Corporate restructure essay

Corporate restructuring is one of the most complex and fundamental phenomena that management confronts. Each company has two opposite strategies from which to choose: to diversify or to refocus on its core business. While diversifying represents the expansion of corporate activities, refocus characterizes a concentration on its core business. From this perspective, corporate restructuring is reduction in diversification. This involves a significant change in one or more of the following * Pattern of ownership and control.

* Composition of liability. * Asset mix of the firm. It is a comprehensive process by which a company can consolidate its business operations and strengthen its position for achieving the desired objective of being synergetic, competitive and successful. It involves significant re-orientation, re-organization or realignment of assets and liabilities of the organization through conscious management action to improve future cash flow stream and to make more profitable and efficient. Meaning and Need for Corporate Restructuring.

Corporate restructuring is the process of redesigning one or more aspects of a company. The process of reorganizing a company may be implemented due to a number of different factors, such as positioning the company to be more competitive, survive a currently adverse economic climate, or poise the corporation to move in an entirely new direction. Restructuring a corporate entity is often a necessity when the company has grown to the point that the original structure can no longer efficiently manage the output and general interests of the company. For example, a corporate restructuring may call for spinning off some departments into subsidiaries as a means of creating a more effective management model as well as taking advantage of tax breaks that would allow the corporation to divert more revenue to the production process.

In this scenario, the restructuring is seen as a positive sign of growth of the company and is often welcome by those who wish to see the corporation gain a larger market share. Corporate restructuring may also take place as a result of the acquisition of the company by new owners. The acquisition may be in the form of a leveraged buyout, a hostile takeover, or a merger of some type that keeps the company intact as a subsidiary of the controlling corporation. When the restructuring is due to a hostile takeover, corporate raiders often implement a dismantling of the company, selling off properties and other assets in order to make a profit from the buyout. What remains after this restructuring may be a smaller entity that can continue to function, albeit not at the level possible before the takeover took place.

In general, the idea of corporate restructuring is to allow the company to continue functioning in some manner. Even when corporate raiders break up the company and leave behind a shell of the original structure, there is still usually a hope, what remains can function well enough for a new buyer to purchase the diminished corporation and return it to profitability.

Purpose of Corporate Restructuring

* To enhance the share holder value. The company should continuously evaluate its Portfolio of businesses, Capital mix, Ownership &Asset arrangements to find opportunities to increase the share holder’s value. * To focus on asset utilization and profitable investment opportunities. * To

reorganize or divest less profitable or loss making businesses/products. * The company can also enhance value through capital Restructuring, it can innovate securities that help to reduce cost of capital.

Characteristics of Corporate Restructuring

1. To improve the company's Balance sheet, (by selling unprofitable division from its core business). 2. To accomplish staff reduction (by selling/closing of unprofitable portion). 3. Changes in corporate management.

4. Sale of underutilized assets, such as patents/brands. 5. Outsourcing of operations such as payroll and technical support to a more efficient 3rd party. 6. Moving of operations such as manufacturing to lower-cost locations. 7. Reorganization of functions such as sales, marketing, & distribution. 8. Renegotiation of labor contracts to reduce overhead.

9. Refinancing of corporate debt to reduce interest payments. 10. A major public relations campaign to reposition the company with consumers. Corporate Restructuring entails a range of activities including financial restructuring and organization restructuring. Financial Restructuring

Financial restructuring is the reorganization of the financial assets and liabilities of a corporation in order to create the most beneficial financial environment for the company. Just about every business goes through a phase of financial restructuring at one time or another. In some cases, the process of restructuring takes place as a means of allocating resources for a new marketing campaign or the launch of a new product line. When this happens, the restructure is often viewed as a sign that the company is financially stable and has set goals for future growth and expansion. Need For Financial Restructuring

Process of financial restructuring may be undertaken as a means of eliminating waste from the operations of the company. The restructuring effort may find that two divisions or departments of the company perform related functions and in some cases duplicate efforts. In some cases, financial restructuring is a strategy that must take place in order for the company to continue operations.

Financial restructuring also take place in response to a drop in sales, due to a sluggish economy or temporary concerns about the economy in general. All businesses must pay attention to matters of finance in order to remain operational and to also hopefully grow over time. From this perspective, financial restructuring can be seen as a tool that can ensure the corporation is making the most efficient use of available resources and thus generating the highest amount of net profit possible within the current set economic environment.

Organizational Restructuring

In organizational restructuring, the focus is on management and internal corporate governance structures. Organizational restructuring has become a very common practice amongst the firms in order to match the growing competition of the market. This makes the firms to change the organizational structure of the company for the betterment of the business.