International Journal of Research in Finance and Marketing(IJRFM)
Available online at :http://euroasiapub.org/current.php?title=IJRFM
Vol. 6 Issue 8, August 2016, pp. 31~38
ISSN(o): 2231-5985 , ,Impact Factor: 5.861 |Thomson Reuters ID: L-5236-2015

RESEARCHERID THOMSON REUTERS

Corporate Restructuring: A Tool for Survival in Competitive World

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Keywords:

Corporate Restructuring,
Merger,
Acquisition,
Demerger,
Takeover

Abstract

Today Corporate restructuring has becomes a buzzword at the time economic downturns. A company going through tough financial scenario needs to understand the process of corporate restructuring thoroughly. Although restructuring is a generic word for any changes in the company, this word is generally associated with financial troubles.With the increasing competition and the economy, heading towards globalization, the corporate restructuring activities are expected to occur at a much larger scale than at any time in the past, and are stated to pay a major role in achieving the competitive edge for India in international market place. Corporate restructuring includes mergers and acquisitions (M&A), amalgamation, take-overs, spin-offs, leveraged buy-outs, buy-back of shares, capital reorganization, sale of business units and assets etc. M&A are the most popular means of corporate restructuring or business combinations. They have played an important role in the external growth of a number of leading companies the world over. This paper is about different aspects related to corporate restructuring.

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INTRODUCTION

Before 1991 Indian economy was closed economy. There were so many controls and restrictions on the economy. To set-up an industry various licenses and registration under various enactments were required. The scope and mode of corporate restructuring was, therefore, very limited due to restrictive government policies and rigid regulatory framework. After 1991 .the real opening up of the economy started with the Industrial Policy, 1991 whereby 'continuity with change' was emphasized and main thrust was on relaxations in industrial licensing, foreign investments, and transfer of foreign technology etc. For instance, amendments were made in MRTP Act, within all restrictive sections discouraging growth of industrial sector. With the economic liberalization, globalization and opening up of economies, the Indian corporate sector started restructuring to meet the opportunities and challenged of competition. Today Corporate restructuring has becomes a buzzword at the time economic downturns. A company going through tough financial scenario needs to understand the process of corporate restructuring thoroughly. Although restructuring is a generic word for any changes in the company, this word is generally associated with financial troubles.With the increasing competition and the economy, heading towards globalization, the corporate restructuring activities are expected to occur at a much larger scale than at any time in the past, and are stated to pay a major role in achieving the competitive edge for India in international market place.

Concept of Corporate restructuring

Corporate restructuring includes mergers and acquisitions (M&A), amalgamation, take-overs, spin-offs, leveraged buy-outs, buy-back of shares, capital reorganization, sale of business units and assets etc. M&A are the most popular means of corporate restructuring or business combinations. They have played an important role in the external growth of a number of leading companies the world over.Corporate restructuring involves restructuring the assets and liabilities of corporations, including their debt-to-equity structures, in line with their cash flow needs in order to, Promote efficiency,Restore growth and minimize the cost to tax payers.

Corporate restructuring refers to the changes in ownership, business mix, assets mix and allianceswith a view to enhance the shareholder value. Hence, corporate restructuring may involveownership restructuring, business restructuring and assets restructuring. A company can affectownership restructuring through mergers and acquisitions, leveraged buy-outs, buyback ofshares, spin-offs, joint ventures and strategic alliances. Business restructuring involves thereorganization of business units or divisions. It includes diversification into new businesses,out-sourcing, divestment, brand acquisitions etc. Asset restructuring involves the acquisitionor sale of assets and their ownership structure. The examples of asset restructuring are sale andleaseback of assets, securitization of debt, receivable factoring, etc.The basic purpose of corporate restructuring is to enhance the shareholder value. A companyshould continuously evaluate its portfolio of businesses, capital mix and ownership and assetsarrangements to find

opportunities for increasing the shareholder value. It should focus onassets utilization and profitable investment opportunities, and reorganize or divest less profitableor loss making businesses/products. The company can also enhance value through capitalrestructuring; it can design innovative securities that help to reduce cost of capital.

Corporate restructuring is a corporate action taken to significantly modify the structure or the operations of the company. This usually happens when a company is facing significant problems and is in financial jeopardy. Often, the restructuring is referred to the ways to reduce the size of the company and make it small. Corporate restructuring is essential to eliminate all the financial troubles and improve the performance of the company.The troubled company's management hire legal and financial experts to assist and advise in the negotiations and the transaction deals. The company can go as far as appointing a new CEO specifically for making the controversial and difficult decisions to save or restructure the company. Generally, the company may look at debt financing, operations reduction and sale of the company's portions to interested investors.

Following some example of real life corporate restructuring from real companies

- Infosys to acquire Loadstone Holding AG, a leading global management consultancy firm for an aggregate enterprise value of CHF 330 million in cash - acquisition to ramp up consulting and system integration business, minimal client overlap and expansion in new geographic area, bring innovation.
- NEA backed Nova Specialty Surgery acquires Excel Hospitals, a reputed multi- speciality change in Kanpur – to boost expansion plan nationally and globally
- Retail giant Future Ventures acquires Express Retail Services Private Limited for Rs. 61.35 Cr - acquisition to provide Future Venture significant presence in Delhi and NCR region along with leveraging its operational and administrative infrastructure
- NIIT Technologies acquires Sabre's Philippines Development Centre - acquisition to enhance global delivery capability of NIIT Technologies Limited
- Lenovo group Limited world's largest PC maker to buy consumer electronics maker Digibras to expand Brazil computer market share and add mobile products including phones and tablets
- Tata Global beverages buys stake in US company(beverage and bottled water company) - in line withstrategic vision to become leader in 'Good for you'beverage segmentM & As
- Pantaloon Retail India Limited (LC) and Future Value RetailLimited (UC and WOS) – to transfer format brands and productbrands to Future Value Retail
- Godrej Household Products Limited (UC and WOS) with GodrejConsumer Products Limited (LC) – Horizontal Merger – Bothengaged in same line of business
- HTMT Telecom Private Limited (engaged in telecom infra) with Hinduja Ventures Limited (engaged in media and communication, real estate and treasury)- Conglomerate amalgamation

- Reliance Industries Limited – Vertical integration

Need for Corporate restructuring

There are several reasons for corporate restructuring.Restructuring a company can improve efficiency, keep technology up to date, or implement strategic or governance changes made by, or mandated to, company owners.

1. Changed Nature of Business

In today's business environment, the only constant is change. Companies that refuse to change with the times face the risk of their product line becoming obsolete. Businesses seek to diversify into new areas to increase sales, optimize their capacity, and conversely shed off divisions that do not add much value, to concentrate on core competencies instead.All such initiatives require restructuring.

2. Downsizing

One common reason for restructuring a company is to downsize the workforce. The changing nature of economy may force the business to adopt new strategies or alter their product mix, making staff redundant.Very often, downsizing-induced restructuring leads to a flatter organizational structure, and broader job descriptions and duties.

3. New Work Methods

Traditional organizational systems and controls cater to standard 9 AM to 5 PM office or factory based work. Newer methods of work, especially outsourcing, telecommuting, and flex time require new systems, policies, and structures in place, besides a change in culture, and such requirements may trigger organizational restructuring.

4. New Management Methods

Traditional management science recommends highly centralized operations, and the top management adopting a command and control style. The new behavioral approach to management considers human resources a key driver of strategic advantage, and focuses on empowering the workforce and providing considerate leeway to line managers in conducting day-to-day operations. While new organizations can start with such new paradigms, old organizations have to restructure themselves to keep up with these best practices to remain competitive.

5. Quality Management

Competitive pressures force most companies to have a serious look at the quality of their products and services, and adopt quality interventions such as Six Sigma and Total Quality Management. Implementing new quality standards may require changes in the organization. Most of the new quality applications strive to imbibe quality in the actual work process rather than maintain a separate quality control department to accept or reject output based on quality specifications.

6. Technology

Innovations in technology, work processes, materials and other factors that influence the business, may require restructuring to keep up with the times. For instance, enterprise resource planning that links all systems and procedures of an organizational by leveraging the power of information technology may initially require a complete overhaul of the systems and procedures first.

7. Mergers and Acquisitions

In today's corporate world, where survival of the fittest is the maxim, mergers and acquisitions are commonplace and any merger or acquisition invariably heralds a restructuring exercise. The reasons for such restructuring accompanying mergers and acquisitions are many. Some of the common reasons are:Reconciling the systems and procedures of the merged organizations to ensure that the new entity has consistency of approach.Eliminating duplication of work or systems, such as two human resource or finance departments.Incorporating the preferences of the new owners, and more.Joint ventures may also require formation of matrix teams, special task forces, or a new subsidiary.

8. Finance Related Issues

Very often, small and medium scale businesses have informal structures and reporting relationships, and an ad-hoc style of decision-making. When such companies grow and want to raise fresh funds, venture capitalists and regulations might demand a more professional set up, with formal written-down structures and policies. A listed company may undertake a restructuring exercise to improve its efficiency and unlock hidden value, and thereby show more profits to attract fresh investors.Bankruptcy may force the business to shed excess flab such as workforce, land, or other resources, sell some business lines to raise cash, and become lean and mean, to attract bail-outs or some other rescue package. Companies may try to restructure out of court to avoid the high costs of a formal bankruptcy.

9. Buy Outs

At times, the restructuring exercise may be the result of the whims and fancies of the owners. For instance, the company may have a new owner who wants to stamp his or her personal authority and style onto the business. Restructuring allows the new owner to:Reshuffle key personnel and provide power to trusted lieutenants.Start with a clean state and thereby exert greater control.Preempt any inefficiencies that caused the previous owner to sell-out, and more.With or without ownership change acting as a trigger, company owners may appoint a management consultant to review the company and suggest macro-level changes, as a routine exercise.

10. Statutory and Legal Compliance

At times, restructuring may be a forced exercise, to conform to some legal or statutory requirements. For instance, the government may mandate financial and healthcare institutions that deal with sensitive personal data to monitor their computer networks. A new bill may

require that private computer networks adopt the same security measures that government networks adopt, to gain immunity from liability lawsuits in the eventuality of cyber attacks.

(www.brighthub.com)

TYPES OF CORPORATE RESTRUCTURING

Corporate Restructuring means any change in the business capacity or portfolio that is carried out by inorganic route or any change in the capital structure of a company that is not in the ordinary course of its business or any change in the ownership of a company or control over its management or a combination of any two or all of the above.

1. **Merger / Amalgamation**: A merger is a combination of two or more businesses into one business. Laws in India use the term 'amalgamation' for merger. Amalgamation is the merger of one or more companies with another or the merger of two or more companies to form a new company, in such a way that all assets and liabilities of the amalgamating companies become assets and liabilities of the amalgamated company.
2. **Merger through Absorption:-** An absorption is a combination of two or more companies into an 'existing company'. All companies except one lose their identity in such a merger. For example, absorption of Tata Fertilisers Ltd (TFL) by Tata Chemicals Ltd. (TCL).
3. **Merger through Consolidation:-** A consolidation is a combination of two or more companies into a 'new company'. In this form of merger, all companies are legally dissolved and a new entity is created. Here, the acquired company transfers its assets, liabilities and shares to the acquiring company for cash or exchange of shares. For example, merger of Hindustan Computers Ltd, Hindustan Instruments Ltd, Indian Software Company Ltd and Indian Reprographics Ltd into an entirely new company called HCL Ltd.
4. **Acquisitions and Takeovers:** An acquisition may be defined as an act of acquiring effective control by one company over assets or management of another company without any combination of companies. Thus, in an acquisition two or more companies may remain independent, separate legal entities, but there may be a change in control of the companies. When an acquisition is 'forced' or 'unwilling', it is called a takeover.
5. **Divestiture**: Divestiture means an out sale of all or substantially all the assets of the company or any of its business undertakings / divisions, usually for cash (or for a combination of cash and debt) and not against equity shares. In short, divestiture means sale of assets, but not in a piecemeal manner. Divestiture is normally used to mobilize resources for core business or businesses of the company by realizing value of non-core business assets.

6. **Demerger:**Demerger is a form of corporate restructuring in which an entity's business operations are segregated into one or more components.
   Demerger can take three forms:Spin-off,Split-up,Split-off
7. **Reduction of Capital:** Reduction of Capital is a process by which a company is allowed to extinguish or reduce liability on any of its shares in respect of share capital not paid up, or is allowed to cancel any paid-up share capital which is post or is allowed to pay-off any paid – up capital which is in excess of its requirements.
8. **Joint Venture:** Joint Venture is an arrangement in which two or more companies (called joint venture partners) contribute to the equity capital of a new company (called joint venture) in pre-decided proportion. For e.g. Maruti Suzuki
9. **Buy back of Securities:** When a company is holding excess cash, which it does not require in the medium term (say three to five years); it is prudent for the company to return this excess cash to its shareholders. Buy-back of securities is one of the methods used to return the excess cash to its shareholders.

CONCLUSION

Organizations are restructuring themselves to meet changing environment. Restructuring allows the company to continue to operate in some way. The management of the company tries all the possible measures to keep the entity going on. Even when the worst happens and the company is forced to pieces because of the financial troubles, the hope remains that the divested pieces can function well enough for a buyer to acquire the diminished company and take it back to competition. Any organizational restructuring is basically a change initiative. Success depends on managing resistance to change by convincing the remaining workforce of the need for change and the possible benefits, an effective communication system to lend clarity to the change process, and effective leadership.

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