

Weekly Reflection

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My week 5 learnings are about chapter 14 - joint ventures and strategic alliances and chapter 16 - tax issues in M&A. Chapter 14 talks about realizing gains of a merger without having to do so. I've learned that just because there is a contractual agreement between two companies, it doesn't mean there's a joint venture or strategic alliance. Any type of agreement that goes beyond the usual relationship and involves a lot more detailed planning from roles to commitments, that is considered a joint venture or strategic alliance. If we look at M&A, they require the most amount of involvement and commitment in terms of capital, control, and the cost of reversal. Followed by joint ventures and lastly, by strategic alliances. Hence, a joint venture describes more of the pooling of assets and work of two companies, while trying to reach a common business objective. This can happen in form of a newly created entity. Unlike in M&A, in a joint venture, the businesses maintain their own operations and continue to exist. A great motive to form a joint venture is, as mentioned before, to pool resources, research, and development capabilities and to make use of the other company's network of suppliers, clients, markets, and so on. An interesting fact that I've learned is that the shareholder wealth effect, i.e. yield returns, were higher for companies that were more related to one another. Most of the problems that occur with joint ventures are related to not getting the work done: Partners not working well together, disagreements, the need to share IP, which they are reluctant to do so or they might not even be fully committed to the JV. The same problems can also occur with strategic alliances, which I will talk about now.

Strategic alliances are on the lower spectrum of involvement and commitment and don't involve a new entity being created. The strategic alliance is less formal and is aimed to facilitate

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the achievement of a company's strategic goals. One main factor for strategic alliances is to enhance R&D or just overall specific knowledge resources of the partners. As for the shareholders, a horizontal alliance along with the same three-digit SIC code and that involved the transfer of technology provided the highest cumulative abnormal return. This would explain why technology-oriented companies are often looking into strategic alliances. Also, it shows that larger partners gain smaller benefits from the alliance compared to smaller businesses, which might not have been profitable until then.

Chapter 16 talks about tax issues in M&A and really depends on the method used to finance the transaction, so either through debt or equity or a mix of both. There are two accounting methods for M&A: The purchase and the pooling method, whereas the biggest different between them is "the value that the combined firm's balance sheet places on the assets, (...) as well as the depreciation allowances and chargers against income following the merger." Also, transactions are differentiated between taxable or tax-free transactions, whereas tax experts are part of the M&A equation to reduce the adverse tax ramifications of the deal.

**All in all, I would like to conclude that I have enjoyed the lectures and the content of M&A!**