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Corporate Restructuring: Reconfiguration of a Corporation

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Since 1991, the Indian business climate has changed dramatically, and corporate India has faced unprecedented challenges and strong competition as a result of deregulation and decontrol of economic policy. To adapt to the changing climate, Indian corporations began revamping their operations. Corporate restructuring is an area of prominent interest among corporate strategy, finance, and organizational studies experts. Restructuring is the newest term in business circles in the context of economic liberalisation and globalisation. Companies compete for excellence and competitive advantage by experimenting with new tools and concepts. The way businesses are done is fundamentally altering due to the changing national and worldwide environment. Furthermore, given the rapid speed of change, corporate restructuring is critical and adds value to the firm. Corporate restructuring has no longer be one of the main factors that play a critical part in a company's ability to stay up with the environment. A corporate restructuring strategy revolves around Mergers, Demergers, Reverse Mergers, Disinvestment, Take Overs, Acquisitions, Strategic Alliances, and so on. When doing Corporate Restructuring, a company must comply with several statutes such as The Companies Act, Income Tax Act, The Indian Stamp Act, The Competition Act, and so on, and it also requires approvals from various authorities such as NCLT, SEBI, and the Ministry of Corporate Affairs. In this research paper, we briefly review prior research on corporate restructuring and explain the process of corporate restructuring, historical aspect, need & scope, motive, benefits, strategies, and implications with examples.

Keywords: *corporate restructuring, merger, companies, strategies*

BACKGROUND

Discern corporate restructuring: through a broad lens – embracing the opportunities

Traditionally corporations or firms have attempted to find relevant solutions in these intense, uncertain, highly competitive markets and unpredictable environment changes or settings in the economy, and have pursued corporate restructuring and M&A as a tool for balancing corporation repositioning. While in the thought of this traditional industries view M&A and restructuring as a tool for survival and growth in slow growth, in the era of the highly competitive environment, M&A and restructuring has been pursued with equal zeal in the vibrant technology industries as a means of accessing the latest and emerging technologies and straddling significant and essential elements of the value chain. And M&A has become nearly unavoidable as corporations endeavor for global scale and breadth.

INTRODUCTION

Restructuring is commonly used to lift up or help the struggling business corporation or firms, but a limitation on the lens overlooks a wider chance for enhancing the corporate performance. A holistic restructuring approach or strategy employs levers and tools that have shown to be useful and effective in the spectrum of situations and circumstances in assisting the corporations to achieve increased profitability and to the edge of competitive advantage. A disrupted company may nevertheless wish to renew, reconsider, or redesign itself. If a corporation finds itself at a competitive disadvantage, it may reset, rebalance, or restructure its operational model or capital structure. A seriously troubled firm may need to reconnect, recreate, or restore its strategy or structure.

- When a corporation wants to grow or survive in a competitive space of business, it needs to restructure itself and focuses on its core operations and competitive advantage.
- Huge business sharks and corporations can achieve or gain economies of scale due to which they can raise funds at a low cost.
- Corporate restructuring help in the reduction of costs and focuses on efficacy and improvement in profitability.

- Every corporation restructuring initiative seeks to eliminate disadvantages while combining benefits. It intends to reap synergistic benefits from a well-planned restructuring approach or strategy.

Before restructuring, there must be an existing structure that may have numerous limitations/restrictions such as financial, legal, business, and management that must be considered. In other terms, restructuring may be defined as making certain changes to the present structure. Hence, corporate restructuring is a comprehensive approach by a corporation, and companies can consolidate their operations and strive to strengthen their space for the accomplishment of short-term and long-term objectives. Corporate restructuring is crucial for the survival of the corporation in this highly unpredictable and competitive environment.

MEANING - M&A [MERGERS AND ACQUISITIONS]

Mergers and acquisitions (M&A) are a key component of external business expansion, as well as a corporate restructuring and control plan. Internal growth decisions, such as those based on investment assessment procedures, are not the same thing. M&A may help organizations develop quickly and are also a tool for capital market discipline, which enhances management efficiency and maximizes private profits while also benefiting the public good. In today's world, small businesses find it challenging to survive and expand, which is dominated by conglomerates and other major corporations. As a result, small firms frequently choose to merge with larger corporations in order to benefit from the resources of a larger corporation. Mergers are one of the most effective methods for a company to compete against other companies in the same sector. Merging with other corporations is frequently a capital budgeting choice, but there are additional considerations[1].

Acquisition, on the other hand, is a distinct phenomenon from a merger. Acquisition occurs when one company or firm gains complete control of another company or firm in all aspects of its operations. The parent company is the corporation that acquires the other, and the acquired

[1] A.P. Dash, *Merger And Acquisitions* (Dream Tech Publications 2010) 10

firm is entirely submerged under the parent company, with the parent company managing all of the acquired company's affairs.

Mergers and acquisitions are increasingly being acknowledged as key tools of business strategy by Indian enterprises as instruments of significant growth. They are frequently employed in a variety of areas, including information technology, telecommunications, and business process outsourcing, as well as conventional companies, to acquire strength, grow client base, decrease competition, or enter a new market or product segment. Mergers and acquisitions can be used to obtain entry to a market through an established brand, gain market share, decrease competition, minimise tax obligations, acquire expertise, or write off one entity's cumulative losses against the earnings of another.

The majority of the time, Corporate Restructuring occurs when a corporate organization is experiencing financial difficulties. The process of Corporate Restructuring is regarded as vital in order to eliminate the whole financial crisis and to improve the company's performance. Such changes in organizational structure occur as a result of a takeover, merger, unfavorable financial conditions, or unexpected changes in business, such as buyouts, insolvency, overutilization of labour, and so on.

HISTORICAL ASPECT

In the past, India's economy was highly controlled. Despite the fact that government participation was dominant, the economy was consolidated and controlled through government action and participation. To put it another way, the economy was closed because economic factors like demand and supply were not permitted to fully dominate the market. There were no realignments allowed, and everything was under control. Due to restrictive government policies and a stiff regulatory framework, the scope and manner of Corporate Restructuring were severely constrained in such a context. These limitations were essentially in vogue for nearly two decades. These, on the other hand, were incompatible with the economic system's ability to keep up with global economic trends if the goal of quicker economic growth was to be met. The Government is in needs to review its whole policy framework or skeleton and under the economic liberalization measures removed the restrictions mentioned above by excluding the relevant sections and provisions.

The true opening up of the economy began with the Industrial Policy of 1991, which stressed 'continuity with change' and focused on relaxations in industrial licensing, foreign investments, and technology transfer, among other things. The Indian business sector began restructuring to address the possibilities and difficulties of competitiveness as a result of economic liberalization, globalization, and the opening up of economies. Economic and liberalization reforms have radically altered the global business landscape. The integration of the national economy with the "market-oriented international economy" has been the most significant development. The World Trade Organization (WTO) and the multilateral trade agenda have facilitated the free flow of technology, capital, and knowledge throughout the world. A global restructuring wave is sweeping the corporate sector, encompassing both large and small firms, old economy corporations, conglomerates, and new economy companies, as well as the infrastructure and service sectors. Companies are coming together like never before, from banking to oil exploration, telecommunications to power generation, and petrochemicals to aviation. Not only have new businesses such as e-commerce and biotechnology exploded, but traditional ones have been altered as well.

With rising competition and an economy on the verge of globalization, corporate restructuring is projected to take place on a far wider scale than it has in the past. Corporate restructuring helps businesses achieve economies of scale, global competitiveness, the correct size, and a variety of other benefits, such as lower operational and administrative costs.

NEED & SCOPE

The goal of the Corporate Restructuring process is to increase economies of scale and efficiency. Companies' capacity to pool all of their resources for optimal utilisation to generate value is critical to their survival and growth in a competitive environment. For example, a new major corporation can be formed by merging small businesses that can benefit from economies of scale. Furthermore, the improved company status allows it to use it to its advantage by gaining access to low-cost financing markets on a national or worldwide scale. The fact that finances are available at a cheaper cost makes the firm more comfortable and competitive.

The strategy used will be determined by the purpose or corporate goals, and hence different strategies will be used by different firms. The corporate restructuring aims at different things for different organizations at different periods, with the only common goal in every restructuring operation being to eliminate disadvantages and combine benefits. The variety of needs to exercise corporate restructuring is as follows:

- Emphasis on core competencies, operational synergy, cost reduction, and efficient management capability allocation.
- Optimum utilization of the use of existing infrastructure and resources.
- Economies of scale are achieved by growth to take advantage of both home and foreign markets.
- A sick unit's resuscitation and rehabilitation by reconciling the ill unit's losses with the earnings of a healthy firm.
- Obtaining a steady supply of raw materials as well as access to scientific research and technical advances.
- Capital restructuring uses a suitable mix of loan and equity funds to lower servicing costs and increase return on invested capital.
- Adopt the fundamental changes brought about by information technology to improve company performance and gain a competitive edge.

The scope of Corporate Restructuring includes increasing the economy's efficiency and profitability. In order to expand or survive in a competitive climate, a firm must reorganise itself and focus on its competitive edge. Companies' survival and success in this climate are dependent on their capacity to pool all of their resources and put them to best use. A larger firm formed through the merging of smaller ones might benefit from economies of scale. The larger the size, the greater the business prestige. The status enables it to use the same to its advantage, allowing it to raise greater sums at reduced expenses. Profits are generated when the cost of capital is reduced. The availability of capital enables the firm to expand at all levels and so become more competitive.[2]

The worldwide size and scope of M&A are massive — yearly global M&A statements suggesting strategic intent are worth several trillion dollars, which is more than the GDPs of all but a few nations. Even during the present Covid-era, various Indian corporations have undertaken acquisition movements, including **WIPRO (Capco, Ampion)**, **First Source (Patient Matters)**, **Tata Sons (Big Basket)**, and **Piramal Group (DHFL)**, and others. While organizations throughout the world seek expansion via M&A, they also seek contraction through divestment and de-merger (spin-off) as they continually strive to realign and rebalance their company portfolios and refocus their energy and resources. We believe that after the globe has emerged from the turbulent Covid period, There would be unprecedented levels of corporate reorganization by the weakened businesses, as well as opportunistic acquisitions by the stronger players that have weathered the storm and positioned themselves for the economic recovery.

MOTIVE BEHIND CORPORATE RESTRUCTURING

Companies in bankruptcy may be required to restructure in order to pay creditors and establish their potential to make a profit by the courts. Some businesses restructure in order to avoid insolvency or significant losses. When a huge corporation takes out another, it must restructure to accommodate the extra assets and staff. Some businesses have a culture of constant innovation. Humana is one corporation that encourages corporate executives to continuously explore new ways to do business, according to Stuart Gilson, author of "Creating Value through Corporate Restructuring."

[2] 'Corporate Restructuring – Types & Importance' (*Taxmann*, 24 September 2021) <https://www.taxmann.com/post/blog/corporate-restructuring-types-and-importance/#:~:text=Corporate%20Restructuring%20aims%20at%20improving,its%20contribution%20to%20corporate%20objectives.&text=(4)%20Economies%20of%20scale%20%E2%80%93,reduction%20in%20cost%20per%20unit.> accessed 22 May 2022

CONSIDERATIONS

One aspect of a successful restructuring is persuading investors of the restructuring's wisdom and persuading them that this is a beneficial move for the firm. Investors must believe not just in the restructuring strategy, but also in the capacity of the management to carry it out. If investors believe the firm is viable and growing following the reorganization, share prices will climb.[3]

BENEFITS

Inorganic growth strategies include mergers, amalgamations, and acquisitions. The purpose of such corporate restructuring techniques is to establish synergy. Because of this synergy effect, the merged firms' worth is larger than the sum of their parts. Synergy can be defined as a rise in income or a reduction in costs. Corporate restructuring strives to improve a company's competitive position while also optimizing its contribution to corporate goals.

Therefore in implementing corporate restructuring hope to witness some benefits arise:

1. **Grow in Market Share** - A merger allows the merging firm to increase its market share. This increase in market share is achieved by supplying extra goods and services as requested by customers. Horizontal mergers are essential for expanding market share. (For example, Idea, and Vodafone)
2. **Reduced Competition** - A horizontal merger reduces competition. One of the most prevalent and compelling motivations for mergers and acquisitions is competition. (Hewlett-Packard and Compaq)
3. **Large size** - Businesses utilize mergers and acquisitions to increase their size and become a dominant force in comparison to their competitors. In general, organic growth takes years to acquire a huge scale. However, mergers and acquisitions (i.e. inorganic expansion) may do this in a matter of months. Sun Pharmaceuticals and Ranbaxy Pharmaceuticals are two examples.

[3] Cynthia Myers, 'What Are the Motives Behind Corporate Restructuring?' (*CHRON- Newsletters*) <https://smallbusiness.chron.com/motives-behind-corporate-restructuring-34081.html> accessed 22 May 2022

4. **Economies of scale** - Mergers increase economies of scale, resulting in a lower cost per unit. An increase in a product's overall output lowers the fixed cost per unit.
5. **Tax advantages** - Companies employ mergers and amalgamations for tax considerations as well. Particularly when a profit-making and a loss-making enterprise merge. The set-off and carry-forward provision of the Income-tax Act of 1961[4] provides a significant income tax benefit.
6. **Innovative and new Technology** - Businesses must concentrate on technical advancements and their commercial applications. Acquisition of smaller firms allows organizations to gain ownership of unique technology and gain a competitive advantage. (For example, Dell and EMC)
7. **Strong brand** – Because creating a brand is a time-consuming process, businesses prefer to purchase an established brand and leverage on it to gain large profits. (For example, Tata Motors, and Jaguar)
8. **Diversification** - Combining with organizations in unrelated business areas results in diversification. It helps the smoothing of business cycles' effects on the firm as a result of the organization's diversity of operations, hence lowering risk. (For example, Reliance Industries, and Network TV18.)

Notable Mergers/Demergers/Acquisitions like-Myntra acquires Jabong, RIL acquires NetworkTV18, Sun Pharma absorbing Ranbaxy, Wipro demerger, etc.

Corporate restructuring techniques vary depending on the nature of the firm, the sort of diversity necessary, and the ultimate result is profit maximization through effective resource merging, exploitation of idle resources, effective competition management, and so on. Planning the sort of restructuring necessitates a thorough business analysis, predicted business demand, available resources, utilized/idle percentage of resources, competition analysis, environmental effect, and so on. The bottom line is that the proper restructuring plan maximizes synergy across the entities participating in the restructuring process. It entails examining many issues both before and after the restructuring process.

[4] Income Tax Act 1961, s 72

Instances where benefits arise out of Corporate Restructuring:

1. L&T Ltd. demerged off its cement operations to become Ultratech Cement Co. Ltd. The resulting firm was then transferred to Grasim Industries (Aditya Birla Group). Following the transaction, L&T profited from the realized value of its cement division and was able to focus on core industries such as engineering and construction. Grasim Ind. profited from economies of scale, greater capacity, overall competitiveness, multifunctional synergies, and a pool of integrated resources.
2. Tata Steel Ltd. purchased abroad Corus Group Plc., which significantly increased Tata Steel Ltd.'s production synergies. Tata Steel Ltd. will be able to combine its low-cost manufacturing with the excellent quality of Corus as a result of the purchase. It resulted in the use of a large retail and distribution network, technological transfer, and improved R&D skills.
3. Bharti Airtel Ltd. used a leveraged buyout approach to purchase Zain Telecom (Africa division). The acquisition of Zain Africa International BV was financed mostly using borrowed monies. Bharati Airtel established a Special Purpose Vehicle (SPV) and arranged the transaction through the SPV. As a result, Bharati Airtel's Balance Sheet remained unaffected. Bharti Airtel, on the other hand, accepts complete responsibility as a guarantor for special purpose vehicles.

DIFFERENT STRATEGIES

Companies are facing a time of prodigious change, in opening up to the opportunity to refresh corporate restructuring strategies. As consumer behaviours, regulatory factors, and the unblemished business environment evolve throughout post pandemic scenarios, companies need to adopt various strategies.

Nowadays, the concept has been adopted rigorously like mob mentality with some recent mergers. The process of restructuring is erupting through mergers and amalgamations have been a common practice in the developed and free economy nations like the USA and other European countries where loads and loads of mergers take place every year. There are various strategies through which restructuring of corporate entities can be processed such as amalgamation, Mergers, demergers, reverse mergers, takeovers, joint ventures, disinvestments, buyback of shares, and some more.

- ***By Amalgamation*:**

It is the process of combining or uniting multiple entities under one head. The term amalgamation is not defined under the Companies Act, 1956. Amalgamation is a legal process by which two or more businesses merge to form a new entity, or one or more businesses are absorbed or blended into another. As a result, the amalgamating company ceases to exist, and the shareholders of the new or amalgamated company become shareholders of the amalgamated company.

- ***By Merger*:**

A merger occurs when the assets of two or more companies are vested in or under the control of one firm, which may or may not be one of the original two companies and has all or practically all the shareholders of the two companies as stockholders.

- ***By Demergers*:**

The act of separating a portion of an existing corporation into a new firm that functions totally independently of the original. The former company's stockholders are normally awarded an equal portion of the new company's ownership. A demerger is frequently used to improve the efficiency of each of the segments by allowing them to focus on a more focused purpose.

- ***By Reverse Merger*:**

When a private firm buys control of a public company and subsequently mergers with another private company, this is known as a reverse merger. In a reverse merger, the private firm shareholders receive the majority of the public company's shares as well as board control. A reverse merger is a fast approach to going public, with a time frame of only a few weeks. The public business has completed all of the essential administrative work and reviews in order to become public, which is why the reverse merger is so swift.

- ***Takeovers*:**

It is the purchase of one company by another. In contrast to the acquisition of a private firm, this word refers to the acquisition of a public corporation whose shares are traded on a stock exchange.

- ***Joint Ventures*:**

In India, a corporation is formed by two participants (individuals or businesses). One party's business is transferred to the corporation, and in exchange for this transfer, the corporation issues and subscribes to shares. The shares are purchased in cash by the opposite party. The parties invest in the joint venture company's shares in an agreed-upon proportion in cash and create a new firm.

- ***By Disinvestment*:**

It means to sell off certain assets, such as a manufacturing plant, a division or subsidiary, or a product line.

- ***By Buyback*:**

A company's repurchase of outstanding shares to reduce the number of shares on the market. Companies will buy back shares to either raise the value of the shares that are still available or to eliminate any risks from shareholders seeking control. In other terms, buyback is the reversal of a business's stock issue, in which the firm offers to buy back its own shares from investors at a certain price. This offer might be binding or optional to the investors.

IMPLICATIONS OF RESTRUCTURING

As your company grows, you may need to add departments, bring outsourced functions in house, downsize, or restructure your organization in some other way. While organizational restructuring is intended to improve a company's efficiency, it can also have unintended repercussions. Consider all the good and negative consequences of any big modifications to your business structure before proceeding.

MORE CONTROL

Creating departments to handle previously outsourced duties is one technique to restructure a company. Hire a full-time bookkeeper, information technology specialist, human resources manager, and marketing director. For example, employees, unlike contractors, are at your beck and call and report to you directly, providing you more control over their work.

CULTURAL CHANGES

Top employees have more autonomy and control when a company has a flat organizational structure with only a few reporting directly to the owner. Former senior staff employees become one step removed from the boss when you restructure by adding departments, frequently reporting to a chief operating officer or chief financial officer. Former allies begin to designate their territories to defend their budgets and positions in the firm hierarchy when a department like marketing separates into advertising, sales, promotions, and public relations. Those who remain may band together in groups they believe offer the best opportunity for survival and job security if the reorganization includes a downsize or consolidation of departments.

IMPROVED EFFICIENCY

When many firms start off, a small group of workers generally share the heavy workload that comes with establishing a business. As employees multitask and make decisions about what tasks to put on the back burner, this might result in certain sections of your organization being underserved. Employee job descriptions are strengthened as a result of restructuring, specialists are assigned to each area, and there is more accountability and attention to specific duties. Moving human resources out of accounting and creating two separate departments is a classic example of an organizational restructure that improves efficiency.

INCREASED ADMINISTRATION WORK

After restructuring, you may find that you have got some additional administrative work especially if you hire more personnel. You must manage new hires in addition to recruiting and training them, spending time on department setting goals, budget preparation, and weekly meetings. For example, before you can start working on a business budget, you will need your managers to submit the budget to each of their departments, which you will need to approve before you can start working on the master budget.

COST IMPLICATIONS

Depending on the type of restructuring, an organizational restructure might increase or cut costs. If you bring contracted work in-house, for example, you may initially incur higher costs when you hire additional staff, but you will save money in the long run by exorbitant contractor fees. Your overhead costs will rise as you add more personnel to the department. If you hire additional sales and marketing people, their efforts should result in greater sales and revenue which will cover their expenditures. Adding additional finance or human resources personnel will not raise sales, but they will improve efficiency and minimise productivity declines.

EXAMPLES OF CORPORATE RESTRUCTURING

It's past time for Indian businesses to take a hard look in the mirror. Over the last 15-20 years they have faced tremendous success. They have moved forward from the foreign competition, established themselves abroad, and gained money in the process. India Inc now taking on a new lease on life, focusing on organizational reorganisation. Major changes are on, or are in the offing, in some of the biggest business houses of the country – Larsen & Toubro, Wipro, Infosys, Godrej, Birla, and Tata, among others. L&T, a leading engineering firm, has announced the formation of nine different divisions under the parent company that will operate separately. Wipro's IT service company will be split vertically into six key business units based on industry domains as part of a mid-level structure and management makeover.

Companies must consider the interests of their investors and shareholders. This is driving several businesses to examine their internal operations and make improvements. Demerger of a business making new companies enhances valuation tremendously. Most of them will eventually be listed, adding value, says CG Srividya, partner, at Global accounting firm Grant Thornton. The demerger of reliance Industries in 2005 is an excellent illustration of this. Mukesh and Anil ran separate firms and by March 2006, five listed companies had surfaced as prospective investment prospects for investors, with share prices posted differently on the Bombay stock exchange and the national stock exchange.RIL's stock was trading at roughly

978 per share prior to the demerger, but after the demerger, the aggregate share values of five firms were around 1,235 representing a gain of nearly 26% for each shareholder.

Another example we can take is Gitanjali Gems, case of Gitanjali Gems is to establish independent entities for manufacturing, branding, international retail, domestic retail, and technology under a holding company. 'The company's personnel has evolved from a young to a more experienced one. "*We are now a fully integrated player, but all of our operations are currently under one roof*," which is why we made this move, 'explains Mehul Choksi, managing director of Gitanjali Gems. He explains that each investor is interested in distinct sectors, which provides investors with a clear direction.

WHY CORPORATE RESTRUCTURING IS RISING?

The true opening of the economy with the industrial policy of 1991, emphasized 'continuity with change' and focused on relaxations in industrial licensing, foreign investments, and technology transfer, among other things. The Indian business sector began restructuring to address the opportunities and challenges of competitiveness because of economic liberalization, globalization, and the opening up of economies. Today a global restructuring wave is sweeping the corporate sector, encompassing both large and small entities, old economy conglomerates and new colony corporations, and new economy corporations, as well as the infrastructure and services structure.

Mergers, acquisitions, consolidations, and takeovers have all become commonplace in the current economic paradigm. Conglomerates are being formed to combine enterprises, and demergers have become the norm when synergies are not obtained. With the increased competition and the economy moving toward globalization, corporate restructuring is likely to take place on a much greater scale than in the past and is expected to play a significant role in achieving India's competitive advantage in the worldwide market.

CONCLUSION

Corporate restructuring has become one of the most critical factors in a company's ability to stay on track with the environment. Mergers, Demergers, Reverse Mergers, Disinvestment, Take Overs, Acquisitions, Strategic Alliances, and so on are all examples of corporate restructuring strategies, and while doing so, a company must comply with several statutes such as The Companies Act, Income Tax Act, The Indian Stamp Act, The Competition Act, and so on, and it also requires approvals from various authorities such as NCLT, SEBI, and the Ministry of Corporate Affairs. In this paper, the author explains the concept of corporate restructuring in detail by discussing its historical background, business strategy, need and scope, benefits, regulatory framework, and legal aspects.

The goal of corporate restructuring is to restructure a corporation and make a fundamental change in the organization's structure. It denotes the resurrection of sick companies that have been losing money for a long time and corporate restructurings aid in reviving the companies and generating large profits. So, in order to reorganize the organization, we must first understand all of the rules, regulations, needs, and wishes, acts, and so on. The paper discusses all of the requirements, types, historical context, regulatory framework, and legal aspects of corporate restructuring.