

Dell goes private: Some Questions

Dell announced a deal to take the company private, with Michael Dell and Silver Lake, a private equity firm, being the primary equity investors in the deal and Microsoft investing in subordinated debt in the firm.

In class, we will look at the modern public corporation as a collection of competing interests, and classify the resulting tensions along four lines:

- (1) When a private business becomes a public corporation, it opens up the possibility of a divide between the management of the company (and what serves their interests) and the stockholders. While the founder/owner may hang around initially and alleviate some of the problems, at some point, there will be a separation between the two. The big corporate governance question then becomes how to make managers act in the interests of stockholders.
- (2) When a firm borrows money, the interests of the lenders may not converge with the interests of equity investors. What is good for one may not be always be good for the other... Lenders will try to protect themselves and that plays out as covenants, constraints and costs to the firm.
- (3) When a firm is publicly traded, the market makes its judgment on what the firm is worth. Without even debating whether than market price is fair and rational, publicly traded companies are influenced by market judgments that can then alter how they are run. The question then becomes whether these influences are positive or negative..
- (4) Every business creates social costs, and balancing the interests of the owners of the business with society is tricky. (An interesting question: Are public or private businesses more likely to create social costs?)

The Dell deal exposes almost all these frictions. As you read the news story, the message that I am getting is that Michael Dell believes that the actions he needs to take to fix the company are not actions that will be welcomed by the market. He believes that taking the firm private will allow him to make these unpleasant choices without as much of a backlash. As you read this story, please do think about the following:

1. What does Dell gain by becoming a private business? What does it lose?
2. Do you think that the market has been unfair to Dell over these last few years? If yes, on what basis?
3. What might be some of the actions that Michael Dell plans to take with Dell? Is he justified in believing that markets will not respond “fairly” to these actions? If yes, explain.
4. What is the end game here? (Assume that Michael Dell makes his planned changes and they go well. What do you see happening to Dell down the road?)