UNIT-5

orporate Restructuring is the corporate action to modify the financial structure of the company.

This is required to get rid of the scenario facing the companies and when the company is facing significant problems in paying their debts.

This is required to improve the Balance sheet and reduction of Debt, sometime it is happening to the expansion of the company or further IPO.

The company usually hire experts to restructure and negotiate with the debtor to finish up the debt.

Sometimes company uses to shuffle the staff or appoint new CFO/ CEO for making the perfect decision.

### **Nature of Business/Strategy**

During Economical Structure changes, the nature of business required a little change in their product and services, to explore the market and keep the company existence of the brand, to reach new customers.

**Also Read:**[Inflation-how does it affect the (economy & common man)](https://financialcontrol.in/inflation-and-money/)

For instance, if the company is expanding to the international market, they have to change the staff and required skilled people to handle the consequences during routine work.

### **Improving Bottom Line**

Companies usually run different division to cover the market capitalization and earn more profits, sometimes the division due to some reason unable to generate sufficient profit as expected, may be due to wrong decision of the management, in that cases they required to close the division or need major changes or restructuring to improve the Bottom Line.

### **Improving Cash Flow**

The sales of division which is not performing as per the market requirement need to be sold out, this decision will improve the company cash flow and help the Books and other running division.

This will also help the management to expand the division, selling the assets is a good approach for the management to reduce Debt also.

### **Mergers and Acquisitions**

Mergers and acquisition help the company to expand the business and also provide the customers with the same cost, it will boost the profit numbers of the company.

**Also Read:**[What is management efficiency ratio & its importance](https://financialcontrol.in/management-efficiency-ratio/)

Restructuring is highly required during Mergers and acquisition, like to control the whole system from the single desk to ensure that the new entity has the consistency of approach, to Welcome the new customers with the same behavior as the previous company provides.

### **Split off**

Under split off the share, holder received new stocks for the subsidiary company in trade for their existing stocks.

How it Work:

## Methods of business restructuring

Corporate Restructuring executes several methods with different segments of business and their benefits to the company.

Here are some of the methods of restructuring. Demonatozation 2017 drive lot of company for restructuring, for grabbing benefits from GST implementation.

## Business Restructuring

### **Joint Venture**

Joint Venture is made between two or more entities for the specific purpose to formulate the assets together to achieve a particular result for a certain time period.

A joint venture (JV) is the process of an arrangement of two or more entities, in such an arrangement no single party is empowered to take a decision on behalf of the joint venture.

The joint venture is the business combination in which the firms financial and physical assets work together to engage in some economic activities such as project, production, marketing, sales etc.

**Also Read:**[What is debt-equity ratio & its importance](https://financialcontrol.in/what-is-debt-to-equity-ratio/)

Each of the entities works separately and the joint venture company created works of some activity to gain something.

### **Alliances agreement**

Alliance agreement is one of the regular arrangement of corporate restructuring.

The purpose to reduce cost by sharing technology, product marketing strategy, capital etc

Alliance agreement is executed between two or more corporate to achieve a certain task.

Some of the oil sector and infrastructure company are a good example of a strategic alliance.

### **Franchising**

Franchising is the oldest way to expand the business.

Under this segment, companies grant excess to the operations and marketing strategy. This is the process of linking small company of the same business.

Franchise process access to the large market and improve the [market capitalization](https://financialcontrol.in/what-is-market-capitalization/) of the company.

### **Spin-Off**

The spin-off is the processor implemented by the corporates of changing the core business of the company, which is going under pressure and the same is also reflected in the Books.

The core business is cut off and this needs to inform Security and Exchange Board of India.

### **Divestitures**

In this processor, the company uses to sell some of its portion of its assets to the third party for cash or securities, just to reduce their debts and improve their cash flow.

This is one of the important restructuring method implemented by the companies to strengthen their Finances.

### **Equity Curve out**

Sometimes companies offer some of the subsidiaries common stock to the public to raise some funds, which help to boost the core business.

### **Corporate turnaround**

This is the transaction in which the group of people or an expert team or organization control the company shares over a period of time or for daily basis.

**Restructuring Process**

When a company restructures internally, the operations, processes, departments, or ownership may change, enabling the business to become more integrated and profitable. Financial and legal advisors are often hired for negotiating restructuring plans. Parts of the company may be sold to investors, and a new [chief executive officer](https://www.investopedia.com/terms/c/ceo.asp) (CEO) may be hired to help implement the changes.

The results may include alterations in procedures, computer systems, networks, locations, and legal issues. Because positions may overlap, jobs may be eliminated, and employees laid off.

A company undertakes a restructuring to [modify the financial or operational aspect](https://www.investopedia.com/ask/answers/040715/what-are-some-strategies-companies-commonly-use-reduce-their-debt-capital-ratio.asp) of its business, usually when faced with a financial crisis.

Restructuring can be a tumultuous, painful process as the internal and external structure of a company is adjusted and jobs are cut. But once it is completed, restructuring should result in smoother, more economically sound business operations.

After employees adjust to the new environment, the company can be in a better position for achieving its goals through greater efficiency in production; however, not all corporate restructurings end well. Sometimes, a company may need to admit defeat and begin selling or [liquidating](https://www.investopedia.com/terms/l/liquidation.asp) assets to pay off its creditors before permanently closing.

**Special Considerations**

Restructuring costs can add up quickly for things such as reducing or eliminating product or service lines, canceling contracts, eliminating divisions, writing off assets, closing facilities, and relocating employees.

Entering a new market, adding products or services, training new employees, and buying property result in extra costs as well. New characteristics and amounts of debt often result, whether a business expands or contracts its operations.

Impact of restructuring the value of the firm

Corporate restructuring as a broad term indicates a consequential reorientation of the assets, financial or ownership structure with a view to adjusting the future stream of cash flows (Venkiteswaran, 1997). Accordingly, it is viewed as an expansion for firms to improve their financial performance and to prolong their profitability. Corporate restructuring of a firm takes two of its forms; financial and operational restructuring. Financial restructuring encompasses the actions taken by the firm to change its overall debt and equity percentages. On the other hand, operational restructuring targets at selling a division or abandoning an unprofitable product line and Mergers and Acquisitions (M&A) can be included in both categories. M&A activities have become one of most attractive forms of corporate restructuring program for firms to gain competitive advantage and industry dominance. According to Botis (2013) merger is the process of integrating two business entities, and legal existence will be on one or both of them whereas, in acquisition the acquiring firm will take control of ownership over the target firm. The prime purpose of M&A is to create shareholder value with the hope of creating a larger market share, greater efficiency, and increased capabilities by expanding the operations of the firms involved. M & A activity enable the merged firms to benefit from using acquired firm's resources and expertise, gain double reputation and reduced competition which eventually results in gaining better market share. Nevertheless, the wide array of benefits expected, is every M&A activity profitable by considering every aspect such as different management style and opinion? Imagining two companies with different cultures integrated for a single goal of profit maximization? In addition, during the completion of any merger and acquisition deal, the level of uncertainty arises among employees which will impact the firm performance. Any failure of the activity can push the company into a chaotic situation in aligning their goals and stand to lose their positive performance. Despite the fact that M&A aim at cost savings, in most of the cases, it increases the non-interest expense of the companies (Yanan et al., 2012). These critical issues with M&A makes it imperative to capture its effect in any emerging market including the GCC region. As M&A is a recent phenomenon in GCC countries, the firms involved in such activities expose themselves on their performance which dilutes the investors’ confidence in the firm. Since the last three decades, GCC countries had seen a tremendous transformation from oil and gas economy to a more technology-based nation that facilitates investment diversification in different sectors like telecommunication, tourism, healthcare, transport, real estate, and financial services. Since the early nineties, the idea of M&A emerged initially in the GCC financial sector. The relatively smaller size of GCC commercial banks compared with their international rivals force them to start considering the need to expand their operations and limits. Given this background, this paper aims to assess the impact of M&A on the overall performance of GCC firms using profitability, liquidity and leverage measures.