
Corporate Failure of Kirch Media, Vivendi and Parmalat

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Abstract:

Corporate Governance - Before 1990, it was an unknown subject. But after 1990, it emerges as a new area of knowledge for improving accountability and transparency in corporate system. In UK, it was emerged in 1991, with the formation of Cadbury Committee on account of failure of Maxwell, BCCI and Polypack.

Key words: Corporate Failure , Corporate Governance , Cadbury Committee.

INTRODUCTION

Kirch Media

Kirch Media (Programming and entertainment Distribution Company) had business in Germany, founded by Leo Krich in 1970. It was failed in 2002.

Person Responsible for Failure - Company failed because of heavy loan amount.

Amount of Scam/Failure - More than 6.5 Billion Euro

Detailed Reasons for Failure - Company failed because of heavy loan amount and detailed reasons for its Failure are as follow;

- Audit Failure - KPMG (External Auditor), unable to assess the company's increasing debt amount.
- Overexpansion- the company adopt improper strategic planning before acquisition. Kirch overestimate the demand for the pay channel services, which lead to a loss of \$900 million.
- Financial Pressures - The heavy debts were the result of costly film rights deals. The group taken heavy amount of loan from Lehman Brother's and JP Morgan (US investment banks) for purchasing TV rights which increased its financial pressure.
- CEO of the company operated the business in a secret way, which leads to poor transparency.

After failure - Leo Kirch reduced his stake to 10% to escape bankruptcy. The group was run by new executive Wolfgang Van Bettery (an insolvency specialist) and Hans Joachim (Kirch Advisor).

Vivendi

Vivendi SA (formerly Known as Vivendi Universal, Multinational Mass Media and Telecommunication Company) had business in France (head quarter - Paris) incorporated in 1853. It was failed in 2002.

Persons Responsible for Failure – Jean Marie Messier (CEO) and Guillaume (CFO)

Amount of Failure/ Scam - More than 23 billion Euros

Detailed Reasons for Failure;

- Poor Diversification - Vivendi (originally CGE - Compagnie Generale Des Eaux), diversified from water company to media and communication company with lot of acquisition after 1980's. Heavy expansion caused company both financial and legal problems due to the decaling value of acquisitions.
- Improper Accounting - Improper adjusting various reserve accounts and violating US GAAP. The company increasing its EBIT by adjusting wrong transactions.
- Ineffective board - BOD's not question the strategies of management and there was in-balance in the board.
- Audit Committee - audit committee not performing its duties correctly.
- Dominating CEO - Dominant CEO of the company dominating in behaviour and started irrational and risky series of company. Messier took over 30 companies which lead to 100 billion euro debt.

After failure - In 2006, the gradual recovery of the company took place thought the sale of 80% stake in the Vivendi Universal Entertainment Unit to form NBC Universal. SEC (Security Exchange Commission) set investigation against Vivendi Universal, Vivendi SA, Jean Marie Messier (CEO) and Guillaume (CFO). Vivendi charged with a penalty of \$50 million. Messier-prohibited for becoming an officer or directors of a public company for 10 years and Guillaume for a period of 5 years.

Parmalat

Parmalat (Milk and Milk Product company, Parmalat dismantled the Government monopoly in Milk products in 1973) had business in Italy, founded by Calisto Tanzi in 1961. It was failed in 2003.

Person Responsible for Failure - Calisto Tanzi

Amount of Failure/Scam - 14 Billion Euros

Detailed Reasons for Failure;

- Financial Fraud - Parmalat collapse because of huge amount of debt and had no money for returning back to its band holders. Some international banks gave loans to Parmalat and involved

in selling out its bonds of the company (banks were aware about the financial situation of Parmalat) in exchange of large amount of fees.

- Poor Auditing - Company auditor (Grand Thornton) was also involved in fraud, malpractices, negligence and concealing the facts of the company's affairs.
- Bogus Accounting - Company adopted a system of double billing for Italy's super market and other retail customers. Company billed twice the same shipment in order to increase revenue and revenues were also increased through fictitious sales.
- Unwanted Acquisition - The company's bond issues were failed and 3 CEO's resigned from the company in the space of 8 months. The downfall of Parmalat started because of aggressive expansions. Once, Tanzi had succeeded in the long-life milk market, he want to buy most of his competitors, and then entered into the football market. However the family football clubs and the tourism enterprise Parmatour turned out to be financial disaster.
- Parmalat Brazil badly affected by the Crises - Brazil was one of the company's largest markets. During the 1990's the holding company of Italy transferred millions of Euros to Brazilian subsidiary but, it had debt of \$1.8 billion, its president had resigned and the company filed for bankruptcy to protection. Farmers and cooperatives attached with Parmalat have not been paid for a long period and the assets of the subsidiary exceed to its debts.
- Default role of Brokerage houses, external auditors, lawyers of the company and its regulators. There were so many loopholes in the Corporate Governance system of the company.

After failure - After making a good financial restructure the company return to be listed on the Milan Stock Exchange in 2005 and in August 2006 the Banca Popolare Italiana agreed to pay Parmalat 59.9 million euros to settle a law suit over the bank's role in the bankruptcy (under Italian bankruptcy law Parmalat can sue it is formers to unravel financial transactions leading to bankrupt).

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