# CORPORATE RESTRUCTURING AND STAKEHOLDER PERCEPTION: ANALYSING THE IMPACT OF RESTRUCTURING ANNOUNCEMENT ON SHAREHOLDER VALUE AND PUBLIC PERCEPTION

Aditya Jha, Bharati Vidyapeeth (Deemed to be) University, New Law College, Pune

## ABSTRACT

Restructuring in general may be termed as a change in order to match the changing needs of the environment. By this definition we can define corporate restructuring as a well-defined decision-making exercise which is done in order to determine the current situation and endowments of a company by using the available technology, machinery and skills to meet the challenges which might be faced by the company in the coming future. This strategy consists of Acquisitions, Takeovers, Disinvestment, Merger, Demerger, Strategic Alliance etc. These need to be done in compliance with following statutes namely The Income Tax Act, Listing Agreement, Companies Act and Companies Court Rules. However, the Stamp Act needs to be approved by the following authorities namely SEBI, NCLT and Ministry of Corporate Affairs (MCA). This paper will try to explain the concept of corporate restructuring briefly and will try to give an idea about the concept with the help of some examples and case studies and will also try to explain the impact of corporate restructuring on the Shareholder Value and Public Perception.

**Keywords:** corporate restructuring, future, strategy, merger

## Introduction

As mentioned by Sir Albert Einstein "The measure of intelligence is the ability to change".

The entire world consists of huge economies and these economies are constantly changing which results in great transitions and pattern shifts. Due to this the major companies which are termed as corporate giants have to undergo a total shutdown or have to undergo major corporate restructuring process. This is done by the companies in order to ensure their survival. There are very less chances of revival of the companies is case of permanent closure of the business a better alternative is sought in the form of corporate restructuring which allows the company to revive it's operations so that it can become profitable once again. As any kind of business in the world aims solely at profit maximisation, the closure of business is not something which is desired by the business individuals. To prevent this practice the idea of corporate restructuring comes into picture. The markets throughout the world have become a lot competitive due to which the competition has increased at a great pace. In today's time the growing globalization has led to the entry of the entities doing business in a particular market to enter unfamiliar markets for expansion of business and identification of their potential customer base. This imposes a responsibility on the shoulders of the managers to improve the quality of the products produced by the company and to provide the best quality of services to the consumers to match the standards of the international market and to make their presence eminent in the unfamiliar markets.

The process of change is an unavoidable process and every entity has to undergo change to ensure its survival in this highly competitive world. This change is basically done in order to understand the issues and problems existing in a particular company and to enhance the available resources of the company in order to make the company ready to undergo the challenges associated with the changes of the coming future.[1] The company is under compulsion to restructure itself in order to exist in the competitive environment and to grow itself to a greater height. As stated in a phrase "The best one survives till the end." The companies which become larger by the process of corporate restructuring has the wide potential to become the largest giant in a particular business and to rule the market by defeating small competitors in the market. This will ultimately result in

[1] Jatin Bakshi, Corporate Restructuring: A Modern Alternative for a Company's Survival, 4 IJLMH 3034, 3035 (2021)

the reduction of the cost of capital and will in turn result in the increase of profits of the company. An example might be considered regarding the same. Let us consider a company X which is having a huge amount of capital at a given time but at the very same time there is another company Y which is also doing the similar business as X and has some viable options of projects with it but has no funds to execute such projects. In such case if the company X and company Y merge with each other it will be beneficial for both the companies and they might profit by the merger of both the companies. The concept of corporate restructuring has increased in the global domain and a huge number of companies have benefitted by this process and made huge profits. To make India a highly profitable place for carrying on business the concept of corporate restructuring will play a major role in the times to come.

**Various Reasons for the Corporate Restructuring**

Success is the driving force for any kind of motive in this world. The reason is the force which drives the entities to work towards a goal in the corporate world to achieve a desirable outcome in a specified duration of time. So, the reasons due to which the various companies in the corporate world undergo corporate restructuring may be defined as follows:

**a. The Information Technology Revolution**

The modern business enterprises are solely based on information technology for their work and commitments. The large companies across the world use modern technologies and tools of communication in order to carry out their businesses. The companies involved in the use of information technology have to regularly undergo changes according to the change in the information technology environment by making changes in their organisational structure. The use of IT also demands a huge amount of investment to set up a well settled IT infrastructure and training the employees to make them familiar with the use of IT in performing day to day tasks of an enterprise. This requires a major restructuring in performing the various operations of an enterprise.

**b. Change in Government Policies**

Some companies have been affected a lot by the removal or the withdrawal of the government patronage due to which they were exposed to dealing with their own expenses as well as dealing with a stiff competition from the global giants. To save themselves from huge amount of losses and to adapt to the new business policies the companies have to constantly undergo corporate restructuring in order to meet their financial requirements and face various challenges.

**c. The concept of Cost Reduction**

The basic expectation of the consumers is not only the quality of the products but also the affordability of the prices of the products. The companies in the corporate world have to make regular changes and efforts in order to make changes to their products and to make the products affordable as per the needs of their customer base. In such scenarios the most common tool used by the companies is downsizing which is one of the tools of corporate restructuring which helps to lower the costs of an enterprise. The concept of cost reduction and cost cutting is new considered as the new mantra for success in the corporate field.

**d. The improvement in the Bottom Line**

The sole motive of any kind of business is profit maximisation. Profits are the only source of happiness in a business enterprise as they help to keep all the stakeholders involved in a business happy. This is made possible by narrowing down the gap between the attainable goals and the attained goals. Thus, corporate restructuring helps in determining the full potential of a company.

**e. The concept of Disinvestment**

Disinvestment occurs when a company divides or divisionalises its operations into smaller businesses or even sells off their particular wings of the businesses which are deemed as a wrong fit in their current business operations and by the removal of which the productivity of the company would increase. This concept helps the companies to get rid of the activities which are not profitable to the enterprise.

**f. The concept of LPG**

The concept of Liberalization, Privatization and Globalizatoion has changed the way of doing global business. This has eventually led to the execution of restructuring of businesses in order to remain competitive on the world platform.[2]

**The options which are available strategically in the event of corporate restructuring**

The businesses are carried on the principle of profit maximisation but, it is evident that businesses may experience ups and downs while carrying out the business. In such circumstances restructuring becomes very necessary to remove all the barriers that is hindering the business from gaining profits. The various steps involved in the restructuring process are as follows:

**I. The option of Cost Leadership**

By this process the aim is to reduce the overall cost of the business in order to increase the profits of an organisation. Examples of the same are given as under:[3]

**a. The option of Merger**

The two companies decide to amalgamate in case of a merger and their sole motive to achieve certain goals. Hence, a new entity is formed as a result of merger and they can have a new separate name or they can have both of the names altogether.

**b. The option of expansion of capacity**

The expansion of capacity is done in order to increase the capacity and the trade of an organisation which in turn results in the increase in trading volumes of the organisation. There are certain times when the market requires a variety of goods and services. But, just as a coin has two faces the effects of capacity expansion can be both positive and negative as if the expansion cost becomes excessively higher and the excess capacity results in which the competition increases.

**c. The option of Takeover**

---

[2] Corporate Restructuring in India, https://taxguru.in/corporate-law/corporate-restructuring-india.html (last visited Sep. 12,2023).

[3] The Institute of Companies Secretaries of India, Corporate Restructuring, Valuations and Insolvency, https://www.icsi.edu/media/webmodules/publications/3.%20Corporate%20Restructuring,%20Valuatuion%20and%20Insolvency.pdf, (last visited Sep. 13, 2023).

Takeover may be defined as the transference of ownership from one company to the another. The transfer may be of two types namely a hostile transfer or the friendly transfer based on the motive of takeover. In the friendly takeover the price is already decided by the two parties mutually. Whereas in an aggressive or hostile type of transfer there is no such choice given to the other party as the specified amount of shares is captured or acquired which leads to the transfer of the controlling rights to the acquiring company or entity. In this type of takeover, no prior information is given to the party which is being acquired.

**ii. The option of Product Excellence**

**a. The option of joint venture**

the idea of takeover or alliances between two companies the sole motive of which is financial or technical collaborations in order to earn profits is known as joint venture. A joint venture envisages a change in technology, effective leadership options and the improvement in the quality of the products produced by such company. Some examples can be seen as follows such as Hero and Honda (now splitted in two)[4] which are now splitted and Bajaj and Kawasaki who are also splitted.

**b. The option of Collaboration**

A long-term agreement between two or more companies which involves a person with a goal to work in a specific area is known as collaboration. The most important advantage of such kind of strategic alliance may be that they are not involved in the investment of the funds in the share capital.

**Corporate Restructuring and its regulations as given in the Companies Act, 2013**

The enactment of the Companies Act, 2013 has led to the enactment and recognition of various provisions related to mergers and acquisitions as well as disclosures as prescribed in the act which is irrespective of the size of the company. The act also contains provisions related to the restructuring and the act also has a mention of establishment of the National Company's Law

[4] Kedar Kingi, Hero Honda Joint Venture Break-Up, mnacritique.mergersindia.com (Sep. 12, 2023, 10:05 PM), https://mnacritique.mergersindia.com/hero-honda-joint-venture-break-up/

Tribunal which is in the same capacity as the High Court. The issue of compromise and arrangements are dealt in the following two sections of the Companies Act, 2013 which are sections 230 and 231. This includes all the information which is important for the company as well as any material facts or schemes. The fast-track mergers are dealt with in the Section 233 of the Companies Act, 2013. Similarly, the amalgamation with the foreign company which means a foreign company and an Indian company are amalgamated (also known as cross border merger) are covered in Section 234.[5] In this type of arrangement, the prior permission of the Reserve Bank of India is also required. The majority of the shareholders who hold at least 90 percent of the share capital (equity) by the way of merger, conversion of security and share exchange in the Section 236 of the Companies Act, 2013. The company has to be notified about it, the remaining shares have to be bought by the remaining equity shares by the remaining shareholders. These provisions are subject to certain conditions. Hence, the value of shares have to be determined by the registered valuer who has a very concise idea of the rules and regulations as mentioned in Section 236.[6]

## Shareholder's and Public Perception on Corporate Restructuring

The basic reason behind the idea of corporate restructuring is to change the business according to the needs of the society and to make the loss bearing business into a successful one. Therefore, it becomes very important to acknowledge the interests of the stakeholders in order to determine their perception towards the changing business in such a way that it does not hamper the corporate reputation of the company and it results in the increase in the trust of the stakeholders. As it is quite evident that the stakeholders are attracted to the businesses that have a strong corporate presence it becomes very important to make the reputation of the company a good one. It's always suggested that a positive reputation results in the increased investment by the investors, an advantage over the competitors, and attracts the best workforce towards the company and it also helps to retain the loyal customers towards the organisation. It is the responsibility of every business or a company to maintain a good image of the business and to avoid any kinds of doubts, problems, conflicts and the interests of the shareholders so that they keep believing in the business and continue to invest in the business and to promote a positive message in the corporate world.

[5] Companies Act, 2013, § 234, No. 18, Acts of Parliament, 2013 (India)
[6] Companies Act, 2013, § 236, No. 18, Acts of Parliament, 2013 (India)

**Points to consider before performing the process of Corporate Restructuring and the impact of restructuring announcement**

When the restructuring is announced there is a news spread in the market that the company is about to restructure there is a lot of news and rumours about the capital, insolvency and image building in the market. Keeping this in mind it becomes very important to analyse the options available after performing the restructuring and how the needs and wants of the shareholders can be met effectively without harming the company's goodwill and profits. They are as follows:

**The interests pertaining the shareholders and the company**

The interests of the shareholders and the company must be kept in mind before performing the restructuring process as they are an integral part of any kind of business. There can be a lot of circumstances in which the interests of the company and the stakeholders may not align, or they may not be at the same page. In such cases it is the responsibility of the company to maintain good and transparent conversation with the shareholders so that they have a belief that they will subsequently benefit in the coming future.[7]

**The effect which is on tax liabilities**

The asset transfers and disposals may always have serious tax implications on the business as they are an integral part of the restructuring process. Therefore, a concise idea about the tax implications is very necessary for any business which must be considered at the time of restructuring.

**The risks related to the Directors and the Company**

In any kind of business risk is always a compulsory entity which is always attached with it. There is always a speculation that the businesses are aware of the impending risks and thus they are prepared for the future implications arising out of those risks. The aspect of downgraded employee morale and the negative publicity which are always linked with the directors.

[7] tricorglobal.com, https://www.tricorglobal.com/blog/changes-at-the-top-exploring-the-corporate-restructuring-landscape (last visited Sep. 12, 2023)

### The regulatory and legal risks involved

The process of restructuring involves staff reductions, decrease in the pay of the employees and the change in the form of the business. The process of alteration of contracts also takes place at a large scale as there are a large amount employees and suppliers. Due, to these huge legal implications are involved as a large number of cases can arise.

### Fair Negotiation and collaboration

A win technique must be used in order to achieve the common goal and to achieve the mutual goals. The agenda or idea of the company must not be imposed on the shareholders and the workers which would harm their position. By this a positive and cooperative environment may be promoted and the company may prosper immensely.[8]

## Case study of Corporate Restructuring and the reason why it was done

### a. The Reliance Industries Limited Restructuring case

It was the year 2005 when the industrial giant RIL was split into two parts which was a result of impending issues between the two successors of RIL namely Mukesh Ambani and Anil Ambani. The valuation of RIL at that time was around 1000 billion. This eventually led to the split of the company into two parts. The oil, textile, refining and petrochemicals was declared as an entity which is stand alone and the independent and complete control of these businesses was given to Mukesh Ambani. A European company that manufactured polyester fibres and worked in the field of biotech namely Reliance Life Sciences and Trevira also was under his control and its shares were held by him, whereas the financial, communication and power businesses were controlled by Anil Ambani and was as a part of Reliance group under Anil Dhirubhai Ambani Enterprise (ADAE).[9]

After the happening of the demerger the share prices of the existing five companies were cited or

---

[8] Linkedin.com, https://www.linkedin.com/advice/0/how-do-you-measure-success-impact-corporate (last visited Sep. 13, 2023)

[9] Deepika Dhingra and Nishi Agarwal, Corporate Restructuring in India: A Case Study of Reliance Industries Limited (RIL), 6, GJFM 813, 819 (2014)

mentioned on the NSE and BSE. At the time of the post demerger the per share amount of RIL was Rupees 978 whereas after the happening of the demerger the prices(combined) of these 4 companies extended to Rupees 1235/ share.[10]

For spinning off of the balance sheets and the assets, a re- amalgamation process has been initiated by Reliance Industries (RIL). This was basically done to create an umbrella of independent companies within a company itself. Strategic investments in group businesses such as Petrochemicals and Refining, Reliance Retail, Reliance Jio was planned. A huge investment of 5.7 billion was done by Facebook in Jio amidst the challenging Covid-19 times. The major aim was to create a market control in India as the users of Reliance Jio were around 388 million and Facebook also had more than 400 million users in India which was indeed enough to create a monopoly in India.

**Conclusion**

The way in which business is conducted in today's time have undergone various shifts since the earlier times and the technology and advancements from the traditional business approach are now being termed as outdated. This paper has discussed the various aspects of corporate restructuring and its implications and how it impacts the shareholders perception and their rights. There is no foolproof rule that can make the process of restructuring a successful one. There have been various examples which state that the process of restructuring can be either successful or even fail miserably at certain times. In order to compete with the other businesses, it becomes very important for a company to deliver high quality goods and services as well as cheap and long-lasting goods that might make them different and better than their competitors.[11] In pursuance to this it sometimes becomes very important for an organisation to restructure itself to thrive and exist in the tough competition and to maintain a good image of the company in the eyes of the shareholders so that they continue to invest and promote the business by keeping faith in the idea of restructuring. This makes it very important for an organisation to take such decisions which would

[10] Ibid
[11] R. Kumar, Corporate Restructuring in India, taxguru.in, (Sep. 14, 2023, 8:26 PM), https://taxguru.in/corporate-law/corporate-restructuring-india.html

be calculated and beneficial for both the shareholders and the company itself to remain in the business as going concern.