Sample

LEONARD N. STERN SCHOOL OF BUSINESS

NEW YORK UNIVERSITY

CORPORATE TURNAROUNDS – LEADERSHIP & INNOVATION INTA-GB.3150.30

SPRING TERM 2012

Dates: February 8- March 21

Meeting Time: 6:00-9:00pm, Wednesday

Classroom: KMC 4-60

Professor: Karen Brenner

Office: Tisch Hall 429

Office Hours: Available to meet by appointment

Email: kbrenner@stern.nyu.edu

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 communication and leadership in effecting corporate turnarounds.

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, the board of directors and 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. 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, activist fund managers, and bankers. The skills developed in this course should be applicable to professionals throughout their careers. Specific attention is paid to cultivating skills appropriate to early stage career assignments.

**Prerequisites:**

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

**Grading:**

The weights for the student’s overall grade are:

- **Class participation** 30%
- **Short Papers** 30%
- **Final 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 thoroughly reading and analyzing each of the assigned materials before each class. This is an essential part of the course. Students are responsible for being prepared to discuss 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 three 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. The objective in the short papers is to demonstrate mastery of the course concepts by integrating the reading material, as is appropriate, in your analyses. 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 Sessions 3, 4 and 5.

**Final team project:**

On the first day of class each student will be assigned to a team for the final project. The final team project will be a class presentation of a turnaround situation. The team will be asked to select a specific turnaround situation and present a discussion of the case to include: 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). Companies may be selected from the following sources: debt selling greater than or equal to 10bps above treasuries; earnings decline of greater than or equal to 30% over the last 12 months, and/or; rating agencies downgrade to CCC. The purpose of this project is to apply the principles of corporate turnarounds to an actual, specific business situation. The presentation 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 presentation should address not only the situation as it existed but an analysis of alternative approaches that may have yielded a preferred result. Integrating the course material (text, cases, and leadership lessons) to the analysis is essential. The presentation slides or other written product should be submitted to the professor before beginning the case presentation in class. After the presentation the team is expected to lead the class in a discussion of the critical issues involved in the case. Each member of the team must also complete and submit either by email, or in person, 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.

Readings:


2. Required Digital Course pack. Available at the NYU Professional Bookstore.

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

Class Schedule:

Session #1:  

Course Overview and Introduction:  

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)

“At BP, A History of Boldness and Costly Blunders” by Sarah Lyall, NYTimes, June 12, 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?” How, and why, 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? Which are most common?

4. How would you describe the culture at BP and what, if any, implication it may have had on the crisis? (Include discussion of Kanter’s paper) What early actions did the Company take planning for/indicative of a potentially company threatening situation?

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

“Turnaround Retrenchment and Recovery” by D. Keith Robbins and John A. Pearce II
“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, and why? 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:  
Textbook:

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:

“Rhetoric” by Aristotle, Book I, Parts 1 and Part of Part 2 (BB)

“Leading Change- Why Transformation Efforts Fail” by John P. Kotter

“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 sessions to date, what are the leadership lessons that are most applicable to turnarounds and why? How would you juxtapose these lessons with “Why Transformation Efforts Fail?” Why are Aristotelian notions of rhetoric especially important in turnaround situations?

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

“Profit Pools: A Fresh Look at Strategy” by Orit Gadiesh and James L. Gilbert

“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:  

Textbook:

The Emergenc 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

The Return-to-Growth Stage:  
Chapter 21, Pages 337-361

Financial Management; Operations Management; Marketing Management in the Stabilization and Return-to-Growth Stages

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)

“Divestiture: Strategy’s Missing Link” by Lee Dranikoff, Time Koller, and Antoon Schneider

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

“Turnaround Management Every Day” by John O. Whitney

“Feedback in Heaping Helpings” NYTimes, Corner Office, March 29, 2009 (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? What are the key strategic, financial and operational elements to assure institutionalization of the elements of a turnaround? What leadership characteristics are important in providing for the enduring value created in a turnaround?