Research Journal of Management Sciences E-ISSN 2319–1171
Vol. **5(5),** 1-3 May **(2016)** *Res. J. Management Sci.*

Emerging Trends in Corporate Restrucuturing

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Available online at: www.isca.in, www.isca.me
Received 24th February 2016, revised 29th March 2016, accepted 27th April 2016

Abstract

Corporate Restructuring is becoming a major component in all the industries. It is the process of redesigning, re-organizing the organization to survive in the adverse conditions of business and it also provides a good positioning in the competitive market. Many organizations carryout corporate restructuring as per their need and requirement to survive in the competitive world. Today, restructuring is done by various emerging trends like mergers, amalgamations, demergers, take overs, slump sale etc. The paper helps to understand the various implications and recent trends of corporate restructuring. The paper is mainly based on secondary data.

Keywords: Restructuring, merger, amalgamation, slump sale, demerger, acquisition, franchising, joint venture.

Introduction

Corporate Restructuring is an expression that deals with a restructuring process undertaken by the business enterprises for the purpose of bringing about a change for better position and gaining an competitive edge.

Restructuring as per Oxford dictionary means,"to give a new structure,to rebuild or rearrange".Corporate Restructuring thrus implies rearranging the business for increasing the efficiency and profitability of the business[1].The concept of Corporate Restructuring is quite wide and varied depending upon the requirements of the company.It is possible to restructure its business, technology, organisational transactions and finance in different forms.Restructuring is a method of changing organisational structure in order to acheive the organisational objectives and focusing on goals to achive them.

Corporate Restructuring of the company can be done by implementing the different strategy plans like mergers, demergers, amalgamations; while others makes some structural changes and bring our resource optimization in the organization.By understanding the meaning of corporate restructuring, restructuring could be done by any business entity or unit or society or any form of an organization. It is not an essential criteria to be registered under companies Act 2013[2].

Literature review

Pramod Mantravadi, A. Vidyadhar Reddy[3]. This research study aims to study the impact of M and A on the operating performance of acquiring corporate in different periods in India, by examining some pre and post-merger financial ratios with chosen sample firms and mergers between 1991-2003. The result suggests that there are minor variations in terms of impact on operating performance following merger in different intervals of time in India.

John C. Dencker[4]. Has found that the theory shows a negative effect on the salary and due to differences in the bargaining power of managers and likely to experience a tradeoff than were low performing managers, and women were less likely to experience a tradeoff than were men.

Dr. Ramachandran Azhagaiah and T. Sathish Kumar[5]. Has enumerated that the study proves that Indian Manufacturing corporate firms involved in merger and Amalgamation (M and A) have achieved an increase in the liquidity position, operating performance, profitability and financial and operating risk.

Arvind Upadhyay[6.] Has focused that corporate governance and restructuring is the prime concern. He also described that corporate restructuring is a part of an ongoing organizations. There are different reasons for organizations to go for corporate restructuring depending upon the circumstances.

Methodology

Target Population: The population of this study will comprise of various companies which are facing adverse conditions in the market and wishes to diversify its business.

Sample Size: The sample size comprises of various companies which went through the process of corporate restructuring.

Data Collection: The data were collected by referring various secondary sources like company websites, publications, Journals, Reports, Articles, and News Papers Articles. The data relating to history, growth and development of Industries were collected from the books and magazine relating to the industry and also published papers, report, articles etc.

Objective: To study the theoretical concept and various strategies adopted for a successful corporate restructuring.

Types of Restructuring

Financial Restructuring: Financial restructuring is the organizing of a business assets and liabilities. Financial restructuring has been done for improving poor financial performance and facing external competition and to gain from emerging market opportunities[7].

Technological Restructuring: Technological restructuring means the stage of technological development. New and advanced technologies have been introduced to the organizations in order to improve the productivity and performance[8].

Organizational Restructuring: Organizational performance depends on the efficiency of their personnel. New skills and capabilities are required to meet organizational goals and objectives. Organizational restructuring increases the efficiency and effectiveness of the organization[9].

Strategies Adopted for Restructuring

The following below mentioned are the various strategies adopted for restructuring[10].

Mergers: A merger is an arrangement between two companies where the assets of the two companies' combined together and form a new company. The advantage of merger is quick and easy entry in the market with reduced competition and much faster growth[11].
Example: The merger of Lipton India and Brook Bond London makes it India's largest consumer goods company.

Acquisitions: In acquisition a company owns or buys most of the company's ownership shares in order to have a control over the target firm. It helps for the acquirer company to be benefited with the target firms operations and also helps in expansion plan[12].
Example: Tata Motors acquire Land Rover and Jaguar is one of the example of acquisition.

Amalgamations: In amalgamation the two or more companies combined or joint together to form a new business entity or firm. The companies are absorbed and blended together to form a new entity.
Example: Cinemax India Ltd. Amalgamated with PVR Ltd. by applying share swap scheme.

Takeovers: Takeover is a strategy on which one company either directly or indirectly acquires the control over the management of another company. This may be in the form of hostile or friendly.

Example: Tata Motors offered a deal of 2.3 billion dollar and acquired British Brands, land Rover and Jaguar.

Strategic Alliances: Strategic Alliances is an arrangement where which two or more companies associate or work together in order to achieve any specific commercial objective.
Example: ICICI Bank and Vodafone India entered into a strategic alliance to launch a unique mobile transfer and payment service called 'm-pesa'.

Demergers: Demerger is the separation of large company into smaller units and results in a resulting company.
Example: The Demerger of Pantaloons Retail into Future Fashion.

Slump Sale: In slump sale, the company sells or disposes the some or whole of the undertaking for a pre-determinedlump sum consideration[13].
Example: X ltd. is having 8 units and wants to sell one of them for Rs.50 lakhs and it does not provide any separate valuation of assets. The concept behind it is pay Rs.50 lakhs and buy it.

Joint Venture: In Joint Venture two or more firms comes together to form a new venture jointly in order to achieve some predetermine business goals and objectives. Skills and Technology flows from both ways. **Example**: Wal- Mart acquires Bharti's stake in Best Price Modern Whole Sale a Joint Venture to run cash and carry operations serving business across India.

Franchising: The main aim of franchising is to serve its end users. In franchising the goods and services of highly reputed and branded firms are distributed and makes it available to their end users. In franchising the chances of business success is increased as we are associated with branded, proven and marketable products and process.

Example: Mc Donald's, KFC, Pizza hut, Nestle etc.

Tips for Effective restructuring

i. The following below mentioned are the characteristics of effective restructuring[14]. ii. Focus on: i. -Strategic plan, ii. -analysis of the companies present position. iii. Be Practical: -Each measure must be based on a realistic objective. iv. Interaction with all the stakeholders and appointing a Chief Restructuring Officer. v. Creating feasible roles and don't overload the work with only few staff. vi. All the tasks related to restructuring should be allocated to the employees considering their skills and capabilities to handle the same in an efficient manner. Maintaining proper flexibility not only with staff members but also with staff capability. vii. Maintain effective communication and transparency with employees.

Reasons for Failure of Corporate Restrucuturing

i. If restructuring fails it is not because of the strategy but because of its poor implementation. ii. Thecommon factors are given in table-1. iii. Due to not acting early when issues are identified. iv. Due to non-allocating appropriate skills or resources. v. The specialist assistance is not taken.

People:	Poor leadership
	Culture Mismatch
	Resistance to change
Systems:	Complex
	Inadequate
	Incompatible
Finance:	Hidden costs are not considered
	Cost blowouts

Limitations: i. The study is done on the basis of secondary data. ii. There is enough space to identify more strategies which has been adopted by the companies globally.

Conclusion

The overall study has indicated that the proper implementation of the restructuring strategies will lead to significant change in profitability and also in reviving their position again. Restructuring can be adopted and implemented by any company faces problem but in a systematic manner. The study also reveals the fact that corporate restructuring leads to higher level of efficiency in company's performance.

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