A report on two options for david mackenzie and co

Business, Company

David Mackenzie's case is that of a typical entrepreneur who started andfamilyrun business that experiences success and outgrows its existing set-up. Hitherto, Mackenzie thrived on one-off contracts and other local businesses, and his two other companies ran more or less the way it did before he acquired them.

All three diverse companies have done financially well, but problems arise when David Mackenzie tries to integrate the operations of these three diverse companies to secure a wider range of orders. The problems relate to the diverse structures and problem of co-ordination among between, hindering the implementation of projects in a smooth and seamless manner.

The options mulled by David Mackenzie are first, float a group of companies in the stock exchange, and second merge the three companies into one company. Both these options have their advantages and disadvantages.

Advantages and Disadvantages of Floating the Companies in the Stock Exchange

The major advantage of floating the Mackenzie group of companies in the stock exchange, which entails converting the hitherto private limited company into a public limited company (plc), is the ability to raise funds and capital through the sale of securities.

The company would be able to sell its shares in the market and secure large loans easily. Although Mackenzie does not have cash-flow problems at present, it might need an infusion offinanceas it expands and secures more large overseas orders. Mackenzie could purchase Clyde Electric Ltd only because the company lacked sufficient capital to sustain its growth, and

there is every chance that the situation can repeat itself. Mackenzie does not seem to have huge cash reserves to finance possible expansions through internal accruals.

Another advantage of listing the company on the stock exchange is an infusion of professional corporate governance that Mackenzie's group of companies hitherto lacked. Most of Mackenzie’s existing orders were possibly on the basis of personal efforts and one-off relationships, and highly centralized on the David Mackenzie.

As the company grows and secures more international and large orders such a structure would not only fail to appeal to large institutional clients, but also fail to sustain the enhanced requirements such as professional decision-making, autonomy, responsibility, and the likes.

In the present set up all operations would most likely come to a standstill and the company might even fold up in David Mackenzie is not able to involve himself in the active running of the company for a length of time for any reason.

A listed company becomes an independent entity and the board of directors would run the company even in the absence of the Managing Director. An added advantage of listing the company in the stock exchange is better visibility for the company, which in turn might lead to more orders. An increase in share prices would also add to the wealth of the shareholders, which would include David Mackenzie.

Floating the David Mackenzie group of companies in the stock exchange has its set of disadvantages also. In the present set up, Mackenzie is under no

obligation to disclose financial information. A public listed company would have to publish its financial statements on a regular basis, and this can lure in competition to Mackenzie's lucrative market.

The need to disclose financial records and other compliance policies requires certified public accountants and entails a lot of bureaucratic paperwork.

The time, money, and effort spent on such activities could be better spend on marketing and operations if the company is not made public. Share values tend to reflect the current financial gains, and most public listed companies thereby tend to make decisions that lead to short-term gains even at the cost of long-term interests. The Mackenzie group of companies may also fall into this trap once it goes public.

In the initial stages of floating a public listed company, David Mackenzie is likely to retain a huge majority of shares. As the requirement for cash to fund expansions and large scale operations increases, he might be tempted to sell more of his shares in the open market. This raises the possibility of a hostile takeover or another party who has purchased a large number of shares from interfering and trying to influence the operations and decision making of the company.

The Advantages and Disadvantages of Merging the Three Companies Into a Single Entity

The second option before David Mackenzie is to merge the three companies into one single entity. The main advantage of such a merger is removing duplication in works and efforts. At present, each of the three companies has its own marketing, human resource, and finance departments, and the administrative functions and expenses duplicate.

A merger could avoid such duplications and not only result in significant savings but also increase efficiency and better coordination. A single marketing department that takes care of the three units, for instance, means that the complaints regarding customers having to contact two or three separate marketing departments for a single project would cease.

The marketing department would be able to tap into clients in a more effective manner, without duplicating efforts and providing a wider range of service and commitments. An integrated accounts department would likewise solve the issue of duplicate or missing invoices, and lead to better financial control and analysis of the profitability of each project.

The merger would likely result in the retrenchment of some redundant staff, but this also gives an opportunity to cut down on low-performers, and redeploy performers in a better manner.

Another major advantage of mergers is the ability of these three companies to pool their resources in the form of client database, office space, infrastructure, and the like, all of which would facilitate growth.

Mergers however come with their own disadvantages. Although there would be savings on fixed costs, a merged monolith is likely to have a higher per-unit operational cost compared to the per-unit operating cost of three separate entities.

This will not be a cause for concern when times are good and there are plenty of orders, but when economic times go bad and orders diminish, this will have a negative effect and the higher unit cost could make the organization uncompetitive.

The merger would also make it difficult to hive off a unit if, in the future, the unit becomes non-profitable and cuts into the profitability of the entire organization. Three different entities ensure thatfailure, mismanagement, or shortcomings of one unit would not have a significant impact on the other two units. The merger will ensure that activities of one unit would have a significant on the other two units.

The administrative act of effecting a merger is relatively easy. The main challenge in the case of the Mackenzie group of companies would relate to integrating the three diverse companies, with three different modes of operations and internal systems.

Another challenge is ensuring integration and co-ordinations of the operations of the three diverse units. While a merger would reduce duplication, unless the operational activities re-orient towards the three different sub-units of the new company working towards a common goal, the redundancies and delays in commissioning are likely to persist.