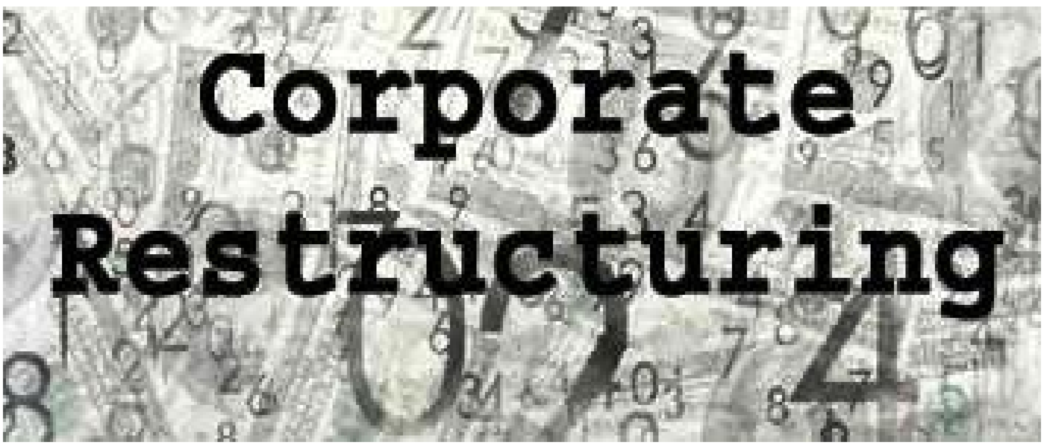
CHAPTER - 1

CORPORATE RESTRUCTURING: INTRODUCTION & CONCEPTS

CONCEPTS	PARTICULARS	No Of Q&A
CONCEPT-1	CORPORATE RESTRUCTRING (MEANING,NEED,SCOPE,OBJECTIVE,& KINDS)	3
CONCEPT-2	TOOLS/MODES OF CORPORATE RESTRUCTRING	1
CONCEPT-3	TYPES OF CORPORATE RESTRUCTING STRATEGIES	2
CONCEPT-4	MISCELLENEOUS CONCEPT	4
	TOTAL	10



CHAPTER - 1

CORPORATE RESTRUCTURING: INTRODUCTION & CONCEPTS

CONCEPT 1

CORPORATE RESTRUCTRING (MEANING,NEED,SCOPE,OBJECTIVE,& KINDS)

Q1: What do you mean by Corporate Restructuring? (CS JUNE 2007) (CS DEC 2008)

Or

What are different kinds of Restructuring? (V.V.IMP.Q) (CS JUNE 2010)

Or

"Corporate restructuring aims to achieve certain predetermined objectives at corporate level." Comment and explain how corporate restructuring would help bringing an edge over competitors. (CS JUNE 2013)

Or

Corporate Restructuring aims at significant change in a Company's business model, management team or financial structure to address challenges and increase shareholders' value." Elucidate the statement with relevance to business strategy. (CS DEC 2017)

Ans Corporate restructuring means rearranging the business of a company for increasing its efficiency and profitability. Restructuring is a method of changing the organizational structure in order to achieve the strategic goals of the organizations. Corporate restructuring is a wide expression and it includes various kinds of tools. Thus, it is the purpose or object of the organization which will determine the kind of tool to be used in corporate restructuring.

Corporate restructuring is a comprehensive process by which is company consolidates it business operation and strengthen its position for achieving its short term and long term corporate objectives.

OBJECTIVES OF CORPORATE RESTRUCTURING:

- Deploying surplus cash from one business to finance profitable growth in another;
- Exploiting inter dependence among present or prospective business within the corporate portfolio
- Development of core competencies;
- Orderly redirection of the firm's activities; and
- Risk reduction.

KINDS OF RESTRUCTURING:

a) **Financial Restructuring:** Financial restructuring of a company involves a re-arrangement of its financial structure to make the company's finance more balanced. It is an adjustment of debt-equity ratio.

b) **Technological Restructuring:** It deals with alliances with other companies to get the better technology.

c) **Market Restructuring:** Market restructuring means restructuring with respect to the product market segment, on the basis of core competency of a company.

d) **Organizational Restructuring:** Organizational restructuring means setting up of procedures and systems in an organization to enable its employees to respond to changes in a positive way.

Q2: Discuss the need and scope of Corporate Restructuring. (SULTAN TYPE Q)

Or

"Corporate restructuring aims at different things at different times for different companies but the single common objective in every restructuring exercise are to eliminate the disadvantages and combine the advantages." Comment on the statement highlighting various needs for undertaking corporate restructuring. (CS DEC 2016)

Ans **Needs for Corporate Restructuring:** The various needs for undertaking a corporate restructuring exercise are as follows:

- To focus on core strengths, optional synergy and efficient allocation of managerial capabilities and infrastructure.
- Consolidation and economies of scale by expansion and diversion to exploit extended domestic and global markets.
- Revival and rehabilitation of a 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.
- Capital restructuring by appropriate mix of loan and equity funds to reduce the cost of servicing and improve return on capital employed.

You have to expect things of yourself before you can do them

Scope of Corporate Restructuring:

i. Reduction in cost
ii. Greater efficiency
iii. Economies of scale

Q3: What are the aspects to be considered while planning/ implementing Corporate Restructuring? (CS STUDY)

Ans Aspects to be considered while planning or implementing corporate restructuring strategies:

- Valuation and funding
- Legal and procedural issues
- Taxation and Stamp duty aspects
- Accounting aspects
- Competition aspects etc.
- Human and Cultural Synergies

CONCEPT 2
TOOLS/MODES OF CORPORATE RESTRUCTURING

Q4 Discuss about different tools/modes of restructuring?

(CS JUNE 2004) (CS DEC 2004) (CS DEC 2005)

Or

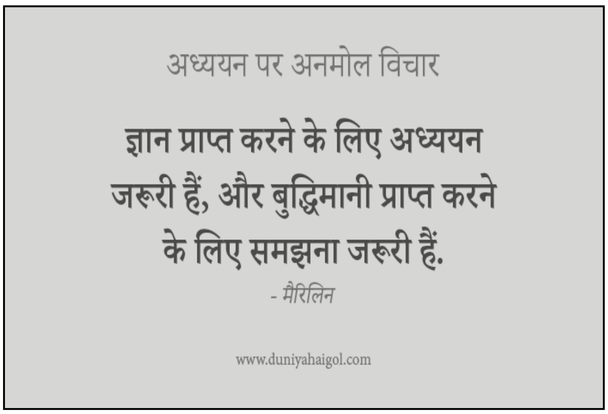
What is meant by 'strategic alliance' and what are its features? (CS STUDY)

Or

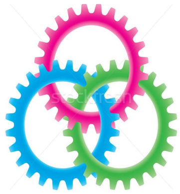
Discuss "Strategic Alliance" and "Joint Venture" as corporate restructuring strategies. (CS JUNE 2017)

Ans Type of Corporate restructuring strategies: various type of corporate restructuring strategies include

i. Merger
ii. Amalgamation
iii. Reconstruction
iv. Demerger
v. Reverse Mergers
vi. Disinvestment
vii. Takeovers
viii. Joint Venture
ix. Strategic Alliance
x. Franchising
xi. Slump sale
xii. Buyback of share



MERGER: A Merger can be defined as the fusion of one company by another. It may also be understood as an arrangement, whereby the assets of two (or more) companies get transferred to, or come under the control of one company (which may or may not be one of the original two companies).



AMALGAMATION: Amalgamation is a legal process by which two or more companies are joined together to form a new entity or one or more companies are to be absorbed or blended with another and as a consequence the amalgamating companies losses its existence and its shareholders become the shareholders of new company or the amalgamated company.

RECONSTRUCTION: Reconstruction means the "act of construction again, repairing and restoring to former condition of appearance." Usually the term reconstruction means the transfer of an undertaking or business of a company to another company specially formed for the purpose. The old company goes into liquidation and its shares are issued and allotted share in the new company.

TAKEOVER: Takeover is an acquisition of shares carrying voting rights in a company with a view to gain control over the management of the company. It takes place when an individual or a group of individuals or a company acquires control over the assets of a company either by acquiring majority of its shares or by obtaining control of the management of the business and affairs of the company.

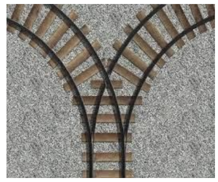
DISINVESTMENT: Disinvestment refers to the transfer of the assets/shares/control from the government to the private sector. The concept of public sector undertakings disinvestment takes different forms i.e., from minimum government investment (privatization) to partnership with private sector, where the government is the majority shareholder.

JOINT-VENTURE: Joint venture is a venture in which an enterprise is formed with participation in the ownership, control and management of minimum of two parties. In joint venture, a business enterprise is formed for profit in which parties of joint venture share responsibility in an agreed manner, by providing risk capital, technology, trademark and access to markets.

FRANCHISING: Franchising is an agreement whereby the franchiser grants the right to the franchisee to carry on the business. The franchisee is authorized to sell and distribute goods and services.

SLUMP SALE: Slump sale is the one of the widely used ways of business acquisitions. Slump sale is nothing but transfer of a whole or part of business concern as a going concern. The basic condition to satisfy the qualification of slump sale is that the transaction relating to transfer of business should be a transfer of undertaking and not transfer of individual assets and liabilities consisting of business activity.

DEMERGER: Demerger is often used to describe division or separation of different undertakings, of a business functioning hitherto under a common corporate umbrella. A scheme of demerger is in fact a corporate partition of a company into two undertakings, thereby retaining one undertaking with it and transferring the other undertaking to the resulting company.



STRATEGIC ALLIANCE: Alliance means an agreement between two or more organization to cooperate with each other to accomplish their common goals and to strive for the benefits of both of them. It is an understanding between firms whereby resources, capabilities and core competitions are combined to pursue mutual interests.

BUY BACK OF SHARES: When a company has surplus cash and does not have any viable project on hand. It can buy-back shares from its existing shareholders to increase shareholders wealth by improving their EPS.

CONCEPT 3
TYPES OF CORPORATE RESTRUCTURING STRATEGIES

Q5: Discuss about different Restructuring Strategies. Explain 5Ps of Strategy. (CS STUDY)

Ans The word 'strategy' is derived from the Greek word 'strategies' mean the general. A strategy may be defined as an overall plan for the organization to accomplish its objects in the context of environmental forces beyond the control of the organization. In other words, strategy is concerned with the organization relationship to the external environment and the competitive situation inherent therein.

Henry Mint berg 5 P's of Strategy:

a) **Plan** - Strategy is a plan, some short of consciously intended course of action, or guideline or set of guidelines to deal with the situation.
b) **Ploy**- As plan, a strategy can be ploy too, really just a specific maneuver intended to outwit a competitor.
c) **Pattern**- If strategies can be intended (whether as general plans or specific ploys), they can also be realized. In other words, defining strategy as plan is not sufficient; we

also need a definition that encompasses the resulting behavior. Strategy is a pattern specifically, a pattern in a steam of actions.

d) Position- Strategy is a position, specifically a means of locating an organization in an "environment". By this definition strategy becomes the mediating force between organization and environment

e) Perspective – Strategy is a perspective, its content consisting not just of a chosen position, but of an ingrained way of perceiving the world. Strategy in this respect is to organization what personality is to the individual.

Q6: "Strategies exist at several levels in any organization". Comment. **(a + b)² TYPE Q**

Or

Distinguish between corporate level strategies & business unit strategy. **(CS STUDY)**

Ans Strategies exist at several levels in any organization, ranging from the overall business of group of business to individuals working in it. These can be explained as below:

Corporate strategy: It is concerned with the overall purpose and scope of the business to meet stakeholder expectations. This is a crucial level since it is heavily influenced by investors in the business and acts to guide strategic decision making throughout the business. Corporate strategy is often stated explicitly in 'mission statement'.

Business unit strategy: It is concerned more with how a business competes successfully in a particular market. It concerns strategic decision about choice of products, meeting needs of customer, gaining advantage over competitors, exploiting or creating new opportunities etc.

Operational/Tactical strategy: It is concerned with how each part of the business is organized to deliver the corporate and business unit level strategic direction. Operational strategy therefore focuses on issue of resources processes, people etc. In dynamic environment and due to the complexities of business strategies are needed to be set at low level i.e. one step down the functional level, operational level strategies. E.g. Marketing strategy could be subdivided into sale strategies for different segments & markets, pricing, distribution etc.

CONCEPT 4

MISCELLANEOUS CONCEPT

Q7: Write a brief note on the role of professionals in restructuring strategies. (CS STUDY)

Ans The restructuring process does not only involve strategic decision making based on the market study, competitor analysis, forecasting of synergies on various respects, mutual benefits, expected social impact etc., but also the technical and legal aspects such as valuation of organizations involved in restructuring process, swap ratio of shares if any, legal and procedural aspects with regulators such as Registrar of Companies, High Courts etc., optimum tax benefits after merger, human and cultural integration, stamp duty cost involved etc. It involves a team of professionals including business experts, Company Secretaries, Chartered Accountants, HR professionals, etc., who have a role to play in various stages of restructuring process.

Q8: Write a note on retrenchment as turnaround strategy? (CS JUNE 2007)

Ans Retrenchment is a crucial strategy which calls for reduction in the number of employees and set proper manpower planning. Such strategies result in the following advantages:

- Reduction in the number of employees
- Bringing the workforce to the right size
- Winding off unprofitable ventures.
- Cost reduction
- Quality controls

Thus, retrenchment is a turnaround strategy and is used by corporate houses to withstand competition.

Q9: Discuss emergence of corporate restructuring in global & national perspective.

Or

"Global competition drives enterprises to become globally fit to face global challenges prompting them for corporate restructuring". Elucidate. (CS JUNE 2018)

Ans **Emergence of Corporate Restructuring In Global & National Perspective:**

a) A restructuring wave is sweeping the corporate world. Takeovers, mergers and acquisition activities continue to accelerate.

b) From banking to Oil exploration and telecommunication to power generation, companies are coming together as never before.

c) Not only these new industries like biotechnology have been exploding but also the old industries are being transformed corporate restructuring thought acquisition, amalgamation, merger, arrangements and takeovers has become integral corporate strategy today.

d) The process of restructuring through mergers & amalgamation has been a regular feature in developed and freak economy nation like USA and European countries, more particularly UK, where hundreds of merger take place every year. Also the mergers and takeovers of multinational corporate houses across the borders has become a normal phenomenon.

e) Never have the mergers and amalgamations been so popular from all angles policy considerations businessman outlook and even consumer's point of view.

f) In the era of hyper-competitive capitalism and technological change, industrialists have realized that mergers/acquisitions are perhaps the best route to reach a size comparable to global companies so as the effectively compete with them. The harsh reality of globalization has dawned that companies which cannot compete globally must sell out as inevitable alternative.

Q10: What is the concept of 'core competency'? What are the factors that help to identify the core competencies in a company? (CS DEC 2004)

Ans Core competency is a bundle of a specific knowledge, skills, technologies, capabilities and organization which enables it to create value in a market, those other competitors cannot do in the short term. The resources could, be for example, manufacturing flexibility, responsiveness to market trend and reliable service.

The factors that help to identify the core competencies in a company as suggested by Prahlad and Hemal are:

a) Core competence provides potential access to a wide variety of markets.

b) Core competence should make a significant contribution to the perceived customer benefits of the end product.

c) Core competencies should be difficult for competitors to imitate.

Companies can use their core competencies to expand into other Markets and add to customer benefits.

Course Director

CA. BHUPESH ANAND

FCA, AICMA, FCS, IFRS (London)

BHUPESH ANAND is a **fellow** member of ICAI, ICSI & **Associate** member of ICMAI.

He has completed his Diploma **(IFRS)** from **ACCA (London).**

He is a Currently Practising as a Chartered Accountant and has more than **twenty five years of post qualification experience.**

In addition to this he is Actively Involved in **Teaching and Video Lectures.**

Our Publications