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OWNERS EXIT: THE CASE OF CBA INCORPORATION

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Construct of the Case

Business World in general does experience operational & functional hick ups. This *conceptual & constructive case* based on the learning at a leading Export Oriented Unit, discusses the selling off, of a leading multinational manufacturing business of the Canadian based CBA Incorporation (CBA Inc.). CBA Inc., established in early 1980s has evolved from the small business in Canada to a multinational leader in the field of packaging products. It has strategically positioned its manufacturing and distribution facilities through-out the world to cater the growing demand of its products. The organization has been generating three times more revenue per employee than an average organization. The manufacturing organization had recapitalization through a globally well-known private investment firm in the year 2013. The recapitalization provided; liquidity for owners, capital for corporate growth and the significant equity opportunities to the key members of the management. CBA Incorporation was aggressively pursuing growth opportunities to expand its business post recapitalization, but it sold out its business to a fortune 500 company in the year 2016. This case study has been developed on hypothetical grounds ensuring that the strategic element discussed in the case benefits the readers.

Introductory Profile of CBA Incorporation

CBA Inc. is a packaging products manufacturer in Canada. This private company was founded in early 1980s. It operates facilities in the United States, Canada, India and China. Since inception the company is growing and now established as the industry leader in the field. Headquartered in Canada the global manufacturer of innovative products serves a wide variety of markets. It has achieved consistent product quality by using state-of-the-art facility and a strong commitment to partnership with their customers, employees, and suppliers.

The company has focused majorly on following fundamentals for running the business; Manufacturing, Research & Development (R&D), Distribution and Warehousing. Over the period the company has strategically located its units around the globe, considering the fundamentals as mentioned above.

Recapitalization

CBA Inc. the private company had its equity capital shared equally by two founder shareholders. With this the company had its revenue growth from US $20 Million in 1990 to US $250 Million in the year 2015. Over the years of operation the company made its reach to the global market and had its major operation in the counties like USA, Canada, China and India. Its diversified business with good amount of resources employed in the business had a need to develop globally competent management strategies. To attain and execute the strategic vision for growth and operational excellence of the company, it attempted for the recapitalization with a globally renowned investment firm that has the professionals who manage the businesses strategically.

A private investment firm founded in late 1980s investing in well-established middle market businesses invested in CBA Inc., after the appropriate valuation of the CBA Inc.'s business in November 2013. This recapitalization aimed at following aspects

Strategic Reasons of Recapitalization

1. Liquidity for owners: after the investment for approximately 25 years in the business the owners must have aimed at to get some liquidity and had strategically given away the 50% of the stake to the investment firm. Thus the capital infused by the investment firm acted as the means of liquidity to both the founders and shareholders of the company. *Here it is important to note that the founders of the company were having the 50%-50% of the ownership till the recapitalization. Post recapitalization the ownership of two founders got diluted to 25%-25% and 50% of the ownership was shifted to the investment firm.*
2. Capital for corporate growth: the funds that were invested by the investment firm was the source of capital for the corporate growth in following ways:
    a. The company could manage its working capital internally rather than getting the same sourced through the financial institutions or banks or a consultancy.
    b. With the infusing of excess capital the company could focus and initiate the expansion of the business facilities.

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c. Good human capital was employed and knowledge up-gradation through training etc., was in place.
d. The operations and processes were reengineered so as to attain the operation benefits at its fullest.
e. New business tie-ups were done.

3. Other significant equity opportunities: the founders post getting liquidity and the funds available could focus on their individually independent businesses. Not only financially but operationally as well they had better control over their other opportunities as the investment firm was on the charge now to control and manage the CBA Inc.'s operations.

Threats of Recapitalization

1. Dilution of the control: Capital structure determines the control over the business as the equity holders are real owners of business. Being the real owners they get the rights to take the business decisions and in furtherance they can elect and appoint the board of directors in place to manage the business. Now, post recapitalization this power majorly shifted to the investment company and the founders had less of say in the business as the ownership got diluted.
2. Insecurity among the existing employees: Investment firm made the significant changes in the top management of the company that ultimately passed on the insecurity among the employees down the line. Being employing the highly qualified personnel became the biggest threat to the old employees those were associated with the company since its inception.
3. Change in working culture: There were major changes in the working culture/environment of the CBA Inc.:
    a. Operational Reengineering: the new management in place made every possible change in the operations of the existing business as best suited for the company.
    b. Changes in the Human Resources (HR) Polices: the HR polices were aligned globally and were applicable to all the business facilities of CBA Inc. around the world. Thus it bought both pros and cons along to all the business units as some polices were very good at its one unit but the same was not that effective in some another unit.
    c. Increased financial and non-financial reporting: the reporting increased heavily and it overburdened the workload. These reporting's were add-on to the existing reporting framework of the company.
    d. Autocratic working culture: the working culture had turned autocratic. The new bosses with their high expectations perhaps unknowingly started bulling for getting the works done.
4. Inability to generate the lucrative operational synergy: Post recapitalization and considerable changes in the business; inability to generate the lucrative operational synergetic impact was a biggest threat to this recapitalization.

CBA Inc.'s Business Post Recapitalization

The changes were evident post recapitalization. The prominent changes are:

1. Achievement of new production targets: Within completion of the six months of recapitalization the production got accelerated and it made the new records. Thus the manufacturing capacity utilization was appropriately done. Thus this achievement also resulted into the economic value creation for the company. It gave the scope to serve and cater the market demand of the products.
2. Access to newer markets: The new management team and the marketing and sales team in particular reached to the untapped markets. Their efforts culminated to generate the sales orders which led to utilization of the manufacturing facilities as much as possible. And it grew the market reach globally.
3. Improved logistics: The market reach is not possible if the logistics is weak. The logistics system was well placed and equipped enough for the smooth supply chain. The strategic tie-ups were made at all the manufacturing and distribution facilities for the follow of documents and goods.
4. Adequate and timely funds availability: Funding was managed well in such a manner that the operations are not hampered due to inadequate funds or unavailability of the funds on time. This was done through strong negotiation with the bankers of the company as well as proper receivables and cash management.
5. Organizational development: There were many organizational development activities undertaken like; employee engagement activities, more emphasis on the occupational health and safety, technical and soft skills trainings, proper recruitment and selection of the staff, formalized and systematic performance appraisal system etc.

Unfavorable moves post Recapitalization: There were some unfavorable moves taken by the company post recapitalization as mentioned below:

1. Huge Investment in Human Capital: company hired best of the human capital but it had huge increase in the salaries those were paid in comparison to the pre recapitalization phase. It had increased almost 4-5 times than prior.

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2. Considerable increase in the overheads: company had setup all together a new management office and some expenses such as consultancy charges, travelling charges etc. were above normal for any company to improve its bottom-line.
3. Unnecessary changes in some existing processes: being the global company it had the complications to meet the statutory requirement at different location in different countries. Even though the company made things centralized and gradually it turned to be troublesome. The processes that did not required any changes were also being changed and that again was unnecessary cost to the company.

Owners Exit

As mentioned prior the company reported revenue of US $250 million in 2015 and it is also a leading company globally. But now that the founders are occupied with the other equity opportunities and the investment firm has its own portfolio and a better deal triggered the owners to adopt the exit strategy. CBA Inc. adopted selling of business as its exit strategy and got acquired by the globally renowned and also been a fortune 500 company in the first half of 2016.

The case has attempted to portray the journey of Organization pertaining to their strategic approach & respective results. Eventually the Organization sold out the business. The case leaves us at a juncture to evaluate the steps of the organisation towards its fate. The strategic element discussed in the case has the potential of being analyzed towards gaining further insight in Industrial decision making and business domain.

Discussion Questions

1. Critically evaluate the journey of CBA Inc. & gather inferences upon the business decisions implemented by the Organisation.
2. Does the case resemble to Operational glitch or it has been Aspirational pitfall for the owners? Highlight your response with potential outcome of the case as per your business acumen.