

TMA's Scott Stuart talks about coronavirus and the challenges of leadership

Benjamin Clarke
17 March 2020



“There’s fear and panic right now and there’s no real way to quell that.” Fresh off the back of the Turnaround Management Association’s distressed investment conference in Las Vegas, GRR spoke to the organisation’s CEO **Scott Stuart** about coronavirus-induced confidence in distressed markets and how firms are set up to deal with the forthcoming economic shockwaves.

Can you tell us a little bit about your career? How did you end up becoming the CEO of the TMA?

I’ve been in the restructuring community for almost 30 years. I spent the first five years of my career at the US Department of Justice, in the United States Trustees Office. After that, I ran the bankruptcy and restructuring practice for Rivkin Radler, a large law firm based in Long Island, New York. Following that, I became a partner in a firm that specialised in bankruptcy claims management. I then went on to launch a legal technology start-up. And aside from those jobs I’ve also done some distressed

investing, I'm a trained bankruptcy mediator, and I'm a mediation coach at a law school in New York.

I tell you all that because the common thread is that I accidentally got into the restructuring business and I've stayed in it forever. As for TMA, interestingly, I was a member of five chapters in the volunteer community for 15 years, and I was on regional boards as well as the global board of trustees. I was no stranger to the organisation, and when the opportunity came to apply for the position, I put my name forward and fortuitously enough I was offered the position. I could not have been a happier human being and remain so today.

You've clearly had a very varied career in the restructuring field. Can you tell us more about the start-up you launched?

The start-up was the only thing that was not in the restructuring field. My husband and I started a legal technology company where we developed technology that monitored document reviewers through an AI-driven tool that we created to produce better efficiencies and understanding of the document review process. We ultimately exited from and sold the company. Interestingly, all my friends that were investors came from my TMA relationships, as did all my introductions to law firms that I needed to create business.

And what kind of areas did you focus on in private practice?

I was primarily focused on complex corporate restructurings through Chapter 11 proceedings. I mainly represented trustees, creditors and committees, and I did some federal litigation too.

How have things changed in the restructuring industry since you were starting out?

Bankruptcy law has changed dramatically over the course of several years. Bankruptcy used to be driven largely by recessionary periods in the economy. That's changed significantly and now restructuring is much more about sector volatility, although with the coronavirus I think the world is probably going to end up in a recessionary period if things continue as they are right now.

What's changed is that we've had this prolonged period of prosperity, particularly in the United States, driven largely by the stimulus after the 2007 crash. And since we haven't had a recessionary period, it was only in the last couple of years that we've started to see the volatility that's keeping people very busy. Oil and gas, healthcare, retail, pharmaceutical, energy, transportation logistics – they're popping at different points so there is a lot of volatility in the economy, but there's no real downturn in the economy, and that's the difference between then and now. We've never had such a lengthy period of non-recession and there's nothing on the horizon other than the coronavirus that is going to change that dynamic.

How do you think the coronavirus is going to impact the market?

Unless there's stabilisation in the next three months or so, there will at minimum be a mild recession but there will likely be something more dramatic than that, because there's fear and panic right now and there's no real way to quell that at the moment. As a result, we're already seeing transportation, supply chain and the hospitality sectors suffer at a very high level.

In terms of its impact on the TMA, are your future plans changing as a result of the outbreak?

Our professionals are geared up to address the situations as dramatic and difficult as they are, but I think at the same time we're kind of in an unknown place. I come from an era where, when things hit, they hit hard and fast. We haven't seen something like that economically in a long time, but I think we're about to. Because it's been so long since we've seen a period like that, people are just not tooled to react to it and that's a problem.

In essence, you don't have people in the corporate world who have not really had to navigate a difficult period in any meaningful way, so they're ill-equipped to do so. My professionals are equipped to react to that. The problem is whether the people at the corporate level are able to react with a calm and rational approach to what's going on.

Do you think the restructuring practices of law firms are ready for this?

Yes, I think they are prepared. They're as prepared as they can be. I think law firms are being proactive and very thoughtful – I've gotten several memos from law firms with suggested ways of preparedness for their clients.

The difficulty from a restructuring point of view is that senior level people, who have not experienced a downturn before are not really tooled to understand what's going to hit them. They're not really prepared to make decisions that they've never had any experience having to make before – even in a mild way to be corrective in less dire situations.

It's going to be trial by fire for sure. When you've gone through such an elongated period and you have an entire generation of people who don't know how to navigate even the simplest of issues, it becomes very dramatic for those people. We are not talking about situations here that are going to be light. They are going to be very dramatic, very heavy-handed, very problematic situations, and it's going to require rational and immediate thought, and there's a lot of people that are just not equipped to do that.

The usual restructuring jurisdictions of New York, Delaware and London are going to play a big role in the next few years, but do you think any other jurisdictions are going to become more prominent?

I don't think it's a matter of creating alternatives to the jurisdictions you've just named. I think here in the US, there are more jurisdictions that have been looked upon as more debtor friendly than there have been in the past. I think there's less fear of work being put in jurisdictions that would have been avoided previously. But I

do think that forum shopping is going to be a very big part of people's decisions as to where they file cases.

GRR is really focused on cross-border issues. What skillset do you think is required to be a successful cross-border practitioner?

Cross-border is a whole different game, because you need to understand the international nuances of the business you are representing. More importantly, particularly with Europe, the laws vary so radically from country to country. If you are advising a multinational, you must have a team of experts that understand what the company is dealing with in the UK is radically different to what it will deal with in Germany, France and the Netherlands.

If you are not directly skilled in that, you need to be part of a group of people or a firm that does have the talent to be able to navigate the differences between the laws that have to be understood when you are dealing with cross-border work.

The TMA has a lot of members on the investor side. If you were an investor in distressed markets now, what kind of moves would you be making?

In this crisis moment there has been a creation of huge opportunity. The distressed markets in China are so wide open and ripe with opportunity right now. I think there's a high level of confidence in the distressed markets, and given the opportunities arising from the coronavirus, there'll be pretty significant returns.

I think everybody, uniformly, is still confident that the markets are going to come back. Investors at this point in time are going to be willing to take a higher level of short-term risk for the immediate rewards that they see on the horizon once this situation stabilises. Right now people see a potential stabilisation, even with the uncertainty that it could return next winter before a vaccine is developed. There's still a lot of opportunity in this irrational moment of financial volatility. Investors are going to seize on that opportunity and take advantage of it, knowing that what they invest now is going to give them a pretty solid return on the other side of all this, once stabilisation in the market has happened.

The coronavirus is just creating a huge market for distressed investing where things are right now on their ear. I think all of us, at least at the moment, don't think that the world is going to spin into a long-term depression. The markets at some point will stabilise once they have a better understanding of what this is all about. We're just not there yet.

Do you think the United States was right to cut interest rates?

The housing market may actually strengthen as a result of the interest rate cut, but nobody really understands why it was done. I think the intention was to demonstrate market confidence and to quell fear, but I think it had the reverse effect and it didn't stabilise anything. My personal view is that because interest rates are always so low and the normal cycle of interest rate reviews offers very little manoeuvring room, the economy is actually being put in the potential danger zone of stalling out. There's nowhere left to stimulate if you have nowhere to go on interest rates. As you can see

today, the 10-year treasury is basically worth nothing, and we have nowhere left to go.

Aside from the coronavirus, I think there's value in raising interest rates to create normalcy in an economy that has not really been normal. We are not weeding out the problematic businesses, and because money has been so free and everyone is operating under a covenant-lite environment, we have not been shoring up the economy in a meaningful way. Sector volatility is definitely demonstrating that the economy may look very healthy on the surface, but it has a lot of cracks in it. I think once interest rates start to come up, those cracks are going to show themselves in a much different light.

Moving on to focus more specifically on the TMA, there are quite a few trade organisations for bankruptcy in restructuring professionals, both in the US and globally. What would you say sets the TMA apart from the rest?

In my opinion the TMA is a necessity, not an option as a professional organisation, because we are truly an international organisation with a certification arm and a great deal of connectivity throughout our 54 chapters, including our 11 chapters in Europe.

We're also adding two chapters in Latin America this year, in Mexico and Chile, and we will have added a French chapter by the middle of the year. It is significant that the French have determined they want TMA because every other major country in the EU has a TMA chapter. It's not beneficial to just have a standalone restructuring organisation when you can be part of an international community.

We also have the most diverse group of professionals in the TMA. A lot of associations cater for people from the same professional demographic. If you walk into a room at a TMA event, you're going to get one of everything: a banker, a lawyer, an auctioneer, a real estate person, a private equity person, and that's a huge distinguishing factor that other organisations can't provide. I do think we dominate the conversation because we have made the value of membership clear.

We also have a very distinctive certification opportunity in our certified turnaround professional programme here in the United States. And we are expanding our European certification after signing a deal with Leiden University to help us conclude and review our materials and monitor the exam come the end of this year.

What are your plans for the future?

I think we are on a tremendous trajectory right now. We are anticipating membership growth for the first time in many years, and I think having me as an industry insider as the CEO of the organisation, has been incredibly impactful because I understand the industry; I've been a part of it for 30 years.

I think the momentum that I have built has become contagious because we, at the global level, have so aggressively asserted a clear, positive and important message about the value proposition of what it is to be a member. The volunteers at the

chapter level have taken that with the same level of enthusiasm and have imparted it on their boards and members.

What I see is an organisation that will continue to grow. I see that our international connectivity and support is going to be greater. Ultimately, we would like to hire personnel overseas to help support our international chapters. I want to make sure that the member experience and connectivity between global and the North American chapters and the international chapters is holistic.

What do you enjoy most about your role as CEO?

I enjoy that after 30 years in this business, I get up every day knowing that I sit in the seat that allows me to give back to the community that allowed me to ascend to this role. Every day I get up excited knowing that today I'm going to do something that's going to make my peers' professional lives better, more meaningful, more connected and more experiential because of the opportunity that was given to me to lead this organisation.

I love what I do and I love that I get to do it every day. I am a part of what I consider to be the most fascinating community and I love the people within the community. It's such a fraternal group of really smart, connected people, which makes what I do an even more enriching and wonderful experience.

What challenges do you face in the role?

We have 54 independent chapters and making sure we're supporting them in a way that creates consistency is always a challenge. I am basically the federal government and the chapters are my states, they operate independently of the federal government.

It can also be a challenge to convince companies that being a member of this organisation versus others has intrinsic value. Even though membership is a modest amount of money, it's still something that some companies won't support and I think that it can be challenging to impart the message that they're missing out on an invaluable experience to build their personal brand and their professional network in ways that are going to pay back many more times than the couple of hundred dollars membership fee.

And on the international front, making sure that we are providing the same kind of experience internationally as we are in North America is a challenge. My long-term goal is to create greater consistency for the international chapters. Particularly in the EU, even though we have 11 chapters, we're dealing with 11 countries. It's not like dealing with chapters in the States where they have systematic consistencies. I am dealing with very independent countries that are both professionally and culturally different from each other. The EU is a union, but the union still has a lot of separateness and self-identity from country to country. I think it will be a challenge to manage that and create the kind of union of support and connectivity I would like to see.

How exactly do you think you're going to achieve that?

We now have in-person chapter president meetings for all our European chapters. We are changing the structure of the European board to make sure our governance really does represent what we want to achieve for the organisation, and what the chapters want to see in terms of support. And there's also now a chapter presidents' council, and we're re-looking at our nominations process.

Ultimately, I do think we will need some staff support on the ground overseas, particularly in Europe, because I want a connection point between TMA Global and our international chapters.

And finally, what keeps you busy when you're out of the office?

I have plenty of hobbies. I like to read, and I like to travel a lot. I find learning about other people and other cultures incredibly important and stimulating. Some of my favourite places are where I and my husband can really escape into nature. We did a 23-day trip to South America when we got married and explored some of the most amazing natural places in Patagonia and in the Chilean fjords, which was wonderful. And just as nice, I can get on an aeroplane and travel to a city like Amsterdam and feel no obligation to do anything but walk around, interact with the people and enjoy the experience of being part of somebody else's culture, which makes us better people.