Introduction
There has been phenomenal and tremendous growth of Public Sector Enterprises (PSEs) in India. The four decades until 1991 witnessed a substantial growth and expansion of the public sector and were viewed as a mechanism for structural transformation of the economy and for growth with equity and social justice. These were created as private initiative was not forthcoming in vital sectors of the economy. Eventually, the perception that public sector should acquire the commanding heights of the economy led to government involvement in diverse areas of economic activity, many of which could have been performed by the private sector. The public sector thus lost its original status and strategic focus, which shifted to supply of goods and services on subsidized rates and creation of employment. This led to inefficiencies, neglect of resource mobilization for modernization, increased dependence on unproductive borrowings, lack of motivation to improve efficiency and increase in fiscal deficit of the Central and State Governments.

The situation became worsen with the public sector undertakings having political appointees as Chairpersons regardless of their functional contributions and capabilities. This was compounded by the short tenure appointments of service-officers as Managing Directors leading to lack of continuity, professionalism and accountability. Above all, the judicial ruling that public sector enterprises are an instrument of the state as defined in Article -12 of the Constitution placed them at a disadvantage compared to
the private sector units in the matter of functional and financial autonomy. There are, therefore, inherent problems in the case of PSEs, which do not allow these to function strictly on commercial considerations, because of fear of Comptroller and Auditor General of India (CAG’s) criticism, and even criminal processes through Central Bureau of Investigation (CBI) and Central Vigilance Commission (CVC) and consequent lack of boldness in decision-making. India, having one-fourth population below poverty line, had to provide safety net to targeted population through multi-level and multi-user charges. The performance of PSEs, however, was far from satisfactory. As a result, the industrial policy heralded the economic liberalization substantially contracted the role of the public sector. The number of industries reserved for the public sector has been reduced to eight and in 2001 May, all industries except atomic energy and railway transport were thrown open to the private sector. Corporate restructuring by way of disinvestment is now an important aspect of the new policy. In short, the industrial development of the country is now left mostly to the private sector.

Further, intense competition, rapid technological changes, major corporate accounting scandals, and rising stock market volatility have increased the burden on managers to deliver superior performance and value for their shareholders. In the modern ‘winner takes all’ economy, companies that fail to meet this challenge will face the certain loss of their independence, if not extinction. Corporate restructuring has enabled thousands of organizations around the world to respond more quickly and effectively to new opportunities and unexpected pressures, thereby reestablishing their competitive advantage. It has an equally profound impact on the many more thousands of suppliers, customers, and competitors that do business with restructured firms.

**Background Leading to Corporate Restructuring Decisions**

The last two decades have witnessed a dramatic increase in various forms of corporate restructuring, particularly in the western economies. Takeovers, divestitures, management buyouts (MBOs), going private transactions and bankruptcies have all played a significant role in restructuring firms during the economic downturn of the early 1980s to the boom period of the mid-1980s and 1990s. Like almost every country, India too welcomed Liberalization, Privatization and Globalization (LPG) as a development paradigm. Therefore, for nearly a decade since the onset of economic liberalization in India, a key component—disinvestment/privatization—
remained dormant. The usual explanation has been that unstable governments could not overcome the many vested interests, from rent seeking bureaucrats and ministers to public sector trade unions. Further, complex economic environment in which market forces are changing quickly and radically and competition is becoming ever fiercer, corporate risk is on the rise. Public sector had lost much of its former efficiency. Their costs were rising even financial performance results were embarrassed. Sales promotion efforts were mostly wasted. Marketing function had poor response. Rate of new product failure was alarming. This alarmed the entire corporate to gear up to the expectation of the market. Open competition erupted and threat to the traditional business houses was witnessed.

Many business houses collapsed and a lot of reengineering activities came into being for the survival to save Indian corporate sector. Corporate restructuring is one such area, which has emerged recently. It is an umbrella term that includes mergers, acquisitions, consolidations, disinvestment and liquidations, and various types of battles for corporate restructuring can and has been used to mean almost any change in operations, capital structure and ownership that is not part of the firm’s ordinary course of business.

For this purpose, a number of official committees under direct supervision of Government of India and members of parliament have examined various aspects of public sector performance and emphasized the need for better incentives and greater autonomy & accountability for the management of the Public Sector Enterprises (PSEs). Thus, restructuring of equity by way of disinvestment is the key determinant of the public sector reforms and the policy over the last two decades. Almost all countries whether developing or developed have engaged in substantial programme of restructuring the equity (ownership) pattern by selling public sector enterprises. The common perception behind such restructuring the Indian public corporate is that these programmes are highly triumphant and hence desirable.

**Corporate Restructuring: Meaning and Definition**

Corporate restructuring provides the necessary objectivity and methodical support to bring a company back on the road to success. It involves making radical changes in the composition of the businesses in the company’s portfolio. This type of corporate action is usually made when there are significant problems in a company, which are causing some form of financial harm and putting the overall business in jeopardy. The hope is that through restructuring, a company can eliminate financial harm and improve the
business. Corporate restructuring is defined by Hoskisson and Turk (1990) as a major change in the composition of a firm’s assets combined with a major change in its corporate strategy. It usually involves selling off (or liquidating) businesses in large diversified (M-Form) firms, either voluntarily through spin-offs or involuntarily through hostile takeovers. Restructuring also can occur once a leveraged buyout (LBO) of a firm has been completed. Thus, from Hoskisson and Turk (1990) point of view, corporate restructuring, in turn, is likely to:

(a) result in the correction of inadequate governance patterns,
(b) create a more focused diversification strategy,
(c) increase strategic control,
(d) reduce reliance on bureaucratic control through reduced corporate staff, and
(e) increase the performance of the firm and shareholder wealth.

According to Tiwari (2001), corporate restructuring means the series of process to restructure asset structure, financial structure, and corporate governance, helping the survival and the growth of a corporation. Although the extent of corporate restructuring includes a distressed company as a target in a narrow term, it includes an inefficient company as a target in a broader term.

Generally speaking, any restructuring of the liability and stockholders equity components of a financial balance sheet is normally undertaken because the issuer does not generate enough cash flow to service its debt and other liabilities. Restructuring may include deferral of principal or interest payments on debt, disinvestment of equity shares, equalization of debt or other liabilities, and, in bankruptcy, modification or termination of burdensome contractual commitments. The expectation is that through restructuring, a company can eliminate financial harm and improve the business. Characteristics of corporate restructuring can include:

- Any major public relation campaign to reposition the company with consumers.
- Changes in corporate management functioning.
- Disinvesting the shares and utilise the sum received in the areas of extreme importance.
- Shifting of operations such as manufacturing to lower-cost locations.
- Outsourcing of some basic operations such as payroll and technical support to a more efficient third party.
- Refinancing of corporate debt to reduce interest payments.
- Renegotiation of labour contracts to reduce overhead.
• Reorganization of functions such as marketing, sales, and distribution.
• Sale of underutilized/abandoned assets, such as patents, brands and composition secrets.

Therefore, when a company is having trouble making payments on its debt, it will often consolidate and adjust the terms of the debt in a debt restructuring. After a debt restructuring, the payments on debt are more manageable for the company and the likelihood of payment to bondholders increases. A company restructures its operations or structure by cutting costs, such as payroll, or reducing its size through the sale of assets. This is often seen as necessary when the current situation at a company is one that may lead to its collapse.

Types of Restructuring

1. Portfolio restructuring

Portfolio restructuring means making additions to or disposals from companies’ businesses e.g., through acquisitions or spin-offs and is normally applicable to derivative products. In simple terms, it is decomposition of a portfolio’s asset mix by selling off undesired asset types (equities, debt, or cash) or specific securities within that class, while simultaneously buying desired types or securities. For this, often a company is asked to bid on an old portfolio and give an offering of the desired portfolio.

When to use portfolio restructuring strategy?

Corporate experience throughout the globe reveals that there is as such no clear-cut time horizon when portfolio restructuring becomes essential for a nation. But some shortcomings when persist indicate the need for thinking portfolio restructuring. These are as follows:

• Core business divisions fall upon hard times.
• Long-term performance prospects are unpleasant.
• ‘Wave of the future’ technologies or products appear and major shake-up is required to build position in a potentially big new industry.
• ‘Unique opportunity’ emerges and some existing business units must be sold to finance new acquisition.
• Major businesses in portfolio become unappealing and unproductive.
The areas of improvement include:
- Enhanced return on the value of the portfolio.
- Making radical changes in mix and percentage make-up of types of businesses in portfolio via both divestitures and new acquisitions.
- Overall decrease in total reinvestment needs.

2. Financial restructuring

It is changing the capital structure of an organisation e.g., through leveraged buy-outs etc. for the purpose of bringing out a company from financial difficulty.

Essentials of financial restructuring

The purpose of financial restructuring is not achieved if following points are not considered:
- Creating greater levels of control in your internal auditing and reporting processes.
- Developing a more efficient means of meeting company’s debt obligations and manage cash more successfully.
- Exploring the possibility of debt-equity exchange (wherein existing debt is exchanged for new equity shares, transforming creditors into equity holders).
- To find ways to maintain customer loyalty and generate recurring revenues as part of a long-term growth strategy.
- To identify new, or underutilized, assets that can boost company’s bottom line.
- To reconfigure company’s entire pay, benefits and retirement provisions to create greater financial efficiencies.
- Further, audit department should adjust its risk management techniques to reflect today’s online realities, and set-up itself as a valuable management resource resulting in increased cash flow yields.

3. Organizational restructuring

In the fast changing world, organizational restructuring is essential to stay up to date. Managers periodically examine the organizational structure of their company to assure that it maintains to provide an environment for organizational development. Organizations that cannot or don’t learn become obsolete. The reasons why organizations should restructure themselves are:
- Actions of global competitors, work force values, demands, and diversity.
• Individual development and transition.
• New and fast expanding markets.
• Regulatory, political and ethical constraints from the environment.
• To innovate men, materials, machines, technology, work culture, and organizational structure.

These are few reasons for organizational restructuring. However, organizational restructuring in these situations should only follow once the business strategy has been changed—for the very same reasons.

**Essentials of organizational restructuring**

• Accountability for results.
• Assessment of gaps (if any) in existing roles which make any structural changes effective.
• Clear communication and role clarity.
• Development and execution of an organizational change management plan to address and define the drivers of any structural change, as well as the impact on the business of the change options.
• Employees cooperation.
• Management commitment to a new business strategy to address the changes in market, technology, regulations, etc.
• Organization’s sense of purpose, vision and commitment towards change.
• Positive human behaviour and improving performance, further requires changing behaviour.
• Proper assessment of impact of internal and external factors causing change on the business strategy.
• Proper understanding of cost of organizational change.

**When to use organizational restructuring?**

• Complaints of subjective and biased performance appraisals are coming regularly.
• Employees’ morale is deteriorating.
• Increase in employees turnover.
• Organizational communications gap is increasing and deteriorating day by day resulting in clash between different levels of management.
• Overall work force productivity is deteriorating despite continuous efforts.
• Parts of the organization are significantly over or under staffed.
• Present skills and capabilities are inefficient to meet current or expected operational requirements.
• Regular conflicts regarding accountability for results.
• Technology and/or innovation are creating changes in work flow and production processes.

The Role of Government in Times of Crisis: Foreign Experience

Corporate restructuring at country level/large level is potentially one of the most difficult tasks faced by country and inter country economic policymakers. The need for such kind of large-scale restructuring arises in the aftermath of a country financial crisis when corporate distress is omnipresent. The thriving completion of restructuring requires a government to take the lead in establishing restructuring priorities, tackling market failures, reforming the political, legal and tax systems, and, perhaps most important, dealing with obstacles posed by commanding interest groups.

The confront of corporate restructuring

Country/large-scale corporate restructuring made necessary by a financial crisis is one of the most intimidating challenges faced by economic policymakers. The government is forced to take a leading role, even if indirectly, because of the need to prioritize policy goals, address market failures, reform the political, legal and tax systems, and deal with the resistance of commanding interest groups. The objectives of such large-scale corporate restructuring are in essence to restructure viable corporations and liquidate nonviable ones, restore the health of the financial sector, and create the conditions for long-term economic survival. It has been observed that successful government-led corporate restructuring policies generally follow a set sequence. First, the government formulates macroeconomic and legal policies that lay the foundation for thriving restructuring. Then, financial restructuring must start to institute the proper incentives for banks to take a responsibility in restructuring and get credit curving again. Only then can corporate restructuring begin in earnest with the separating out of the viable from nonviable organisations—restructuring the former and liquidating the latter.

The major government-led corporate restructuring tools are mergers, acquisitions, mediation, takeover, incentive schemes, bank recapitalization, and the appointment of directors to lead the restructuring. Once the government has achieved its desired goals, the government must reduce its intervention in support of restructuring drive.
Laying the foundation of restructuring

The prime aim of a country reforms is to maximize shareholders’ returns. Sometimes, to achieve that, nations need to undergo corporate restructuring. Corporate restructuring on a large-scale is usually made necessary by a systemic financial crisis—defined as a severe disruption of financial markets that, by impairing their ability to function, has large and adverse effects on the economy of a nation. The intertwining of the corporate and financial sectors that defines a systemic crisis requires that the restructuring should address both sectors simultaneously. But successful restructuring is not possible without a strong foundation set-up by government action across the gamut of economic policies. For this, first of all, whole economic stability must be well-established to provide the assurance needed for debt restructuring. Stable prices, interest rates, and exchange rates are needed for creditors, debtors, and potential investors to have enough certainty to accomplish business. Further, the size and nature of corporate distress must be quickly assessed by the authorities, banks, and advisers to determine if the problems are systemic and thus whether the government should take a leading role.

Essentials of country level restructuring

For restructuring to be successful at country level, a supportive regulatory, legal, and accounting environment is necessary. Important legal aspects of restructuring include foreclosure standards, foreign investment rules, and merger, acquisition and business combinations policies. Further, regulations prevailing debt-equity conversions and asset sales frequently need to be changed to make possible novel and complex restructuring transactions. Secondly, corporate governance must be brought up to inter country standards to provide incentives for viable firms to restructure their balance sheets and maximize their value. Improved governance is needed not only to push managers to restructure the existing debt stock, but also to operate profitably and improve future profit flows.

Restructuring the financial sector

Corporate restructuring cannot commence even if the foundation has been laid without restructuring the financial sector. The draining of bank capital as part of the crisis will usually lead to a sharp curtail in lending to viable and nonviable corporations alike, worsening the overall reduction. Moreover, banks must have the capital and incentives to play a role in restructuring. The very first task of financial restructuring is to separate out the viable from the nonviable financial institutions to the extent possible.
To do this work, financing and technical assistance from inter country financial organizations can be helpful, as in Indonesia following the 1997 crisis.

The appropriate strategy is that nonviable banks should be taken over by the government and their assets eventually sold or shifted to an asset management company, while viable banks should be recapitalized. Banks should be directly recapitalized for normal operation or else, in the absence of strong competitive pressures; they may impede recovery by recapitalizing themselves indirectly through wide interest rate spreads. At the same time the government should ensure that bank regulation and supervision is strong enough to maintain a stable banking sector.

The degree of circularity here is that the separation of viable banks from nonviable banks is helped by completion of the same task for corporations, which itself is aided by financial restructuring. The best way to close this circle seems to be rapid restructuring of the banks because a cutback in bank financing to corporations amplifies the overall contraction, and has irreversible consequences—such as the sale of assets too cheaply.

Restructuring the corporate sector

Mark R. Stone (2002) advises that corporate restructuring can commence in earnest only when banks and market players are willing and able to participate. As with the financial sector, the first task is distinguishing viable from nonviable organizations. The conclusion of nonviable firms ensures that they do not absorb credit or worsen bank losses. However, the identification of nonviable corporations is complicated by the poor overall performance of the corporate sector during and just after the crisis. Viable and nonviable firms can be identified using profit simulations and balance sheet projections, as well as best judgment.

Liquidating nonviable corporations during a systemic crisis usually requires the establishment of new liquidation mechanisms that avoid standard court-based bankruptcy procedures. In this regard, the bankruptcy code of the United States can be taken as the standard minimal government involvement approach. In practice, however, this code has a strong liquidation bias—some 90 per cent of cases end in liquidation, and reorganization takes a long time. Moreover, courts are usually unable to handle a large volume of cases, lack expertise, and may be subject to the influence of vested interests.

1 Nonviable organizations are those whose liquidation value is greater than their value as a going concern, taking into account potential restructuring costs, the ‘equilibrium’ exchange rate, and interest rates.
Giving debtors protection from bankruptcy during mediation proceedings allows corporations that are later judged to be viable to remain operating and enables the orderly liquidation of nonviable corporations. If debtors are protected from bankruptcy, however, monitoring of the corporations is needed to ensure that incumbent managers do not hive off the most profitable assets. Liquidation can be speeded up by special courts or new bankruptcy laws. Hungary introduced a tough bankruptcy law in 1991 under which firms in arrears were required to submit reorganization plans to creditors; if agreement was not reached, firms were liquidated. Also, a standstill on payments to banks during negotiations allows cash-strapped corporations to continue operation while their viability is being decided. Without effective bankruptcy procedures, restructuring can be significantly slowed down, as happened in many of the transition countries, in Mexico in 1995, and especially in Indonesia after the 1997 Asian crisis.

The government must also decide on disposal of the assets of liquidated corporations. Delays in asset disposal tie up economic resources, slow economic recovery, and impede corporate restructuring. Of course, the balance sheets of viable corporations must be restructured. Restructuring will involve private domestic and foreign creditors, newly state-owned creditors, and asset management corporations, as well as stakeholders such as unions and governments. Usually, balance sheet restructuring takes place through the reduction of debt or through the conversion of debt into equity. Often minority creditors slow debt restructuring by threatening to liquidate the debtor in an attempt to force majority creditors to buy them out on favourable terms. This coordination problem can be avoided by the rules that allow less-than-unanimous creditor approval of reorganization plans, which can be enforced by government moral suasion, by prior creditor agreement to a set of principles, or through bankruptcy proceedings.

Early completion of relatively clear-cut transactions can jump-start the restructuring program. Restructuring is often delayed by difficulties in valuing transactions because of economic instability and unreliable corporate data. Long delays in implementing bankruptcy reforms greatly slowed the large-scale corporate restructuring efforts of the mid- and late 1990s. By early 2000, Mexico had still not completed bankruptcy law reform, even though there had been a sharp drop in bank claims on the private sector since the country’s 1995 crisis. In East Asia, ineffectual bankruptcy laws stymied corporate restructuring by allowing nonviable firms to stay afloat, which not only precluded banks from collecting the underlying collateral, but also acted as a disincentive for viable firms to repay their
Corporate Restructuring Through Disinvestment

debt—further hurting the banks. Delays in bankruptcy reform are due mainly to pressures from groups and individuals who would be hurt by the liquidation of nonviable firms, as well as by the time needed to bring up to speed legal systems faced with a sudden increase in bankruptcy cases.

Transparency is essential for bankruptcy reform: regular government disclosure of all the aspects of restructuring can make clear the obstacles put in the way by vested interest groups, and thus lead to public pressure to accelerate reform.

Some common lessons regarding large-scale corporate restructuring that can be drawn from the experience of countries like Chile, Mexico, Poland, Thailand and Malaysia are as follows:

- Top management should be prepared to take on a large role as soon as a crisis is judged to be systemic.
- A sound supporting macroeconomic and legal environment is essential.
- Measures should be taken quickly to offset the social costs of crisis and restructuring.
- Restructuring should be based on a holistic and transparent strategy encompassing corporate and financial restructuring.
- Restructuring goals should be stated at the outset, and sunset provisions embedded into the enabling legislation for new restructuring institutions based on these goals.
- A determined effort to establish effective bankruptcy procedures in the face of pressures from vested interest groups is essential.
- Large-scale post-crisis corporate restructuring takes a minimum of one to three years to complete, on average.
- Finally, crisis can ultimately boost long-term growth prospects both by weakening special interests that had previously blocked change, and through the successful completion of corporate restructuring.

Evolution in India

Business combinations, corporate restructuring, financial reengineering, corporate reorganizations are the terms used for restructuring the corporate sector. But in India, corporate restructuring by way of disinvestment of public sector enterprises has become a fashionable concept in recent years. Management experts have written volumes on disinvestment, privatisation, and downsizing the public corporations and the individual and a whole host of other issues ranging from compensation systems to strategic

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acquisitions for market entry opportunities. One of the concerns is about the global competition.

Compelled by the present economic scenario and market trends, corporate restructuring through mergers, amalgamations, takeovers and acquisitions, has emerged as the best form of survival and growth. The opening up of the Indian economy and the government’s decision to disinvest has made corporate restructuring more relevant today.

In the last few years, India has followed the worldwide trends in restructuring amongst companies through disinvestment. Companies are being taken over, units are being hived off, sold for equity, and joint ventures tantamount to acquisitions are being made and so on. It may be reasonably being stated that the quantum of disinvestment, mergers and acquisitions in the last few years must be more than the corresponding quantum in the four and a half decades post independence.

One issue which is still unanswered is that whether PSEs’ restructuring should be done prior to disinvestment or after disinvestment by the private management. Experience suggests that a healthy and competitive PSE can fetch better price in the market in comparison to a sick PSE. But then the question arises about the suitability of further putting money in sick PSEs, and the capability and the competence of the present management to undertake the restructuring, which they had done before. While a restructured PSE would most likely fetch better price in the market, one should make a cost-benefit analysis to find out the extent of incremental social and financial benefit the Government would receive by selling the restructured units. However, the experience in the market has shown that at the pre-disinvestment stage, Government should undertake organizational, financial and labour restructuring to enhance the value of the unit and leave the business restructuring to the strategic buyer who should decide what to drop and what to retain depending upon the objective of this strategic purchase. It appears to be unlikely that restructuring of the PSEs’ would be undertaken properly timely, and boldly. In fact, the Government will have to take active interest and take quick decision in this regard. With the present Government system and bureaucracy as it is, the objective of effective restructuring may not be possible. Therefore, there is a need for constituting a professionally oriented agency such as Public Enterprises Restructuring Authority. Understanding the need, the Government may enact a special act through Parliament. This Authority should be vested with sufficient power for taking policy, financial, technical decision etc.
Effects of Corporate Restructuring

What kind of influence does corporate restructuring have on a firm’s real value-added, labour productivity, employment pattern and salary?, are as follows:

**Employment Pattern:** Companies are moving away from relying on workers on open-ended, full-time contracts and, increasingly, use part-time, temporary, contingent and contract workers. Hire and fire policy has become the fashion of corporate sector.

**Job Opportunity:** New jobs are coming up and the content of jobs is being expanded to encompass a greater variety of tasks. Working hours are round the clock. Opportunities are now a mouse click away.

**Organization:** There is a trend towards flatter organizational structures. It is clear that corporate restructuring is a deep and pervasive phenomenon across the globe. The increasing trend of mergers and acquisitions is one of the clearest and most readily measurable manifestations of restructuring.

**Place of Work:** Thanks to Information and Communication Technology (ICT) revolution, online methods of doing business, E-commerce, and tele-working, have become popular.

**Salary:** Salary is no bar for deserving. Profit-sharing and various types of bonuses are becoming common and salary is linked with performance.

**Skills:** New working methods are raising skill levels and requirements, and work force thus is required to continuously upgrade their skills so as to be able to cope with the changing corporate demand.

**Working Time:** Increases in demand are met by overtime work or by “a more flexible approach as to when and how to work”, so as to extend operating hours without having to pay overtime rates. 24×7, night shifts, odd timings, and pick and drop facilities are talked about these days.

Corporate Restructuring and NPL Disposition

Corporate restructuring is similar to distressed debt disposition (commonly popular as NPL disposition) with respect to its relationship with distressed debt, but it has a basic difference. Whereas distressed debt disposition refers to carving out distressed debt, a kind of distressed asset from financial institution, corporate restructuring means restructuring the corporate itself and is often seen as necessary when the current situation at a company is one that may lead to its collapse.
Downsizing, mergers and restructuring are a reality of today’s business environment. As protectionist trade barriers have fallen, European organizations have been increasingly required to reposition themselves to meet the challenges of the global market place. In the home market, deregulation, increased competition as well as technological changes have required organizations to become more efficient and effective. As a result of these market pressures, it is inevitable that organizations analyze and redesign all aspects of their business to remain competitive.

As part of this process, organizations are downsizing at an unprecedented scale, and merger, acquisition and disinvestment activity remains high. Although there may be benefits to downsizing or mergers on paper, they are not easily translated into understanding or acceptance in the human dimension where once loyal employees must come to terms with being unemployed.

**Summary**

The present economy of India is passing through a process of crucial transformation. For the last four decades we have been following a path in which the public sector was expected to be the engine of growth. However, from the middle of the seventies, disappointment with the public sector had started, but the voices of protest were very weak and periodic. But the continuous failure of public sector to fulfill the role assigned to it intensified the voices of protest. The opening of certain sectors earlier reserved for public sector was undertaken in the beginning of eighties but the government was to some extent hesitant to make a clear statement. Then ultimately in the year 1991, under the stewardship of Dr. Manmohan Singh, then finance minister, the process of corporate restructuring through disinvestment was actually started and got momentum. The decisions of opening up of public sector for private players, incentives to foreign direct investment, removal of licensing policy, removed restrictions on investment and expansion, access to foreign technology and mergers and acquisitions by Indian giants in and outside the country ushered in a process of economic reforms in India.

The corporate restructuring, often compared to medical surgery, is a process of treatment for ailing companies based on the professional diagnosis. It is the act of partially dismantling and reorganizing a company for the purpose of making it more efficient and ‘therefore’ more profitable. It generally involves selling off portions of the company and making severe staff reductions. It is often done as part of a bankruptcy or of a takeover by another firm, particularly a leveraged buyout by a private equity firm. It
may also be done by a new CEO hired specifically to make the difficult and controversial decisions required to save or reposition the company. The selling of shares of the company, such as a division that is no longer profitable or which has distracted management from its core business, can greatly improve the company’s financial performance. Staff reductions are often accomplished partly through the selling or closing of unprofitable portions of the company and partly by consolidating or outsourcing parts of the company that perform redundant functions (such as payroll, human resources, and training) leftover from old acquisitions that were never fully integrated into the parent organization. This is often seen as necessary when the current situation at a company is one that may lead to collapse.

Just as the goal of medical surgery lies in the recovery of a patient, the aim of a corporate restructuring is the rehabilitation of a distressed company. As the patient needs a hospital to be recovered, the ailing company requires a restructuring vehicle to be rehabilitated. In all, the corporate restructuring has become a more sophisticated and more dynamic environment in which to operate. Whilst it is good to remind ourselves how far we have come, we are also aware that there is plenty more room for growth and let us hope that the next couple of years, which will be very important from an economic perspective, continue to provide more scope for the rescue and turnaround of faltering businesses in India.

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