# *"Larry, the Liquidator": A Teaching Case Based on the Film "Other People's Money"*

# "Larry, o Liquidador": Um Caso de Ensino à Luz do Filme 'Com o Dinheiro dos Outros"

Joaquim Rubens Fontes-Filho
Alex Ribeiro Maia Baroni

**ABSTRACT**

This teaching case, based on the movie 'Other people's money', deals with the decision of the shareholders of a traditional company facing the dilemma of selling their shares to a potential investor, and securing a financial resource, or trying to reinvigorate the business in a context of market decline. Since the buyer intends to close the company and sell its assets, the sale of the shares held by the employees and citizens of the city, the main shareholders, would represent the loss of jobs and important revenue for the public budget, but declining the takeover offer could mean much greater losses for all. How should shareholders, particularly those groups most closely linked to the company, respond to the offer? The situation disposes the conflict between corporate governance issues of a company that produces wires and cables in a small town-of the United States. Timeless in nature, the case allows students to experience the choices and tensions present in the corporate governance of companies and difficulties in providing guidance to stakeholders.
**Keywords:** Corporate governance; Ownership control; Fusions and acquisitions; stakeholder capitalism

**RESUMO**

Este caso de ensino, baseado no filme 'Com o dinheiro dos outros', trata da decisão dos acionistas de uma tradicional empresa frente ao dilema de vender suas ações a um potencial investidor, e assegurar um recurso financeiro, ou tentar revigorar o negócio em um contexto de decadência do mercado. Uma vez que o comprador pretende fechar a empresa e vender seus ativos, a venda das ações detidas pelos empregados e cidadãos da cidade, principais acionistas, representaria a perda de empregos e de importante receita para o orçamento público, mas recusar a oferta de aquisição poderia significar perdas muito maiores a todos. Como os acionistas, particularmente esses grupos mais vinculados à empresa, devem responder à oferta? A situação dispõe o conflito entre questões de governança corporativa de uma empresa que produz fios e cabos em uma pequena cidade–dos Estados

Submitted: 12/06/2023
Accepted: 01/09/2023

Joaquim Rubens Fontes-Filho
Joaquim.rubens@fgv.br
PhD
Getulio Vargas Foundation / EBAPE
Rio de Janeiro / RJ – Brazil

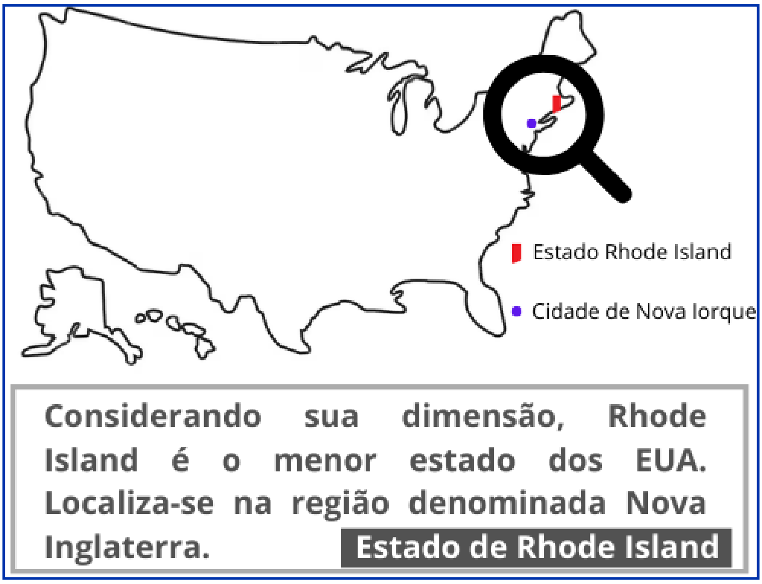
Alex Ribeiro Maia Baroni
baroni.alex@gmail.com
Doctoral student
FGV
Rio de Janeiro / RJ – Brazil

Unidos. De natureza atemporal, o caso permite aos discentes vivenciarem as escolhas e tensões presentes no governo societário das empresas e dificuldades para uma orientação aos stakeholders.
**Palavras-Chave:** Governança corporativa; Controle acionário; Fusões e aquisições; capitalismo de stakeholders

## New England Wire & Cable Company

The story takes place in the early 1990s in Rhode Island, New England. It is a small and quiet town in the United States that had witnessed the growth of a wire and cable producer, New England Wire & Cable (NEWC). Founded 81 years earlier, the company had been led for the last 26 years by Jorgy, the son of the founder, who served as the chairman of the board of directors (COB) For residents of Rhode Island, the company was the primary employer, providing jobs and income. In addition, it contributed significantly to the town’s tax revenue, highlighting the company’s vital role in the community. Moreover, many residents held company shares as their main savings investment.

**Figure 1.** New England Wire & Cable’s location.



NEWC had experienced highly prosperous periods in the preceding years, enabling a growth strategy that involved expanding its operations to capitalize on favorable market opportunities. This expansion included the acquisition of three other companies in different sectors: plumbing, electrical, and adhesives.

NEWC was structured like a publicly traded corporation, exclusively utilizing shares with voting rights. The main director, also the founder’s son, owned 20% of the shares, while the board of directors collectively held 5%, a percentage mirrored by the employees, resulting in 30% of the shares held within the company. The remaining shares were publicly traded on the stock exchange among other shareholders..

Nevertheless, over time, NEWC’s positive results began to wane, and the company lost much of its former strength. An initial 20% increase in share value, rising from $10 to $12 quickly, brought excitement to its managers. A photograph featuring the management team and all employees was taken to commemorate this moment of joy. Yet, as they posed for the photo, employees and administrators couldn’t help but reminisce about the company’s golden periods when the stock was valued at $60, five times greater than during that festive moment. This recollection stressed the significant devaluation the company’s shares experienced over the years.

## The Investor’s Arrival: “It Has Been a Long Time Since I’ve Seen a Limousine Around Here…”

Larry Garfield is a stock market investor operating on the New York Stock Exchange (NYSE) on Wall Street. He is the owner of a prominent investment company called Garfield Investments. Through Garfield Investments, Larry collaborates with a team of lawyers and leverages modern computer systems and databases to identify companies in precarious financial situations. Their objective is to formulate proposals for acquiring these companies’ shares and, upon securing controlling interest, to liquidate the companies by selling their assets. These companies are worth “more dead than alive,” with the value of their assets surpassing their market capitalization (determined by the number of shares multiplied by their share value). Over the past few weeks, Larry and his team have closely monitored NEWC, developing a strategic plan to acquire a substantial volume of the company's shares.

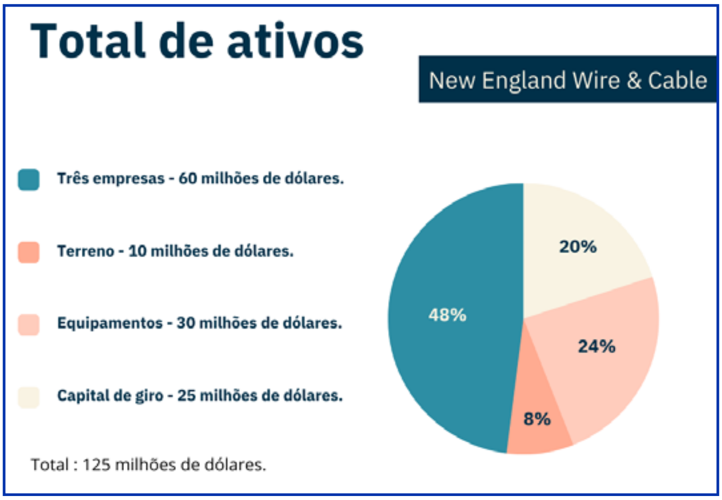
Following this interest, Larry requests that his secretary contact NEWC to arrange a meeting with their executives. The company's management receives Larry's call with curiosity and some concern, as they know Larry's reputation for working to acquire and liquidate companies.

On the date set for the meeting, Larry arrives in his limousine, and many company employees are surprised to see such a car on the factory floor. Upon welcoming him into his room, Jorgy remembers the last limousine that arrived many years ago, bringing then-candidate Harry Truman during the United States presidential race.

Also present at this meeting is Coles, the president of NEWC, who soon questions Larry about his knowledge of cables and wires, the company's main activity. In a sarcastic tone, Larry responds: "I know if the cable's out of whack, the elevator don't go up" (in reference to the fact that the company's broken elevator forced him to climb several flights of stairs).

The business discussion commences with Larry contending that despite NEWC's strong historical performance, the company is presently facing challenging times, resulting in a lack of profitability. In contrast, the other companies acquired by NEWC in plumbing, electrical, and adhesives are yielding positive results. Nonetheless, Larry points out that NEWC still possesses substantial reserves, including a working capital of $25 million, with a net share of 10%. He also emphasizes the value of the company's equipment, which, if new, would be worth $120 million. Given the current conditions, it could fetch between $30 and $35 million in a potential sale despite years of use. Additionally, he points out the significance of the land where the plant is situated, encompassing 110 acres and having a market value of approximately $10 million. Furthermore, Larry calculates an additional $60 million associated with the value of the three companies acquired over the years. Based on these valuations, he estimates the company's total value at $125 million.

**Figure 2.** New England Wire & Cable's assets.




Larry presents these figures and underscores the vital role played by the other three units operating in separate segments in supporting the wire and cable producer for an extended period. He contends that the current performance may not satisfy shareholders. To address any uncertainties, Larry goes on to suggest that he could even envision a considerably lower and more realistic valuation of $100 million, emphasizing the feasibility of his plan. He states excitedly: "You people are dreams!"

Larry then asks: "How many shares outstanding you got?"

Jorgy, the Chairman, responds: "4 million."

Larry continues: "divide 4 million into 100 million, what do you get?"

Jorgy responds: "25"

Larry states that each company share is worth 25 dollars based on this calculation, but the current share price is well below that. Thus, Larry identified great potential in this company because he could buy shares much cheaper, even calling it: "Great promotion." The COB responds to Larry that the company is not for sale. But Larry says he doesn't want to buy the company; he just wants what every other shareholder wants – "I want to make money."

At this point, Coles retorts: "You are making money […] you bought the stock at 10, it's now 14." Larry responds, "It's at 14 because I'm buying it." In other words, the shares that had deeply devalued over the decades were appreciating in recent days due to the massive purchases that Larry was making. In fact, it was this reason that days before led to the administrators’ and employees’ happiness, posing for photographs to celebrate the appreciation of shares.

Very emphatically, Larry concludes his reasoning: “Get rid of this wire and cables division. It’s a financial cancer.” Jorgy then stands in front of Larry and, somewhat angrily, says that he is not going to let him acquire his company and that he is not going to “commit suicide.” Larry, always with his acidic speech, retorts: “Don’t think of it as suicide, think of it as euthanasia.” Jorgy tells Larry the meeting is over and leaves the room.

Larry gets back in his limousine, calls his lawyers, and says, “Buy up New England Wire & Cable. Buy everything you can.” A few days later, Larry owns 12% of the cable company’s shares.

## Let’s call a lawyer

Jorgy hires a lawyer named Kate to deal with this situation. Kate happens to be his stepdaughter. She advises the family to use the company’s working capital to buy as many shares as possible and, if necessary, even borrow the money for these acquisitions. Kate then argues: “For every share you acquire, it’s one less for Garfield. The more it costs, the less profit for him.” The strategy was that, with the purchase, the share price would increase, making the acquisition less interesting.

However, Jorgy does not respond favorably to these options, prompting the lawyer to initiate negotiations with Larry to dissuade him from his aggressive stance. At this point, the shares were worth $18 each, and Kate proposed to buy Larry’s shares for $20. Larry refuses the proposal. Kate then urges Larry to attend the upcoming annual shareholder meeting, explaining that a successful vote for his proposal would expedite the legal process, potentially taking only a few months instead of years. She suggests to Larry that if he can persuade the shareholders to sell their shares, Jorgy would sell his own shares at $20 each. On the other hand, if Larry’s proposal is defeated, he would sell his shares for $15 to the company’s management. Larry hesitates but ultimately agrees to participate in the shareholders’ meeting.

## I Want to Negotiate With You Too

Coles, who maintained a conflicting position in the first conversations with Larry, saw that Larry's speech was sensible and sought him out to negotiate his shares.

Coles held 60,000 shares and purchased a further 40,000 shares during the negotiation process, now totalling 100,000 shares. Coles fears the consequences of Larry's strategy and says he is willing to sell all of his shares to the investor. Larry makes a counter-proposal to buy Coles shares if they make a difference in the shareholder election, allowing him to achieve a majority. Coles is not pleased but accepts the proposal, leaving the documentation relating to these shares with Larry.

## Larry, I Beg You Not to do This

In one last plead, Mrs. Sullivan, Jorgy's wife, visits the Garfield Investments office for a private conversation with Larry days before the meeting. She explains that the company represents hope and dreams for all those involved: "I want to talk about hopes and dreams...traditions." She relates the hard work that has gone into the company and emphasizes there are no debts and, therefore, her family does not deserve to lose it. Raising a white flag for a truce, she offers 1 million dollars as a greenmail payment to dissuade Larry from his attack. She adds: "money's not that important to me."

He denied the proposal, considering it insufficient, and concluded: "I don't take money from widows or orphans, I make them money." Mrs. Sullivan indignantly retorts, "...before or after you put them out of business?" and leaves Larry's office.

## Hours Before the Assembly (General Shareholder´s Meeting)

The COB was anxious and slept poorly in the weeks leading up to the meeting. Making a mea culpa, he reflects on whether he was prepared for this new business environment. He regrets that what they know is outdated and not useful today: "times have changed... whatever happened to people serving each other?" His frustration with Larry was evident, and he was clearly unwilling to see Larry receive favorable votes at the assembly.

## Larry Arrives for the Assembly

As soon as Larry arrives in his limousine at NEWC for the meeting, he is surrounded by journalists who ask him: "What are your plans for New England Wire and Cable?" Larry responds: "Make the shareholders richer."

Another reporter also asks: "Are you going to liquidate New England Wire and Cable? What is the future of employees?" Larry's response was, "My obligation is to the shareholders."

**Figure 3.** Illustration of a shareholders' assembly.

## The Assembly: the administration's presentation and arguments

The main agenda of the General Shareholders Meeting was the election of the slate that would make up the new board of directors. If Larry's ticket were the winner, in practice the shareholders would be voting on his proposal to acquire and liquidate the company.

At the shareholder meeting, Jorgy, the chairman of the board, is the first to address the diverse audience, which includes a broad spectrum of shareholders ranging from external investors to longstanding community members and employees. Cole introduced him, and his appearance at the microphone was met with enthusiastic applause from the attendees. In his compelling speech, Jorgy passionately expresses his determination to rescue the company at any cost, emphasizing its rich history of resilience, having weathered the loss of its founder, endured numerous constraints, survived a major depression, and navigated through two world wars. He solemnly declares, "This proud company, which has survived the death of its founder, numerous restrictions, one major depression, and two world wars, is in imminent danger of self-destructing."

Jorgy continues his message to the shareholders, indicating that the person responsible for the company's destruction is Larry, "the liquidator." Then, pointing to Larry, he ponders: "I want you to look at him in all of his glory. Larry, the liquidator, the entrepreneur of post-industrial America playing God with other people's money."

Jorgy seeks to show that Larry is only interested in the money and profit he will obtain. He argues that buyers like Larry don't create products and jobs; they destroy them. The COB then repeats, emotionally, a phrase that Larry said to him about his reasons for closing the company's activities: "I'm going to kill you, because at this particular moment in time, you're worth more dead than alive." And Jorgy continues:

> "Take a look around. Look at your neighbor. You won't kill him, will you? No! It's called murder, and it's illegal. Well, this too is murder on a mass scale. Only on Wall Street they call it maximizing shareholder value and they call it legal. And they substitute dollar bills where a conscience should be. Damn it! A business is worth more than the price of its stock. It's the place where we earn our living, where we meet our friends, dream our dreams. It is, in every sense, the very fabric that binds our society together. So let

> us now, at this meeting, say to every Garfield in the land, here we build things, we don't destroy them. Here we care about more than the price of our stock. Here… we care about people."

Jorgy ends his speech with applause from the shareholders, especially those who were also employees and invested their resources in the company. In the audience, happy faces signal approval of his arguments.

## THE ASSEMBLY: LARRY'S PRESENTATION AND ARGUMENTS

Afterward, Larry is invited to speak to the shareholders and present his proposals. He is received with many boos from the audience. Always sarcastic, he begins his speech by referencing the words spoken by Jorgy: "Amen, and amen." He says where he comes from, after hearing a prayer, one says amen. And, according to him, still in an ironic tone, the NEWC COB's speech was a prayer for those who died: "Where I come from, that particular prayer is called a prayer for the dead."

Larry then seeks to compare the company's core activity with a coachman's whip factory.

> "You know, at one time, there must have been dozens of companies making buggy whips. And I'd bet the last company around was the one that made the best goddamn buggy whip you ever saw. Now, how would you have liked to have been a shareholder in that company? You invested in a business and this business is dead?"

Larry views NEWC's product as good quality but outdated, while the market shifted towards optical fibers and new technologies. He laments, "But we can't, goes the prayer." He further emphasized, "For the last 10 years, this company bled your money."

Larry argues that shareholders should accept his proposal while it is still possible to receive something for the company's stock before it goes bankrupt. He reinforces his position by stating:

> "I'm making you money. And lest we forget, that's the only reason any of you became shareholders in the first place. You want to make money. You don't care if they manufacture wires, cables, fried chicken or grow tangerines. You want to make money."

Although Larry was received with many boos at the beginning of his speech, at the end, there was some timid applause. Many shareholders wore expressions of uncertainty on their faces, likely due to the forthright nature of Larry's presentation. The shareholders are then instructed to cast their votes in the ballot box at the back of the hall.

The shareholders faced a challenging decision. The managers, who also hold shares, face the prospect of losing their positions in the event of an acquisition. Similarly, employees are confronted with the potential loss of their social security investments tied to NEWC shares. Citizen-shareholders have an emotional attachment to the company, considering it their primary employer and a significant contributor to local tax revenue, even though its significance has dwindled in recent years. Investors who lack other connections to the company grapple with a dilemma – whether to support a company that prioritizes stakeholders such as society, employees, administrators, and suppliers but faces declining profits and the risk of extinction or to sell their shares, even if it results in a loss in most cases. What should they decide?

**REFERENCE:**

Jewison, N. (Diretor). (1991). Com o dinheiro dos outros [Filme] [Other people´s money]. Warner Bros.

## Teaching Notes

The teaching case presented in this document is classified as a problem-case (Böcker, 1987). Its primary objective is to stimulate a discussion that encourages students to project the best possible outcomes, thereby enhancing their critical analysis and decision-making ability (Ambrosini, Bowman, & Collier, 2010). This case enables students to explore various aspects of corporate governance, conflicts among different groups, and ethical dilemmas. It aims to bridge theoretical concepts with real-world experiences, enriching the topics covered in the classroom.

The film provides an example of the conflicts between the different interests of shareholder groups and a fundamental problem in corporate governance: the tension between managers and shareholders, the agency (or principal-agent) problem. In this context, the managers wanted to continue the company's operations without a change in control and subsequent liquidation. In contrast, shareholders were divided between selling their shares and attempting to revive the company. The contrasting interests of shareholders (principals) and managers (agents) encapsulate the governance challenges that were identified in the development of the American semi-public company almost a century ago (Berle & Means, 1932).

In Brazil, the hegemony of control in listed companies occurs when a shareholder or group holds the majority of voting shares and, directly or indirectly, wields significant control. In such cases, hostile takeovers, as depicted in the film, are less common. However, the increasing dispersion of ownership or voting rights in Brazilian companies, such as Vale, Embraer, Hering, B3, and more recently, Eletrobras, is bringing this scenario closer to reality. Even though there are differences between these markets, as the film illustrates, conflicts and divergences among groups of shareholders when it comes to accepting an investor's proposal are reminiscent of the challenges in the Brazilian corporate environment. The film portrays a situation where the principal-agent problems shift from the traditional principal-agent issue to one among the shareholders themselves.

However, the context of the assembly extends beyond listed companies, encompassing most organizations. In this regard, the case illustrates the dilemmas voters face. Should a company with profits reinvest to foster growth or distribute dividends? Should it pursue acquisitions or mergers? Should it aim to increase the number of shareholders, thereby injecting more capital into the business but potentially diluting the power of existing shareholders? These are examples of discussions present in all collective decision-making processes.

In this case, shareholders must confront several dilemmas. For employees, selling their shares could lead to job loss if the company closes. However, not selling might also mean losing their job and the value of the shares. Citizens face a similar challenge, as selling shares might protect some of their resources, but it could result in the decline of the city. In this situation, managers stand to lose their jobs and potentially damage their reputations. For investors, the allure of stakeholder orientation and the image of a company concerned about its employees and community pose a potential ethical dilemma.

Table 1 below presents the main elements in the evolution of the situation presented in the case:

**Table 1.** CChronology of events.

| |
|---|
| Chronology of recent events at New England Wire & Cable:<br><br>• New England Wire & Cable (NEWC) shares rise from 10 to 12 dollars, prompting celebrations within the company.<br>• Arrival at NEWC of Larry "The Liquidator," an investor interested in acquiring the company.<br>• Hostile meeting between the company's management and Larry, who explains his interest in buying the company and liquidating all its assets. The management does not accept Larry's proposal.<br>• Larry, begins buying all the NEWC shares he can.<br>• Jorgy, the Chairman of the Board (COB), hires a lawyer to look for ways to prevent the hostile takeover that Larry is doing.<br>• Coles, the operating president, follows Larry's move and decides to sell his shares to him, believing it would be the best thing to do.<br>• Mrs. Sullivan, Jorgy's wife, meets Larry at Garfield Investments. She tries to dissuade him from this attempt, offering him 1 million dollars.<br>• The shareholders' assembly begins, which will decide the future of NEWC. On the agenda, accept the sale of the shares to Larry or keep the shares in the expectation of the company's recovery, as Jorgy hopes.<br>• Chairman Coles opens the session by introducing the COB and investor to the audience.<br>• Jorgy is the first to speak. His words express his desire to keep NEWC in operation, stating that the company is essential for the city, paying taxes and creating jobs. Furthermore, he attacks investor Larry with harsh words.<br>• For employees, who are also significant shareholders, there is a strong dilemma between selling shares or risking losing everything, jobs, and assets.<br>• Then Larry begins his speech. His position is aimed at shareholders, pointing out that the company's business is outdated, and the best thing is for them to sell the shares to demobilize their assets.<br>• At the end, shareholders begin voting. There is great doubt between the two proposals that were presented. |

## TEACHING OBJECTIVES

The case enables us to draw associations with aspects of corporate governance relevant to companies, particularly those publicly traded and listed on stock exchanges. Furthermore, it facilitates a discussion of the dilemmas and conflicts that arise during decision-making and assembly processes in organizations, whether collectively or privately held. The case prompts a discussion about the organization's orientation, its role and social function, and the importance of aligning shareholders' interests with the consequences of their decisions. In line with Chimenti (2020), the primary insight that this case reflection provides is that an organization's governance reflects a myriad of interests, which can be disparate and sometimes contradictory, among its stakeholders.

## SOURCES AND DATA COLLECTION METHODS

The data for this case was constructed using the film "Other People's Money," summarizing the dilemmas faced by shareholders and management during the General Assembly and in the speeches of the COB (main shareholder) and the investor. The case structure was maintained as closely as possible to the narrative presented in the film. However, we decided to omit any romantic aspects involving the investor Larry and the lawyer Kate, as well as other topics related to the company's evolution.

## SUGGESTED COURSES FOR CASE USE

This material is suitable for undergraduate and graduate courses in business administration programs, particularly in the fields of corporate governance, capital markets, and finance. It is a valuable resource for guiding discussions on collective decision processes and conflicts of interest among partners or associates. Additionally, it can be utilized in governance courses for non-profit organizations and cooperatives.

## POSSIBLE TASKS AND/OR QUESTIONS TO APPLY TO STUDENTS

This teaching case facilitates discussions on various governance issues, such as agency problems, managerial opportunism, mergers and acquisitions with changes in control, and conflicts between partners. It also delves into aspects of the company’s social role and function, including the tension between stakeholder and shareholder perspectives on its orientation. In essence, the primary dilemma presented in this case revolves around the balance between profitability and the company’s social function from the shareholders’ standpoint.

While the case is based on a film’s storyline, the material presented in the teaching case offers students sufficient content to analyze and formulate their viewpoints. Additionally, excerpts from the film can be effectively integrated into the case both before and after discussions. For instance, one approach is to screen the first part, featuring the COB’s defense, hold an initial debate, and then screen the second part, with the investor’s speech, to further solidify the discussions. Excerpts from the assembly can be found on YouTube at:

- Jorgy’s (COB) presentation (4’31”) - https://youtu.be/xJRhrow3Jws
- Larry’s (investor) presentation (2’03”) - https://youtu.be/uIty7vFwVYM

Below are some suggestions for questions that can be addressed in this teaching case:

- Question 1: As an employee of the company and a significant portion of your savings in NEWC shares, how would you vote? What if you were the city mayor (and shareholder)?
- Question 2: Who could be considered the “owner” of the company?
- Question 3: What consequences does the configuration of NEWC’s ownership bring to its decision-making process?
- Question 4: What is NEWC’s market capitalization, and why does this matter?

## DISCUSSION

**Question 1:** As an employee of the company and a significant portion of your savings in NEWC shares, how would you vote? What if you were the city mayor (and shareholder)?

The core of the debate, as highlighted in the video, revolves around the contrasting principles of supporting the company and its stakeholders (such as employees and suppliers) versus the financial logic of maximizing shareholder value (MVA). It turns out that it would not be an MVA but rather an attempt to recover at least the company's assets. When a reporter asked the investor, "Are you going to liquidate New England Wire and Cable? And if so, what about the people who work here?" he responded, "My obligation is to the shareholders." Thus, whose interests should the company prioritize in fulfilling its responsibilities? How should its social function be understood? In this sense, the law on corporations itself (Law 6,404/1976) provides that "The administrator must exercise the duties that the law and the statute confer on them in order to achieve the purposes and in the interest of the company, satisfying the demands of the public good and the social function of the company" (Art. 154).

In this context, the discussion can be explored between the economist Milton Friedman (1970), a bastion of neoliberalism, who stated that "the business of business is business," denying a direct social function, to the vision of stakeholder capitalism, propagated by thinkers such as Freeman, Martin, and Parmar (2007), who state that those approaches disregard ethical analyses, adopting a simplistic view of human beings and prioritizing value capture over value creation.

This is also a platform for advancing ongoing discussions surrounding stakeholder capitalism and ESG (environmental, social, and governance) investments, prompting contemplation about companies' roles and their alignment with societal expectations. Frazão (2021) and Li et al. (2021) provide comprehensive references on this subject. An attempt to reconcile both perspectives was made by Jensen (2002).

**Question 2:** Who could be considered the "owner" of the company?

The term "owner," often employed to designate an individual or group controlling a company, proves inadequate when describing control within corporations (INC) and limited companies. In INCs, shareholding control can be categorized based on the concentration of ownership, drawing from definitions by Pedersen & Thomsen (1997). Concentrated control occurs when a shareholder possesses more than 50% of the shares, while dominant control involves the main shareholder or an investing group holding over 20% but less than 50%. In contrast, dispersed control prevails when no shareholder owns 10% or more of the shares. According to Brazilian legislation (Law 6404, Section IV, Art. 116), a dominant investor can, in practice, exert control over the company even without holding the majority of the capital. Based on the classification published by the CVM (Brazil's Securities and Exchange Commission), shareholders are categorized as majority, controlling, or minority, utilizing similar principles as the earlier international classification (CVM, 2019).

The NEWC company, as depicted in the film, is listed on the New York Stock Exchange, situated in New York's financial center, Wall Street. This implies that at some point in its history, the company transitioned into a public company (Leal, 2004), which involved making its capital available to the public. Consequently, when it decided to trade shares on the stock exchange, it initiated the process of an Initial Public Offering (IPO). As outlined in the case, NEWC's capital was dispersed, with Jorgy, the Chairman of the board and the largest shareholder, holding a 20% stake in the company.

**Question 3:** What consequences does the configuration of NEWC's ownership bring to its decision-making process?

In the case of NEWC, the dispersed ownership structure leads to a scenario where individual shareholders lack the authority to make decisions independently, necessitating collective deliberation. This situation is gradually becoming more prevalent in Brazil, particularly in the meetings of companies with dispersed control, such as corporations.

Numerous articles delve into the impact of ownership structure on company performance and various other aspects (refer to Demsetz & Villalonga, 2001; Thomsen & Pedersen, 2000). They also explore how the institutional environment influences the prevalence of specific ownership structures (see Clarke, 2007; Tricker & Tricker, 2015).

In Brazil, it is important to note that companies with a dispersed control structure are still relatively rare, as indicated by CVM in 2019. Most companies in the country are closely associated with an owner or a controlling group (Fontes Filho, 2020). Therefore, in the vast majority of Brazilian companies, there is a proxy "owner" exercising control. It is worth remembering that Renner was the first Brazilian company with dispersed shares on the stock exchange in July 2005. However, several listed companies in Brazil now have dispersed capital, including examples like Vale, Embraer, Yduqs, 3R, Equatorial, and PRIO. As an additional exercise, students can be encouraged to select a company, examine its capital distribution, and subsequently discuss the consequences of this structure. This information is often available on the Investor Relations section of the company's website under "Shareholding Composition."

In the case of NEWC and other companies lacking a defined controlling entity, the significance of the general assembly in the company's decision-making process is amplified. This stands in contrast to companies subject to a controller who, as per the definition in Brazilian law (Law 6404 Art. 116), "effectively utilizes their power to oversee corporate activities and guide the functioning of the company's governing bodies." This control structure often diminishes the influence of minority shareholders in decision-making during meetings.

To delve into the case, one can explore the analysis and implications of different market and governance models, exemplified through a comparison between the Brazilian environment, characterized by concentrated ownership, and the American market, where dispersed ownership prevails. Table 2 below illustrates the primary distinctions between the American market environment and those of Anglo-Saxon countries, often described as open or shareholder systems, and Latin and continental European countries, where ownership concentration is more prevalent, known as internal or insider systems.

**Table 1.** Differences between open governance systems (shareholders) and closed governance systems (stakeholders).

| | **Open systems (shareholder/Market/Equity)** | **Internal/closed systems (stakeholders/Internal/Debt)** |
|---|---|---|
| Characteristics | Dispersed and hands-off shareholders | Concentrated ownership influencing operations |
| | Relevance of stock exchanges and capital market | Importance of banks and financial credit markets |
| Predominance | Anglo-Saxon context | Continental Europe and Latin America |
| Control | Separation between ownership and control (management) | Association of ownership and control |

| | | |
|---|---|---|
| | Low incentives for external investors to participate in corporate control | Control by stakeholders (banks, related companies, employees) |
| Finance | Low debt/equity and bank credit/total liabilities ratios | High debt/equity and bank credit/total liabilities ratios |
| | Highly sophisticated and diversified financial markets | Low level of sophistication and few opportunities for diversification in financial markets |
| Behavior | Exit | Voice |
| Growth | Growth through mergers and acquisitions | Organic growth |
| Takeover | Frequent hostile takeovers, with antagonisms and high costs | Absence of hostile takeover (unsolicited acquisitions) |
| Orientation | Short term | Long term |
| Managers' mission | Asset performance to release/ create value | *Create long-term value for stakeholders* |
| Strategy | Low investor commitment to companies' long-term strategies | Stakeholders contribute to the strategy, and interventions by non-shareholder investors are limited to periods of financial weakness and failure |
| | Priorities in competitive and market strategies and profitability | Priorities in production and operations strategies, quality, and sales volume |
| *Stakeholders* | The interests of other stakeholders are not represented | *Diverse stakeholders are represented* |
| Weaknesses | Takeovers (acquisitions) can create monopolies | It may encourage collusion between groups |
| | Managers can become self-interested | Social obligations can reduce the pace of restructuring |
| | Volatility | Less transparency |
| Strengths | Market orientation | Stable sources of capital |

**Source:** Adapted from Clarke, T. (2007).

**Question 4:** What is NEWC's market capitalization, and why does this matter?

Market capitalization, or simply market cap, is a widespread way of considering a listed company's market value (Andriy & Per Ostberg, 2009). It is calculated based on the price of shares (ON and, if applicable, PN) multiplied by the number of shares in circulation and currently held by all its shareholders (outstanding shares), including blocks of controlling shares and restricted shares held by administrators. This is how Larry made the valuation to arrive at a fair price for the stock. In other words, 100 million dollars would be NEWC's market cap. Below, the conversation between Larry and Jorgy is highlighted.

> Larry then asks: "How many shares outstanding you got?"
> Jorgy, the Chairman, responds: "4 million."
> Larry continues: "divide 4 million into 100 million, what do you get?"
> Jorgy responds: "25"

This variable is essential to demonstrate that if an investor purchased all the shares for $100 million and subsequently sold the company's assets for a projected $125 million, they would generate a $25 million profit from the operation. Market capitalization not only provides this critical insight but also serves as a tool for comparing the sizes of companies across different sectors and countries. Additionally, it plays a foundational role in determining executive compensation and helps investors gain a realistic understanding of the company's value and its investment potential.

## CONTINUATION OF THE CASE

Following the vote count, the result declared Larry as the victor with 2,219,901 votes, as opposed to 1,741,416 votes for the current board. There were 176,111 abstentions, nearly accounting for all possible votes. However, given the nature of the story, the film presents alternative paths. For instance, lawyer Kate introduces a proposal from a Japanese company interested in having NEWC manufacture stainless steel wire mesh for automobile airbags. This partnership could potentially restore the company's economic viability, making it profitable once more while introducing a new product line.

Nonetheless, despite the common inclination of students to explore new opportunities – as the alternative that emerged at the end of the film – this specific discussion lacks the necessary data to delve deeper. Moreover, it was not presented as an option during the shareholders' assembly.

# References

Ambrosini, V., Bowman, C., & Collier, N. (2010). Using teaching case studies for management research. *Strategic Organization*, *8*(3), 206–229. doi:10.1177/1476127010374254

Andriy B., & Per Ostberg (2009). Does investor recognition predict returns?, *Journal of Financials Economics*, *91*(2), doi:10.1016/j.jfineco.2008.01.006

Berle, A. A., & Means, G. C. (1997). *A moderna sociedade anônima e a propriedade privada*. 2ª. Ed. São Paulo: Nova Cultural.

Böcker, F. (1987). Is Case Teaching More Effective than Lecture Teaching in Business Administration? An Exploratory Analysis. *Interfaces*, *17*(5), 64-71. Recuperado em 31 janeiro, 2023, de http://www.jstor.org/stable/25061009.

Brasil. *Lei n. 6.404, de 15 de dezembro de 1976*. Dispõe sobre as sociedades por ações. http://www.planalto.gov.br/ccivil_03/leis/l6404compilada.htm

Chimenti, P. C. P. S. (2020). Reflexões sobre casos de ensino memoráveis. *Revista de Administração Contemporânea*, 24, 376-379.

Claessens, S., & Yurtoglu, B. B. (2013). Corporate governance in emerging markets: A survey. *Emerging Markets Review*, *15*, 1–33. doi:10.1016/j.ememar.2012.03.002.

Clarke, T. (2007). *International corporate governance: A comparative approach*. Routledge.

CVM Comissão de Valores Mobiliários (2019). *O mercado de valores mobiliários brasileiro.* 4. ed. Rio de Janeiro: Comissão de Valores Mobiliários, 2019. Disponível em https://www.gov.br/investidor/pt-br/educacional/publicacoes-educacionais/livros-cvm/livro_top_mercado_de_valores_mobiliarios_brasileiro_4ed.pdf. Acesso em 9 fev. 2023.

Demsetz, H., & Villalonga, B. (2001). Ownership structure and corporate performance. *Journal of corporate finance*, *7*(3), 209-233.

Fontes Filho, J. R. (2020). Governança corporativa. In: Siqueira, M, Pereira, A. B., & Treiger, J. M. Brasil S/A: guia de acesso ao mercado de capitais para companhias brasileiras. 2ª. ed. Rio de Janeiro: RR Donnelley Financial Solutions do Brasil Ltda. Comunicação Corporativa, cap. 8, p.111 -131. ISBN 978-85-68668-02-3, 432 p.

Frazão, A. (2021). Capitalismo de stakeholders e investimentos ESG. *JOTA Info*, Recuperado em 28 abril, 2021, de https://www.jota.info/opiniao-e-analise/colunas/constituicao-empresa-e-mercado/capitalismo-de-stakeholders-e-investimentos-esg-28042021

Freeman, R. E, Martin, K., & Parmar, B. (2007). Stakeholder capitalism. *Journal of business ethics*, *74*, 303-314.

Friedman, M. (1970). The Social Responsibility of Business is to Increase its Profits. *The New York Times Magazine*. September 13. http://umich.edu/~thecore/doc/Friedman.pdf

Jensen, M. C. (2002). Value maximization, stakeholder theory, and the corporate objective function. *Business ethics quarterly*, 235-256.

Jewison, N. (Diretor). (1991). Com o dinheiro dos outros [Filme]. Warner Bros.

Leal, R. P. C. (2004). Governance practices and corporate value: a recent literature survey. *Relatórios COPPEAD*, *371*, 1-25. Rio de Janeiro: UFRJ. http://hdl.handle.net/11422/9823

Li, T. T., Wang, K., Sueyoshi, T., & Wang, D. D. ESG: Research progress and prospects. *Sustainability*, *13*, 11663, 2021.

Murphy, C. B. (2022). Chair: Definition in Business, Responsibilties, Vs. CEO. Investopedia. Em https://www.investopedia.com/terms/c/chairman.asp

Pedersen, T., & Thomsen, S. (1997). European patterns of corporate ownership: A twelve-country study. *Journal of International Business Studies*, *28*, 759-778.

Segal, T. (2022). CEO vs. President: What’s the Difference? Investopedia. Em https://www.investopedia.com/ask/answers/difference-between-president-and-ceo/

Thomsen, S., & Pedersen, T. (2000). Ownership structure and economic performance in the largest European companies. *Strategic Management Journal*, *21*(6), 689-705.

Tricker, B., & Tricker, R. I. (2015). *Corporate governance: Principles, policies, and practices*. Oxford University Press, USA.