

A Real-Life Case Approach: Diagnosis and Recommendations for Companies Currently at the Crossroads

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INTRODUCTION

Cases are a widely-used pedagogical method in business education. Case analysis develops a managerial perspective as well as a tolerance for untidy situations in the real world. However, many of these cases, though richly textured, are based primarily on a historical perspective and frequently involve fictitious circumstances. This paper focuses on a real-life case approach that can provide an opportunity, across business disciplines, for a forward-looking analysis of actual company problems as well as their historical context. It is based on identification and diagnosis of a compelling, multi-faceted, and currently evolving business problem at a publicly-traded firm—a company currently “at the crossroads” due to such events as bankruptcy, merger, or a major management change. The analysis concludes with the student’s recommendation for the company’s next steps. Though the assignment has been developed for a corporate finance elective at both the undergraduate and MBA levels, the analysis crosses other business disciplines and can be used as an integrative case assignment.

This paper includes background on real-life cases, a description of an alternative approach, and preliminary results of student evaluations related to the real-life case assignment.

BACKGROUND

Real-life cases are often designed to solve actual business problems, sometimes those in the local community. Kocher and Helmuth (2000) develop a “real-time finance case” that is based on a business problem presented by a corporate executive to a class. The students analyze the problem(s) over the course of the semester and present their analysis and recommendations to the executive at the end of the semester. While these types of cases provide timely and practical applications of course material, there are potential drawbacks. The executive, for instance, may work at a privately-held company where the nature of proprietary information may limit the scope of what the students can evaluate. As another potential disadvantage, it may not be feasible for corporate executives to be readily available to instructors for pedagogical purposes.

AN ALTERNATIVE APPROACH

This paper provides an alternative approach, based on major business issues at public companies that are currently evolving in the public spotlight. In this real-life case approach, the class is given a list of “companies currently at the crossroads” at the beginning of the semester. United Airlines, for example, was selected because it is in bankruptcy proceedings while General Electric has a major change in management following Jack Welch’s retirement.

In two-person teams, the students identify and diagnose the company’s problem(s), going back five years. They begin with an evaluation of the company’s financial condition. Problems in this area tend to yield problems in other functional areas—such as, increased amounts of

inventory and longer periods to collect accounts receivable may be tied to marketing strategies, distribution decisions, and credit policies. There are periodic “check-in” points where material is collected for review and feedback (not for interim grades). These “check-in” points occur every couple of weeks, beginning with identification of the student team members and the selected company in week 2. The next “check-in” point is based on spreadsheets of financial data, financial ratios, graphs, etc. that are collected mid-semester. On the last day of class, the students present highlights of their analysis and recommendations to the rest of the class. Often, common themes across industries and management styles surface and provide points for discussion.

The final paper is submitted after this informal discussion in class. It includes a discussion of the problem(s), their recommendations for next steps, and an assortment of financial information—including five years of financial statements with year-to-year changes, ratio analysis and graphs, benchmark comparisons, stock price history, a risk profile including beta and credit ratings. (See Appendix A for a description of the assignment.)

Because the project was designed for a corporate finance course, students begin with the financial data, determine the nature and the scope of the financial problems and consider the key decisions that the company has made during the previous five years, focusing on investment, financing, and dividend decisions. The students link the major problems in corporate strategy and other management decisions to finance, accounting, operations, and/or marketing decisions. Potential signals and causes/effects across business fields are also investigated.

POSSIBLE ADVANTAGES AND DISADVANTAGES

As a practical application of case methodology, this real-life case project helps students to develop analytical capabilities, data and spreadsheet skills, teamwork skills, and cross-functional problem-solving skills. Potential advantages also include the opportunity for students to:

- Practice identifying problems with incomplete information;
- Practice solving unstructured problems ;
- Practice using spreadsheets and electronic databases, including those provided by the Securities and Exchange Commission (SEC) and Bloomberg;
- Analyze historical information to uncover strategic choices that may have led to current problems in and across functional areas;
- Analyze previously disclosed financial information to determine signals and early indicators of current problems—What could have been tell-tale signs of impending problems? Could analytical tools, such as Altman’s Bankruptcy Prediction Model, have been applied?
- Make decisions in terms of trade-offs, priorities, competing resources, and/or pareto analysis;
- Be actively engaged in their learning, while encouraging an interest in current business events;
- Develop analytical skills related to forward-looking solutions and/or recommendations, uncertain outcomes, and more than one answer;
- Build confidence in their analytical skills as well as their resumes.

However, there are also disadvantages, some of which follow directly from the advantages noted above.

- Because there is lots of latitude in the decision-making process and no one right answer to the company's multi-faceted problems, there may be insufficient structure or certainty for some students—those who wish to have a defined framework or that “right answer”;
- Some students feel pressure to actually “solve” the company's very complicated problems—the students need to realize that many experienced professionals, including management teams and bankers, have already tried and have not successfully solved the company's problems.

RESULTS OF STUDENT EVALUATION OF REAL-LIFE CASE ANALYSIS

A sample of undergraduate and MBA students in a finance elective completed a survey, using an instrument based on Ciccotello and Green (1997), about their views on real-life cases compared to textbook cases. See Tables 1 and 2 for preliminary results.

CONCLUDING REMARKS

Each semester, there is a group of companies that is experiencing major management, financial, legal, and/or structural changes—FAO, Kmart, and United Airlines, for instance. These evolving stories provide a real-life context in which to examine corporate strategic decisions and their implications and consequences that cross and may integrate the business functional areas.

SELECTED REFERENCES

- Ciccotello, Conrad S. and Steve G. Green. “Student-Authored Case Studies in Finance: Performance and Observations,” Journal of Financial Education, Spring 1997, pp. 55-60.
- Kocher, Claudia S. and John A. Helmuth. “Real-Time Finance Cases,” Journal of Financial Education, Fall 2000, pp. 54-59.

Appendix A
Real-Life Case Analysis: an Example (Spring 2003)

The course project will examine an actual company with current problems—like Kmart or FAO Inc.—and provide a “real world” case analysis. The company (from a selection below of publicly traded corporations) is at a crossroads—it may be, for instance, facing a merger decision, industry consolidation, or a bankruptcy decision.

Choose one of the following companies:

American Airlines	Kmart
AOL Time Warner	LVMH
FAO Inc,	McDonald's
Filene's Basement	Revlon
General Electric	Sony
Hewlett Packard	United Airlines

Following our framework in class, you will be analyzing the company's historical and current situation—identifying the issue(s)/problem(s), evaluating the financial condition, considering alternative solutions, and providing some recommendations for management. Your analysis will reflect the perspective of an outside consultant who has no vested interests in the company or the outcome of the analysis.

The analysis will consider the last five years of financial information (1998-2002) and the key decisions that the company has made. Specifically, you will be analyzing the company's investment, financing, and dividend decisions as well as their implications and consequences. The company will, most likely, display multi-faceted problems that may not be neat, easy, or straightforward to solve. Priorities, trade-offs, and alternative scenarios will need to be considered.

Periodic points to “check in” are scheduled. For instance, drafts of the financial evaluation as well as the risk profile of the company will be collected for feedback.

The project is intended as a small group (two or three person) assignment. The paper (one per group) will be 10-12 typewritten pages, one voice, double-spaced, proofread for spelling and grammatical errors, and properly referenced. Data analysis is additional and can be as many pages as are necessary. Plan to use Excel for analysis of the company's financial statement data. You will also need to include a bibliography for the print and electronic sources that you use.