**Is compromise always necessary in business?**

# Introduction

In business, as well as in life in general, we will not always agree with others in regard to important decisions that need to be made. When we are faced with a situation with this, one does not always get their desired results. Often, one party is left feeling disappointed in the actions taken, as their idea is pushed aside. A solution to this is to compromise. The different parties involved can come to a middle ground and come to a decision with incorporates the ideas of everyone. While in theory this sounds like the best solution, it can be argued that it is not always the case. In this case, we will use the case study of DELL to determine if compromise is always necessary in business.

# The Case of Dell

In this case study, we examine the efforts of Michael Dell in attempting to change the business model of his company, Dell. Dell wishes to privatise the company, taking it off the stock market. This was a massive decision as DELL had been publicly traded since four years after its creation. The company had been performing badly in recent years, with the company falling from 1st to 3rd in the PC market. By delisting the company, Dell believed that he would be able to transform the company, without the hinderance of appeasing shareholders. Although this is a massive risk, as the plans include a public cloud project, which is both costly and extremely difficult to construct. The project involves Dell taking on an addition $15 billion worth of debt.

However, a shareholder of Dell, Carl Icahn buys 6% of the company in 2013, and he is opposed to the decision to withdraw the company from the stock market. Dell had originally offered between $13-14 to shareholders in order to buy back the company, however Icahn proposed an offer himself. He offered shareholders $15 a share, in his own bid to take over Dell, keeping the company listed. In order to reinforce his position, Icahn bough $72 million more shares in the company, giving him more power in the negotiation process. Dell raised his offer of $13.65 to $13.75, however Icahn succeeded in postponing the process. This success for Icahn was short lived however, as eventually the vote was passed for Dell to take over the company in partnership with Silver Lake. This however was not without further controversy. It emerged that the Dell had proposed a change in the voting rules in order for him to win. This rule change meant that only physical valid votes would be counted, as previously absent or blank votes had been counted as ‘no’ votes. Icahn argued that many shareholders did not vote "because they knew that their inaction would be seen as a vote against the buyout.’’ The opposition to Dells proposition, prompted him to up his offer to $13.75 per share, in attempts to sway more shareholders, stating that was his ‘‘best and final’’ offer.

Eventually, Icahn gave up with his opposition to Dell, stating that it would be “almost impossible to win”. This came not without Dell increasing what his “best and final” offer even further, from $13.75 to $13.88. Thhis was accompanied by a change in the approval rules for the vote. Abstentions will no longer be counted as unfavourable votes that would oppose Dell. Furthermore, the record date for holding shares was changed from June 3 to August 13, allowing for the inclusion of new investors who were supportive of management's plan. This meant that shareholders who opposed Dell, were able to sell and exit the company.

Finally, Dell had achieved his goal, privatised the company and became the main stakeholder, having nobody to answer to. To explain this withdrawal, Michael Dell says he wants to emancipate himself from the stock market pressure. Since the mid-2000s, his company has been struggling to renew its range and positioning. This gave him the freedom to change the strategy of the company, at his own pace without the pressure of others. He believed that shareholders were often too short-sighted, and privatising the company would allow him to work towards his long term goals in peace. The deal was also worked very well, putting as little as possible financial strain on Dell for such a large takeover. It's a genius trick, financed largely by new debt," says Pat Moorhead of Moor Insights, "debt that is not a danger to the company because it will be easily financed by the cash flow generated from sales. A large part of this debt comes in the form of a $2 Billion loan from Microsoft. This signifies a new partnership between the two companies, with Dell announcing that they would abandon Android smartphones and instead move into the market of Windows 8 tablets. Windows 8 of course being a Microsoft software product.

# For Compromise

Throughout the course of his takeover, Michael Dell was forced to compromise many times. Dell decided to abandon the stock market in order to freely design the transformation of the company. This was despite the fact that this was where a huge amount of the company’s finance came from. Dell had to make the decision and compromise. He could not have both this financial source and also the freedom he desired. Furthermore, Dell had to compromise multiple times when making his offers to buy the company. His offer increased on two separate occasions, being brought from $13.65 and eventually to $13.88. This compromise was necessary to get shareholders on his side. Of course, Dell would not be eager in increasing his offer. However, many shareholders were not happy with his original price, and so his increased offer ultimately was needed in order for them to sell to him.

Once again Dell had to compromise when changing his business strategy. Of course, it would have been much easier to simply stay in the consumer market, which accounted for about 20% of their overall business. Many shareholders would have shared the view that the company should not take the risk of moving into the enterprise market. However, a compromise had to be made, as the company was losing business and ultimately money. We can see from this case study that Michael Dell is very consistent with his beliefs. If he thinks something must be done for the benefit of the company, he will make sure it is completed. Many times he was forced to compromise in order to privatise the company, but he worked through it and eventually achieved his goal. ‘The transformation of the company will take time and be costly. For several years, it will be a drain on profits, and therefore on dividends. As a listed company, the company would have had to maintain short-term profits at all costs, eventually selling off profitable businesses for parts’. This explains how the decision to privatise the company needed to be made, no matter what compromises were necessary.

Compromise can be an essential part in the earlier stages of growth, up to the take-off stage. Coordination is often a huge driver behind growth, and in order to have coordination between multiple different parties, compromises must be made. It is very rare, if ever that multiple business partners will have the same opinions on every decision made in the business. Often, there is a control or bureaucracy crisis, where stakeholders cannot come to an agreement. Here, eventually a compromise must be made as there is simply no other way to make decisions without a clear leader.

# Against Compromise

However, from this study we can also see why compromising is not always essential. A large reason why Dell wanted to buy the company and delist it from the market was to escape the market pressure being put on him. The public and the shareholders would constantly enforce their opinions on the company and its strategy, leaving Dell no choice to listen to them even if he did not agree with them. As stated above, he believed they were simply too fixated on the short-term. Privatising the company would allow him to focus on long-term goals, which would bring benefits to the company. ‘The stock market is effective in financing the growth of companies, by providing resources to industrial machinery that is doing well. But when these fail, the pressure of financial investors becomes counterproductive. It accentuates the difficulties because they continue to demand returns when the situation requires, on the contrary, taking the time to reorganize, including accepting losses for a time’. Dell needed to be able to make decisions on his own, without the need for compromise with others.

A similar situation can be seen in the case study regarding Hastings and Netflix. In this case we saw an internal conflict between Hastings and his partner Randolph. Hastings essentially appointed himself as CEO of the company, and presented a PowerPoint to his partner, Randolph, on all his shortcomings and bad decisions that he brings to the company. Randolph eventually came to the agreement that he was in fact no longer a good fit for the company and decided to leave. He recognised that his skillset was tailored towards the initial growth of the company, and not the skillset needed to attract more, larger investors in the future. While it is harsh, sometimes this kind of ruthlessness is needed in order to bring a company to the next level. This can be seen from the future success of the company. This strengthens the idea that compromise is not always necessary in the take-off and maturity stage. Sometimes a clear plan must be set in place, with a clear leader who knows exactly what the plans are for the future of the company. Of course, the future is unpredictable, but there is a need for control, which often can be weakened by the need to constantly compromise.

# Conclusion

Often, compromise is necessary in business, however we cannot say that it is **always** necessary. It always depends on the exact circumstances, and for every case it may be a different answer. In some cases, sacrificing may help the long-term of the company, but in other cases, sacrificing may break up the present and future of the business. Having multiple opinions and ideas can be a huge benefit to the company in the early stages. This allows the combinations of multiple ideas to flourish together, with compromise bringing together the best parts of each idea. However, as the company grows there is often a need for ruthlessness. Compromise can be detrimental to the company, whereas a sole leader could more effectively control the company, but big businesses as Dell are built of made major groups of people, so that’s usually not the case. This is of course assuming they make the right decisions for the business.