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CORPORATE RESTRUCTURING AS A BUSINESS STRATEGY

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Abstract
The opening up of the Indian economy and the government's decision to disinvest, and take apart certain qualitative and quantitative fetters has made corporate restructuring more relevant today, bound by the present economic scenario and market conditions. In the last few years, Indian corporate sector has followed the worldwide trend in consolidation of companies through mergers, acquisitions and strategic interventions. The process of mergers and acquisitions has gained substantial importance in today's corporate world. This process is extensively used for restructuring the business organisations. In India, the concept of mergers and acquisitions was initiated by the government bodies. Some well known financial organisations also took necessary initiatives to restructure the corporate sector of India by adopting the mergers and acquisitions policies. The Indian economic reform since 1991 has opened up a whole lot of challenges both in the domestic and international spheres. The increased competition in the global market has impelled the Indian companies to go for mergers and acquisitions as an important strategic choice. The trends of mergers and acquisitions in India have changed over the years. The immediate effects of the mergers and acquisitions have also been diverse across the various sectors of the Indian economy.

Key Words: Mergers, Corporate Restructuring, Take Over, Joint Venture.

INTRODUCTION
As per Collins English dictionary, meaning of corporate restructuring is a change in the business strategy of an organisation resulting in diversifications, closing parts of the business etc, to increase its long-term profitability. Corporate restructuring is defined as the process involved in changing the organisation of a business. Corporate restructuring can involve making dramatic changes to a business by cutting out of merging departments that often has the effect of displacing staff members,

CORPORATE RESTRUCTURING AS A BUSINESS STRATEGY
Corporate restructuring is the process of significantly changing a company's business model, management team or financial structure to address challenges and increase shareholders value. Restructuring may involve major layoffs or bankruptcy, through restructuring is usually designed to minimize the impact on employees, if possible. Restructuring may involve the company's sale or a merger with another company. For some businesses, restructuring is not enough to save a company from crumple. In other cases, it can add substantial shareholders value. Companies use restructuring as a business strategy to ensure their long-term viability. Shareholders or creditors might force a restructuring if they observe the company's current business strategies as insufficient to prevent a loss on their investments. The nature of these threats can vary, but common catalysts for restructuring involve a loss of market share, the reduction of profit margins or declines in the power of their corporate brand. Other motivators of restructuring include the inability to retain talented professionals and major changes to the marketplace that directly impact the corporation's business model.

OBJECTIVES OF CORPORATE RESTRUCTURING
- To unload loss making businesses
- To develop core competencies
- To respond to changing trends
- To meet regulatory change
- To organise surplus cash from one business to financed profitable growth in another
- To obtain tax benefit by merging a loss making company with a profit making company
- To eliminate competition between the companies

NEEDS OF CORPORATE RESTRUCTURING
- To focus on core strengths, operational synergy and efficient allocation of managerial capabilities and infrastructure
- Consolidation and economies of scale by expansion
- Revival and rehabilitation of sick unit by adjusting losses of the sick unit with profits of a healthy company.
- Acquiring constant supply of raw materials and access to scientific research and technological developments

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LEGAL AND REGULATORY GUIDELINES FOR CORPORATE RESTRUCTURING

- Companies Act 1956
- Income Tax Act
- Listing Agreement
- Companies (Court) Rules
- The Indian Stamp Act, 1998
- SEBI (Substantial Acquisition of Shares and Takeovers) regulations

MODES OF CORPORATE RESTRUCTURING

1. **MERGER** : Merger is the combination of two or more companies which can be merged together either by way of amalgamation or absorption. The combining of two or more companies, is generally by offering the stockholders of one company securities in the acquiring company in exchange for the surrender of their stock.
   - *Horizontal Merger*: two or more companies that compete in the same industry.
   - *Vertical Merger*: combination of two companies which are operating in the same industry but at different stages of production or distribution system.
   - *Co generic Merger*: In these mergers the acquirer and target companies are related through basic technologies, production processes or markets. These mergers represent an outward movement by the acquiring company from its current set of business to adjoining business. The potential benefit from these mergers is high because these transactions offer opportunities to diversity around a common case of strategic resources.
   - *Conglomerate Merger*: These mergers involve firms engaged in unrelated type of activities i.e., the business of two companies are not related to each other horizontally nor vertically.

2. **DEMERGER**: It is a form of corporate restructuring in which the entity's business operations are segregated into one or components. It is the converse of a merger or acquisition. A demerger may possible through a spin off, split off, split up and sell off.
   - *Spin off*: In spin off company distributes its shareholding in subsidiary to its shareholders without changing the ownership pattern
   - *Split off*: The act of splitting off is a part of an existing company to become a new company, which operates completely separate from the original company. Shareholders of the original company are usually given an equivalent stake of ownership in the new company.
   - *Split up*: If an existing company is dissolved to form a new company it is known as split up.
   - *Sell off*: If a company sells its non-profit making division it results in sell off.

3. **REVERSE MERGER**: Reverse merger is the opportunity for the private companies to become public company, without opting for Initial Public Offer (IPO). In this process the private company acquires the majority shares of public company, with its own name.

4. **DISINVESTMENT:** Disinvestment means the action of an organisation or government selling or liquidating an asset or subsidiary. It is also known as "divestiture". A company or government organisation will divest an asset or subsidiary as a strategic move for the company, planning to put the proceeds from the divestiture to earn a higher return on investment.

5. **TAKEOVER/ACQUISITION**: Takeover means an acquirer takes over the control of the target company. It may be friendly or hostile takeover.
   - *Friendly takeover*: In this type, one company takes over the management of the target company with the permission of the board.
   - *Hostile takeover:* In this type, one company takes over the management of the target company without its knowledge and against the wish of their management.

6. **JOINT VENTURE (JV)**: Joint venture is an entity formed by two or more companies to undertake financial activity together. It may be project based joint venture or Functional based joint venture.
   - Project based Joint venture: The joint venture entered into by the companies in order to achieve a specific task .

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- Functional based Joint venture: The joint venture entered into by the companies in order to achieve mutual benefit.

7. **STRATEGIC ALLIANCE**: Any agreement between two or more parties to collaborate with each other, in order to achieve certain objectives while continuing to remain independent organisations.

8. **FRANCHISING:** As arrangement where one party (franchiser) grants another party (franchisee) the right to use trade name as well as certain business systems and process, to produce and market goods or services according to certain specifications.

9. **SLUMP SALE**: Transfer of one or more undertaking as a result of the sale of lump sum consideration without values being assigned to the individual assets and liabilities in such sales. If a company sells or disposes of the whole or substantially the whole of its undertaking for a predetermined lump sum consideration, then it results in a slump sale.

RISKS OF CORPORATE RESTRUCTURING

- The company falls to improve its business position and is forced to close
- A poorly managed restructuring can introduce greater uncertainty with shareholders and result in stock price declines
- Even well-executed restructuring can threaten a business's trustworthiness and brand
- Restructuring in some severe cases may also involve greater government control over decision-making at the company, especially in serious economic times.

CONCLUSION

Corporate restricting is the superlative tool available for the companies to restructure their organisation in an efficient manner. The process of restructuring should be in such a way that if should not affect the shareholders and brand image of the company. As per the law the liquidation process remains an integral part of corporate insolvency, but there should be a step towards enacting a comprehensive framework on rescue mechanisms to help rehabilitate sick companies that have the potential to be revived and to make profits.

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