LEONARD N. STERN SCHOOL OF BUSINESS
NEW YORK UNIVERSITY
CORPORATE TURNAROUNDS B55.3150
FALL TERM 2010

Dates: November 4- December 16
Meeting Time: 6:00-9:00pm
Classroom: KMC 5-85
Professor: Karen Brenner
Office: KMC 10-179
Office Hours: Available to meet by appointment
Email: kbrenner@stern.nyu.edu

Teaching Assistant:
Secretary: Iantha Coleman- icoleman@stern.nyu.edu or 998-0048

Course Description:
This course examines the following question: how does Senior Level Management effectively change organizations in response to dramatic changes in circumstances? All too often, managers and corporate boards fail to recognize factors that threaten the firm’s business until its very survival is in doubt. In such cases, Management may need to implement drastic and sudden changes in several aspects of the firm.

The course draws on several of the core disciplines in the MBA program, and provides an opportunity to apply them to organizations in the midst of major transitions. Students should come into this course ready to apply both quantitative and qualitative tools drawn from accounting, corporate finance, cash flow modeling, debt restructuring, negotiation, marketing, management, leadership and communication. The perspective is from the office of the CEO. Financial, market, and organizational aspects of transformation will be explored through case studies, articles, texts and class discussion.

The course is relevant for students who anticipate working in any operating company or in a firm advising and/or interacting with such a company- including consultants, turnaround specialists, venture capital and private equity professionals, and bankers.
Prerequisites:

This is an advanced course that assumes students are familiar with accounting, corporate finance, and management.

Course Objectives:

This course intends to focus students on all aspects of corporate turnarounds, from the early stages of recognizing potentially company threatening problems, to diagnosing and implementing appropriate corrective market/financial/organizational solutions to such problems. The course will also explore the role of leadership in effecting corporate turnarounds.

Grading:

The weights for the student’s overall grade are:

Class participation 20%
Short Papers 40%
Final paper/project 40%

(No more than 35% of students will receive a grade of A or A-)

Class participation:

Your obligation in this course is to prepare for class discussion by thorough reading and analysis of the assigned materials. This is an essential part of the course. Students are responsible for mentally preparing answers to all of the study questions before coming to class. The instructor may ask students to present the assigned materials as a basis for discussion.

Short papers:

Each student should prepare two written analyses. Each analysis should answer one of the questions from a given session and must be submitted prior to addressing the questions in class. These analyses should be 3-4 pages in length (typed and double-spaced). The papers must be submitted on BB and are due on or before Session 4 and Session 5.

Final team paper/project:

The final team project will be a written analysis of a turnaround situation. Each team is anticipated to have 5 members and the total paper is expected to be 35-45 pages in length, an average of 7-9 pages per student (typed and double-spaced).
On the first day of class each student will be assigned to a team for the final paper/project. The team will be asked to select a specific turnaround situation and submit a discussion of the reasons for the business failure/underperformance; a diagnosis of the market/financial/operational elements relevant to a turnaround plan; and assessment of the execution of the plan relative to the diagnosis (including leadership and communication aspects). The purpose of this project is to apply the principles of corporate turnarounds to an actual, specific business situation. The submission should include an executive summary, a critical analysis of the company, its industry, historical financial results, turnaround plan (operational, financial, market), valuation implications and, if possible, aspects of leadership. The paper should be submitted to the professor by email no later than TWO WEEKS after the last day of class. EACH member of the team MUST also complete and submit by email a confidential team evaluation at the conclusion of the presentation. Grades cannot be submitted without receipt of the confidential team evaluation. The evaluation form is available on BB under Course Documents. Examples of student papers may be found at http://www.turnaround.org/Development/ResearchPapers.aspx

Readings:


2. Required Digital Course pack: you may order it online or purchase it at the NYU Professional Bookstore. To place the order online:

   Go to the NYU Book Store web site: http://www.bookstores.nyu.edu

   Click on the “Search Textbooks” link

   In the “Search by ISBN” option enter

   Proceed to Checkout and complete your order.

   After completing your order you will receive an email with your access code and instructions regarding accessing the Digital Course pack.

3. Additional readings available on Course Blackboard (BB) site under Course Documents.

Class Schedule:

Session #1:

Course Overview and Introduction:

Textbook:

Introduction, Pages 1-4;
Chapter 9, Pages 81-90
The Corporate Turnaround Perspective

Reasons for Corporate Decline: Chapters 1-2, Pages 7-26;
Chapters 6-7, Pages 49-71

Failure and Decline in Perspective; Predictable Organizational Crisis; Most Common Management Errors; Early Warning Signals of Decline

Readings:
Distress Prediction Models: Catalysts for Constructive Change- Managing a Financial Turnaround (BB)
“Leadership and the Psychology of Turnarounds” by Rosabeth Moss Kanter
“BP Ignored the Omens of Disaster” by Joe Nocera, NYTimes, June 19, 2010 (BB)
“In A Near-Death Event, a Corporate Rite of Passage” NYTimes, Corner Office, August 2, 2009 (BB)
“I’m Prepared for Adversity. I Waited Tables” NYTimes, Corner Office, June 6, 2010 (BB)

Questions:

1. What is the pathology/cycle of decline in organizations as depicted by Kanter? How does trade loading potentially impact the cycle? What can an executive do to reverse the cycle?

2. What is the “Z-Score” and how can it be applied to a turnaround? What elements did GTI apply to aid it in its restructuring and how effective was it?

3. What are the characteristics of a turnaround? What are the types of business failures and what are some of the characteristics of a firm on the way to failure?

Session # 2:

Textbook:

Stages in the Turnaround Cycle: Chapter 10, Pages 91-109

Management Change Stage; Evaluation Stage; Emergency Stage; Stabilization Stage; Return to Normal Growth Stage

Key Factors in Turnaround Success Chapter 11, Pages 111-123

Readings:

“Tyco International Corporate Governance” by Rakesh Khurana and James Weber
“Strategic Transformation as the Essential Last Step in the Process of Business Turnaround” by John A. Pearce II and D. Keith Robbins

“He Prizes Questions More than Answers” NYTimes, Corner Office, October 25, 2009 (BB)


Questions:

1. How did Breen turn a crisis into an opportunity? Relate readings from the text book to Tyco’s experience. What were the reasons for the corporate decline? What were the early actions taken and why? What constraints was the Company under that limited Breen’s flexibility early on? How would you assess his decision to completely replace his board of directors? What were the implications on value creation?

2. What are the stages in a turnaround cycle and what characteristics and actions are specific to each stage? What are the key factors to a successful turnaround?

3. According to Pearce and Robbins, what are the usual turnaround steps, which are most effective, and why? Describe the elements of retrenchment. When is a strategic transformation critical to a turnaround and what are its elements?

Session # 3:  

Role of Management and Leadership:  

Chapter 8, Pages 73-77;  

Chapters 13-16, Pages 141-199

Management Change; Turnaround Leader Characteristics; Taking Charge; Motivating the Organization

Readings:

“Tipping Point Leadership” by W. Chan Kim and Renee Mauborgne

“Charisma? To Her It’s Overrated” NYTimes, Corner Office, July 5, 2009 (BB)

“At Yum Brands, Rewards for Good Works” NYTimes, Corner Office, July 12, 2009 (BB)

“Leadership without a Secret Code” NYTimes, Corner Office, November 1, 2009 (BB)

Questions:

1. What were the circumstances upon Bratton’s arrival? What were the hurdles he had to overcome? How did he overcome each one? What actions created the greatest leverage in the
short term? What were the critical reasons for his success? Integrate the readings from the
text book in your analysis.

2. From the first three sessions, what are the leadership lessons that are most applicable to
turnarounds and why?

Session # 4:

Turnaround Strategies and Practices:

The Evaluation Stage: Chapter 17, Pages 203-229

Structure of Evaluation; Viability: Financial, Competitive, Organizational Assessments

Planning Strategies by Stage Chapter 18, Pages 231-261

Contrast the Various Planning Requirements by Stage of Turnaround

Readings:

“Right Away and All at Once: How We Saved Continental” by Greg Brenneman

“Can You Pass A CEO Test?” NYTimes, Corner Office, March 15, 2009 (BB)

“On a Scale of 1 to 10, How Weird Are You?" NYTimes, Corner Office, January 10, 2010 (BB)

“Where Are You When the Going Gets Tough?” NYTimes, Corner Office, April 10, 2010 BB)

Questions:

1. What was Brenneman’s motivation for taking the job to turnaround Continental? What were
the circumstances upon his arrival at the Company? What was his philosophy about the
people at the Company? What were the key strategic elements on which he focused to drive
the turnaround? Elaborate on one of the elements and explain how it contributed to the
effort.

2. How would you compare/contrast the different planning elements for each stage of a
turnaround? What are the objectives, strategies and tactics unique to each stage? What
financial impediments are you likely to find in a turnaround situation?

Session # 5:

The Emergency Stage: Chapter 19, Pages 263-298
Asset Redeployment; Financial Management; Operations Management; Marketing Management in an Emergency Stage

Readings:

“Jamie Dimon and Bank One (A)” by Paul M. Marshall and Todd Thedinga

“In a Word, He Wants Simplicity” NYTimes, Corner Office, May 24, 2009 (BB)

“The Keeper of That Tapping Pen” NYTimes, Corner Office, March 22, 2009 (BB)

“Get a Diploma, but Then Get a Passport” NYTimes, Corner Office, August 1, 2010 (BB)

Questions:

1. How would you evaluate the actions Dimon has taken since becoming CEO? What is he trying to accomplish in addition to learning about the situation? What signals is he sending to the organization? What are the most important problems he is facing upon his arrival? What plan of action would you recommend?

Session # 6: Textbook:

The Stabilization Stage: Chapter 20, Pages 299-335

Financial Management; Operations Management; Marketing Management in the Stabilization Stage

Readings:

“Nissan Motor Co., Ltd., 2002” by Michael Yoshino and Masako Egawa

“Daimler, Nissan and Renault Join in Small-Car Alliance” by David Jolly, NYTimes, April 8, 2010 (BB)

“Level 5 Leadership- The Triumph of Humility and Fierce Resolve” by Jim Collins

“Feedback in Heaping Helpings” NYTimes, Corner Office, March 29, 2009 (BB)

“Managing Globally, and Locally” NYTimes, Corner Office, December 13, 2009 (BB)

“Remember to Thank Your Star Players” NYTimes, Corner Office, July 11, 2010 (BB)

Questions:

1. What were the circumstances upon Ghosn’s arrival? Why have his efforts succeeded when other restructuring efforts before had failed to be sustained? What were the key drivers of
success in the turnaround? How did potential cultural issues affect his strategy? What were the implications on value creation?

2. From the last three sessions, what are the leadership lessons that are most applicable to turnarounds and why?

Other Suggested Readings (not required):

1. “Turnarounds” by Jeffrey L. Furman and Anita M. Mc Gahan
   Financial markets ability to predict turnaround success ex-ante
   Managerial and Decision Economics, Vol. 23, No. 4/5 (Jun.-Aug. 2002), pp. 283-300
   [http://www.jstor.org/pss/4150434](http://www.jstor.org/pss/4150434)

2. “Turnaround Retrenchment and Recovery” by D. Keith Robbins and John A. Pearce II
   Investigates retrenchment as integral component of turnaround process
   [http://www.jstor.org/pss/2486616](http://www.jstor.org/pss/2486616)

3. “Corporate Governance and Financial Constraints on Strategic Turnarounds” by Igor Filatotchev and Steve Tom
   Turnaround constraints and corporate governance

4. Corporate Financial Distress and Bankruptcy, by Edward I. Altman and Edith Hotchkiss

5. “The Reemergence of Distressed Exchanges in Corporate Restructurings” by Ed Altman (BB)

6. “Post-Chapter 11 Bankruptcy Performance: Avoiding Chapter 22” by Ed Altman (BB)