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CORPORATE RESTRUCTURING THROUGH DEMERGER- GLOBAL OVERVIEW

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The company, when desirous of splitting its business activities, goes into the process of the demerger. The zeal for earning profit and expanding business activities has forced the companies to merge with other companies through compromise or arrangement. As a result, these tie-ups may or may not work in favour of the companies, and when the corporate restructuring does not fulfil the motive, the corporate has to restructure itself by diversifying its business components. This diversification or corporate restructuring is termed as “Demerger”. The corporate restructuring or Demerger in India is governed by the Companies Act 2013 and Companies (Compromises, Arrangements and Amalgamations) Rules, 2016.

Corporate world is changing rapidly giving an unprecedented threat to the companies that mandates to bring in better focus. The firms today cannot drown in the luxury of only producing goods to keep life simple, rather an unquenched thirst always remains that makes the quest for value sustainable. Rapid growth in Technology, squeezed employment market, growing number of discerning consumers, change in the nature of financial market and rising stock market volatility abash the managers to put a single step forward. The managers have to keep an incessant vigil on their inventing intelligence all the time to clear the bush for unfolding the way to deliver superior performance and value for their shareholders. Existence of keen competition with its number and volume also made the texture of the competitors stronger and shock absorber, both financially and strategically, creating a wide exposure for the business enterprises to build armor for protecting themselves from the threats lying in and forthcoming from the environment. So, a strategic adjustment that increases efficiency is inevitable to re-establish their competitive advantage and respond more quickly and effectively to new opportunities and un-anticipated challenges.

Restructuring, in relation to corporate management, is dismantling and rearranging corporate ownership with an end in view to enhance efficiency and profitability.

Today’s financial and economic environment accelerated restructuring activities putting it on the peak of importance in the global corporate arena. Liberalization, privatization, globalization and other related words that fit to describe the recent hike in restructuring activities might lose its relevance if anyone looks back to the history. Several waves of corporate restructuring principally involving merger appeared in corporate history especially in the U.S, most of which are dominated by a particular type of merger. Golbe and White (1988) separated the waves of merger movement by five specific periods. Table 1.1 shows successive waves of merger activity in the US industry.

Table: Successive Waves of Mergers in U.S.

Wave	Approximate Period	No of Deals
First	1895-1904	3,012
Second	1922-1929	4,828
Third	1940-1947	1,321
Fourth	1960-1969	6,232
Fifth	1976-2000	40,769

Source: Buekley and Ghauri (2002) P. 4

The first merger movement at the dusk of nineteenth century that peaked in 1899 accompanied several reasons like major changes in economic infrastructure, production technologies, completion of transcontinental railroad system, advent of electricity, increase in inanimate energy in production, etc.

The movement of 1920s was mostly concentrated on the public utilities and banking industries unlike the first wave that occurred mainly in consolidation of manufacturing industries.

Compared to the earlier movements the third wave found to be smaller. The motivational factor that underpinned merger activities during this period is rapid growth of economy of the early post-war years. Stigler (1950) finds most of the mergers of this period are vertical and the firms were consolidated to circumvent price controls and allocations, and high taxes during the wartime and post-war period. The movement is labeled as "conventional" and the wave lost its strength due to absence of any specific pervasive reasons.
Diversification through conglomeration was the driving desire during fourth wave that spawned merger and acquisition activity to reach at its then historical highest level. Small or medium sized firms put their step outside the fence of their traditional area of interest aiming at diversification, which have subsequently been known as conglomeration. Most of the mergers were characterized by acquisition of firms by the companies in totally diverse industries where at least a microscopic interdependence is hardly observed. During this period of merger and acquisition activity the strategic view of the companies with high P/E ratios was to acquire firms with lower P/E ratios so that the EPS of the combined companies increases (Salter and Weinhold, 1978). As the merger and acquisition activity during this period was largely dominated by conglomerates, growth within the industries was negligible, consequently pulling down the number of mergers with the losing pace of general economic activities after 1969. By the early 1970 conglomerates were fossilized as the investors turned their face off. The last or current wave of merger and acquisition activity was initiated in 1976 following the recession the U.S. economy faced in 1974-75. Service industries like finance, insurance, commercial and investment banking, wholesale, retail, health care became the popular area where the merger and acquisition trended upward. This period of merger and acquisition activity powered by IT revolution, deregulation, reductions in trade barriers set a new record as by 1999 the announced dollar volume of global merger and acquisition activity reached at $ 5.12 trillion with a total number of announced transactions of 40,769 (Buekley and Ghauri, 2002).

A notable change in the corporate value system has been observed during this period as hostile takeovers, previously considered unethical, become a considerable part of mergers taken place in this period. Prior to this period the takeover scenarios in the corporate world were characterized only by friendly takeovers where takeover effort was dropped if the target's management rejected the offer. But with the acquisition of Electronic Battery Storage (EBS), the world's largest producer of batteries, by International Nickel of Canada in 1974 the ethical boundary of takeover has been erased (Shleifer and Lawrence, 1988).

Apart from this mentioned earlier the most important characteristic of this is that contraction of size through divestiture became the key tune of restructuring activity.

Throughout the 1980s, divestitures have been represented over 35 per cent of the total restructuring acquisition transactions (W. T. Crimm & Co. Mergerstal Review, 1987).

In this restructuring movement a demerger trend appeared in the late 1980s and in early 1990s and this seems to be continuing (Dearlove, 1995). Large conglomerated like ICI, Hanson, AT&T, and most recently Thorn/EMI demerged drawing the close attention of the analysts.

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