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A Study on Problems and Issues of Corporate Restructuring in Contemporary Business Environment

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ABSTRACT - In an era of fast changing business environment where machines are fast replacing humans in every aspect of our daily life. It is imperative to embrace changes and adapt to this change by constantly upgrading our central processing units to meet the everyday challenges that the world throws on us. Corporate restructuring can be driven by a need for change in the organizational structure on business model of a company. Corporate restructuring means reorganizing the structure of the organization to fetch more profits from its operations or is best suited for the present situation. Corporate restructuring becomes necessary when a company improves its profitability and efficiency. Corporate restructuring includes merger/amalgamations, Acquisitions /takeovers, financial restructuring, divestitures/ demergers and buy–outs. For any change we have to face problems and take a challenge and find a solution also. This study is focussing particularly the problems and issues related to corporate restructuring which is necessary for today's Business Environment.

Key words: Corporate restructure, Financial restructure, Mergers, Acquisitions and Profit.

I. INTRODUCTION

There is a fast change in trade, commerce and industrial activities leading to a change in the bent in commerce and management. The new paradigm created after LPG in 1991 has posted amazing changes and challenges in commerce and managerial governance of business. The changing realm of business with the application of modern amenities transform the style of marketing of products (direct, online) the training, development and enhancement of human resource fitting to the current scenario of business. The financial innovations with the new financial instruments increasing the challenging and diversified needs of business which creates a base for changing style of management, this attempt make the business to be more commendable and the management of the business to be global standard. If any business which is not ready for changes it will be removed from the race. Hence corporate restructuring is the gift to the companies who are lack in their operations.

CORPORATE RESTRUCTURING

It is a method of making alteration in the structure of a firms one or more business portfolios which creates an urge to make more profit. Simply reorganizing the structure of the organization to fetch more profits from its operations or is best is suited to the present situation. In simple words altering the capital structure of a firm; in reaction to the changed business conditions, or as a means to fund the firm's growth plans

OBJECTIVES OF CORPORATE RESTRUCTURING

This study is focussing the concept and present scenario of corporate restructuring in India.

The following are the main objectives of Corporate Restructuring which is very essential for the success of any business.

- Growth
- Technology
- Government policy
- To reduce dependency on others

Need and scope of corporate restructuring

If any business concern wants to succeed in the market or like to improve their market growth they have to revamp their capital structure in order to compete with heir rivalries. Enhancing economy and improving efficiency are the twin objectives of corporate restructuring. Why the companies prefer capital restructuring,

1) To expand the business operation for company.

2) To carry on the business of the company more economic or more efficiently.

3) To focus on its strength

4) To acquire tax benefits' under various norms

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5) To access improved and millennial technology

6) To improve their capital structure

7) To have a better market share

8) To become globally composition

9) To eliminate competition between companies

II. FORM OF CORPORATE RESTRUCTURING

The most common forms of restructuring are Amalgamations, acquisition, finance restructuring. Divestitures /demerges and buyout.

Mergers

A **merger** is a commercial approach of mingle different companies into a single company in order to enhance the financial and operational strengths of both organizations It provides benefit such as a economic of scale ,tax benefits ,rapid development, group power and diversification etc.,

Amalgamation

When two or more companies joined together and form a new company is called amalgamation. The assets and liabilities of the companies come under one roof. The company which is amalgamated lose their identity and enjoy the privileges of new company identity.

III. TYPES OF MERGERS

Horizontal merger: The firms who undergone same business activities they joined together are known as Horizontal merger. For Example those producing consumer goods they formed in a single line.

Vertical merger:

This type of merger lies between two or more companies who function in the same industry but at the different levels of the production process. These companies produce related finished goods or services. Vertical merger helps in bringing effectiveness in business and increasing the returns from the business. This will help for the development of company's business function into different steps on the same production path. For example sugarcane supplying industry and sugar manufacturing industry merged.

Conglomerate merge: It taken place between firms which have unrelated business activities. For example oil refineries and cotton industry joined together.

Concentric merger: It takes place between two companies which share some common expertise that may be mutually advantageous. For example Indian universities MOU with Foreign universities or Apparel Company merged with premium or branded Apparel Company.

Acquisition /take over: It impulses acquisition of controlling interest in a company by another company whose share are acquired if can assume three forms .

a) Negotiated friendly

If a organised by the incumbent management with a view of parting with the control of management to another group negotiation

b) Open marks /hostile

The faking over company acquire share from open marks /financial institution/mutual funds and willing shareholders add price higher then prevailing marks price

c) Bailout takes over

Bailout takes over means takeover of a economically pathetic company by a profitably company. In simple words providing financial support to the financially weak company which is not a sick company. Without selling the assets the financially weak company can run the business with the help of takeover company.

Demerger: Division of a Company with two or more identifiable business units into two or more separate companies. If any company wants to extend their wings in another field they prefer demerger. It helps for concentration on core business. New business opportunities will be undertaken by new companies. Shareholders can get clear idea for their investment. For example Bajaj Company expands their business into personal, housing, mortgage loan, insurance, consumer durables etc.

Acquisition

An acquisition is a situation whereby one company purchases most or all of another company's shares in order to take control. An acquisition occurs when a buying company obtains more than 50% ownership in a target company. As part of the exchange, the acquiring company often purchases the target company's stock and other assets, which allows the acquiring company to make decisions regarding the newly acquired assets without the approval of the target company's shareholders.[1]

Financial restructuring

"Financial restructuring" is the process of reform or reorganize the financial structure, which primarily comprises of equity capital and debt capital. Financial restructuring can be done because of either compulsion or as part of the financial strategy of the company. Financial Restructuring is done for various business reasons like meagre financial performance, exterior rivalry, loss in market share, rising market opportunities.

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Reasons for corporate Restructuring

1. Globalization of business
2. Change in fiscal and government policy
3. Information technology motivates many complaints to adopt new technology
4. Irrational diversification of organization smaller units
5. Quality enhancement
6. Cost reduction
7. Economic value of currency and foreign exchange rate
8. Focus on core business and to develop energy
9. Minimise the risk through diversification.
10. To write off loss and integration of risk unit.

IV. CHALLENGES THAT MANAGEMENT FACES IN ANY RESTRUCTURING PROGRAM

a. Design: The Company should decide in advance what type restructuring model they suggested for their business. An entity also should give priority to whether the same model helps to reach the organisational goals or not.

b.Execution: The implementation process should also need attention. Business concern must list out the pros and cons of execution.

c. Marketing: It is the tedious work of the management to explain the need and benefit of restructuring program to the investors who are the pillars for their success.

V. CORPORATE RESTRUCTURING IN INDIA

India is an agricultural based economy to start an industry in India is not as all an easier one and very typical rules and regulations should be properly followed to start an industry. Therefore, corporate restructuring also limited due to restricted government policies. Anyhow due to the new economic policy, continuity with change was emphasized relations in industrial licensing, foreign investment and transfer of foreign technology etc.

Restructuring a necessary for both large and small enterprises also the process of restructuring through merges and amalgamations has been a regular features developed and free economy nations like : Japan, USA and UK where hundreds of merges takes place every year. Today Indian economy is passing through recession. In such a situation, corporation which are capable of restructuring can contribute towards economic reveal and growth. Judgement given by Y. Dhananjaya Chandrachud. “Corporate restructuring” one of the mean that can be employed to meet challenges which comfort business corporate restructuring involves restructuring the assets and liabilities of corporations including their debts-equity structure to promote efficiency retaining the growth and minimise the cost.

The year 2017 was filled with good amount of talks of corporate restructuring mergers and acquisition due to the relative easing of the regulator by the government. The dealer discuss widely were in the telecom sector Vodafone-Idea merger, BharathAirtel/acquiring Telenor India and BharathAirtel merger with Tata Tele. Apart from them the big giants were – Filpkart acquires Indian arm of EBAY, Axis bank taking over the mobile payments application-free charge , OLA acquires Food panda ,the associate of the state bank of India (SBI) merging into SBI, thereby enhance the public sectors having another size. Very complex and involving multiple regulators – HDFC and Max life insurance merger, it much talked about Filpkart and Snap deal merger Reliance Communication –Airtel merger and Zomato –Swiggy were a few case .

VI. CONCLUSION

Corporate restructuring has become very popular and necessary during the last two decades due to rapid changes that have taken place in the business environment .business firms now have to face increased competition not only within the country but also from international business firms due to liberalization, privatization and globalization making restructuring work successfully it not that easy as have not only consolidating two business organisation together but also integrating people of two organisation with different attitude, cultures.

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