

# Upscale Value through Restructuring

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## *Abstract*

*From the perspective of the global economic market with all the players from different industries, we see one important aspect that is present all the time, and that aspect is constant change. Looking back, you may say that this is nothing new, change has always been a constant factor in all life aspects, that's why humanity has evolved; and that is true, but change is different now. Today we experience change so fast that from the economic point of view, a company could go, from top to bottom in a matter of months. So, in order to survive in such an environment, companies use restructuring to secure business as a preventive and eventual business re-launch and not only when insolvency occurs, including a company reorganization procedure and bankruptcy procedure. As reported by a study that had been conducted by Cambridge University, the term "Corporate Restructuring" has been known in the world since the 1970s, when it was successfully applied to mergers and acquisitions, divisions sales, split-ups, financial recapitalization and private transactions in order to save renowned companies. The corporate restructuring process is a notion of corporate management for the legal reorganization, ownership, operational or other business structure of a company that has proved to be a difficult topic for managers of all around the world, companies undergoing the countless weather events that we live.*

*Restructuring involves redesigning one or more aspects of a company, such as repositioning on the market to be more competitive, surviving in an unfavorable economic climate, or balancing the corporation to move in a new direction, it's a multidimensional process.*

*Keywords: organizational risk, corporate transition, company recovery, change*

*JEL Classification: G34*

## **1. Introduction**

"Why companies need corporate restructuring?" This is a question that many of the today's top managers face's. The answer to this question is not an easy one and research from economic and management filed have come with some results, but still many managers and leaders from multinational companies like: Deloitte, KPMG, Oracle, Total and so on, believe that this is more complicated than it seems. It is mandatory to specify that corporate restructuring can happen at different stages of company's growth and also it can have different means in day-to-day operations. We can say that these stages are visualized by means of a performance and risk matrix.

Coming back to the main question: "Why companies need corporate restructuring?" studies have come up with some answers.

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First of all, corporate restructuring of a legal entity is common when the company has grown to the point where the original structure can not effectively manage its overall interests or as a result of an acquisition of the company by new shareholders.

Also, the acquisition may take the form of leveraged buy-out, if the purchase price is funded by a combination of capital and debt, where cash-flows or target assets are used to secure and repay duty.

Second, a hostile takeover could also be a scenario, which allows a contender to take over a target company whose management is willing to accept a merger or takeover.

And finally, because the list can continue with far more cases that can occur, is fusion by absorption.

If the restructuring occurs because of a hostile takeover, it is often the dismantling of the company, the sale of properties and other assets in order to make a profit from the takeover.

Although many mergers are the result of a friendly agreement between the two companies, a company may wish to acquire another company even when the combination is opposed by the management or board of directors of the merger candidate company. In such a case, the acquiring company makes a tender offer for common shares of the merger candidate. In a tender offer, the acquiring company effectively announces that it will pay a certain price above the current market price for any of the merger candidate's shares that are "tendered" before a particular date. Often tender offers (Journal of Financial Economics, 2011; Englewood Cliffs, NJ: Prentice-Hall, 2018; McGraw-Hill, 2015; Larry Y Dan, 2015) are revised upward and the dates extended, especially if the initial response looks promising or the target management expresses dissatisfaction with the initial tender price. For example, in February 2009 Roche Holdings' initial tender offer for Genentech was \$86.50, which included a premium of roughly \$6.50 over what the Genentech stock traded for two months earlier. Genentech's management initially said it was not in favor of being acquired and indicated that the tender offer price was too low. Eventually, Roche raised the tender offer price and acquired Genentech at \$95 per share. What remains after this restructuring may be a smaller entity that can continue to work, even if not at the level possible before taking over.

More recently, institutional investors, (Mergers, Restructuring and Corporate Control 2008; Robert M. Nauss, Robert E Markland, 2015; Charles J. Cunny, Gerald S. Martin and John J. Puthenpurackal, 2016) who often control a significant block of company's stock, have become increasingly active participants in battles for control in many firms. Shareholder proposals are basically proposals that shareholders put forth for consideration at the firm's annual meeting and are voted

on by shareholders. Though shareholders proposal are only advisory in nature and firms are not legally required to abide by them, a majority vote in favor of a shareholder proposal sends a strong message to the board of directors and management, that is the proposal is not adopted shareholders may not be sympathetic to management and the board and may even replace them in future board election. Such institutional pressures have resulted in many firms rescinding several antitakeover measures such as poisons pills and staggered elections of board members.

## **2. Problem Statement**

Restructuring a commercial activity involves making changes to how a company creates value and delivers that value in the form of products or services on the market.

Determining the degree and concentration of such changes, as well as implementing the necessary actions to drive these changes, is a difficult task that involves certain risks. As a result, restructuring is a serious commitment that must be conducted as accurately as possible, requiring a full involvement of the management of the company and any other interested party from the outset.

As evidence of this engagement, business leadership, regardless of the financial situation of those firms, must organize and operate on the basis of a continuous program of systematic analysis, starting from the "zero basis" of the values generated by each activity in the enterprises concerned. Generally, this is done during the process of developing the business plan and allocating the budget. We have to admit that the situation is all the more difficult for state-owned enterprises, which do not operate on the basis of modern cost allocation systems and have no notions about what constitutes a profit center.

However, the unforeseen changes that characterize an economy in general and, in particular, the changes brought about by the competition to which a market operator is subject, lead to the idea that such an assessment should be carried out frequently.

This periodic assessment of the activity will demonstrate the need to bring about changes in the management of the activity in order to better adapt it to the requirements it faces both in terms of organizing the work internally and in the way the enterprise interacts with the market.

The success of an activity is fundamentally measured insofar as the management of an enterprise fulfills this process - the long-term commercial viability of an enterprise is indeed dependent on the management's ability to implement the necessary changes to maximize strengths and minimizing weaknesses in a business.

Efficiently restructured (Estrin & Gelb, 2011; Dolgopyatova & Evseyeva, 2015) requires that any action be justified by the cost / benefit ratio and so assessed to ensure that the desired results are achieved within a certain time limit, necessarily requiring a clear action program, with short and long-term priorities, to be implemented along the critical pathway of the enterprise.

In the process of change, which implicitly accompanies any restructuring process, the manager can follow a simple rule: "Situation-Mission-Action", in other words Periodic analysis of the activity - adaptation to a realistic set of objectives - implementation of a set of appropriate actions. Different approaches to restructuring have been used in the economic reform by different entities - including groups of independent consultants and government entities - proving different degrees of efficiency.

Several restructuring projects were undertaken by line ministries, the State Property Fund, the Restructuring Agency and enterprises.

The purpose of this activity was to a large extent limited, due to the lack of financial resources and the expertise of these entities.

The current activity of AR, which is concentrated on selected high loss companies, is directly related to the conditionality of loan agreements with the IMF and the World Bank. As a result, there has been increased funding assistance from different donors but with varying degrees of accessibility. Restructuring these large businesses involves a strategic vision, reaching and maintaining financial sustainability over time.

Consequently, the success of this process can be perceived only in time and to the extent that the enterprise is being redressed and positioned for privatization. It is also possible to measure the effectiveness of the process in the short term, measuring the gradual benefits achieved through the "commercialization" of the enterprise, to the full transfer of ownership by privatization.

Efficiency restructuring is a realistic approach to the restructuring of many complex enterprises from a wide range of industrial and agricultural sectors in a short time span and with limited resources. This approach maintains, as a primary objective, the identification of immediate improvements that can be implemented gradually by the management of the enterprise, without external intervention or with minimal intervention, in order to have the time to complete the enterprise's recovery.

This gradual process has to be measured by new methods and will be monitored step by step to identify the need for intermediate corrections in the approach and methodology of the long-term structure of an enterprise.

During this period, the financial situation of the enterprise may improve or deteriorate sufficiently to lead to a drastic set of redress measures. As a result, time

is essential, and it is imperative that immediate action be taken to halt further deterioration and to preserve the value that can ultimately be privatized.

### 3. Research Questions/Aims of the research

In this section we are trying to prove if there is also a relationship between business failure and taking the path of corporate restructuring as a final decision.

Michael Jensen (2009) argue that a business failure can be considered from both an economic and a financial viewpoint.

In an economic sense, business success is associated with firms that earn an adequate return (equal to or greater than the cost of capital) on their investments. Similarly, business failure is associated with firms that earn an inadequate return on their investments. An important aspect of business failure involves the question of whether the failure is permanent or temporary. For example, suppose a company has \$1 million invested in assets and generates operating earnings of only \$10,000. Obviously, this 1 percent return on investment is inadequate. However, the appropriate course of action depends to some extent on whether this business failure is judged to be permanent or as mentioned above, temporary.

If it is permanent the company should be probably liquidated. On the other hand, if failure is only temporary the company should probably attempt to “ride the storm”, especially if steps can be taken to speed the company’s return to business success.

From an economic standpoint, business failure is also said to exist when a firm’s revenues are not sufficient to cover the cost of doing business.

It is more common (Freeman, 2009) however, for business failure to be viewed in a financial context, as a technical insolvency, a legal insolvency, or a bankruptcy. Having this in mind, a firm is said to be technically insolvent if it is unable to meet its current obligations as they come due, even though the value of its assets exceeds the value of its liabilities. A firm is legally insolvent if the recorded value of its assets is less the recorded value of its liabilities.

The final stage is when a firm is bankrupt, unable to pay its debts and files a bankruptcy petition in accordance with the bankruptcy laws. It is worth mentioning that over the period from 2000 to 2009, approximately 37,500 businesses all around the world files for bankruptcy each year. For example, in 2007, before the financial crisis started, there were about 28,000 business bankruptcies. The number jumped up to approximately 43,500 in 2008 and to 60,800 in 2009 when the economy experienced the brunt of the financial crisis.

Economist Milton Friedman (2012) said in one of his books (*A Theory of the* Year XXII no. 72 June 2019

Consumption Function) that the answer to the question, if there is a relationship between business failure and taking the path of corporate restructuring as a final decision, is not an yes or no answer, is more like a debatable one, being more important to have a constant change strategy for the business, in order to keep up with the market and avoid going into a temporary or, worst, permanent bankruptcy. There can be considerable variation in the length of time that a company must take into consideration, in this complex process of corporate restructuring.

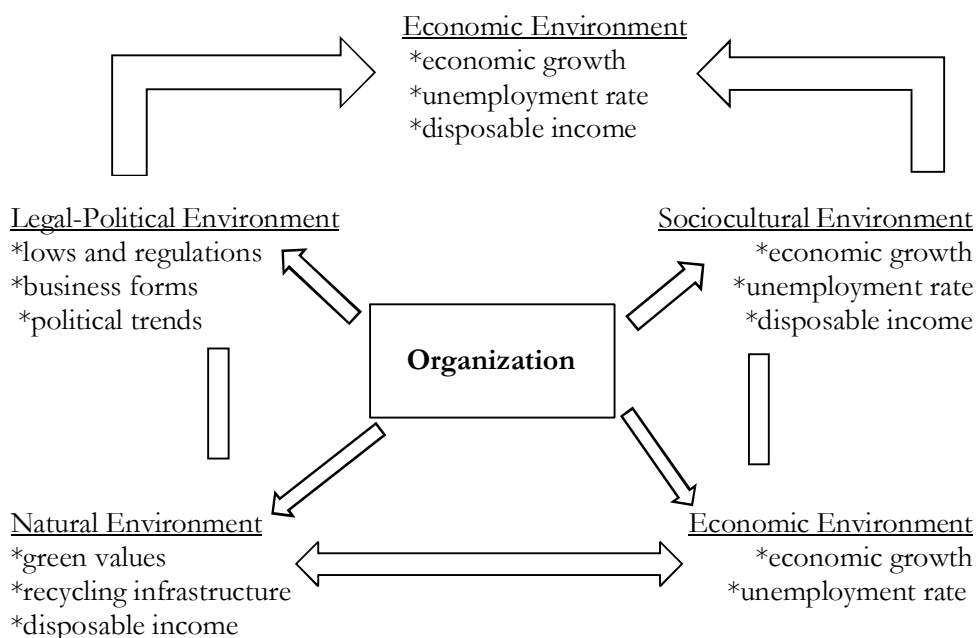
**4. Research Methods (1)**

Results regarding this research, vary across countries, culture, economic environment, different continents and even climate of the place, where the business is operating.

Managers and leaders had been asked, what is there opinion about corporate restructuring and before answering to the question we must emphasize some facts:

There are some managers that looks at conditions in our world and see hopeless problems, while others look`s and see endless opportunities. Some read environmental trends and spot innovation potential, some don`t even bother to look.

**Table 1 Organization surrounding environment**



As presented above there is a strong link between corporate restructuring and global market economic trends. In order to have a better view of this statement we need to have a closer look at some methods that company's use, in order to keep a high profitability and a well know footprint industry.

First of all, for years companies have pursued offshoring which involves the outsourcing of work and jobs to lower-cost foreign locations. But new economic signals are showing signs of shift toward reshoring which moves jobs back home. Rising labor costs in foreign countries, higher shipping costs, complicated logistics, complains about poor customer service, public criticisms about destroying local jobs and economic incentives offered by communities are causing global firms to rethink their offshoring strategies and start to relocate more jobs back home. So, it's very obvious that the organizational environments today is that change, uncertainty and complexity call for constant innovation. The corporate restructuring term is very complex, it is the process of coming up with new ideas and putting them into practice. Copeland, Koller and Murrin (2017) said that innovation is often a high priority when executives and leaders try to steer organizations through complex and uncertain environments. An example in this regard is coming from, former IBM CEO, Samuel J. Palmisano, that says: "The way you will thrive in this environment is by innovating, innovating in technologies, innovating in strategies, innovating in business models." Many of the top managers have reported that the organization structure, the various part of an organization, the system of tasks, workflows, communication channels that link together the work of diverse individuals and groups, are the most important things in the up or down evolution of the company. In this manner a sense of common purpose gets lost and self-centered, narrow viewpoints become prominent. When problems like this occur, an alert manager steps in to correct things, before they can do persistent harm to organizational performance. Unfortunately, it is easier to talk about good structures than it is to actually create them, and big companies have found a way to create value proposal regarding this issue. The main idea (Rideley, 1996; Saez, 1996) is to keep in mind that any structure should be a good job of both allocating tasks through a division of labor and providing for the coordination of performance results. A structure that does both things well helps to implement an organization's strategy, which will have as a main purpose to create a division o labor and then coordinate results to achieve a strong and common goal.

## 5. Findings

Kornai (2017) refers to the process of restructuring as being a serious commitment that must be conducted as accurately as possible, requiring a full involvement of the management of the company and any other interested party from the outset. As



evidence of this engagement, business leadership, regardless of the financial situation of those firms (Wijnbergen, 2008) must organize and operate based on a continuous program of systematic analysis, starting from the "zero basis" of the values generated by each activity in the enterprises concerned. Generally, this is done during the process of developing the business plan and allocating the budget. A difficult situation is for state-owned enterprises, which do not operate on the basis of modern cost allocation systems and have not so many "up to date" notions about what constitutes a profit center.

However, the unforeseen changes that characterize an economy in general and the changes brought about by the competition to which a market operator is subject, lead to the idea that such an assessment should be carried out frequently.

This periodic assessment of the activity will demonstrate the need to bring about changes in the management of the activity in order to better adapt it to the requirements it faces both in terms of organizing the work internally and in the way the enterprise interacts with the market.

The success of an activity is fundamentally measured insofar as the management of an enterprise fulfills this process - the long-term commercial viability of an enterprise is indeed dependent on the management's ability to implement the necessary changes to maximize strengths and minimizing weaknesses in a business. According to Crum and Goldberg (2017), companies from emerging economies it is understood that a certain degree of restructuring is necessary due to the loss of primary markets, low technological level, labor cost, energy cost, etc. Efficiently restructured requires that any action be justified by the cost / benefit ratio and so assessed to ensure that the desired results are achieved within a certain time limit, necessarily requiring a clear action program, with short and long-term priorities, to be implemented along the critical pathway of the enterprise.

So, we can see that when talking about Corporate restructuring, there are many aspects that need to be considered, from Managers, Capital structure and other financial aspects to the type of Corporate restructuring (Merger and Acquisition, Acquisition and Takeover, Merger through Absorption).

## 6. Conclusions

Managers from different level must take decision on behalf of a company. This different level decision making criteria lies in the scope of the choice made. So, when decision must be made, a major part of this process take into consideration a certain alternative against selection criteria, also different management levels spend more time on certain functions than on others. Part of those criteria could include financial costs and benefits, the corporate management structure of the company,



type of the economy in which the company is carry out their activity and of course the market development. Over the years many companies have escape bankruptcy and closure by restructuring their liabilities. Misguided management decisions that affect employees and the environment in general can have disastrous effects. Based on the relative importance of the above factors, managers and business owners decides that best meets the criteria. Another important aspect in this decision-making process is to gather and consider data before making a choice. Looking at the whole aspect of the problem involves framing the issue, firs of all by having a clear definition of his boundaries, establishing criteria with which to select from alternatives and developing conclusions based on available information. This allows the decision-making person to reduce effort, as well as produce higher quality and more consistent outcome. After all this process once a decision has been reached it is always best to do a reality check. In addition, the more that is at stake the more emotions are likely to come into play and this is also a factor that must be taken into consideration, because it can distort one`s judgment. The stakes are high, while during any restructuring, the very future of the company is at risk.

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[https://link.springer.com/chapter/10.1057/9781137389367\\_7](https://link.springer.com/chapter/10.1057/9781137389367_7)

## Appendix

Authors	external determinants of capital structure	Sample of research	Findings
H. Kent Baker et al., 2011	The art of Capital* Restructuring	USA 857 SMEs for the period 2011-2016	Value creating through different process restructuring. Merger and Acquisitions influence on the capital structure
Charles F. et al., 2018	Capital Restructuring** When Simpler is Better*	United Kingdom Firm restructuring for the period 2000-2008	This process tries to resolve the difficulties faced by the corporate sector. Enables companies to become viable again on a specific sector industry.
Vance David 2009	Corporate Restructuring From Cause Analysis to execution	USA 2548 small and medium companies analysis 1998-2005	The relation between capital restructuring, different level management decisions and achieving value, through corporate restructuring.
J. Lopez, 2014	C.R.* Five common pitfalls*	Bankruptcy escape Liabilities change	A different view of corporate restructuring analyzing different finance options and solutions that could lead to a final added value.