Academic tutorial

Contemporary Management Problems

L1 Management Sciences

Session 2

The company, a place of compromise

Objectives:

The manager? We've always heard about the great managers who have made some companies successful. But are these managers really the only ones making the decisions? Do the decisions they ultimately make accurately reflect their aspirations? The company is a place of compromise. Each actor, whether inside or outside the company, has a specific vision of how to create value. Management" consists in seeking a subtle balance between these different visions. Thus, each vision, depending on the involvement of the actors in the negotiation process, will influence the decisions taken by the company and therefore, in the long term, the "path" it takes. This session will pursue the ambition of opposing two visions, that of a founder/CEO and that of the shareholders during a strategic decision. Focusing on the Dell case study, this strategic decision consists in answering the following question: "Should the Dell group go public?

Required work – presentation topics

Two groups of students will address one of the following two topics in the form of an oral presentation:

- **Topic 1:** Why can we speak of a compromise construction in the case of the DELL company described in the documentary corpus?

- **Topic 2:** Is compromise always necessary in business? To answer this question, base your answer on the PMC lecture and illustrate your point by using the DELL case.

Preparatory work – case study

Students **who do not participate** in the oral presentations will deal **individually** with the questions at the end of the booklet.

Document 1:

Reynald Fléchaux (2013), "Why Michael Dell decided to flee the stock market", 6/02/2013 *http://www.lemagit.fr/actualites/2240199934/Pourquoi-Michael-Dell-a-decide-de-fuirlabourse*

The information had leaked. Nevertheless, the announcement of the purchase of Dell by the Silver Lake fund with the support of Michael Dell, the founder of the Texan manufacturer, and that of Microsoft (which granted a loan of $2 billion) remains a landmark transaction for the market. It symbolizes the transformation efforts that the big names in PCs must make, a segment that is no longer the center of gravity of an industry that is leaning more and more towards mobile terminals. In 7 questions, we take a look at a major deal (a $24.4 billion leveraged buyout, the biggest since 2007) that is likely to have many consequences for the market.

1) **Why is Michael Dell making such a big move? First** of all, Dell has been a publicly traded company for a very long time. Four years after its creation in 1984, the company joined the stock market. So Michael Dell's decision is far from trivial. It underlines in part the failure of the strategy of the founder of the company, back at the helm since 2007. Since then, Michael Dell has been trying to reorient his company towards the market of business solutions, especially for SMEs. Without really convincing for the moment. At the same time, Dell is losing ground in the PC market (in six years, the company has fallen from 1st to 3rd place worldwide, with a market share of 10.7%) and the server market is seeing its margins shrink.

2) **Why turn away from the stock market?** Officially, a strategic committee was set up at Dell to study various options. According to this committee, delisting was the most convincing option, championed by Michael Dell. By buying back shares that have eroded by more than 30% over the past five years, the company hopes to escape the "short-termist" pressure of markets focused on quarterly results. They will be able to do what they want away from the curiosity of Wall Street and the SEC," said Patrick Moorhead, an analyst at Moor Insights & Strategy, in the US press. Under the radar, making it harder for competitors to interpret their strategy." "Dell's transformation is underway, but we recognize that it will still take time, investment and patience," Michael Dell said in an internal memo. I believe we will do this best with partners who will provide long-term support that helps Dell innovate and accelerate the company's transformation strategy."

3) **What strategy will the manufacturer adopt?** Michael Dell's intention, as he explains in the above memo, is relatively clear: to have a free hand to transform the company he founded nearly 30 years ago as much as he wants. Many analysts expect to see the manufacturer turn away from the consumer business. Or even abandon it altogether. As Matthew Eastwood of IDC explains in the columns of CIO: "I expect to see Dell get out of the consumer market, which accounts for about 20% of their overall business, and perhaps also out of the printing business." The move - which would result in a major restructuring of the group (and therefore layoffs) -

would allow the company to clarify its positioning in the enterprise niche, especially SMBs. The company must improve the integration of the multiple solutions it has acquired since 2007 and the return to the helm of its founder. In five years, Dell has acquired 25 companies, all of which are focused on business information systems: in services (Perot System), light terminals (Wyse), storage (Exanet, Ocarina, Compellent), cloud integration (Boomi), security (SecureWorks, SonicWall, Quest) or data centre management (Scalent).

4) **What are the gaps that Dell needs to fill?** As the list of acquisitions above shows, Michael Dell's intention is to turn a PC manufacturer working at minimal margins into a player offering end-to-end solutions to businesses. This positioning should translate into a stronger position in the Cloud, where the manufacturer does not currently have a public Cloud offering. A difficult position at a time when the sale of servers is becoming less profitable (margins have fallen below 10%) and when major cloud players, such as Google and Amazon, have the critical size to build their own machines. Dell has a public cloud project (based on OpenStack) that is expected to open in the fourth quarter of this year. The company's ability to break into this segment appears crucial to its future. [...]

7) What are the risks for Dell? By construction, Dell's delisting is a buyout financed largely by the company's debt (even if the Silver Lake fund contributes $1 billion and Michael Dell several hundred million from his personal fortune). In this case, we're talking about $15 billion of additional debt for Dell. A sum that will have to be repaid. To do this, while transforming itself according to the wishes of its founder, the company must continue to generate enough cash to repay its creditors. A burden that could slow down restructuring and R&D investments. However, in the New York Times, A. M. Sacconaghi, an analyst at Bernstein Research, estimates that the debt repayments will be less than what Dell was paying in dividends and share buybacks (to support the share price): "the debt burden is bearable, he explains, as long as the cash flow from the PC business holds up".

Document 2:

Wassinia Zirar (2013), "They won't go on vacation together: Michael Dell and Carl Icahn", 8 August 2013.

http://www.usine-digitale.fr/article/ils-ne-partiront-pas-en-vacancesensemblemichael-dell-et-carl-icahn.N202609

Nothing is going on between Michael Dell, founder and CEO of the computer company and

Carl Icahn, a Dell shareholder. The former wants to buy his company and take it off the stock market, the latter is trying to increase the share price and is saying loud and clear

that a stock market exit would be a bad idea. The summer is hot between the two men, who are in a constant battle.

On January 14, 2013, Bloomberg TV revealed that Michael Dell, founder and CEO of the eponymous company is considering delisting Dell. The entrepreneur then wants to buy back the company he founded and convert it back into a service provider and hardware supplier for businesses and government agencies.

On February 1, 2013, the information was confirmed by Michael Dell, who then began negotiations with his partners for a stock market exit. He proposed to the shareholders an amount between 13 and 14 dollars per share.

In March 2013, billionaire Carl Icahn entered the fray. He bought nearly 6% of Dell's capital and wrote a letter to Dell's board of directors in which he opposed the group's delisting.

Carl Icahn, the shareholder who disturbs

As soon as he acquired his 6% of Dell's capital, Carl Icahn was keen to make his voice heard. The American billionaire will, at first, publicly oppose the withdrawal of the company from the stock market and then he demands from the CEO of Dell the immediate payment of a special dividend.

On March 25, 2013, Carl Icahn files his proposal to take over Dell. For $15 per share, he wants the group to remain listed. Michael Dell retorted that it would be risky, given the economic climate and the company's fragile financial situation, for it to remain listed. The two men are definitely at odds.

Icahn becomes majority shareholder of dell

At the heart of the stock market battle with its competitor Carl Icahn, Dell unveiled in May 2013, financial results down with profits down by $130 million net. In the wake of this, in June 2013, Southeastern Asset Management, Dell's largest independent shareholder, announced that it planned to sell 72 million shares to Carl Icahn, making the latter the largest external shareholder in Michael Dell's group.

Carl Icahn, in a strong position, recommends that Michael Dell buy back 1.1 billion shares to get out of the stock market and to be more generous with shareholders by raising the share price to more than 15 dollars.

An eventful summer

It has been a turbulent summer for Carl Icahn and even more so for Michael Dell. On the initial date of the vote that should decide the future of the company, Carl Icahn called for the rejection of Michael Dell's offer. Cautious, he postponed the first shareholder vote on the delisting of the group.

On 24 July, when the special committee of shareholders was due to vote, the vote was again postponed until 2 August. Michael Dell then raised his offer from 13.65 dollars to 13.75 dollars and postponed one last time the holding of the general meeting, which must act on the takeover or not of his company, to September.

Carl Icahn has succeeded. The pressure he put on Michael Dell pushed him to revise his offer and has already made him postpone three times the decisional GA. This summer each of them is busy fine-tuning their strategy to win the bid, but what is certain is that they will not be spending their holidays together.

Document 3:

Michael Dell (2013), "Letter to Dell Partners from Michael Dell"

http://www. dell.com/learn/us/en/uscorp1/secure/partner-letter

"To our customers,

Today, Dell shareholders voted to approve the transaction in which I, in partnership with Silver Lake, will acquire Dell and take the company private. The transaction is expected to close before the end of the third quarter of Dell's FY2014, subject to the satisfaction of customary closing conditions, including regulatory approvals.

This is a great outcome for our customers and our company. I couldn't be more excited about our future together.

We are going back to our roots, to the entrepreneurial spirit that made Dell one of the fastest growing, most successful companies in history. We're unleashing the creativity and confidence that have always been the hallmarks of our culture. We plan to serve you, our customers, with a single-minded purpose and drive the innovations that will help power your dreams.

We stand on the cusp of the next technological revolution. The forces of cloud, big data, mobile and security are changing people's relationship with technology, just as the PC did almost 30 years ago. Now it's time to do what Dell does best-make these innovations simpler, more affordable and more accessible, putting more power into the hands of more people than ever before.

We've come a long way in reshaping Dell to help you thrive, grow and prosper in this new world. As a private company, we can move even faster toward our goal of becoming the industry's leading provider of scalable, end-to-end solutions that deliver extraordinary value for you and your organizations.

Michael."

Document 4:

Didier Barathon with Reuters (2013), "Carl Icahn criticizes Michael Dell's conditional counteroffer (MAJ)", 11 March 2013

http://www.lemondeinformatique.fr/actualites/lirecarlicahn-critique-la-contre-offre-sous-conditions-de-michael-dell-maj-54578.html

The fight for the purchase of Dell between the founder and the investor Carl Icahn continues. The latter criticized earlier this week the proposal of Michael Dell and Silver Lake Partners to change the rules governing shareholder voting. Dell's special committee rejected the changes.

Carl Icahn is not at all happy with the counter-offer of Michael Dell and Silver Lake Partners passing from 13.65 to 13.75 dollars per share and especially on the modification of the rules of vote for the repurchase. Indeed, the founder and his financier want that only the capital present or represented is taken into account to calculate the result of the vote, and not the whole capital of the group. Indeed, until now, blank or absent votes were counted as "no" votes.

Carl Icahn earlier this week urged Dell's board of directors not to support this proposed voting rule change because it could alienate some voters. "The simple and clear fact is that Michael Dell and Silver Lake have underestimated the extent of shareholder opposition to their proposal and are unwilling to pay the right price to get the deal approved," the investor says. He adds that many shareholders did not vote "because they knew that their inaction would be seen as a vote against the buyout.

The shareholder vote is scheduled for August 2 after being delayed twice. Analysts believe that these delays are due to the fact that Michael Dell might not have received a majority of shareholders on his takeover bid. This prompted him to revise his offer and propose a change in the voting rules. Michael Dell noted that under the current rules, "shareholders holding approximately 27% of the unaffiliated shares have not yet voted. The assumption that they could be counted as if they had voted against the deal is patently unfair. However, the founder indicated in an interview with the Wall Street Journal that if the buyout fails, he wants to remain at the helm of the company. He also said that the offer of $13.75 per share was the "best and final offer".

Analysts believe that the Dell takeover could take some time, if Carl Icahn decides to take legal action against the board if it accepts an offer contrary to the interests of shareholders.

The planned delisting of the American computer group Dell is becoming more complicated, with the arrival in its capital of activist investor Carl Icahn, who has swelled the ranks of opponents of the project.

[...]

It's a good thing that we're going to be able to do this," he said, "but we're not going to be able to do it without the help of a lawyer. It's a good thing that we're going to be able to do this," he said, "but we're not going to be able to do it without the help of a lawyer.

Document 5: Endgame

R. Gueugneau, " Michael Dell will win his $25 billion bet", Les Echos 2013, September 9, 2013

Carl Icahn announced on Monday that he would not block the proposed acquisition of Dell by its founder Michael Dell, saying that it would be "almost impossible to win".

It was a tough fight. But Michael Dell has held firm. After six months of struggle, Carl Icahn announced Monday, in a letter to Dell shareholders, that he was giving up the battle for control of the American computer group. This admission of failure leaves the field free for the founder of the group and his plan to buy out the company at 25 billion dollars, at the end of which the company will be removed from the list. The shareholders must vote on Thursday on the proposal made by Michael Dell, in association with the investment fund Silver Lake. The vote, which has already been postponed three times, is expected to seal the fate of the company and allow the executive to implement his new strategy.

Opposed to the management's offer since March, the billionaire had taken a stake in Dell's capital over the months to hold 8.7%. Associated with the South Eastern Management fund (4% of the capital), he proposed to buy back part of the group's shares, while leaving it listed, and to resort to debt to finance the strategic reorientation. The whole was supposed to value Dell at between 27 and 32 billion dollars, according to the activist's calculations.

In his letter, Carl Icahn reiterates that he is still opposed to management's plan, which he will vote against, but acknowledges that this will not be enough. "I understand that some shareholders are disappointed to learn that we are no longer fighting. But this defeat is easier to swallow when you know that, thanks to our determination, Michael Dell and Silver Lake finally improved what they considered their best offer." In the face of the shareholder rebellion, led by the financier, Dell twice this summer raised its proposal from $13.65 to $13.88 per share.

The last increase in the offer, made at the beginning of August, was accompanied by a change in the approval rules for the vote. Abstentions will no longer be counted as unfavorable votes that could penalize the joint Dell-Silver Lake offer. Most importantly, 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. These new rules have allowed Michael Dell to regain the advantage over his restless shareholder, by rallying some funds, originally hostile to his project.

If Michael Dell has just won a great battle, the hardest part remains to be done. Faced with the decline of the PC market, Dell, whose net profit plunged by 72% in the second quarter, wants to turn more towards infrastructures, software and IT services. The Texan group hopes to be able to carry out this transformation far from Wall Street and the pressure of the markets.

In a playful move, Carl Icahn wished "good luck" to his former opponent, whom he had not hesitated to compare to a dictator a few weeks earlier. The financier has already set his sights on another, more prestigious prey: Apple. After taking a stake in the Apple company this summer, he is campaigning for the redistribution of $150 billion to shareholders.

Document 6:

Pierre-Yves Gomez, 2013 (Professor at EM Lyon, Director of the French Institute of Corporate Governance and President of the SFM), "Dell leaves the stock market to regain its freedom", 18.02.2013.

http://www.lemonde.fr/emploi/article/2013/02/18/dell-quitte-la-bourse-pourretrouver-saliberte_1834175_1698637.html

The **delisting** announced on February 5 by the computer company Dell is further confirmation for those who doubt the ability of financial markets to regulate the economy.

The Texas-based company, which has been a key player in the computer revolution, was founded in 1984 by a 19-year-old student, Michael Dell, with just $1,000. Listed on the stock exchange four years later, the company, which is now worth more than 25 billion dollars (18.6 billion euros), was a symbol of the success of the financialized economy.

The financial markets provided the fuel to get the company off the ground. Later on, they regularly provided resources for the company to invest and establish itself as the world's leading laptop company in the 2000s. The stock market thus accelerated its growth and increased its financing capacity tenfold, provided, of course, that the company was always profitable enough to return the capital invested.

Now Dell has announced that it will leave the circuit by buying back all its shares. The founder becomes the majority owner of a company that will no longer be listed. One of the giants of the high-tech economy with 80,000 employees will become a kind of "family" company.

Conduct its strategy at its own pace

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. It has lost its leadership position to its major competitor Hewlett-Packard. New products like the Streak tablet have been failures.

The company must therefore change its strategy. Its growth engines must be revised, especially since the microcomputer market is going to experience strong turbulence.

But 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.

Dell prefers to withdraw from the stock market, even if it means taking on more than 30 billion dollars in bank debt to buy back its shares. Michael Dell will no longer have to report quarterly on the level of his results and will be able to give himself a longer-term horizon to conduct his strategy at his own pace.

Counterproductive pressure from financial investors

Dell's defection reinforces those who believe that finance and strategy do not automatically align through financial channels. 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, which used the stock market to finance its growth, is abandoning it so that it can freely design its transformation, even if it means returning to it later.

In the meantime, this new episode in financial history shows that, far from being the rational and omniscient regulator of the economy, as neoliberal financial theory has suggested for more than thirty years, the stock market is rather a financial pump that injects capital into potentially profitable companies and thus boosts their development.

But it is not adapted to accompany their strategic reorientations and radical transformations. In the economic race, markets are good at accelerating in a straight line, but not at negotiating dangerous turns.

Document 7:

Jean-Baptiste Su (2013), "Dell leaves the stock market: the behind-the-scenes of a "genius trick", 06/02/2013.

http://lexpansion.lexpress.fr/high-tech/dell-quitte-la-bourse-lesdessousd-un-tour-de-passe-passe-de-genie_371586.html

If it happens, the buyout of Dell by its founder will be the largest LBO[1] since 2007. But why did Michael Dell make this decision? Can he afford it? And what does Microsoft have to do with it? Our explanations.

The penalty for failure

They could be tempted to do so, especially since the desire to leave the stock market betrays the failure of the Texan billionaire who missed the turn of the post-PC era and the diversification into services. Like HP, it is having trouble adapting to the new IT environment. "In the face of his inability to raise the share price and grow his company, Michael Dell had become increasingly nervous at the idea of seeing an activist shareholder like Carl Icahn come into the capital and impose on him a strategy that he wouldn't believe in, or worse, ask for his departure," explains analyst Rob Enderle.

Since Michael Dell took over the reins of the computer group in January 2007 (after having given them up in 2003), its stock market share has fallen by half. It must be said that Dell has continued to lose market share, which is now less than 11% worldwide. To the point that the former world number one is now ahead of the Chinese Lenovo.

Its sales have stagnated (around 61 billion dollars), as have its profits (around 3 billion). Michael Dell mocked Steve Jobs in 1997 and suggested that he should close down and give the money back to investors. The irony of history is that he is the one who is forced to do so to save his skin," the analyst added.

Buying time and independence

This comparison is all the more difficult for investors to swallow since the group has spent nearly $13 billion on acquisitions for nothing. "The transformation of Dell into an IT solutions provider for large global companies, like IBM or HP, is taking longer than expected. By taking it private,

*1 LBO definition: An LBO or Leveraged Buy Out is the purchase of a company's shares financed by a very large amount of debt. In concrete terms, a **holding company** is set up, which goes into debt to buy the target. The holding company will pay the interest on its debt and will repay the debt with regular or exceptional dividends from the acquired company (source:* http://www.lesechos.fr/finance marches/vernimmen/definition_leveragedbuyout.html*).*

Michael Dell is giving himself time to pursue his strategy away from the shortsightedness of Wall Street," insists Roger Kay, analyst at Endpoint Associates.

This impatience of the financial markets was beginning to seriously irritate the founder. Asked at the last Dell World conference how long it would take to complete this transformation into a Dell 2.0, Michael Dell ironically replied, "another 5 years!

A trick of genius

Once the deal is complete, Michael Dell will own a majority stake in the company, up from 15.7% today, and will not be accountable to anyone. It's a genius move, financed largely by new debt," says Pat Moorhead of Moor Insights. 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.

Surprise help from Microsoft

The final part of the deal is Microsoft's $2 billion "prime" loan to help Dell buy back its stock. This isn't the first time the software giant has gotten directly involved in hardware. In addition to its game console business, it has invested in Barnes & Noble e-readers, partnered with Nokia and ventured into tablets. That doesn't make it any less of a surprise, even if it's just pocket change for a group with more than $68 billion in reserves. "The reason Microsoft released its own Surface tablet is because no manufacturer wanted to take the risk of doing so. This small investment prevents this misadventure from happening again and ensures a distribution channel for its products" says Rob Enderle.

Beyond that, it is of course its Windows 8 system that Microsoft intends to promote, in the face of competition from Android. Now its obliged, Michael Dell will naturally be less inclined to make infidelities to equip its machines. Coincidence? Dell announced last December that it was abandoning Android smartphones to focus on Windows 8 tablets.

Questions

For each question, you must first answer with a sentence using the appropriate concepts and then quote the relevant text passages - *use quotation marks and indicate the number of the document quoted.*

1. Which governance issue is presented in the case of the company DELL?

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2. How do the interests of the founding CEO and the shareholders conflict?

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3. What are the two types of strategies involved? Justify:

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4. What are the different means deployed by the stakeholders to influence the balance of power at work? Qualify and illustrate :

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5. Is it always in a company's interest to be listed on the stock exchange?

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