Case 5-3 A City Divided: SDG&E Takeover*

In a society in which organizations must recognize the interest of stakeholders as well as stockholders, investor relations often goes far beyond stock issues and earnings reports. This abbreviated case shows how public many topics once reserved only for stockholders have become.

The late 1980s left California in a serious recession. The real estate and banking industries suffered miserably, thanks to falling property values and the savings and loan associations scandals. Southern California Edison, a power utility headquartered in Rosemead, a suburb of Los Angeles, experienced financial difficulties and was a victim of a depressed economy. The population growth of Los Angeles had begun to slow, but San Diego, served by San Diego Gas & Electric, was the fourth-largest-growing city in the United States. Edison, the larger of the two utilities, licked its chops at the thought of eating SDG&E for dinner in a hostile takeover.

On July 26, 1988, Edison pounced on SDG&E with a hostile takeover bid of $2.03 billion in Edison stock. SDG&E officials initially resisted the offer, continued to reject the augmented bids of $2.1 billion and $2.15 billion, and eventually asked the state to stop the Edison takeover attempt. Suddenly on November 30, SDG&E directors turned enemies into allies and embraced an Edison proposal of $2.5 billion.

City officials and civic leaders of San Diego were unnerved. Mayor Maureen O'Connor and several civic leaders challenged the merger. There was even discussion of a municipal takeover of SDG&E. SDG&E dropped out of the greater San Diego Chamber of Commerce. Two board members at SDG&E resigned in protest of the merger. Rumors circulated that SDG&E officials were being offered positions by Edison, and a poll revealed that San Diegans opposed the Edison/SDG&E merger by a two-to-one margin.

Groups Promoting the Merger

Three groups were promoting the merger.

1. San Diegans for the Merger, a so-called grassroots organization funded by Southern California Edison, was an "impartial" front group composed of stockholders and SDG&E employees (current and former) who felt that the merger would improve stock value. San Diegans for the Merger distributed literature and held informational meetings.
2. Southern California Edison.
3. Members of management and the board of directors at San Diego Gas & Electric.

Groups Opposing the Merger

Four groups opposed the merger.

1. The Coalition for Local Control (CFLC), a diverse organization representing business interests, environmental and consumer issues, and organized labor concerns, was created in early 1989 when the president of The Greater San Diego Chamber of Commerce, Lee Grissom, persuaded Gordon Luce of Great American Bank to form a merger opposition committee from both public and private sectors. The CFLC was funded by

*We thank Nuffer, Smith, Tucker, Inc., public relations counsel, for the information provided for this case.

contributions from concerned citizens and vehemently opposed the merger. Subsequently, the group launched a public relations campaign against it.

2. San Diego Mayor Maureen O'Connor, the spearhead of the opposition, gained more respect than she had previously enjoyed by defending the independence of SDG&E. She was a major spokesperson against the proposed merger.
3. City Attorney John Witt and his legal staff.
4. The majority of employees at San Diego Gas & Electric.

The Coalition for Local Control

The CFLC was headed by executive director Bob Hudson, who coordinated the talents and skills of a diverse group of people to unite against Edison. This coalition was formed "to convince the majority of the PUC [Public Utility Commission] members [three of five] to rule against the merger through a groundswell of opposition."[1]

A Broad-Spectrum Coalition Brought Together Unlikely Bedfellows

The conservation coordinator of the San Diego chapter of the Sierra Club, the business manager of the International Brotherhood of Electrical Workers #465, a mayor from the nearby city of Chula Vista, the executive director of the Utility Consumers Action Network, a public relations professional, and many others worked together to represent San Diego in a fight for the control of SDG&E. They adopted a vision statement that was accepted by the entire coalition by June 19, 1989.

If we are successful San Diego would have preserved its quality of life and controlled its own destiny.

- SDG&E will remain healthy, local, and investor-owned.
- SDG&E will be supporting the community with civic leadership and philanthropic support.
- SDG&E will provide economic vitality and responsiveness to the community.
- SDG&E will enhance its record of effective management.
- SDG&E rates will continue to be competitive with other Southern California utilities.

Key Messages from Southern California Edison

In its struggle against the mayor and the CFLC, Edison argued that:

1. The merger would prove cost-effective by eliminating duplicative functions (e.g., billing departments, public relations departments, and so on).
2. The community would benefit from price advantages, namely a promised 10-percent rate reduction.
3. The environment would be saved because SDG&E and Edison wouldn't need to invest in and construct new power facilities.
4. The merger would benefit shareholders. who would partake of the savings.

Key Messages from CFLC

CFLC countered with its own arguments:

1. A relocation of the utility's central headquarters to Rosemead would create a loss of corporate presence in San

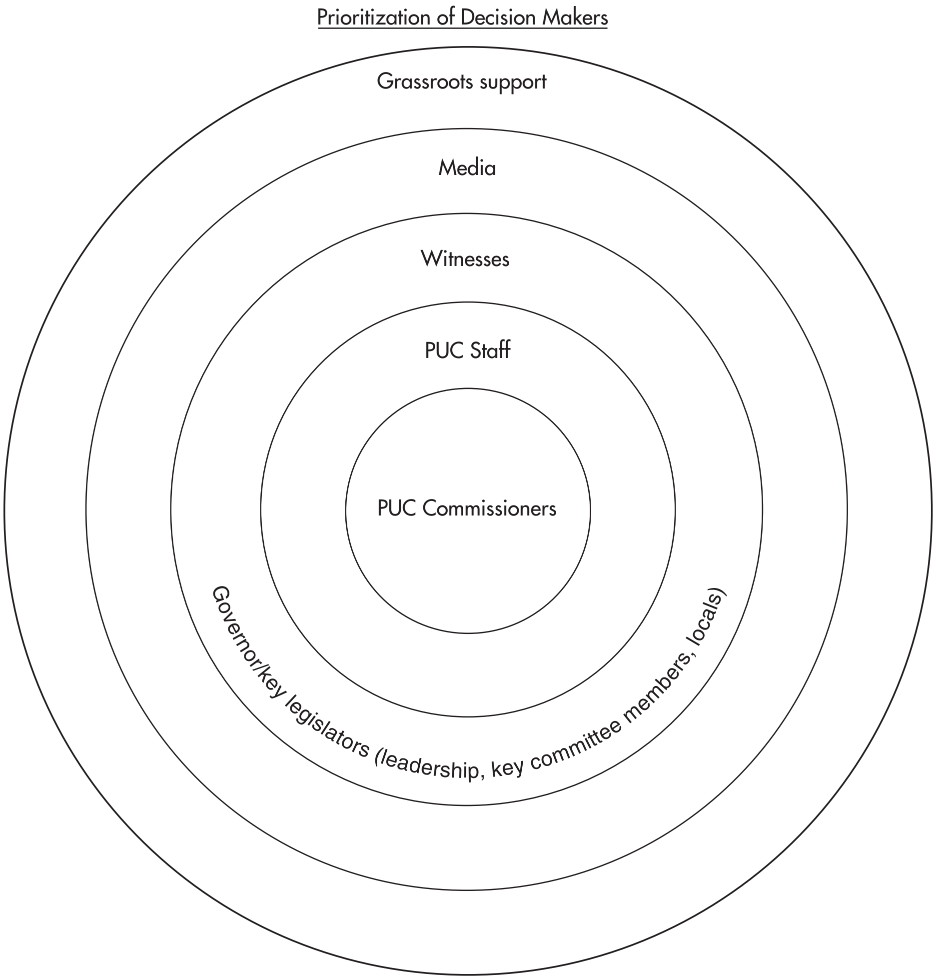
[1]For setting rates and ruling on other issues, the PUC is often the agency that decides whether something is in the best interest of the public.

Diego. The city had just lost Pacific Southwest Airlines corporation, and there was speculation that another loss could psychologically damage San Diego's independence.
2. Downsizing and transfers in both companies could sacrifice between 1,000 and 1,600 jobs.
3. The pollution level of Los Angeles could increase even further.
4. The magnitude of the combined utilities would be reminiscent of the 1930s, when utility trusts had to be broken up.

Both Sides Take Action

Edison and its front organizations spent more than $2.2 million on advertising and publicity campaigns, pamphlets, and flyers.

FIGURE 5-1 The CFLC devised its strategy by prioritizing which decision makers would be most receptive to its message



Source: (Courtesy of CFLC.)

FIGURE 5-2 The CFLC "working group" celebrates its victory for the citizens of San Diego after a 32-month fight against the merger

Source: (Courtesy of CFLC.)

(Legal fees brought the total Southern California Edison expenditure close to $100 million.) San Diego and the CFLC spent its far smaller budget (approximately $80,000) on a different public relations strategy—reaching the decision makers by focusing on third-party advocates who had influence with the PUC.

The CFLC distributed its own facts refuting the claims made by Edison. Its activities began by assessing receptivity to the CFLC mission of the publics that influence the Public Utility Commission (the PUC commissioners, PUC staff, the governor and legislators, the media, and grassroots support) (see Figure 5-1). The role of the mayor as a prominent spokesperson in this campaign increased media attention on the issue and brought the story out of the business section into the general news pages. Predictably, it had a similar effect on the grapevine and coffee-break discussion.

The Results

On May 8, 1991, after a three-year battle, the PUC unanimously denied Edison's proposed merger with SDG&E. After several investigations by state and federal authorities, it was determined that the merger would not benefit San Diegans through lower pollution and electric rates.

An overwhelming percentage of the public opposed the merger because of the media and public relations efforts by the mayor and the CFLC. The Greater San Diego Chamber of Commerce welcomed the SDG&E utility back to the Chamber in a sincere effort to begin the healing process for themselves, the utility, and the San Diego community (see Figure 5-2).

(Editor's note: In 1996, San Diego Gas & Electric formed a holding company, naming the new entity "Enova." Two years later, Enova merged with Pacific Enterprises to form what is now Sempra Energy. San

Diego Gas & Electric is one operating division of Sempra, which is headquartered in San Diego.

"Keeping San Diego Gas & Electric in San Diego was the whole purpose in fighting Edison," said Kerry Tucker, of Nuffer, Smith and Tucker, strategists for the Edison fight. "It wasn't about being merged; it was more about being moved. Sempra is based in San Diego, so there was no problem with that merger." ■

QUESTIONS FOR DISCUSSION

1. Was it fair to SDG&E stockholders, who might have benefited financially by selling their stock in the proposed takeover, for other parties to intervene? Why or why not?
2. Make a point-by-point case, pro or con, on a situation in which people who own shares in a company nonetheless have a voice in its destiny. Justify your position with comparative examples in other areas of public policy.
3. Compare the key messages from CFLC and Edison. How are they dissimilar or similar? What is the specific strategy behind each of the messages? What publics might find each appealing or persuasive?
4. How was the public served in this case?
5. How ethical was Edison's decision to fund San Diegans for the Merger?