive.

[ILLUSTRATION OMITTED]

Vincent J. Papi is the managing director of the Americas practice for Boyden Interim Management (www.boydeninterim.com). Based in Pittsburgh, he has more than 30 years of experience in manufacturing and business-to-business services. Prior to joining Boyden, he was executive vice president of a Pittsburgh-based human resource consulting firm that specialized in career transitions, management consulting, and behavioral assessment.

Don't say 'interim' ... say 'overqualified'

ROGER SWEENEY Managing Director, ReefPoint Associates

AFTER DECADES OF USE in Europe, the interim management model is finally becoming a serious option in the U.S. for boards that are faced with senior management transitions or changes in corporate strategy that require access to management talent and reserves not available within the company.

Typically, in these situations there are no obvious internal candidates to take on the assignment. At times like this, boards are more likely than ever to consider bringing in a proven manager on an acting basis to deal with the "problem."

But the key to a successful interim management assignment might be less obvious and may even be counterintuitive: Choose a manager who is clearly overqualified for the position and whose experience actually exceeds the resume of the person the company will eventually hire for that position.

Why? There are three reasons.

First, there is little or no time in a typical interim assignment for a learning curve. Second, interim assignments often involve specific technical or operating experience, such as dealing with Sarbanes-Oxley issues or closing down a plant or operating unit. And finally, "overqualified" interim managers can often produce creative solutions that exceed expectations precisely because they have already worked through similar issues and challenges on someone else's payroll.

[ILLUSTRATION OMITTED]

As a practical matter, that means an overqualified interim manager can also:

- a) deal credibly and effectively with employees in the department or operating unit who may be upset or concerned about the management transition;
- b) act as a peer with other corporate managers; and
- c) serve as a mentor for the permanent hire when he or she arrives.

One other important benefit: It takes pressure off the board and senior management to secure a "quick fix" for the problem--at the same time giving extra time to corporate HR and its executive recruiters to source the best candidate for the job. It may also afford the opportunity to review corporate strategy and adjust the position specifications accordingly.

Roger Sweeney is a managing director of ReefPoint Associates LLP, a New York-based firm that provides senior-level managers on short notice to carry out time-intensive corporate assignments in a wide range of industries (www.reefpoint.us). The firm is a member company of the EIM International Network. He is also the chairman of Piper Products Inc.

EDITED BY DAVID SHAW AND SCOTT CHASE