

Article

Who's Flying the Plane? How to Protect Value in the Danger Zone Between Agreeing to a Restructuring and Closing

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operationally intensive investments and address critical issues to lay a strong foundation for post-restructuring ownership. Weber previously authored an [article for Octus on executive compensation in restructuring](#).

Following months of negotiation, the CEO and finance team of a distressed company reach an arrangement to restructure the balance sheet. The deal will reduce interest expense, provide fresh capital and save thousands of jobs by having creditors exchange their debt for a controlling stake. After an army of advisors exchange countless drafts, management looks forward to finally returning its attention to running the business.

But at this pivotal moment, the debtor has found itself orphaned.

With months required for final approvals, the company is left in limbo. Future equity owners, despite being legally bound, often do not engage fully and are unable to fulfill their role as future owners. Simple operational decisions spiral into endless calls with a swarm of advisors, leaving management with more questions than answers. No one made it clear: Until closing, the company is in a danger zone, with effectively no one flying the plane.

Management Challenges

Precisely when management must turn its attention to customers, suppliers and employees, getting the deal done takes precedence. Governed by a tight timeline, closing conditions and intensive advisor oversight, management does not prioritize 100-day planning. To make matters worse, incentives for the outgoing board and advisors may hinge on the completion of the transaction rather than on the value created or destroyed. Management finds itself stuck in the middle, trying to lead a debtor that, during this interim



advisors rewarded not for value maximization but for getting the deal done. Time-based billing models can unintentionally encourage additional reporting and frequent meetings, which may increase billable hours rather than support faster, more efficient decision-making. This can bog down operations, with little reward for post-restructuring success. When management asks a time-sensitive question to prevent or mitigate harm to the debtor, it triggers a chain of conference calls, memos and “further analysis” that often ends with no actionable answer.

As value quietly evaporates, employees sense no one is attuned or empowered to build a brighter future or reverse the habits of learned helplessness. Paralysis sets in, and key personnel disengage or seek new employment. Sensing a leadership vacuum, customers hesitate to grant new business until the transaction is complete. Vendors tighten terms and stress liquidity. Consequently, future owners find the debtor in much worse shape than they envisaged.

An Example

The CEO and HR leader must replace a critical plant manager who recently resigned due to doubts about the company’s future. To fill the urgent vacancy, management recruited a talented candidate prepared to start immediately. However, the company cannot make an offer without creditor consent. Advisors delay seeking consent from the requisite lenders due to other pressing matters. One creditor insists on meeting the candidate before signoff. By the time the CEO gets approval to extend an offer, the candidate has accepted another job.



- Advisors regulate communication between management and creditors;
- Management becomes overwhelmed by the restructuring transaction and loses focus on the business; and
- Advisors impose burdensome processes, slowing decision-making and inhibiting needed change

What Should Management Do?

To ensure a smooth path through the restructuring process and set the business up for success post-closing, management should take several proactive steps. The following actions will help build credibility with future equityholders, maintain operational flexibility and preserve turnaround momentum.

- Negotiate covenants in the RSA that allow for flexibility in running the business before closing. Management should be able to take quick action on pre-closing no-regrets decisions;



- Reach consensus with future equityholders on risk appetite and investment horizon to develop a value creation plan that future owners will support;
- Communicate and report on business performance to lenders frequently and transparently to establish credibility and avoid “bad surprises”; and
- Get lender buy-in for a comprehensive and proactive communications strategy to keep customers, vendors, and employees informed and supportive.

Creditor Challenges

Until the restructuring closes and creditors become shareholders, they cannot pilot the plane. Lacking authority to direct management or full access to information and facing potential lender liability, creditors find themselves constrained from influencing or helping the debtor. Through no fault of their own, creditors may be seen as adversaries not concerned with the debtor’s long-term future. Routine requests may be routed through lawyers focused on risk management and avoiding decisions that might be criticized in hindsight.

Until closing, management may appear distant and unable to communicate the business’ needs effectively. Debtors’ counsel may advise management against sharing more than minimally necessary. Board members seeking releases and indemnification at close may further cloud communications with management. Navigating these various roadblocks deters creditors from providing management with guidance or advice.



until the eve of closing. As a result, further delays and distractions may ensue.

An Example

The CEO, under a retention agreement, works tirelessly to advance the restructuring transaction to closing. Creditors view those efforts favorably and expect the CEO to remain in place. Still, they never engage on the timing, structure or details of post-reorg compensation, instead expecting the new board to handle it. With visibility limited to the expiry of the retention agreement, the CEO cannot reassure other members of management of the prospect of sharing in value creation. Lacking clarity and anxious about the future, management presses for additional retention and guaranteed bonuses untethered to investor returns.

Common Creditor Pitfalls

- Lack of consistent communication between management and creditors;
- Creditors deprioritize post-closing workstreams requiring lead time; and
- Absence of a single voice to coordinate creditor actions and workstreams.

What Should Creditors Do?



decision-making and ensure a smooth transition into post-reorganization ownership.

- Maintain an honest and open dialogue with the management team – check in on business performance and value creation planning, and engage in discussions on structuring of post-reorg-equity-linked compensation;
- Provide management with a single point of contact to avoid a game of telephone or mixed messaging to different members of the creditor group;
- Challenge management to develop its own work product instead of relying on advisors who will disengage post-close;
- Offer to assist with the interim and closing communications strategy – future ownership assurances go a long way with trade counterparties and employees;
- Actively manage nontransactional workstreams critical to the first 100 days – board search, management incentives, governance and evaluate insurance programs – at a rapid pace alongside the closing timeline;
- Consider retaining future directors and interim consultants to help make business decisions requiring investor consent.



The period between signing and closing is not a legal formality; it is a critical operational phase where value may be destroyed by paralysis or indecision. Management must maintain an open line of communication with future equity owners, and creditors must advance nontransactional workstreams. But this is not enough.

Lender groups planning to take control of a business should dedicate substantial operational resources or seek external help to mitigate value destruction. Future equity owners should enlist an advocate – an aligned advisor with the bandwidth and pattern recognition to bridge this gap.

This role is not another layer of legal or financial advice. It is an active, operational role focused on:

- Management communication – frequent (daily) check-in on business performance and decision-making at the company, directly with the operators;
- Driving consensus – facilitate decision-making among the lender group;
- Value creation planning – assist management in the development of a value creation plan that can be easily underwritten and serve as a post-reorg “north star”;
- Management incentive plan – gain management buy-in financially through structuring and negotiating an incentive plan tied to the value creation plan;



- Talent and advisor management – ensure management has the internal support needed to stand on its own after closing, when restructuring advisors disappear; oversee professional fee spend; and transition responsibilities to the company quickly and efficiently; and
- Future board and governance – recruit new board and find cost-effective resources that can serve as interim consultants and post-reorg board members to help guide the management team and creditor group in the interim period.

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