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1. In what ways do companies change the composition of their ownership or management?

* The ownership and management of large corporations are almost always separated. Shareholders do not directly appoint or supervise the firm’s managers. They elect the board of directors, who act as their agents in choosing and monitoring the managers of the firm. Shareholders have a direct say in very few matters. Control of the firm is in the hands of the managers, subject to the general oversight of the board of directors. The separation of ownership and management or control creates potential agency costs. Agency costs occur when managers or directors take actions adverse to shareholders interests.
* The techniques and ways a business describes and implements change across both its internal and external processes are referred to as change management. Creating a planned change management strategy is essential to ensuring a successful transition while minimizing interruption. One of the most crucial success criteria for successful change management is excellent communication.

**METHOD 1 : PROXY CONTEST**

A proxy war is an attempt by a shareholder or group of shareholders to persuade other shareholders to vote in favor of their preferred corporate candidate. The shareholders who started the proxy battle want to get the number of shareholder votes needed to get the desired outcome (such as electing specific directors or approving a specific corporate action).

**METHOD 2 : MERGERS & ACQUISITIONS**

The terminology "merger" refers to a legal and contractual procedure wherein one corporation (the surviving corporation) buys out the assets and liabilities of another corporation (the merged corporation), which results in the demise of the merged corporation.

**METHOD 3 : LEVERAGE AND BUYOUTS**

To take a target company "private" & prevent a hostile takeover by an outsider, management or another "inside" group will typically purchase all publicly-held shares of the target company through the use of significant debt (hence, the "leverage"). Unfortunately, this usually hurts the target company because of the enormous debt load and potentially low-quality debt (junk bonds, etc.)

**METHOD 4 : DIVESTURES & SPIN-OFFS**

A spinoff occurs when a business sells or distributes additional shares of its existing business in order to establish a new, independent company. A form of divestment is a spinoff. A company creates a spinoff in the hope that it will be more valuable as a separate business. Spinouts and starbursts are other terms for spinoffs.

1. Why may it make sense for companies to merge?

* Companies merge in order to enhance their market share, diversify their product offerings, decrease risk and competition, and boost profitability. Conglomerates, horizontal mergers, vertical mergers, market extensions, and product expansions are all common forms of firm mergers.

**Horizontal merger**

A horizontal merger is the joining of two firms in the same industry, which might involve both direct and indirect competitors. A horizontal merger provides increased purchasing power, more marketing options, less competition, and a bigger audience reach. This sort of merger, according to Monroe, is prevalent in the food sector, when multiple brands of restaurants join to reach a larger consumer base and acquire stronger purchasing power from the same vendors.

**Vertical merger**

A vertical merger is the combination of two companies that operate in different stages of the same supply chain, producing different goods or services for the same finished product (e.g. one company sells something to the other company). The benefits of a vertical merger include a more efficient supply chain, lower costs and increased product control.

**Conglomerate merger**

A conglomerate merger is the merging of two firms with unconnected commercial activity from various industries. A conglomerate merger has the advantages of diversifying corporate activities, cross-selling products, and reducing risk exposure.

1. How should the gains and costs of mergers to the acquiring firm be measured?

* Merger has become the most prominent process in the corporate world. The key factor contributing to the explosion of this innovative form of restructuring is the massive number of advantages it offers to the business world.

**Gains**

1. **There's an increase in the market share**

When companies merge, the new company gains a larger market share and gets ahead in the competition.

Example: Exxon and Mobil merge in 1998

1. **Reduces the cost of operations**

Companies can achieve economies of scale, such as bulk buying of raw materials, which can result in cost reductions. The investments on assets are now spread out over a larger output, which leads to technical economies.

1. **Expands business into new geographic areas**

A merger may result in a business expanding geographically, which would, in turn, increase the business's ability to distribute goods or services to more people.

1. **Avoids replication**

Some companies producing similar products may merge to avoid duplication and eliminate competition.

* There are many factors contributing to the failure and elements that are problems of mergers. There are many aspects that should be understood and analyzed before signing an agreement because even one small mistake in taking a decision can completely dump both the companies with an irreversible impact.

**Cost**

1. **Does not meet Expectations**

Most companies when sign an agreement often get a create a bigger picture of their expectations as they believe in pure concept of higher capital gains when two are combining together.

1. **Merger activity is very costly**

The high costs of business consolidation professional fees of bankers, lawyers, advisors, paperwork, etc.

1. **Clash of Cultures**

When two firms merge, it is more than a coming together of two names or brands – it is a real merger of people who bring along a specific corporate culture.

1. What are some takeover defenses?

* A hostile takeover may be accomplished through two methods: a tender offer and a proxy struggle. Certain defenses, such as the poison pill or a golden parachute, can be used by target corporations to deter hostile takeovers.

**Poison Pill**

This type of defensive strategy is known as a shareholder rights plan. It permits current shareholders to purchase newly issued shares at a discount if one shareholder purchases more than a specified proportion of the stock, resulting in a dilution of the purchasing company's ownership position. The buyer that initiated the defense, often the purchasing corporation, is not eligible for the discount. The term "poison pill" is commonly used loosely to refer to a variety of defenses, such as releasing extra debt to make the target less appealing, and stock options to staff that vest upon a merger.

**Golden Parachute**

A golden parachute is a large sum of money offered to senior executives if the company is taken over by another company and the executives are fired as a result of the merger or takeover. Golden parachutes are contracts with senior executives that can be used as an anti-takeover tactic, sometimes known as poison pills, adopted by a company to deter an unwelcome takeover effort. Stock options, cash incentives, and significant severance compensation are all possible benefits. Golden parachutes are so termed because they are designed to give a smooth landing for certain levels of employees who leave their employment.

1. Do mergers increase efficiency and how are the gains from mergers distributed between shareholders of the acquired and acquiring firms?

* The results show a considerable improvement in target firm efficiency ratings between those two periods in time, but no significant difference in scores between acquiring businesses and those that were not involved in any mergers during this time period. When an acquisition is announced, shareholders of large corporations purchasing public enterprises lose 1.696% on average. In contrast, when a small business purchases a public firm, there is a huge advantage.

1. What are some of the motivations for leveraged and management buyouts of the firm?

**Leveraged Buyout**

Acquisition of the firm by a private group using substantial borrowed funds. A leveraged buyout (LBO) is the acquisition of another firm using a large amount of borrowed money (bonds or loans) to cover the acquisition costs. Along with the assets of the acquiring firm, the assets of the company being purchased are frequently used as collateral for loans.

**Management Buyout**

Acquisition of the firm by its own management in a leveraged buyout. A management buyout (MBO) is a financial transaction in which someone from corporate management or the team buys the firm from the owner/s. Management members that carry out MBOs buy everything related to the firm. Professional managers like this form of buyout because it provides them with higher potential benefits and control than being employees. The MBO is a sort of leveraged buyout (LBO), which is a type of acquisition that is predominantly backed with borrowed funds.