

SAL Gdansk
Lectures on Corporate Governance
Session 4
Case Study:
Proposed Merger of Volvo and Renault

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Case Study: Proposed Merger of Volvo and Renault

INSTRUCTIONS

Read the case study.

When you have read the case, please:

- (1) review the diagram on slide 3; and**
- (2) answer the questions on slide 4 and slide 5.**

Case Study: Proposed Merger of Volvo and Renault

VOLVO

RENAULT



Questions include:

- 1.**
- 2.**
- 3.**

Case Study: Proposed Merger of Volvo and Renault

Questions:

- 1. Did Volvo make any mistakes in preparing this transaction?**
- 2. Who is responsible for preparing a merger?**
- 3. Which mistakes did Volvo's management make in dealing with the board of directors and with shareholders while preparing the proposed merger?**
- 4. Which mistakes did Volvo's board of directors make in dealing with management and with shareholders while preparing the proposed merger?**
- 5. Shareholders criticized which aspects of the merger proposal? Why?**
- 6. Compare the corporate governance practices of Volvo and Renault.**₄

Case Study: Proposed Merger of Volvo and Renault

Questions:

- 7. Diagram the corporate governance structure and ownership structure of the new (merged) company.**
- 8. This case study identifies which corporate governance issue(s)?**
- 9. Do you see any relationship between this case and the Skandia case (2003)?**
- 10. Which corporate governance issues should the Swedish Corporate Governance Code address?**

Diagram of Proposed Merged Company

Postscript - Diagramming for Lawyers

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THE LEX COLUMN

Thursday January 8 2009

Satyam's fraud

The implications of the Taj Mahal-scale fraud at Satyam Computer Services are far-reaching. The admission that B. Ramalinga Raju, chairman of the fourth largest Indian information technology services group, cooked the books for years, inflating the cash on its balance sheet by a \$1bn, strikes at the heart of a sector central to the country's growth story. Trust is critical in an industry based on outsourcing often highly sensitive information to far-flung locations.

With Mr Raju offering himself up to the authorities, Satyam is unlikely to survive as an independent company. Once worth nearly \$9bn, after yesterday's 78 per cent fall in its shares, it presents a bite-sized target. If it is dismembered, Infosys looks to be best placed among the local firms to pick up some business, but the extent to which Satyam's 185 Fortune 500 clients opt to switch back to western IT firms will be a critical measure of the damage the fraud does to this emblematic sector.

As the Confederation of Indian Industry has acknowledged, corporate India must reflect on ways to show it takes governance seriously. This is critical for the large number of business houses dominated by

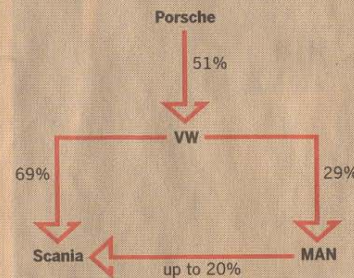
When Porsche comes to shove

Fast cars, with high-performance va-va-voom, don't like slow trucks, with their diesel-belching broom broom, as Porsche has made abundantly clear. The German sports carmaker has had to launch a mandatory takeover offer for Scania after its creeping takeover of Volkswagen topped 50 per cent. At the same time, Porsche has repeated it has no interest in the Swedish truck maker, and so will offer only the legal minimum for Scania – less than its current share price.

Scania is a sideshow for Porsche. VW remains the object of its strategic attention. Long term, it hopes to see the end of a law that allows the state of Saxony to hold a blocking 20 per cent minority in the company. Then Porsche can buy shares in VW that it does not already own, and pay for it with VW's own cash pile. Nice.

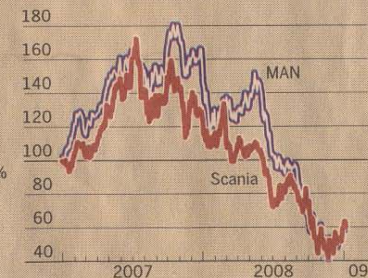
Porsche presumably has other plans for Scania. The truck maker is already controlled by VW, which owns 69 per cent. In addition, the German truck maker MAN has a further 20 per cent holding. In theory, Porsche could be on the hook for €2.4bn if Scania's other investors tender into its offer, Morgan Stanley estimates. Yet Porsche is unlikely to actually pay out that amount. Playing

Truck loads
Company cross shareholdings



Sources: Companies; Thomson Datastream

Share prices (rebased in € terms)



the puppeteer, it could sell on any directly-acquired Scania shares to VW. Better still, it could sell them on to MAN, which has long wanted to combine with Scania. The result of that combination would be 18-wheel synergies, the world's third largest truck maker, and Hakan Samuelsson, MAN's chairman and a former Scania executive, driving the rig.

That would be a tidy solution to a complex saga that has left most minority investors choking on fumes.

Swedish and German regulatory loop holes, combined with a plethora of voting and non-voting shares, has left minorities with little say in the price paid for shares that should command a control premium. Ironically, such investor disregard has done little to hurt the companies which are in better financial shape than most of their automotive peers. That has allowed Porsche to ignore most investor bleatings, so far. But the road trip is long, and not over.

Postscript – Proxy Voting

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Monthly Newsletter - January 2009

Electronic Proxy Voting is a Reality

It is needless to say that hundreds of thousands of company meetings take place globally every year, in which shareholders are requested to vote on the most varied issues. It is also needless to say that the hassles of such events, such as the manual collection and processing of significant volumes of votes (which can at many times can result in human errors), as well as the mandatory physical presence requested in many countries for shareholders or representatives can sometimes make the corporate voting process somewhat of a burden and discourage minority voting. Not to mention all of the costs involved.

According to the Society of Corporate Secretaries & Governance Professionals, the voting system has generally been a routine event in the past with company proposals receiving a high percentage of votes (often as much as 90%) without the need of special solicitation efforts, and minority stockholder proposals typically received less than 10% of positive votes, most of which have been done through proxy voting. The proxy voting process has tolerated this since there were very few contested votes. Recently, the Shareholders Communications Coalition launched a website to increase general public awareness on the system by which investors vote their shares in corporate events as many individual investors are unaware of what rights they have when owning equity securities. The effort is aimed at drawing attention to the rules and regulations adopted years ago by the U.S. Securities Exchange Commission (SEC) regarding proxy voting and shareholder communications which need reform.

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