

## **A Casebook on Corporate Renewal**

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EDITED BY  
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Dedicated to our children—  
Leah, Sarah, and Jesse

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# Preface

Since 1993 corporate renewal has gone from being an unknown and little used skill to being a full-fledged business discipline widely practiced and trusted by managers. Much of that growth and development resulted from the confluence of two events: (1) the professionalization of the field that in large measure is due to the creation of the Turnaround Management Association and the seemingly endless energy of its leadership and (2) a calamitous economic recession starting in late 2000 and officially ending in 2001 but whose lingering effect continued to afflict countless American firms through mid-2003. During these troubled times corporate renewal practitioners have helped many companies experiencing difficulties and in so doing have proved the value of their profession.

Harlan Platt published the first textbook in corporate renewal in 1998, *Principles of Corporate Renewal*. Since then it has been widely used in graduate and undergraduate business programs and in training programs at corporate renewal firms. An updated second edition was released in 2004. This corporate renewal casebook accompanies that textbook, though it can easily be adopted separately or with other textbooks. The availability of both a text and a casebook on corporate renewal should greatly increase the number of business schools teaching the topic to an ever growing number of interested students.

Howard Brownstein provides a cogent introduction to the corporate renewal field. Following this, the casebook is partitioned into six sections that epitomize the principal topics arising during a typical corporate renewal engagement. The first topic is Ethical and Legal Issues. Bankruptcy is a stressful time for managers. Ethical considerations become even more important during such times. The “Harry

Lewis: Ethical Manager” case recounts the experience of a manager of a firm on the brink of failure, the “Shrink, Inc.” case focuses on the difference between malfeasance and bad judgment, and the “Corbesco” case looks at accountability in a troubled situation. The next three cases, “Toys and More, Inc.” “Clark Automotive Parts, Inc.,” and “The Creation of First City Financial Corporation: A Clinical Study of the Bankruptcy Process,” involve the creation of bankruptcy plans of reorganization. The issue of valuation is relevant in these three cases, although it appears again in a later section.

The next section, Investigation Phase, studies several issues that predate the occurrence of bankruptcy. “Enron Red Flags Case” and “AOL Latin America (B)” look at companies not yet in bankruptcy but with different perspectives. The first inquires whether the Enron fraud could have been detected; the second asks whether analysis from an early warning system model (the Altman Z score) provides investment advice about a company not yet in bankruptcy. “Periwinkle Software, Inc.” looks at a company on the verge of bankruptcy and asks what should be done. “Manchester Wholesale Distributors (A)” introduces operating considerations before failure and also asks, “Who should be in charge?” The last two cases in this section, “Clean Harbors” and “NextCard,” concern industry analyses conducted to assess the likelihood that a troubled firm, if renewed, could survive in an industry.

The book then takes a strategic turn. We begin with two articles (not cases per se) that both deal with the software industry. McKinsey & Company provided the first, “A Hard Turnaround for Software.” It considers issues arising in the turnaround of a company with limited fixed assets and low variable costs. The second, “Symantec’s Strategy-Based Transformation,” comes from *strategy+business*, published by Booz Allen Hamilton Inc. In a fashion similar to the *Principles of Corporate Renewal* book, it considers how renewal can affect a healthy company doing a transformation. Also contained within this section are two cases. The first, “Global Foods, Inc.: A Corporate Renewal Engagement,” describes a once healthy company with too many products and markets. The second, “American Motors Corporation (B),” illustrates the limitations for strategic change in a company overwhelmed by competitors.

Cases in the Financial Issues section cover a wide range of topics. These include two financial restructuring cases, “RCN: How to Invest in a Turnaround” and “Ajax Electronics,” involving companies of

vastly different sizes. Since most financial renewal efforts involve substantial negotiations, two cases, “Jet Interiors Company Inc.: Negotiating to Restructure a Convertible Note” and “We Hear a Symphony . . . Or Do We?” bring the problem forward from the perspective of a public company and a not-for-profit company. The next issue concerns the need for cash, which is illustrated with the “P. A. Bergner & Co.” case. Finally, probably the most critical need in any renewal effort is to assess and bring a firm to breakeven. The “Investing in BN.com: Can Breakeven Be Achieved?” case uses a well-known company to address this topic.

Operating Issues define the next group of cases. The first topic is bank/lender liability, which is presented in the “Crane Manufacturing Company” case. This topic arises frequently and may affect future operations. Then an activity based costing case, “Turning around the South Dakota Microbrewery,” discusses how a company may incorrectly drop products if it fails to correctly allocate its overhead expenses. What to do when too many employees are on the payroll is addressed in the “Intelligent Signals, Inc.” case. How to incentivize employees is such an important renewal task that three cases, “Berkshire Industries PLC,” “Titeflex Corporation: The Turnaround Challenge,” and “Gillette Metal Fabrication,” are included. Each discusses the related question of how output and productivity can be influenced by employee performance. “Bouvet Springs, Inc.” concerns how price levels are the easiest change to make that influences cash flow. “CUP Corp.: Measuring the Customer Care Center” discusses ways to improve productivity within a plant, while “Lucent Technologies: Shared Financial Services—Balanced Scorecard Implementation” discusses how employee changes affect processes and thereby cost structures.

The final section, Special Topics, considers a number of critical issues not easily classified elsewhere. For example, “Cabriole” and “Sidethrusters, Inc. (A)” discuss topics more common among small business renewals such as fraud and limited funding. The “National Financial Planners Association (A)” case looks at the renewal of a nonprofit enterprise. Last, “U.S. Auto Parts Inc.: Insolvency Simulation Exercise” is a case in which students participate in a role-playing exercise. It provides students the opportunity to practice some of the skills and techniques required for success in corporate renewal.

It is our hope that this volume will spur on the rapid growth and market acceptance of corporate renewal. To enable that, we have prepared with our authors a series of teaching notes that are available

upon request to instructors who adopt the book for classroom use. Please send request on department or corporate letterhead to Professor Harlan Platt, Northeastern University, 413 Hayden Hall, Boston, MA 02115.

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