The chiefs of restructuring thrive on crisis

Turning around a troubled company is not a business for the faint of heart

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Monday, November 6, 2006

Hap Stephen knows all too well what's it like to be rapidly running out of time.

Take that moment in 2002 when Mr. Stephen realized Algoma Steel Inc. would go broke in a matter of days if he didn't make something happen, and quick.

"It was really down to days and hours," Mr. Stephen recalls. "Those were all-nighters." After several days of non-stop phone calls, Mr. Stephen persuaded lenders to keep the struggling steel maker afloat.

Despite the bleak outlook -- and many at the time were poised to write off Algoma -- Mr. Stephen says he never panicked. "Even though it looked very awful, you always have a degree of confidence you can pull it off."

At least you do if, like Mr. Stephen, you're a chief restructuring officer. Mr. Stephen is part of an exclusive club of Canadian executives who specialize in turning companies around. Air Canada, Stelco Inc., Hollinger Inc. and Eatons have all turned to CROs in times of trouble.

Often companies are in bankruptcy proceedings when they call on a CRO; sometimes they just fear they're headed down that road. A CRO jumps in and fixes the problem, usually leaving the firm in fresh hands once it has stabilized.

It takes a special kind of person to thrive on the chaos, tension and high stakes of pushing a company back from the brink of extinction -- which may help explain why there are so few of them.

"It's very challenging and it can be very exciting, trying to deal with a crisis and establish a sense of order. It's pretty satisfying," says Mr. Stephen, who has worked on restructurings at Eatons, Beatrice Foods Inc., Repap Enterprises Inc., Dylex Ltd., and most recently at Stelco -- sometimes with the CRO title, sometimes as chairman or interim CEO. "I like the challenge of something new. I think I could get a little bored at the same company."

An independent streak and a thirst for novelty are prerequisites for the job, says Alex Jurshevski, CEO of Toronto-based Recovery Partners Ltd. and international director of the Turnaround Management Association, an organization of professionals who work on bankruptcies and restructurings.

"Your CRO is a single-samurai type of guy," he says. "He's got a Rolodex, great technical and people skis and people in trouble call him when he's needed."

There are only a few CRO specialists in Canada because the market has been relatively strong and stable for the past few years, Mr. Jurshevski says. "The default experience over the past few years has been relatively benign. That's why you typically have not been hearing about them."

But the position can be lucrative. CROs usually make a base monthly salary of $25,000 to $200,000, according to Mr. Jurshevski. And it can add up: Mr. Stephen was paid $1.5-million for the seven months he was with Algoma. Often, on top of these fees, CROs get paid in company shares -- which can be worth up to 80 per cent of their compensation, Mr. Jurshevski says.

Usually CROs are hired from outside, so they don't have allegiances or baggage within the firm. Experience in the industry is nice, but experience turning around a company is even better.

"You could end up with someone who's familiar with the industry, but the guy's a non-functional dud in a crisis," Mr. Jurshevski says. "You want someone who's recovered a company from distress. You want someone who has done it before."

As CROs hop from crisis to crisis, they generally follow a set game plan. Mr. Stephen says the initial priority is cash flow. You can't do much with a flat-broke company.

"Each situation is somewhat different, but the first thing is to make sure there's cash to operate the business," he says. "You may have to do a lot of cost cutting very quickly."
You don't make a lot of friends that way. "The CRO is a lightning rod for everyone's frustrations," he says. He took a lot of heat during the Stelco restructuring, because the price of steel doubled shortly after the firm filed for bankruptcy protection, leading many to question whether the restructuring was necessary. Mr. Stephen made the case that despite improved cash flow, Stelco needed fixing because it was still fundamentally uncompetitive.

"Restructuring is like a box of very different perspectives," Mr. Stephen says. "At the beginning of these roles there's a search for reality. You have to convince people there's a problem. If you want to convince people to jump into the freezing cold water, you have to make them believe the platform is on fire."

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