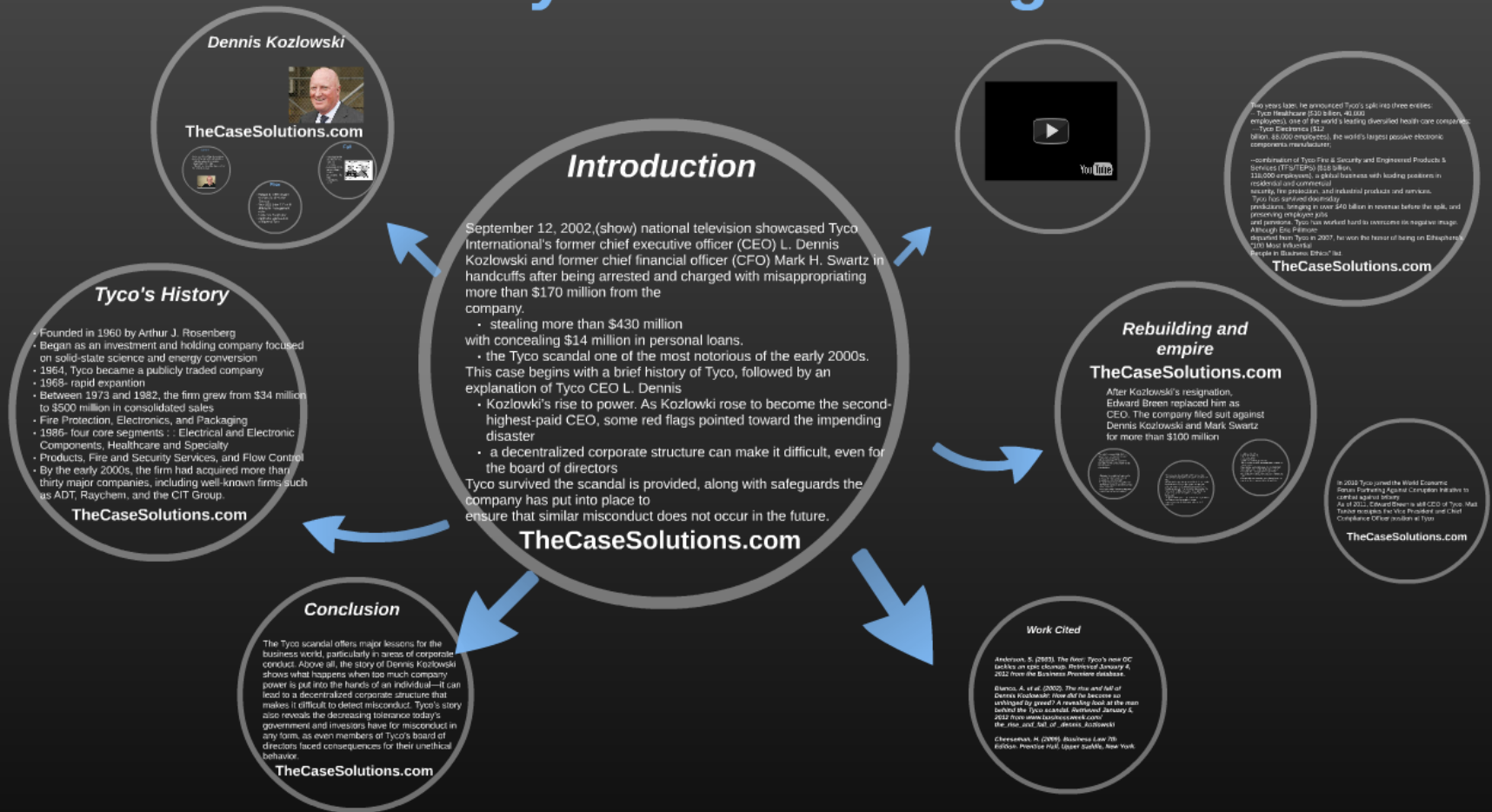
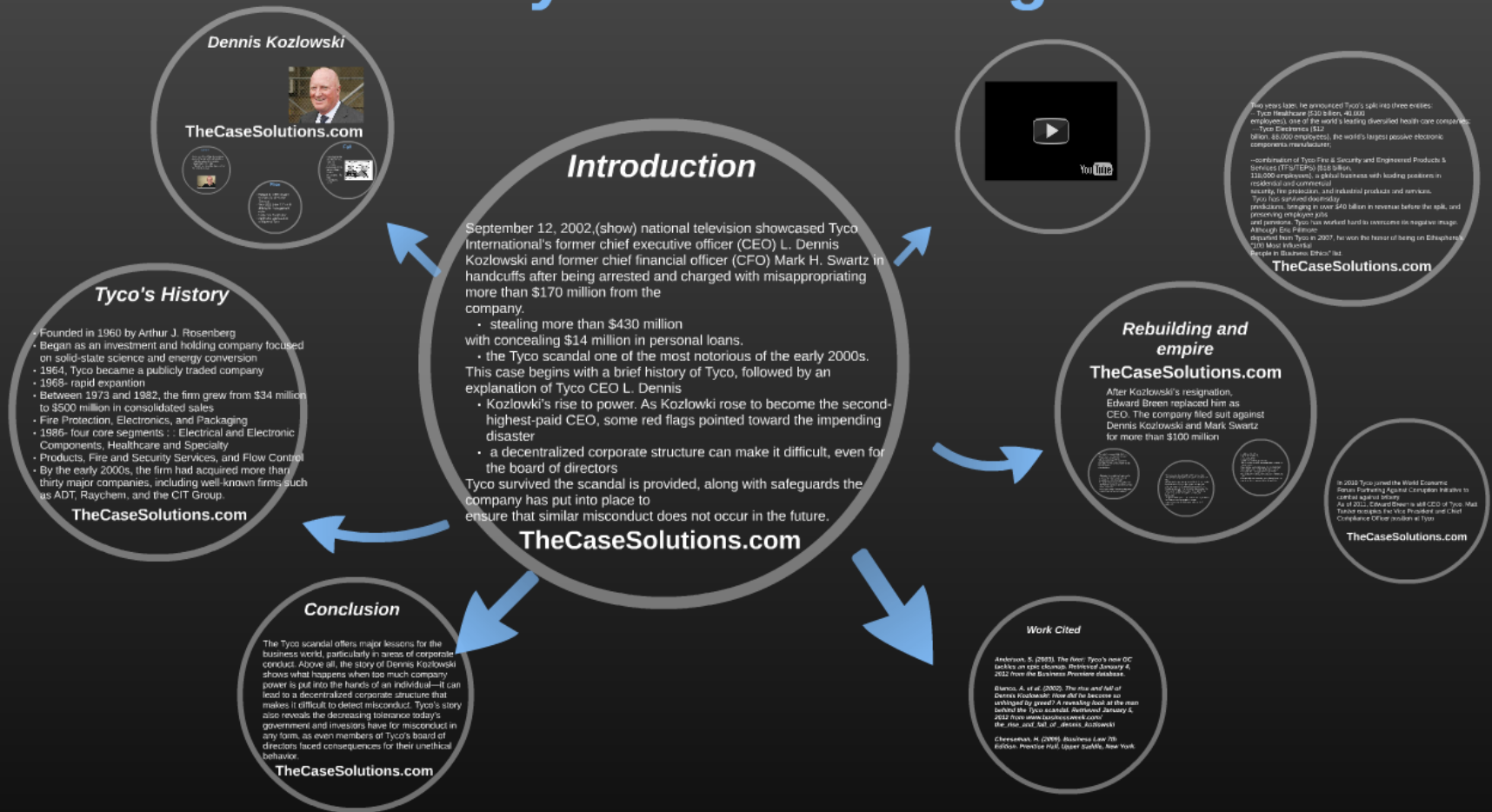


# Tyco International: Corporate Liquidity Crisis and Treasury Restructuring



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# Tyco International: Corporate Liquidity Crisis and Treasury Restructuring



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# Introduction

September 12, 2002, (show) national television showcased Tyco International's former chief executive officer (CEO) L. Dennis Kozlowski and former chief financial officer (CFO) Mark H. Swartz in handcuffs after being arrested and charged with misappropriating more than \$170 million from the company.

- stealing more than \$430 million with concealing \$14 million in personal loans.
  - the Tyco scandal one of the most notorious of the early 2000s.
- This case begins with a brief history of Tyco, followed by an explanation of Tyco CEO L. Dennis
- Kozlowski's rise to power. As Kozlowski rose to become the second-highest-paid CEO, some red flags pointed toward the impending disaster
  - a decentralized corporate structure can make it difficult, even for the board of directors

Tyco survived the scandal is provided, along with safeguards the company has put into place to ensure that similar misconduct does not occur in the future.

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# *Tyco's History*

- Founded in 1960 by Arthur J. Rosenberg
- Began as an investment and holding company focused on solid-state science and energy conversion
- 1964, Tyco became a publicly traded company
- 1968- rapid expansion
- Between 1973 and 1982, the firm grew from \$34 million to \$500 million in consolidated sales
- Fire Protection, Electronics, and Packaging
- 1986- four core segments : : Electrical and Electronic Components, Healthcare and Specialty
- Products, Fire and Security Services, and Flow Control
- By the early 2000s, the firm had acquired more than thirty major companies, including well-known firms such as ADT, Raychem, and the CIT Group.

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# Dennis Kozlowski



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### General

- A former CEO of Tyco International
- Joined Tyco in 1975, armed with a masters degree in accounting.
- Becoming CEO in 1992
- Followed by a massive expansion of Tyco International



### Fall

- Found guilty for stealing money from the company
- Spending all the stolen money for his extravagant life style
- Also lied in court



### Rise

- Helped by CEO Joseph Gaziano to climb the 'Everest'.
- New CEO John F. Fort III differed in management style.
- Corporate Tough guy
- Aggressive approached conquered Tyco

# Rebuilding and empire

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After Kozlowski's resignation, Edward Breen replaced him as CEO. The company filed suit against Dennis Kozlowski and Mark Swartz for more than \$100 million

*"To hold him accountable for his misconduct, we seek not only full payment for the funds he misappropriated but also punitive damages for the serious harm he did to Tyco and its shareholders."*

*"Engaged in a pattern of aggressive accounting which, even when in accordance with Generally Accepted Accounting Principles, was intended to increase reported earnings above what they would have been if more conservative accounting had been employed."*

The company also hired Eric Pillmore as Vice President of Corporate Governance. Eric Pillmore was determined to revamp Tyco's ethical culture. Under his leadership, Tyco implemented a corporate ethics program and replaced 90 percent of the headquarters staff. The company also created the Tyco Guide to Ethical Conduct. The guide is 32 pages long and is available in a variety of languages for global employees. The purpose of the guide is to familiarize employees with company expectations and help them to make ethical decisions.

1) strong and ethical corporate leadership,  
2) accountability,  
3) behavior tracking processes.  
Pillmore also created an ombudsman position at Tyco who can mediate between employees and management. Tyco published a confidential hotline, called ConcernLINE, so employees could report misconduct without fear of retaliation. Additionally, Tyco now publishes a quarterly report based upon the concerns that employees have brought up.

In 2010 Tyco Forum Panel  
combat aggressive  
As of 2011  
Tanzer occurred  
Compliance

The



Two years later, he announced Tyco's split into three entities:  
-- Tyco Healthcare (\$10 billion, 40,000 employees), one of the world's leading diversified health-care companies;  
---Tyco Electronics (\$12 billion, 88,000 employees), the world's largest passive electronic components manufacturer;

--combination of Tyco Fire & Security and Engineered Products & Services (TFS/TEPS) (\$18 billion, 118,000 employees), a global business with leading positions in residential and commercial security, fire protection, and industrial products and services.

Tyco has survived doomsday predictions, bringing in over \$40 billion in revenue before the split, and preserving employee jobs and pensions. Tyco has worked hard to overcome its negative image. Although Eric Pillmore departed from Tyco in 2007, he won the honor of being on Ethisphere's "100 Most Influential People in Business Ethics" list.

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In 2010 Tyco joined the World Economic Forum Partnering Against Corruption Initiative to combat against bribery

As of 2011, Edward Breen is still CEO of Tyco. Matt Tanzer occupies the Vice President and Chief Compliance Officer position at Tyco

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# *Conclusion*

The Tyco scandal offers major lessons for the business world, particularly in areas of corporate conduct. Above all, the story of Dennis Kozlowski shows what happens when too much company power is put into the hands of an individual—it can lead to a decentralized corporate structure that makes it difficult to detect misconduct. Tyco's story also reveals the decreasing tolerance today's government and investors have for misconduct in any form, as even members of Tyco's board of directors faced consequences for their unethical behavior.

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