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STATEMENT OF THE PROBLEM
OBJECTIVES
HYPOTHESIS (ES)
RESEARCH METHODOLOGY
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FINDINGS
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CORPORATE RESTRUCTURING: A CONCEPTUAL FRAMEWORK

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ABSTRACT

Corporate restructuring has become a key solution to overcome all extensive problems lying in Indian corporate sector and an extensive reform taken in the year 1991, Liberalization, Privatization and Globalization (LPG) in Indian economy led Indian corporate to gain more competitive edge opening up with great global opportunities. It has signaled the need for an extensive restructuring of an Indian corporate sector. The author has put in efforts to make it easier to understand the concept of corporate restructuring.

KEYWORDS

Corporate, Restructuring, stakeholders.

INTRODUCTION

Change is inevitable. In fact it has become a necessity for any corporate house or business organization to keep on changing their business performance or activities as per the call of dynamic economic environment. There are various external factors which force these business houses to keep themselves updated. Such as increased competition, emergence of new markets, emergence of new competing products, new class of consumers, demographic changes, business cycles, surge of new and efficient technology.

Some of the organizations acts proactive to these challenges and adopt the environment but those who fail to do so, later on forced to adopt changes. The organizations acting wisely are market leaders and the late comers are losers. Survival has become a challenge in today's global economy.

In the era of liberalization and globalization, entities compete in unfamiliar markets. In addition, the protection provided by high tariffs and other trade barriers are no longer available, making it difficult for an entity to yield a steady output of goods, services and even profits year after year. Mangers have to continuously work to improve quality of goods and services, reduction in costs, and keep the output prices at competitive levels.

With liberalization and opening up of the Indian economy since the middle of 1991, Indian corporate sector felt the need to reposition itself quickly in order to response effectively to the emerging competition and also exploit the opportunities that were expected to unfold in the coming years. Repositioning has become a necessity for the Indian corporate sector as there were lot many inadequacies like lack of customer focus, diversified portfolio, unprofitable product lines, outdated technologies, uneconomic capacities, poor productivity, inefficiency on front of asset utilization, slow business processes, high gearing, huge overheads etc.

Corporate restructuring became a key solution to overcome all extensive problems lying in Indian corporate sector and an extensive reform taken in the year 1991, Liberalization, Privatization and Globalization (LPG) in Indian economy led Indian corporate to gain more competitive edge opening up with great global opportunities. It has signaled the need for an extensive restructuring of an Indian corporate sector.

CONCEPT OF CORPORATE RESTRUCTURING

The concept of restructuring focuses on change. The Oxford Dictionary (2007) defines restructuring as "giving a new structure, to rebuild/ rearrange". (**Rajinder Aurora, 2011)**[1]. It means any inbuilt valid changes done in the structure of the corporate entity. It can be related to its capital formation (capital structure), ownership pattern, or business capacity. Corporate restructuring is the process of redesigning one or more aspects of a company.

In simple words, restructuring mean reorganizing a company or company's structure so as to make it more efficient that leads to more profitability. The change in ownership pattern, business mix, and change in control pattern are some of the symptoms of corporate restructuring. Corporate restructuring decisions are strategic decisions and also considered as capital budgeting decisions. The wave of corporate restructuring has started into India from 1994 as an effect of economic reforms taken place in the year 1991. The major restructuring in the history includes Ashok Leyland by Hinuduja's Shaw Wallace, Dunlop owned Falcon Tyres by Chabbaria Group, Ceat Tyres by Goenkas and Consolidated Coffee by Tata Tea, RIL and RPL merger, Tata Tea's leveraged buyout of Tetley and restructuring of Dabur India Ltd, Mahindra Satyam, ITC, GSK, Arvind Mills, Crompton Greaves, Voltas, Hindustan Unilever and many more.

The term corporate restructuring is a broad umbrella covering various aspects of changes taking place in an organization.

Corporate restructuring results into major changes like size of business, ownership of business, control or management of the business It is the process of redesigning one or more features of a business firm. Corporate restructuring is a crucial strategy implemented to remain relevant in the business world.

Crum and Goldberg (1998)[2] define restructuring as a set of discrete decisive measures taken in order to increase the competitiveness of the enterprise and thereby to enhance its value or performance.

Gibbs (2007)[3] defined restructuring as a change in the operational structure, investment structure, financing structure and governance structure of a company.

Sterman (2002)[4] referred it as diverse activities such as divestiture of underperforming business, spin-offs, acquisitions, stock repurchases and debt swaps, which are all a onetime transaction, but also structural changes introduced in day to day management of the business.

Chandra (2007)[5] defines corporate restructuring to a broad array of activities that expand or contract a firm's operations or substantially modify its financial structure or bring about a significant change in its organizational structure or internal financing.

Bowman and Singh (1999)[6] classified restructuring activities into three categories namely portfolio restructuring, financial restructuring and organizational restructuring.

[1] Rajinder Aurora, K. S. (2011). *Mergers and Acquisitions.* India: Oxford University Press.
[2] R.Vadapalli. Mergers and Acquisitions. 2010.
[3] Bhaggban Das, Debdas Raskhit, Sathya Swaroop Debasish. Corporate Restructuring. Himalaya Publishing House, 2009.
[4] R.Vadapalli. Mergers and Acquisitions. 2010.
[5] R.Vadapalli. Mergers and Acquisitions. 2010.

- **Portfolio restructuring:** It entails significant changes in the asset mix of a firm or the lines of business which a firm operates, including liquidation, divestiture, asset sales and spin-of financial restructuring: it includes changes in the capital structure of a firm, including leverage buyouts, leveraged recapitalization and debt equity swaps. A common way for financial restructuring increases equity through issuing new shares.
- **Organizational restructuring:** It involves significant changes in the organizational structure of the firm, including redrawing of divisional boundaries, flattening of hierarchic levels, spreading of the span of control, reducing product diversification revising compensation, reforming corporate governance and downsizing employment.

So, Corporate Restructuring can be defined as any change in the business capacity or portfolio that is carried out by an inorganic route or a change in the capital structure of a company that is not a part of its ordinary course of business or any change in the ownership of or control over the management of the company or a combination thereof.

TYPES OF CORPORATE RESTRUCTURING

Restructuring is a strategic process that provides companies with the much needed launching pad to improve their performance and profitability. However, the objectives to improve performance do not always ensure success. While results have been mixed, companies have often found new directions and drive to perform. Restructuring can be carried out in any one the following lines.

- **Financial restructuring:** Financial restructuring involves changes in the capital structure and capital mix of the company to minimize its cost of capital. It deals with blend of financial resources to facilitate mergers, acquisitions, joint ventures, strategic alliances, LBOs, and stock buyback. It is to be noted that all these initiatives depend on availability of free cash flows, takeover threats faced by the company, and concentration of equity ownership. Indian steel companies namely SAIL, Jindal Vijaynagar Steel Limited, Jinadal Iron and Steel Limited Essar Steel Limited and Ispat Industries have undergone financial restructuring to rescue from the problem of heavy debt obligations.
- **Portfolio restructuring:** Portfolio restructuring involves divesting or acquiring a line of business perceived non essentials to the long term business strategy of the company. It represents the company's attempt to respond to the market needs without losing sight of its core competencies.

TATA GROUP PORTFOLIO: BUSINESSES IN AND OUT[7]

The group has aligned its businesses into seven core sectors namely: Engineering, Materials, Energy, Chemicals, Services, Consumer Products, and Information System & Communication. The table below shows the diversification pattern followed by the group, the business they exited and the new sectors they entered.

TABLE 1

Year	Industry Entered	Industry Exit
1874	Textile	
1902	Hospitality	
1907	Steel	
1910	Power	
1912	Cement	
1917	Soaps & Cooking Oils	
1931	Paper & Publishing	
1932	Aviation	
1939	Chemicals	
1940	Consumer Electronics	
1945	Locomotives & Commercial Vehicles	
1952	Cosmetics	
1953		Aviation
1954	Air-conditioning	
1958	Pharmaceuticals	
1962	Tea & Coffee	
1968	Software & Information Technology	
1970		Locomotives
1984	Watches	
1984	Financial Services	
1994	Auto Components	Soaps & Cooking Oils
1996	Telecom	
1998	Passengers Cars	Cosmetics
1998		Pharmaceuticals
1999	Retail	Bearings
2000		Cement
2001	Insurance	Oil Drilling & Textiles
2002		Paints
2006	Biotech & Drug R&D	

- **Organizational restructuring:** Organizational restructuring is a strategy designed to increase efficiency and effectiveness of personnel through significant changes in the organizational structure. It is a response to changes in the business and related environments. Such restructuring takes the form of divestiture and acquisitions.

[8]Hindustan Lever Limited (HLL), the largest FMCG (Fast Moving Consumer Goods) company in India, was struggling to increase its business by the late 1990s. To kick-start growth, HLL trimmed its brand portfolio of 110 brands to 30, initiated new business ventures and relaunched all its brands. But being caught up in price wars with its arch rival Procter & Gamble negated the gains it achieved. In March 2004, HLL announced a major top management reshuffle and reorganised its business portfolio under two divisions. The company officials maintained that the strategy was to provide a sharper focus on key brands and categories and to simplify the organisational structure.

FORMS OF CORPORATE RESTRUCTURING

Corporate restructuring involves changes in ownership structure or business mix or asset mix with a view to enhancing the shareholders wealth. Mergers and Acquisitions are often viewed as corporate restructuring decisions as they affect the ownership pattern.

- **Merger:** Merger is defined as a combination of two or more companies. Here two or more companies' combines into one company or one company purchases another company for cash and integrates the purchased company with itself. The former one survives and other loses their existence. The term merger refers to fusion between two or more enterprises, which results in the emergence of a single enterprise. Such a fusion involves the transfer of

[6] Bhaggban Das, Debdas Raskhit, Sathya Swaroop Debasish. Corporate Restructuring. Himalaya Publishing House, 2009.
[7] (Joshi, 2006)
[8] (Hindustan Lever Limited: The Organisational Restructuring, 2006)

assets and liabilities of the merging companies to the merged company. The shareholders of the merging company become the shareholders in the merged company. For example, absorption of Tata Fertilisers Ltd (TFL) by Tata Chemicals Ltd. (TCL). TCL, an acquiring company (a buyer), survived after merger while TFL, an acquired company (a seller), ceased to exist. TFL transferred its assets, liabilities and shares to TCL. The other 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. The merger of Air Deccan by Kingfisher Airlines and Samruddhi's merger with UltraTech are some of the evidences of mergers.

- **Consolidation:** Consolidation involves creation of an altogether new company owning assets, liabilities of two or more companies, both of which ceases to exist. For example. A Limited and B Limited will cease to exist and C Limited will carry on the businesses of both A Limited and B Limited. Mixing up of two companies to make them into a new one in which both the existing companies lose their identity and ease to exist is called consolidation. For example, Companies of Germany namely Audi, DKW, Horch and Wanderes consolidated to form a new company Audi AG and then Hindustan Computers Ltd., Hindustan Instrument Ltd., Indian Software Company Ltd., Indian Reprographics Ltd. Into HCL Ltd.
- **Acquisition:** Acquisition results when one company purchase the controlling interest in the share capital of another existing company. In acquisition both the companies may continue to exist. It is also known as takeover. It is the buying of one company by another company. An acquisition may be friendly or hostile. In case of friendly acquisition, the companies engaged in the deal co-operate each other for negotiation. And when acquisition becomes hostile it is known as takeover because there can be unwillingness of target company to be bought by another company. For example, Tata Steel acquired 100% stake in Corus Group on January 30, 2007. It was an all cash deal which cumulatively amounted to $12.2 billion. And Tata Motors acquired Jaguar and Land Rover brands from Ford Motor in March 2008. The deal amounted to $2.3 billion.
- **Joint Venture:** Joint ventures are new enterprises formed by coming together of two or more participants, typically formed for special purposes for a limited duration. It is a combination of subsets of assets contributed by two or more business entities. Each of the partners in the venture continues functioning as a separate firm, and the joint venture represents a new business project. It can also be called a contract among participants who not only agree to work together and expect to gain from the venture, but also agree to make a contribution.

Levins defines a joint venture as a new firm formed to achieve specific objectives of a partnership like temporary arrangement between two or more firms. JV is advantageous as a risk reducing mechanism in new market penetration and in pooling of resource for large projects. They however, present unique problems in equity ownership, operational control, and distribution of profits. Research indicates that two out of five JV arrangements last less four years, and are dissolved in acrimony. **(R.Vadapalli)** [9]For example: GM -Toyota JV. General Motors hoped to learn from the new experience of management techniques of the Japanese in building high quality, low cost compact and subcompact cars. Toyota was seeking to learn the management traditions that had made GM the numero uno in the production of auto in the world. Moreover, they wanted to learn operating an auto company in the US, dealing with contractors, suppliers and workers.

- **Sell off:** Sell off means selling a part of or the whole of the firm through a sale, liquidation or spin off. For example: Coromandel Fertilizers sold its cement division to India Cements.
- **Spin off:** In a spin off also a new legal entity is created, but shares are issued to the existing stockholders on a pro rata basis. This means that the stockholder base in the new company is the same as that of the old company. Though the stockholders are the same the spun off firm has its own management team and its activities are carried out as a separate company. This form of restructuring creates a new publicly traded company that is separate from the former parent company. The Information Technology Division of WIPRO Limited was spun off as a separate company in the late 1980s. **Split up:** A split up is defined as the separation of a company into two or more parts. This term is applied to a restructuring where the firm is not merely divesting a piece of the firm but is strategically breaking up the entire corporate body. Here the firm is broken up into a number of spin offs after which the parent company does not exist any longer, and only the newly formed companies exist. The shareholders in the companies may not be the same as the shareholders trade their shares in the parent company with shares in one or more of the units that are spun off. In a split up a company is split up into two or more independent companies. For example, the Ahmedabad advance Mills was split up into two separate companies, the New Ahmedabad Advance Mills and the Tata Metal Strips.
- **Divestiture:** Divestiture means sale of assets, but not in a piecemeal manner. Here in this type of restructuring, a company sells all or substantially all the assets of any one or more of its undertakings or divisions or of the company as a whole. So a transaction through which a firm sells a portion of its assets, all assets, a product line a subsidiary or a division to another company for cash or securities is called divestiture. Divestiture is a form of contraction. Mergers, asset purchase and takeovers lead to expansion and are based on the principle of synergy which says 2+2 = 5. Divestiture on the other hand is based on the principle of reverse synergy which says 5-3=3. Divestiture are simple exit routes and do not result in the creation of a new entity. A common motive for divestiture is to raise capital. CEAT for example sold its nylon tyre cord plant at Gwalior to SRF for Rs 3250 million so that it could settle its payments and raise funds to concentrate on tyre manufacturing.
- **Equity carves out:** Equity carves out involves the sale of equity interest in a subsidiary. It is not necessary to have the same shareholder base in case of newly created company. The shareholder base may be different from the parent company. The divested company will have a different management team and will be considered as a separate firm. This mode of restructuring creates a new publicly traded company with partial or complete autonomy from the parent firm. When a parent company exercises an equity carve out it may sell a 100% interest in the subsidiary, or it may choose to remain in the subsidiary's line of business by selling only a partial interest and keeping the remaining percentage of ownership. For eg. Lalbhai Group – Arvind Mills, Arvind Products Ltd., Anup Engineering and General Motors carved out Delphi Automotive
- **Leveraged Buyouts (LBO):** The most significant and the major use of debt or loan capital to acquire a company is known as "leveraged". And the term 'buy outs' signifies the gain of control of a majority of equity stake the target company. According to Miller, the leveraged buyout is "a financing technique of purchasing a private company with the help of borrowed or debt capital."

(Bhaggban Das)[10] In 2000, Tata Tea acquired the world's second largest tea brand Tetley at a price of £271 million, out of which £235 million raised in the form of borrowed capital. For such acquisition, Tata Tea has created a special purpose vehicle- Tata Tea(Great Britain) which is the 100% subsidiary of Tata Tea, in order to acquire the assets of the target company Tetley. Here, Tata Tea Ltd. Created the SPV with an aim to ensure that the balance sheet of Tata Tea does not affected by the additional funding costs, while the company can enjoy the benefits of such acquisition.

- **Management Buyout (MBO):** In a management buyout, the managers and or directors purchase all or part of the business from its owners. The management team will take substantial controlling interest from the existing owners who have control over the affairs of the company. The management team may consist of one or more directors, one or more employees either with or without external associates. It is a method of setting up of business by the management team itself. The cases of management buyout occur when the existing owners unable to run the company successfully and when the very existence of the company is at stake. It is a divestment technique to sell the business which does not fit in with the new strategic plan of the group. The management has an advantage of knowing the strengths and weaknesses of the business they are proposing to purchase from the owners and so that they can make a better negotiation. The insider information available with the managers will lead them to acquire substantial stake.
- **Employee Stock Ownership Plans (ESOP):** An Employee Stock Ownership Plan allows companies to share ownership with employees without requiring the employees to invest their own money. It is an extraordinary benefit to companies and their shareholders and employees. ESOPs provide a market for the shares of closely held businesses; motivate greater employee's productivity; and provide tax advantages in the financing of acquisitions, capital improvements, charitable giving and stock purchases from retiring owners. There are many companies into India like Arvind Mills, ONGC, HDFC Bank etc.

Here the author has made efforts to conceptualize the corporate restructuring. It's a theoretical attempt to understand the concept even better. The scope is to take individual aspect of corporate restructuring for detailed study with corporate houses in India.

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