OTHER PEOPLE'S MONEY: A VISUAL TECHNOLOGY FOR TEACHING CORPORATE RESTRUCTURING CROSS-FUNCTIONALLY

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Some of the more difficult managerial issues of the past two decades have arisen from corporate restructurings, often undertaken for financial reasons. At the same time, the demand to teach business curricula across functions is growing, making more imperative technologies to facilitate the teaching of business concepts from multiple perspectives. The movie *Other People's Money*, starring Danny de Vito and Gregory Peck, is an integrative technology that can be used to teach Organizational Behavior and Finance issues cross-functionally. Students can be presented with two uniquely distinct corporations embodying traditional versus futuristic organizational structures. The inability of the traditional corporation to react to an external threat leaves it vulnerable to a corporate takeover. This set of events provides a context for helping students learn about important management and finance concepts related to mergers and acquisitions in a fun and memorable way, while stimulating their thinking about complex leadership and ethical issues that surround corporate restructuring.

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Summary of Movie

New England Wire and Cable (NEWC) is an old-fashioned American manufacturing company. The chairman of the company, Andrew Jorgenson (Gregory Peck), has presided as a paternalistic ruler for the past 26 years. Jorgenson values the stability and predictability that his firm has offered to the community in exchange for undertaking specialized jobs turning steel into cable much like his forefathers had done. He recalls with nostalgia the Truman years that gave impetus to the growth of his company, although they now blind him to the trouble brewing in one division in need of urgent reengineering and diversification.

Not far away, Garfield Investment Corporation (GIC) is scanning the environment using modern technology to identify firms ripe for takeovers. The firm is headed by Lawrence Garfield (Danny de Vito), a self-made entrepreneur from the Bronx with an unabashed appetite for other people's money. GIC exemplifies the quintessential Wall Street firm, with chrome and plush leather furniture, electronic doors, and wall-to-ceiling windows overlooking Manhattan. Unlike Jorgenson's deeply rooted family values, the lone Garfield lives and breathes for acquiring companies and liquidating them, hence his nickname, "Larry the Liquidator." He is helped by Carmen, his microcomputer that faithfully greets him every morning, along with a team of lawyers who lay the groundwork for the takeovers. Rather than embellishing on Truman, Garfield is betting on the future while learning Japanese along with his staff, because "the Japanese are taking over the world."

From a financial vantage point, NEWC is a particularly appealing target because it has no debt, no lawsuits pending, and the pension plan is fully funded. Garfield expects to make a substantial profit on the acquisition and liquidation of this company. When attempting the corporate takeover, Garfield encounters resistance from Jorgenson. Jorgenson brings in lawyer Kate Sullivan (his stepdaughter), who immediately asks Garfield for a standstill agreement where neither party will buy more shares for 2 weeks. In the meantime, Garfield makes a tender offer for the company under a different name, and Sullivan attempts to get NEWC's board of directors to repurchase outstanding shares.

Sullivan then offers to buy Garfield's stock at $18 per share when the market price was $14 per share (greenmail). Garfield is not interested and instead proposes swapping his shares for the wire and cable division. This division has not been very profitable, and if liquidated, the stock is potentially worth $25 per share. However, Jorgenson feels that he, the employees, and the community all have too great a stake in that division for him to allow the liquidation to take place.

Garfield and Jorgenson agree to leave the decision about the company's future up to the shareholders and a proxy fight ensues. Garfield eventually wins the proxy fight and takes over the company. In the end, however, Sullivan does appear to save the workers' jobs when she negotiates a deal with a Japanese company to manufacture air bags.

Teaching Notes

This movie can be used to teach corporate restructuring and related ethical issues cross-functionally in Organizational Behavior and Finance courses at the undergraduate and graduate levels. It can also be used as a module for management education in corporate settings. We begin by distributing the vocabulary lists of key terms contained in Appendixes A and B, and discussing the terminology in each area. This, we think, is crucial for comprehending the issues illustrated by the movie. If showing the movie in class, we stop two times to discuss the events on the spot, using the attached questions. Otherwise, in the interest of time, students can be assigned to watch the entire movie prior to coming to class.

To motivate in-depth study and reinforce the concepts in the movie, we distribute questions to be answered and turned in by the students as an individual paper assignment. (Please refer to the Individual Paper Assignment section.) This gives students the opportunity to reflect upon the movie as a whole. It also allows students unable or unwilling to make comments in class to express their opinions regarding these issues. In addition, a team assignment consisting of an extensive organizational diagnosis can also be given as outlined in Module 2 of Ancona, Kochan, Scully, Van Maanen, and Westney (1996).

Student response to the use of this movie in the classroom has been overwhelmingly positive. Student comments indicate that they find it helpful to see a "real life" application of the topics under study. Because the right thing to do is not obvious here (one's viewpoint depends on one's stakeholder group), students also develop an appreciation for the ambiguity related to the ethical issues of corporate restructuring.

Appendix A
Vocabulary of Organizational Behavior Issues

ORGANIZATIONAL MODELS

- The *traditional organization* refers to the predominantly inward-focused hierarchical organization, which relies on boundary spanning departments and very specialized job positions. This model tries to insulate the core activities of the firm from sources of change, following routines long after these have proved inadequate.

- The *organization of the future* is a flat organization, able to respond quickly to a changing external environment through sophisticated information systems, effective use of teamwork, and multitasking. This type of organization is well networked, serving simultaneously as competitor, customer, and collaborator or partner, in much the same way that Microsoft and IBM have banded together. This firm focuses on outcomes versus processes and is no stranger to diversity or globalization.
- The *hybrid organization* is a corporation exhibiting a combination of traditional and futuristic characteristics.

MULTIPLE PERSPECTIVES ON ORGANIZATIONAL PROCESSES

Unlike an economics approach that seeks one best way to optimize profitability, a behavioral approach to organizations recognizes that there are many ways in which individuals make sense of work, and multiple paths to attain a variety of organizational outcomes, such as corporate performance. This ability to analyze organizational life from various perspectives is called *reframing*. Reframing enables you to appreciate how information arising from more than one perspective enriches an organizational diagnosis to provide a more complete assessment of the events under scrutiny. This skill can be practiced with the movie, drawing on the work of Bolman and Deal (1991) and Ancona, Kochan, Scully, Van Maanen, and Westney (1996). Three perspectives you can readily use are the following: the strategic design, political, and cultural perspectives.

- The *strategic design perspective* highlights the basic principles of organizational design, aligning it with the organization's strategy, making sure that both fit the external environment. Specifically, it looks at how activities are allocated (differentiation), how these are coordinated (integration), and how organizational design meets external environment requirements (fit). This perspective assumes that organizations are rational, have a clear strategy and design for short- and long-term viability, and are fully aware of reading the external environment appropriately.
- The *political perspective* provides a way of mapping and interpreting different interests or goals that guide individuals, groups, or organizational units in decision making. It provides a means of assessing the relative power of the different stakeholders as they renegotiate and resolve conflicting views. Self-interest, in this case, becomes the key assumption for understanding organizational decision making as based on the fluid commodity of power and control over scarce resources.
- The *cultural perspective* emphasizes the inherent limitations of managerial authority and influence, rejecting claims that only rational factors best explain human behavior. From this perspective, people respond to events based on their situation, and above all, on what these situations mean to them. The concern for meaning in organizations focuses attention on values, language, beliefs,

legends, social norms, myths, rituals, and metaphors shared by people in an organization. Symbolism is the unit on which the cultural perspective rests, with the assumption that decoding it unravels the pattern of meanings that guide the thinking, feeling, and behavior of the organization; that is, its corporate culture.

BUSINESS ETHICS

- *Ethics* refers to "standards of conduct that indicate how one should behave based on moral duties and virtues arising from principles about right and wrong" (Josephson, 1993, p. 4).
- *Social responsibility*, broadly speaking, refers to the obligation of the entity to serve the stakeholders and to maximize its positive impact on society while minimizing its negative impact. By analogy, corporate social responsibility presumes that a business organization will remain financially responsible to its shareholders, owners, employees, and customers while adopting a course of action that enhances the welfare of society at large.

Appendix B
Vocabulary of Financial Issues

TRANSFERS OF CORPORATE CONTROL

- *Merger* refers to any business combination in which one or more of the firms involved does not survive in name.
- *Hostile takeover* occurs when the acquisition of the target firm by another firm or group is not supported by the target firm's management.
- *Tender offer* is a public offer made by a bidder firm to purchase a designated percentage of a target firm's outstanding common stock. Approval of the target firm's board of directors is not required. Tender offers are made directly to the target firm's stockholders through public announcements.
- *Proxy contest* indicates a direct attempt by dissident shareholders to gain a controlling number of seats on a firm's board of directors through a formal vote. Both dissident shareholders and incumbent directors and managers wage battles much like political campaigns. Voting takes place at the annual shareholder meeting.

REACTIONS TO CORPORATE CONTROL CONFLICTS

- *Standstill agreement* is a voluntary agreement between a corporation and a substantial shareholder that limits the ownership of voting shares in the company to a maximum percentage over a specified period of time.
- *Greenmail* happens when a firm buys a block of its stock from a major shareholder at a price higher than its current market price. The greenmail price is not offered to other shareholders.
- *13-D Statement* refers to the statement filed by the investor with the Security and Exchange Commission if beneficial ownership of greater than or equal to

5% of common stock is acquired. The purpose of the 13-D statement is to inform the public of the existence of a significant block of stock ownership.

Appendix C
Key to Questions About *Other People's Money*

FIRST SUGGESTED STOP

If the movie is being shown over two class periods, the end of the scene where Sullivan and Garfield are talking on the telephone is a good place to end the first day (after approximately 50 minutes). We use this as an opportunity to ask the students if the exchange between these two individuals is consistent with how they visualized business people interacting. This presents an interesting icebreaker about gender roles. Then, we proceed with a discussion of initial corporate restructuring observations, ending with a philosophical questioning of the meaning of free enterprise and the capitalist system.

1. How would you characterize NEWC and GIC in terms of the continuum of traditional versus futuristic organizations?

NEWC is predominantly a traditional organization. It is a bureaucracy exhibiting a top-down structure, internally focused, isolated from the outside world aside from its immediate community, with a workforce primarily involved in fulfilling repetitive manufacturing tasks. GIC, on the other hand, exhibits more elements of an organization of the future. It is a highly networked organization, relying on state of the art technology (Carmen), flat (with teams of lawyers and researchers scanning the environment), flexible (ready to respond rapidly to possible successful takeover attempts), and global (whose CEO and staff are learning Japanese). For further reading, please refer to Galbraith and Lawler (1993) and Ancona et al. (1996).

2. Whose company is New England Wire and Cable? Whose money is Jorgenson spending?

The owners or residual claimants of a corporation are the stockholders. If corporate managers do not maximize stockholder wealth, a corporation may have a difficult time attracting investment capital. Usually, corporate managers find that fair treatment of customers and employees leads to repeat customers and a more effective workforce, and this helps maximize stockholder wealth. Also, government is responsible for setting public policies that protect stakeholders of the corporation. Jorgenson is an agent for the stockholders of NEWC and has a fiduciary duty to maximize stockholder wealth. He is spending the stockholders' money to keep NEWC operating.

3. Why is New England Wire and Cable an attractive takeover target (i.e., why is it worth more dead than alive)?

Garfield shows Jorgenson and Coles that the breakup value of NEWC is significantly greater than the current value of the company. The breakup value includes $30 million in equipment, $10 million in land, other companies worth $60 million, and working capital of $10 million. Garfield rounds this to $100 million or $25 per share, compared to the current $14 price per share.

4. What is greenmail? Is greenmail illegal? Is it immoral?

Greenmail occurs when management buys a firm's stock back from a shareholder who appears threatening. The other shareholders do not have an opportunity to sell their shares at the greenmail price. Greenmail may be harmful to the remaining shareholders because wealth flows out of the corporation to the shareholder being paid greenmail. In the rare case in which the firm is undervalued and worth more than the greenmail price, current shareholders may benefit if greenmail is paid. (For example, management may have developed a plan to solve a problem but may not have communicated this plan to shareholders.) Although greenmail is legal, it seems wrong to enrich one shareholder at the expense of others.

5. "Make as much as you can for as long as you can." "Survival of the fittest is the law of free enterprise." What do you think about these statements by Garfield?

- The instructor may want to review and/or discuss the meaning of free enterprise. The free enterprise system is based on the recognition of individual property rights and the idea that individual self-interest automatically promotes an improvement in social welfare. The well-known quote below refers to the free enterprise system:

> Every individual endeavors to employ his capital so that its produce may be of greatest value. He generally neither intends to promote the public interest, nor knows how much he is promoting it. He intends only his own security, only his own gain. And he is in this led by an invisible hand to promote an end which was not part of his intention. By pursuing his own interest, he frequently promotes that of society more effectively than when he really intends to promote it.
> —Adam Smith (*The Wealth of Nations,* 1776)

Capitalism is based on the idea of self-interest. Lying, cheating, stealing, and other unfair practices are not part of the philosophy of capitalism, however.

- The instructor may want to ask students how a free enterprise system deals with problems related to protecting individuals and the environment. The political process and the resulting laws and social policies temper a pure free enterprise system.

- The instructor could end this part of the discussion by asking students where compassion and kindness fit in with a free enterprise system. Would Garfield be a desirable friend, coworker or boss? See Rao (1992, chap. 1) for further discussion of question 5.

SECOND SUGGESTED STOP

Stop the movie after hearing Jorgenson and Garfield address the stockholders at their annual meeting (after approximately 90 minutes). This time, the discussion can focus on leadership and ethical considerations. The instructor may want to have students vote at this point, and then vote again after discussing the following questions:

1. Compare Jorgenson's and Garfield's speeches. What points do you agree with? Disagree with?

Jorgenson makes an impassioned speech to retain the loyalty and trust of NEWC's stockholders, betting that they will be willing to wait for the price of cable to rise as it once had done. In contrast, Garfield takes a rational approach, clearly placing the voting responsibility on the shoulders of the voters. He takes this risk after clarifying the impending status of the corporation as being "more dead than alive," long before he entered the picture.

An analogy can be made between the Dole/Clinton presidential campaign stances. Like Dole, Jorgenson takes the high ground, stressing character and integrity based on past glories (an ethics of principle). Like Clinton, Garfield articulates a vision guaranteeing the voters' financial security (an ethics of consequence).

2. What, if anything, does a company owe its workers and the community?

This question addresses the issue of corporate social responsibility. Dalton and Cosier (1982) make compelling arguments by creating four combinations of legality and responsibility from which students can assess the short- and long-term effects of corporate strategies. Note the relativistic nature of ethical interpretations based on a stakeholder perspective. Remember, too, that ethical behavior is a two-way interaction.

3. We know how Bill Coles plans to vote. What do you think of Bill Coles's actions? What points do you agree with? Disagree with?

The instructor can remind students that Bill Coles was in a difficult position and ask them to list his alternatives and probable consequences. Of these, which were morally and legally sound?

Option 1: Support Jorgenson by voting against Garfield. Coles did not seem to believe Jorgenson had a chance of winning the proxy fight. He appeared to believe that if he supported Jorgenson he would lose his job, an outcome he is unprepared for financially. This option is legal and moral, if one focuses on the employee and community stakeholder groups and/or accepts Jorgenson's forecasts regarding the firm's prospects. If one focuses on the shareholders, and believes Garfield's view of the firm's condition, this option might not seem ethical.

Option 2: Support Garfield and be open about it with Jorgenson. If Coles did not believe Jorgenson could win, he could have openly supported Garfield, using a focus on the good of the shareholders as his justification. Of course he would have had to deal with immediate repercussions from Jorgenson, such as possibly being fired and being labeled a traitor. Again, this option is legal, and can be justified on moral grounds.

Option 3: Support Garfield covertly. Coles avoids immediate repercussions from Jorgenson and others at NEWC and comes out ahead financially. However, he must live with the knowledge that his former associates at NEWC would view him as a traitor. Although this option is legal, it demonstrates questionable moral fiber.

Postmovie Questions

1. Why do corporate restructurings occur in general?

Corporate restructuring is a general term encompassing mergers, leveraged buyouts, and divestitures. Companies merge for the synergistic effects, such as operating or financial economies, or to improve managerial efficiency. They may also merge because of tax considerations, to acquire assets below replacement cost, to reduce the variability of the firm's earnings stream by diversifying its product lines, or because managers desire the power, prestige, and higher salaries that generally accompany managing a larger business. A leveraged buyout (LBO) occurs when a small group of investors borrows money that it then uses to acquire the outstanding shares of a business. Usually the intent is to manage the business for a few years, increase its profitability, then take it public again. Divestitures include the following: (a) the sale of a portion of the business to another business, (b) splitting the existing business into two or more separate businesses and spinning off the stock of the new entities to the existing shareholders (e.g., AT&T in 1996), and (c) liquidating the assets of the firm. This movie illustrates a takeover with the intent of liquidating the assets of the firm. See chapter 24 in Brigham and Gapenski (1996).

2. How does the strategic design perspective inform your assessment of the outcome, of Jorgenson's losing his family business?

The strategic design perspective highlights the financial considerations brought to light in the financial questions raised above. Furthermore, this perspective focuses on one key weakness in Jorgenson's strategy—his unwillingness to respond quickly to the external threat, based on the inherited principles of his forefathers that left the organization open to a takeover.

Senge (1990) refers to this lack of responsiveness as "the boiled frog technique," explaining that if you place a frog in a pot of boiling water, it will immediately scramble out. However, if you place the frog in room temperature water, and do not scare him, he will stay there until he gets so groggy that he is unable to climb out of the pot even when the heat is turned up. In like manner, Jorgenson's desire to keep things stable was greater than his ability to assess the seriousness of a potential corporate takeover and to respond quickly by having his company not look so enticing. To the degree that Jorgenson was willing to put the future of the corporation to a vote by the stockholders, one could also say Jorgenson exhibited a blindspot—a perceptual barrier that arises when something is known to other people (Garfield and the stockholders) but not known to oneself (Jorgenson). See Luft and Ingham (1984).

3. How does the political perspective enhance the strategic design perspective?

Because the political perspective is closely tied to power and influence, this perspective focuses on the differing goals and interests of the stakeholders involved. Among NEWC's stakeholders, we find Jorgenson and his wife, Mrs. Sullivan; Coles, the president; Kate, Jorgenson's stepdaughter and lawyer representing the firm; the employees; the stockholders; and the surrounding community.

Whereas Jorgenson sought preservation of the status quo with Mrs. Sullivan's unquestioning support, Coles saw too clearly that the organization would not survive and surreptitiously sold Garfield his right to vote. This vying for scarce resources characterizes the political perspective, as is poignantly summarized in Coles's phrase, "What is in it for me?" Kate, on the other hand, was a young lawyer "wet behind the ears." She drew on her feminine guile to exert her influence over Garfield to help her family retain the company, while at the same time learning to play the corporate game. The employees gave loyalty to Jorgenson, forfeiting the right to question his decisions. The stockholders showed their true colors at the annual meeting by voting their pocketbooks over Jorgenson. Finally, the community was temporarily sacrificed with the closing of the company until the idea of airbags was introduced.

4. What does the cultural perspective add to the above?

The cultural perspective picks up on the visual, spoken, and unspoken signs of decline of NEWC. Like the staging of the company photograph, rituals and symbols such as the factory without a working elevator, the open fires bellowing, and the secretary using white-out in her typewritten message blend to confirm the need for reengineering the company. On the more positive side, the unfailing caring and concern for the employees, the company Thanksgiving dinner, and the interaction between Jorgenson and Mrs. Sullivan serve to solidify the extent to which family values served as the cornerstone for Jorgenson's decision making. Were one to be pressed for an analogy, one could say that the plant and surrounding community are simply Rockwellian, with the American flag prominently displayed and fathers still taking time to play ball with their sons.

5. Do the perspectives overlap? Explain.

In the case of NEWC, we see how the cultural perspective imposes ideals that reduce the strategic design's effectiveness. The cultural objective is to maintain operations primarily to support the community. Conflict with the strategic design comes from the fact that Jorgenson allows himself to run his business solely on his value of family. The strategic design is compromised because the goals that are set by the firm are not conceptually sound. Had Jorgenson taken on debt to leverage his company to reduce the firm's attractiveness for Garfield Investments, shareholder wealth maximization could have been achieved while preserving the interests of the remaining stakeholders.

Individual Assignment Questions

1. Use the three perspectives to analyze Garfield Investment Corporation. What resources did Garfield use in his strategic design? Where did the greatest dissonance lie from a political perspective? What do you make of his donut metaphor? Was he more agile than Jorgenson in using the three frames?

2. What does a company owe its employees and its community? What are the responsibilities of individual employees in today's environment? What can communities do to minimize the effects of the loss of a key employer?

3. What skills do you think are most useful for managers in the organizations of the future?

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