From reaction to readiness

Understanding modern chief restructuring officers and enhancing their impact

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Navigating rough waters:
A steady hand

Companies and stakeholders can find themselves navigating rough waters for any number of reasons and may decide they need the specialized help of a chief restructuring officer (CRO) to guide the path forward. A CRO can offer a different perspective and skill set, bring discipline to an organization, and effect needed cultural change.

But often, organizations wait too long to bring in a CRO, according to a recent KPMG LLP survey. What's more, survey respondents consistently shared that earlier intervention would likely have led to better outcomes.

Key survey statistics

- Persistent financial distress was cited as the top reason to hire a CRO, cited by 66 percent of overall respondents.
- 63 percent of all respondents acknowledge the high importance of CROs in future restructuring scenarios.
- 60 percent of respondents expect global economic volatility to significantly affect the need for CRO services, with PE firms (65 percent) especially concerned.

Today's rapidly evolving business landscape demands that companies reevaluate their thinking when it comes to resolving the issues they face. Companies are experiencing market challenges that include sustained high interest rates, political uncertainty, increasing global economic volatility, accelerated digital transformation, and a rise in cross-border restructuring. Hiring a CRO can no longer wait until a company is in crisis. Delay can too often result in significant value erosion.

CROs are expanding their skill sets to include digital transformation, technology, and workforce management.

For companies in distress, early, sophisticated intervention through a modern CRO approach offers enhanced options and improved outcomes.

To determine the challenges—and leading practices—related to hiring a CRO, KPMG conducted a survey of private equity (PE) firms, law firms, and lenders to glean insights into how they use CROs to assist the companies with which they are involved.

This paper delves into the multifaceted realm of CRO engagements, shedding light on why and when companies seek the unique skill set of a CRO, the criteria that inform their selection, and the outcomes they anticipate from such pivotal appointments. Drawing on insights from a diverse array of hiring organizations, it provides an in-depth analysis of the current state of CRO engagements and offers insights into the evolving expectations and challenges that shape these missions.

The expected increase in reliance on CROs speaks volumes about their expanding scope and the growing recognition of their strategic value. With the right approach and expertise, CROs can help companies chart a course toward revitalization and growth.

Storm clouds gathering:

Why today's business landscape demands a new approach

Businesses are facing numerous pressures and complexities, creating new risks that can presage the need for restructuring and hiring a CRO. The severity of these pressures can vary based on stakeholder, from C-suite financial concerns to PE firms' volatility worries to lenders' capital recovery priorities. And ongoing global economic instability points to the increasing importance of CROs and the need for a nimble, proactive approach when hiring one.

What follows are some of the more pressing issues influencing the need for a CRO.

Economic indicators – Current economic conditions are contributing to financial stress. Companies can find themselves navigating rough waters for any number of reasons and may decide they need the specialized assistance of a CRO to move forward. In fact, 60 percent of respondents expect economic volatility to significantly impact the need for CRO services in the next three years. Contributing factors include slowing consumer spending, a decline in business investments, sustained high inflation, and weakening profits. Moreover, interest rates are now projected to decrease more slowly than previously anticipated, constraining access to capital.

Stakeholder-specific market pressures – Persistent financial distress—the most prevalent reason historically for needing restructuring help, along with acute operating losses—was cited as the top reason to hire a CRO, cited by 66 percent of overall respondents. That was followed by the need for strategic redirection or restructuring (53 percent of respondents), and the inability to meet debt obligations (49 percent of respondents).

Digital disruption – Our survey also found that accelerated digital transformation was another driver for organizations to consider the services of a CRO, cited by 45 percent of all respondents. This was of particular concern for PE firms (59 percent) and lenders (45 percent), suggesting a rising demand for CROs adept in managing digital shifts.

Converging pressures creating risk – The world remains volatile, with regional armed conflicts creating geopolitical uncertainty. Extreme weather events can eliminate sourcing, disrupt supply chains, and cause other organizational challenges—all leading to higher business costs.

Variations among hiring organizations

Outside of general trends, lenders, PE firms, and law firms each had their own top reasons for seeking a CRO. PE firms (65 percent) were especially concerned about economic viability. Both PE firms (50 percent) and law firms (45 percent) recognized the rise in cross-border restructuring complexities, indicating a trend toward focusing on global operational challenges. Law firms also placed a higher emphasis on the expanding role of technology and AI in operations (41 percent), indicating an awareness of the technological risks and opportunities facing businesses. Lenders (45 percent) saw accelerated digital transformation in industries as a significant trend.

Outlook

While CROs are already playing a vital role in restructuring and turnaround efforts, these economic, technological, and geopolitical trends suggest that their significance will increase in the years ahead, with 63 percent of all respondents acknowledging the high importance of CROs in future restructuring scenarios.

The timing paradox:
Why companies wait too long, and what that can cost them

Ideal timing and the golden window of opportunity

For companies in distress, the most important question may not be whether to hire a CRO but when. However, our data uncovers a critical disconnect. Organizations acknowledge that early engagement is ideal, but paradoxically, most organizations wait until too long, limiting their options.

The earlier a CRO gets involved, the more possibilities—including contract renegotiations, special concessions, cost-cutting measures, selling underutilized assets, extending liquidity runway, managing creditor constituencies, restructuring, a sale, etc.—are available. As financial distress intensifies, available paths forward diminish. Delaying action until insolvency threatens may leave only the most drastic solutions. Companies often achieve optimal outcomes when CROs are engaged at the first signs of financial strain, before covenant breaches or missed obligations narrow the scope for strategic intervention.

It may be human nature to try to postpone the inevitable, and our survey reflects that apprehension. Among overall respondents, early signs of financial underperformance were identified as the ideal stage for CRO engagement, cited by 34 percent of respondents, followed by when exploring restructuring options (26 percent), and when facing liquidity constraints (15 percent).

Reality check: What really happens

However, when asked when respondents hire a CRO, the results paint a different picture. A significant portion of respondents among PE firms (36 percent) said they usually hire a CRO when facing liquidity constraints. For lenders (38 percent) and law firms (20 percent), the most likely stage for hiring a was when exploring restructuring options.

The hindsight moment: "We should have called sooner"

Our survey results suggest that hiring organizations typically take a reactive approach to engaging CROs, waiting until financial issues are near crisis level before acting. That fact was not lost on survey participants. Overall, respondents said that sometimes (33 percent) or occasionally (32 percent) they realized that bringing in a CRO earlier would have been more beneficial.

On the other hand, those hiring organizations that look to bring aboard a CRO to explore restructuring options show a more proactive and strategic attitude, looking to avoid and correct problems before they become insurmountable.

Understanding reluctance to seek help

There are several reasons why organizations bring in a CRO later than they know they should. For instance, leadership may feel overconfident in their abilities and put up psychological barriers to seeking help. The organization may lack clear early warning systems or metrics that would reveal financial or other stress. Or the company may be hesitant to incur extra cost or publicly admit difficulties, instead opting to try internal solutions before seeking external help.

All hands on deck:
Putting modern CRO strategies into action

Evolution of role requirements

The role of the CRO is evolving with the changing economic and business landscape. Highly effective CROs or next-generation CROs will need a broad skill set, including digital transformation expertise, technology fluency, sophisticated management skills, and a focus on both financial goals and workforce stability.

The traditional aggressive approach of disrupting everything is no longer effective; instead, more sophisticated management is needed.

CROs are moving from traditional restructuring—that is, short-term alleviation of immediate distress—to a more transformational approach that provides a roadmap to help shift the way the organization operates long-term.

The modern CRO can drive more digital fluency in the organization, enabling it to take advantage of innovative technologies to streamline capabilities and operations to sustain improved performance. They can help navigate a complex workforce, ensuring that the culture maintains productivity while undergoing notable change. For example, CROs today recognize that talent has different expectations at various levels and generations. Rather than raising concerns among employees, CROs can help companies show support for their workers and balance financial needs while continuing to motivate employees to execute strategic plans.

Hiring organizations will want next-generation CROs to possess a broad skill set. Overall, 55 percent of respondents said global market and regulatory knowledge would be the most valuable skill for CROs, with lenders especially valuing this expertise (58 percent). Digital and technological fluency followed closely, considered valuable by 49 percent of all respondents, showing a trend toward more technology-driven decision-making during restructuring. Advanced data analytics and interpretation were also highlighted (48 percent overall), with PE firms particularly emphasizing its importance (51 percent). Additionally, lenders (31 percent) demonstrated a higher focus on sustainability and environmental, social, and governance integration than PE (12 percent) and law firms (18 percent).

Beyond crisis management:
The rise of the modern restructuring leader

CROs are usually hired by a company in need, but that decision is influenced by PE, lenders, or law firms. They play a crucial role in managing the impact of disruptive technologies and economic volatility.

Hiring a CRO can bring or restore credibility in management through improved stakeholder reporting, communications, and negotiations. This role can establish performance improvement and restructuring plans and related metrics, while supporting the finance and accounting team, including stabilizing and managing liquidity. It can also strive to bring stability to the restructuring process through organization redesign, proposing strategic alternatives, and adding a new voice or perspective to the situation. By relieving the management team of much of the burden of a turnaround and restructuring, CROs free them up to run the company and focus on value creation.

As we have seen, early signs of financial underperformance were identified as the ideal stage for CRO engagement, and bringing in a CRO sooner than later is ideal. Here are some specific actions stakeholders can take when considering a CRO.

C-suite:

Focus on implementing robust early warning systems, fostering a culture of proactive risk management, and understanding the evolving role of the CRO to better gauge when to call for help. This includes leveraging data analytics to monitor key performance indicators, analyze market trends, and identify operational inefficiencies that could signal emerging risks. Management should a clear understanding of the CRO's role, a clear scope of work, codified in the engagement letter, and effective communication with all stakeholders to ensure a successful restructuring process.

PE firms:

PE firms are less likely to enlist a CRO to avoid negative publicity. Sponsors are loath to put a company into Chapter 11 because of its public nature. But delaying the decision can further deteriorate enterprise value, limit refinancing options, lead to breach of covenants, and accelerate creditor actions. To engage earlier, PE firms should establish clear financial performance thresholds that trigger CRO consideration, conduct routine portfolio risk assessments, implement standardized early-warning KPIs across investments, and maintain relationships with restructuring professionals before crises emerge. Emphasize digital transformation understanding, prioritize data analytics in portfolio companies, and engage earlier in underperforming assets.

Lenders:

Lenders deal with borrowers facing imminent financial distress or near insolvency, complex debt restructuring, and short-term restructuring projects to prevent collapse. They may also need operational turnarounds to rebuild stakeholder trust. Prioritize regulatory expertise in restructuring plans, engage earlier in restructuring exploration, and understand the impact of digital transformation on borrowers.

Charting a course forward:

The future of business resilience

In this rapidly changing business environment marked by economic volatility, political uncertainty, and accelerated digital transformation, the traditional reactive approach to hiring a CRO has evolved into a proactive and strategic necessity.

The modern CRO must possess a broad skill set, including digital fluency, sophisticated management capabilities, and a keen understanding of global market dynamics. Based on the KPMG survey, it is evident that early engagement of CROs can significantly enhance restructuring outcomes, yet many organizations still delay this critical intervention until financial distress becomes acute.

With CROs increasingly being asked to navigate ever-more-complex restructuring scenarios, early and sophisticated intervention to mitigate risks and enhance organizational resilience is more vital than ever.

As businesses continue to face multifaceted pressures and complexities, the demand for CROs capable of guiding companies through transformational change is projected to increase, emphasizing the importance of timely and informed decision-making in restructuring efforts.

How KPMG can help

KPMG provides turnaround and restructuring, M&A, and capital management services globally and across various sectors. We have extensive experience working for our clients as advisors or in interim management roles including as CROs involved in strategic planning; business plan development; financial planning and analysis; supplier management; liquidity management; lender and creditor representation, communication, and negotiation; alternative capital solutions and special situations investors; due diligence; and chapter 11 strategies, planning, and execution.

Authors

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