

Bachelor Thesis Organization & Strategy:

What strategic options can be used for company restructuring?



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Management Summary

Company restructuring has become an increasingly popular instrument for companies to refocus, remove negative synergies, and increase operational performance (Brauer, 2006). However, before reaping the benefits of restructuring, a company still has to decide which strategic restructuring option is the best-fit option among others (Cohen and Dean, 2005). This critical question has led to the problem statement of this thesis: what strategic options can be used to restructure a company?

Thus, the main goal of the thesis is to answer the problem statement, which is further decomposed into three research questions that logically constitute the main construct of the thesis: starting with needs for company restructuring, following by strategic restructuring options and their applications, finally considerations to restructure. Firstly, the necessity to understand the various needs that motivate companies for restructuring is evident. Perspective falls into five different, yet compelling needs: restructure to grow, to compete, to refocus, to adapt to environmental uncertainty, and to improve operational efficiency and effectiveness. Secondly, corresponding to the needs, there are four categories of divergent restructuring options, which are respectively fulfilling the various needs for company restructuring. These options are spin-off, sell-off, mergers and acquisitions, joint ventures and alliances. Further, each option has its own preferred applying circumstances, which will assist a company in the selection process. Thirdly, applicable considerations to restructure such as experience, capacity for change, strategic fit and information asymmetry, culture fit, should be examined before a decision of restructuring option is taken. Otherwise, the undesirable consequence of restructuring may emerge.

In conclusion, while considering company restructuring and facing different restructuring options, a company shall unmistakably understand its motivations for restructuring. Motivations set the direction and narrow down the possible resolutions - restructuring options. Further assisted by their specific applications and corresponding considerations to restructure, a company can select the best fit option appropriate to its organization and strategy.

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1 Introduction

1.1 *Problem Indication*

Company restructuring has become a popular strategic topic. Since the 1980s, tens of thousands of companies have used it to refocus, remove negative synergies and increase operational performance (Brauer, 2006). Research shows that most company strategic behaviours have focused on company restructuring as growth paths such as mergers, acquisitions, and alliances (Chang and Rosenzweig, 2001; Vermeulen and Barkema, 2001; Zollo, Reuer and Singh, 2002). Research to date has portrayed company restructuring as a deliberate response to governance, strategy and industry pressures (Brauer, 2006). As companies have faced increased market volatility, uncertainty and heightened competition since the 1980s, they have often come under enormous pressure to restructure, in order to improve operational performance. Ensuring organisational capabilities are appropriate to their strategic needs. Many have changed their internal operating structures in an attempt to enhance organisational flexibility (Taplin, 2006).

Company restructuring is one of the most common ways to improve operational performance, among other two: change leadership and change strategy (Hill and Jones, 2004). By definition (Balogun, 2007), company restructuring is a commonplace put in place by senior management as part of a wider strategic move to create alignment between ways of working and new strategic objectives. This restructuring can be driven by a number of strategic considerations, such as a drive to adopt flexible and modular organisational structures to respond effectively to an increasingly dynamic business environment (Schilling and Steensma, 2001).

Even more importantly, companies still have to decide which restructuring options are most appropriate to their organisations and respective strategies. They need to compare various restructuring alternatives and then select the one that will most effectively fulfil the motivations for company restructuring (Cohen and Dean, 2005).

1.2 Problem Statement

The problem indication of this thesis illustrates the significance of company restructuring as well as the importance of selecting the appropriate restructuring option, in order to reap the benefit of company restructuring. Thus, this thesis will focus on what strategic options are available for company restructuring and their application to address the specific needs for company restructuring.

Therefore, the problem statement of this thesis is:

- What strategic options can be used to restructure a company?

1.3 Research Questions

The following research questions are designed for the respective problem statement of this thesis:

1. Why do companies need company restructuring?
2. What are the restructuring options and their applications?
3. What are the considerations to restructure?

1.4 Research Design

The type of the research undertaken for this thesis is a descriptive research. This thesis will describe the importance and needs for company restructuring, demonstrate the relationship between the specific needs for company restructuring and the compelling reasons to select specific company restructuring option. Furthermore the thesis will also describe the factors that are ought to be considered, while selecting the most appropriate restructuring option.

The data collection method used in this thesis is literature review.

Following are the main concepts of this thesis:

1. reasons for company restructuring
2. restructuring considerations
3. restructuring options and applications

1.5 Data Collection

As mentioned in previous section, the corresponding data collection method to a descriptive research is literature review within the scope of this thesis. Further, there are primarily two sources of literature input: academic journals and other publications like books. For academic journals, the journal search engine provided by the library of Tilburg University is the primary source. For other publications, like books, the primary source is still the library of Tilburg University. To guarantee the quality of literature as input for this thesis, it will only use top and high quality journals for instance, Strategic Management Journal, Academy of Management Journal...etc. The subject or topic of journals should closely relate to defined research questions. To gather the most up-to-date information, reviewed articles should be recent, mostly published after year 2000 in order to represent current academic development of the chosen topic. Moreover, to have sufficient representation of research coverage, the thesis should have at least covered 20 or more selected journals.

1.6 Thesis Structure

This section describes the overall structure of this thesis and provides the necessary reading orientation. Chapter 1 is the introduction focusing on why this study is necessary and how to carry out the study in details. Chapter 2, in details, describes the various needs and different motivations for company restructuring, to have a sound understanding of why companies need restructuring from various viewpoints. Chapter 3 describes various strategic options for company restructuring and their unique ways to fulfil different and specific needs for company restructuring, in other words, how to apply different restructuring options. Chapter 4 describes the considerations that have to be examined when selecting the most appropriate restructuring option among others. Chapter 5 concludes the overall thesis and provides recommendations for the future studies.

2 Needs for Company Restructuring

2.1 Introduction

Company restructuring is closely related to company strategy changes and is a typical method to correct previous strategic mistake (Capron, Mitchell, and Swaminathan, 2001). The very first step of understanding company restructuring is to comprehend what drives companies to restructure. The reasons and motivations behind restructuring are diverse as further explained in this chapter.

2.2 Needs behind Restructuring

There are distinguishable reasons that companies pursue restructuring based on literatures such as Yin and Shanley (2008), Murshed and Hulland (2008), Mitchell and Swaminathan (2001). Following needs are discussed below.

Restructure to Grow

Research shows (Yin and Shanley, 2008) that many companies employ a different growth model instead of internal growth. They expand their businesses or develop new capabilities via company restructuring. Sometime, companies even restructure to expand their business portfolios to new businesses. For instance, acquisition, as a form of company restructuring, is an example of a company that enlarges its organisation and business by taking over other companies or part of other companies (Hill and Jones, 2004).

Restructure to Compete

In today's increasingly competitive global marketplace, if a company does not continuously adapt and evolve to fulfil the strategic needs of the rapidly changing competitive environment, it risks becoming the victim of competition. Consequently, to have an advantageous competitive position, companies often employ a restructuring strategy to expand the scale of the core business therefore enjoy the increased efficiency provided by economies of scale. Further, from a resource-based perspective, company

restructuring can be perceived as a strategic action to help companies acquire and reconfigure their needed resources to keep up the pace with competition landscape changes, thus to adopt an advantageous position in the market place. (Swaminathan, Murshed and Hulland, 2008).

Restructure to Refocus

Refocus is a different example that a company is to improve its focus by selling off some non-core business portfolios (Bowman and Singh, 1993). Furthermore, the primary reason of restructuring is poor company performance resulting from over diversified business portfolios (Hoskisson and Johnson, 1992). Others (Chatterjee, Harrison, and Bergh, 2003) also argues that restructuring can shift a company from weak to strong internal governance, which leads to the use of company restructuring to refocus company strategies. Company restructuring reverses unduly diversified strategies to more optimal and balanced levels (Bergh and Lawless, 1998). In addition, company restructuring disposes unwanted parts of asset and helps companies to refocus (Capron, Mitchell, and Swaminathan, 2001).

Restructure to Adapt to Environmental Uncertainty

Additionally, research shows (Bergh and Lawless, 1998) that environmental uncertainty also has impact on the company's decision to restructure. If environmental uncertainty is high, it will decrease the ability of a company to control its subsidiaries efficiently, and eventually lead to company restructuring, for instance, divesting company's divisions, and business units. The reason is that when environmental uncertainty is high, the cost associated to managing multiple business portfolios become higher, consequentially reduced the benefit of diversification. Moreover, a company will actively change its strategy to adapt to the environment uncertainty changes. In other words, environmental uncertainty can lead to company restructuring (Rudd, Greenley, Beatson, Lings, 2008).

Restructure to Improve Operational Effectiveness and Efficiency

Some argues (Taplin, 2006) that company restructuring can improve companies' operational effectiveness and efficiency. Effectiveness is defined as procedures or

processes designed to sustain long-term operational excellence in a wide range of activities such as flexibility, productivity, quality and speed of throughout, and which can entail indirect cost savings. Efficiency meanwhile refers to direct cost savings that are often short term oriented and often involve direct attempts to improve productivity (Taplin, 2006). Companies use restructuring to improve efficiency in response to active merger and acquisition markets (Shleifer and Vishny, 1991).

2.3 Summary

Companies undergoing restructuring can be driven by the need to become a larger player, by the need to refocus at core business and rebalance the over diversified strategies and by the need to adapt to environmental uncertainty therefore survive the market competition, further driven by the need to improve operational effectiveness and efficiency. These are different, yet compelling reasons for company restructuring. Fulfilling these needs is a strategically important mission to be accomplished by forward-looking companies and, more importantly, their restructuring options.

3 Strategic Restructuring Options and Their Applications

3.1 Introduction

Different restructuring options address diverse, yet specific needs for company restructuring and require distinctive applicable situations. Perspectives fall into four main categories of options: spin-off, sell-off, merger and acquisition, joint ventures and strategic alliances, which will be discussed sequentially. Further, different applications are also closely related to the following chapter: considerations to restructure. Thus, when reading restructuring option's application, if additional and more elaborated definitions are needed, readers are advised to cross read chapter 5: considerations to restructure. Moreover, this chapter focuses primarily on how restructuring options fulfil various needs for company restructuring¹.

3.2 Spin-off

Definition of Spin-off

Research shows (Bruner, 2004) that a spin-off takes place when a company distributes all its subsidiary's shares to the subsidiary's own shareholders and in the process the spun-off assets are transformed into a separate and publicly traded company. As the result of a spin-off, the parent company has restructured ownership among existing shareholders and reduced the level of assets under its control. In particular, a spin-off does not involve any cash proceeds, selling and buying processes because there are no seller and buyer during a spin-off. The spun-off assets simply become separate and independent from the parent company. In addition, spun-off companies are often resulting from the parent companies' core business assets. Also a spun-off company usually has internal control mechanism that emphasizes interface management, coordinates strategic and organisational

¹ Due to limitations of this thesis, it is not the intention of this thesis to compare various restructuring options and exploit their advantages and disadvantages. Refer to chapter 6: Conclusion and Recommendations where limitations are explained.

interdependences after company restructuring has been completed (Bergh et al., 2008; Nixon et al., 2000).

Objectives of Spin-off

Spin-offs are commonly used to disentangle assets that have promising and high growth potentials, which cannot be adequately realised within the parent companies. Spin-off provides the opportunity for the parent company to refocus on its core business and strategy, as well as provides the unique opportunity for the spun-off asset to further grow and unleash its full potential without the constraints under the parent company (Bruner, 2004).

Spin-off is also to reduce information asymmetry and increase information transparency in the market regarding the cash flows and operating efficiency of the companies. Otherwise, companies' assets would be undervalued due to information asymmetry. Therefore, companies divest through a spin-off option will help them experience a positive market revaluation (Cohen and Dean, 2005).

Application of Spin-off

Under what circumstances companies should apply spin-off is a very important question to be answer. Research indicates (Allen, 2001) that primary and related business assets exist within the company's core business lines and create considerable value by sharing and developing complementary and interdependent relationships with other assets within the company. For most companies, assets in primary and related businesses comprise the underpinning competitive advantage, contain implicit operational knowledge, and are less transparent to the outsiders in the market. Assets as such have the potential to create information asymmetry, which can be resolved effectively by spin-offs when company restructuring become necessary. More arguments to spin-off, first, because of spin-off's specialty, spun-off assets are highly constrained to be part of other companies, making them difficult to fit into another organisation, therefore making them more suitable to become an independent company. Second, spin-offs of these assets would produce a simplified organisational structure, decrease agency and overhead costs, and lessen

information asymmetry, all of which would increase the efficiency and earning potentials of the company undertaking restructuring. Third, the spun-off asset and the restructuring parent company can create and maintain mutually beneficial post-restructuring relationships. Considered collectively, spin-off is the most preferred restructuring option for restructuring primary and related business assets by improving organisational transparency while permitting investors to value a more efficient and transparent post-restructuring company (Allen, 2001).

3.3 Sell-off

Definition of Sell-off

A sell-off, also known as a divestment, takes place when assets are sold from one company to another in exchange for cash and/or securities. Furthermore, typically a sell-off is used to transfer assets from one company, as a seller, to another, as a buyer, that may achieve higher value from the acquisition. There are clearly selling and buying processes involved in a sell-off. Mentioned sell-off attributes also mark the major differences compare to a spin-off (John and Ofek, 1995).

Objectives of Sell-off

Often, sold-off assets are not performing well, not creating value that meets original expectations. Sold-off assets are also used to raise cash and proceeds that can be paid down debt and/or be reinvested in the core businesses of the restructuring company's (Brauer, 2006). In other words, sell-off is used to help companies undergoing restructuring to refocus on their core businesses and strategies. Besides, sell-off triggers an asset liquidation process, which involves decisions about how the restructured assets will be liquidated and how the transaction will be carried out. For instance, investment banks, functioning as brokers, often manage the liquidation process: they find buyers, arrange financing, and coordinate the exchange of the sold-off assets (Bergh, Johnson, and DeWitt, 2008).

Application of Sell-off

From the capacity for change (Zahra and George, 2002) point of view, learning experience applies better to sell-off because sell-off provides more of the required conditions necessary to accumulate experience and develop the explicit knowledge. Moreover, sell-off involves the asset verification, liquidation, and marketing, transaction costs management associated with locating, negotiating, and exchanging the assets with an external buyer. The control mechanism installed to manage the assets in a sell-off will facilitate the communication necessary to increase organisation's capacity for change.

Specifically, sell-offs typically involve assets in secondary and unrelated businesses. Secondary and unrelated business assets are outside the restructuring company's primary and related core businesses and usually serve as revenue hedges, financial synergies, and mitigation of managerial risks. Managers have the tendency to use the sell-off mode for restructuring secondary and unrelated assets. They are likely to have less knowledge about such assets than potential buyers and the managers of the acquiring company are more likely to have greater knowledge to create value with the restructured assets (Bergh et al., 2008).

Additionally, sell-off has the potential to simulate an open auction, where the market forces for acquiring assets could countervail the buying company's abilities to exploit information disadvantages in the selling company. Sell-off of secondary and unrelated business assets help the restructuring company to mitigate information and knowledge disadvantages while maximizing financial profit by using a competitive bidding process (Bergh et al., 2008). Consequently, for restructuring assets in secondary and unrelated business, sell-off is a much-preferred option.

3.4 Mergers and Acquisitions²

Definition of Mergers and Acquisitions

Research shows (Hill and Jones, 2004) that acquisition happens when a company utilizes its capital resources, for instance, stock, debt, or cash to acquire or purchase the other company or a portion of it. In an event of acquisition, it typically involves one dominant company as an acquirer, which is significantly larger than the other company as a targeted company. Merger, however, is an agreement that commonly involve two equal parties pooling their operations and assets together and generating an entirely new company or entity. Contrary to acquisition, in an event of merger there is no dominant player (Hill and Jones, 2004).

Objectives of Mergers and Acquisitions

Mergers and acquisitions allow companies to quickly change their boundaries, allow companies to expand their businesses in an existing domain and allow companies to enter entirely new business areas with brand new business opportunities (Duncan and Mtar, 2006). In addition, with mergers and acquisitions, companies can enlarge economies of scale, and improve operational efficiency accordingly (Duncan and Mtar, 2006). Mergers and acquisitions can help companies to acquire, exchange, or redeploy strategic resources and enhance organisation's learning experiences that would otherwise be difficult to achieve (Swaminathan, Murshed and Hulland, 2008).

Application of Mergers and Acquisitions' application

There are occasions that the cooperative efforts between companies are sufficiently complex and participants are combined under common ownership in a merger or acquisition form, in order to have tighter control over the complex situation (Yin and Shanley, 2008). Mergers and acquisitions will also be preferred where common

² The differences between Mergers and Acquisitions are not the focus of this thesis. Instead this thesis focuses on commons between Mergers and Acquisitions. Therefore, it is subject to limitation refer to chapter 6: Conclusion and Recommendations. Mergers and Acquisitions are treated as a common category of restructuring options.

ownership and control can better realise the full potential of combined organisational resources than other forms of cooperation (Yin and Shanley, 2008).

In low-tech sectors that have less technological and environmental changes, mergers and acquisitions are the preferred methods for acquiring strategic resources and innovative capabilities (Duncan and Mtar, 2006). Research also shows (Yin and Shanley, 2008) that companies having past experiences with acquisition are more inclined to choose acquisition as a restructuring option continuously in the future. Additionally, acquisitions are preferred when companies intend to integrate tangible resources, such as hardware, manufacturing plants. Under common ownership, acquisitions provide direct control over these tangible assets. Companies in these sectors generally will have mass production and use significantly dedicated assets like manufacturing plants. This implies that companies will have more to gain by increasing their production and distribution scale via mergers and acquisitions. Further, the greater inter-company commitment requires more commonly shared interests that mergers and acquisitions can provide (Yin and Shanley, 2008).

3.5 Joint Ventures and Strategic Alliances³

Definitions of Joint Ventures and Strategic Alliances

Strategic alliance is an agreement between two or more companies to collaboratively manage assets, achieve common objectives and share certain services, knowledge and information for the benefit of participant parties. Some alliances even involve the creation of a separate jointly owned entity called a joint venture, which is considered a form of alliance as well. Joint ventures and strategic alliances are usually of limited scope and duration (Yin and Shanley, 2008).

³ Due to the limitation, refer to chapter 6: Conclusion and Recommendations, this thesis does not exploit the possible differences between Joint Ventures and Alliances if any of them exists. Joint Ventures and Alliances are treated as a common category of restructuring options.

Objectives of Joint Ventures and Strategic Alliances

Commonly joint ventures and strategic alliances are used to share joined interests and risks, to share large amount of costs in the joined development of new products, and to bring together complementary resources, such as skills and assets that neither company could easily acquire while allowing participants to operate independently. In addition, shared resources also create economies of scale resulting in better efficiency among partner companies (Kirchmaier, 2003).

Application of Joint Ventures and Strategic Alliances

For companies that are intending to create synergies through combining intangible resources such as human resources, alliances and joint ventures are preferred. When specialized expertise obtained by certain individuals is the key objective of the inter-companies cooperation, an acquirer will have great difficulties accessing the expertise and keeping the individuals and will risk its exit if these key individuals decide to leave, thus the value of such cooperation will diminish. To mitigate the risk of diminished value, under such circumstances joint ventures and strategic alliances are preferred (Yin and Shanley, 2008).

Additionally, joint ventures and alliances should also be preferred if the desired assets of each party are company specific. The cost of acquisitions and mergers would be particularly high in these circumstances. In such situations, acquiring the entire company would expose the acquirer to unrelated fields or suddenly expand in size, posing significant management challenges. Joint ventures and alliances permit companies to avoid these immediate problems (Dyer et al., 2004).

In high-tech sectors requiring considerable learning and flexibility, alliances and joint ventures are preferred as well for acquiring desired capabilities. It is requisite for companies to maintain flexible organisational arrangements that alliances and joint ventures can provide in uncertain and risky industrial environments. When market uncertainty is high, companies should choose joint ventures and alliances to reduce their exposure to risks while maintaining the possibility to acquisitions if its closely tied

collaboration yields more favourable results than other options (Yin and Shanley, 2008). In general, facing turbulent environment, companies will attempt to reserve their flexibility and avoid unnecessary commitments that could be turned into risks by the unforeseen changes. Alliances and joint ventures help companies to reduce commitments and have greater flexibility with the alternatives to scale up or scale down the scope, depending on the initial cooperation results (Dyer et al., 2004).

3.6 Summary

Having different restructuring objectives, respective restructuring options purposefully fulfil various restructuring needs. Yet, specific applying situations indicate the preference of restructuring options, under different circumstances. Moreover, considerations to restructure, for instance, information asymmetry and capacity for change are also cross-referenced and complimenting the discussion of restructuring options. Following chapter will thoroughly describe considerations to restructure, which are critically important subjects for company restructuring.

4 Considerations to Restructure

4.1 Introduction

Considerations to restructure are critical factors to be fully exploited before and even after company restructuring. Failing to do so can lead to reversed outcome of company restructuring (Duncan and Mtar, 2006). Specifically, considerations falls into five major categories: experience, capacity for change, strategic fit, and information asymmetry, culture fit.

4.2 Experience

Research shows (Bergh and Ngah-Kiing Lim, 2008) that companies' previous restructuring experiences, especially of mergers and acquisitions, are identified as an important factor for a successful restructuring implementation. Experiences with company restructuring would help to reduce operational costs and competency traps. By reducing costs associated with the operations and activities of integrating newly acquired information, companies having more experience are likely to have higher post company restructuring performance than those having less experience. In addition, previous acquisitions experience is essential in ensuring a successful management of both pre-restructuring as well as post-restructuring phases (Duncan and Mtar, 2006).

Specifically, the experience acquired from previous acquisitions can be useful for two following reasons. First, many of the acquisitions processes are repeatable and companies will have obtained these key skills from previous acquisitions. Second, companies will be much more knowledgeable and prepared with regard to the challenges such as cultural issues posed by an acquisition and will have already learnt the lessons from past. Statistics (Duncan and Mtar, 2006) also suggests the same result that two-thirds of the successful acquisitions had substantial experience in implementing restructuring related changes prior to the acquisition. Companies experiencing a complex situation, with developed adaptation skills, are more capable and more flexible in dealing with a potential acquisition. In addition, a careful and deliberate selection of target companies to

acquire is critical in reducing the possibility of paying a premium of being inexperienced. This skill is assuredly developed through the past acquisition experiences (Duncan and Mtar, 2006).

4.3 Capacity for Change

In a recent study, research indicates (Zahra and George, 2002) that company's capacity for change is a critical ability to absorb changes. Companies with higher levels of capacity can better refine, recreate, and leverage existing competencies or create new ones by incorporating acquired and transformed knowledge and experience into operational capability than companies with lower levels of capacity. This capacity has been portrayed as a dynamic capability that leads to competitive advantage and exceeding performance returns (Bergh and Ngah-Kiing Lim, 2008).

Research also shows (Judgea and Elenkov, 2005) that a strong positive association between company's capacity for change and its operational as well as environmental performances. Within this spectrum, the dominant task of company's leaders is to enhance an organisation's capacity for change, not only for economic, but also for environmental reasons. Recent resource-based-view research has shown (Eisenhardt and Martin, 2000) that some of the most valuable and rare organisational capabilities are known as dynamic capabilities, also known as capacity for change. Unlike static capabilities, dynamic organisational capabilities are able to change, therefore adapt to the environmental threats and opportunities. Company's capacity for change is defined as a broad and dynamic organisational capability, which allows the company to adapt existing capabilities to new threats and opportunities. More importantly, it creates new capabilities. Capacity for change is increasingly important as the pace of change, outside of the company, is increasingly high, which puts pressures on companies to unfold changes faster (Oxtoby et al., 2002).

When a company engages in mergers and acquisitions, it develops capacity for change to understand such an action (Barkema and Vermeulen, 1998; Baum, Li, and Usher, 2000).

This experience creates capacity for change that in turn allows companies to learn how to become more efficient at clearly defined company strategic behaviours such as acquisitions (e.g., Hayward, 2002; Villalonga and McGahan, 2005).

4.4 Strategic Fit

How to leverage and deploy the strategic resources within a company in an optimal way, to achieve strategic objectives and superior operational performance, are key concerns of a company's strategies. Strategy research (Zajac et al., 2000) shows that the suitability of a certain strategy can be defined in terms of strategic fit with organisational and environmental contingencies. Essentially, the significance of fit to strategy is related to the efficient and effective alignment of resources to organisational as well as environmental contingencies and higher operational performance will materialise when this fit is reached. This principle for superior operational performance is dynamic since fit can change and be lost if organisational and/or environmental contingencies change and the strategy become unsuitable. Research in the resource-based literatures suggests that strategy should fit the organisation's unique strategic resources to its environment for enhanced competitive outcomes. The fit between these resources and strategy type will differentiate its performance (Hughes and Morgan, 2008).

Better deployment or realignment of current strategic resources can overcome relative strategic resource imbalance and ensure an effective fit of strategy to organisational and environmental contingencies. Furthermore, a strategy without the required resources cannot be implemented and cannot be changed to fit new environmental contingencies, therefore hindering the organisation's ability to compete for competitive advantages (Luo et al., 2005).

4.5 Information asymmetry

Information asymmetry, or disparity in acknowledgement of vital information between parties to a transaction and negotiation, has evidently affected decision-making, strategy, and investors' reactions towards a potential transaction (Cohen and Dean, 2005). Managers, who have the knowledge advantages allowing them to hide costs and overstate earnings, can capitalize on an information asymmetry and manipulate the market value of the diversified company. To reduce their vulnerability to the potential self-serving behaviour, investors may withdraw or dedicate fewer resources to the diversified company, resulting in lower market value relative to what managers believe the company is truly worth. Therefore, managers can use spin-off approach to restructure parts of the company's assets into an independent legal entity that provides improved clarity about the restructuring parent company's strategy, assets, and earnings potential, mitigating the risk of information asymmetry (Cohen and Dean, 2005).

The research suggests (Bergh, Johnson and DeWitt, 2008) that managers distinguish among the application of between spin-off and sell-off because of which alternative most effectively generate operational profits. The finding indicates that choosing sell-off approach better protect the restructuring company's management from a potentially disadvantageous information asymmetry with well-informed market buyers and also lead to the highest possible financial gains. On the other hand, managers do restructure assets of core and related businesses and have the tendency to use spin-off approach rather than sell-off. The spin-off approach not only decreases the information asymmetry of the restructuring parent company, but also preserves the opportunity for the restructuring company and the spun-off assets to maintain a post-restructuring relationship.

Companies with different business diversification strategies have different information asymmetries that lead to the decision of different restructuring alternatives. Company restructuring involves recognition of the differences in how company assets and diversification strategy trigger an information asymmetry and how managers can select the best alternative to transform these differences into financial gains effectively.

Moreover, when managers face a complex scenario, they appear to select the implementation alternative that most effectively mitigates a potential information asymmetry and produces the most positive stock market reaction (Bergh, Johnson and DeWitt, 2008).

4.6 Cultural Fit

Culture fit is a major factor of overall mergers and acquisitions success and this is particularly true when considering international mergers and acquisitions. Culture fit has serious implications for the integration process of post-acquisitions, and the companies' post-acquisition performance (Duncan and Mtar, 2006). Research shows (Duncan and Mtar, 2006) that sixty-five per cent of these mergers and acquisitions, which had unsatisfactory results, had experienced serious issues with post-acquisition integration and these issues had been resulting from the cultural differences. The company culture differences of merging companies can be the sources of potential conflicts resulting in the desired benefits of the particular merger not being entirely met. Differences can be resulting from national and organisational cultures, specifically organisational culture being company specific and strongly influenced by the company's history. Consequently, among international mergers and acquisitions, there are potentially two or more different national cultures to conciliate, along with company specific organisational cultures. This eventually results in a greater risk of incompatibility, a source of potential conflicts, between the acquiring company and the acquired company. Hence, cultural fit is a crucial success factor for mergers and acquisitions, especially for cross-border ones (Duncan and Mtar, 2006).

4.7 Summary

Having understood these five considerations to restructure and their implications, a company considering restructuring shall thoroughly exploit various considerations corresponding to specific restructuring options that are under evaluation. For instance, when a company is merging with another company as an expansion strategy, it is very

important to examine the culture fit between merging companies. Otherwise, cultural incompatibility may rise and jeopardize the benefit of the merger. More elaborated explanation with regard to interrelationship among strategic needs for company restructuring, restructuring options and restructuring consideration will be summarized in the final chapter: conclusion and recommendations.

5 Conclusion and Recommendations

5.1 Conclusion

Under the background (Brauer, 2006) that increasingly more companies choose company restructuring as a vehicle to achieve their strategic objectives, how to select the best-fit restructuring option among others to fulfil desired strategic needs as well as what considerations need to be carefully studied, are vitally important questions to be answered. This thesis has given the chain of thoughts on addressing these vitally important questions in the sequential and logical order, starting with various strategic needs that drive for company restructuring, following by different restructuring options that satisfy specific needs for restructuring, finally the considerations ought to be thoroughly exploited before the decision is taken.

Firstly, when companies are undergoing company restructuring, the strategic needs like restructure to grow, restructure to compete, along with others, compel companies to drive for the change — company restructuring (Yin and Shanley, 2008; Murshed and Hulland 2008; Mitchell and Swaminathan, 2001). Companies have to understand clearly what exactly their needs are and what exactly they would like to achieve in advance of implementing any company restructuring activities. Evidently, restructure to grow and restructure to refocus cannot coexist in one company as strategic needs for company restructuring (Yin and Shanley, 2008; Mitchell and Swaminathan, 2001). Therefore, a company must clearly understand its specific needs.

Secondly, when the needs are clear, companies have to select one restructuring option perfectly fulfilling the needs, against the whole range of options such as, spin-off, sell-off, mergers and acquisitions, joint ventures and alliances (Bruner, 2004; John and Ofek, 1995; Hill and Jones, 2004; Yin and Shanley, 2008). Unlike strategic needs where a company can have multiple needs, a company can only choose one restructuring option.

Thirdly, restructuring considerations are experience, capacity for change, and strategic fit, information asymmetry, culture fit. These important factors can either lead to successful

restructuring or lead to a failure if companies do not understand them correctly and exploit them (Bergh and Ngah-Kiing Lim, 2008; Hughes and Morgan, 2008; Cohen and Dean, 2005). Consequently, companies should closely examine their strategic needs and balance restructuring considerations, before a decision of restructuring option is taken.

Taking the specific need, restructure to refocus, as an example⁴ and following the described logic, the analysis can be made based on the corresponding restructuring options where considerations to restructure should also be examined. When a company unambiguously understands its need of restructuring to refocus, the corresponding strategic restructuring options such as sell-off and spin-off are potential candidates (Cohen and Dean, 2005; Bergh, Johnson, and DeWitt, 2008). To choose the best-fit option, this company should balance applicable situations and considerations to restructure. Whether the targeted restructuring assets are residing in primary and related core company business or residing in secondary and unrelated business is a crucially important question (Allen, 2001).

If residing in primary and related businesses, these assets are less transparent to the outsiders in the market and have the potential to create information asymmetry, which can result in undervalued company in the market. Therefore, the parent company undergoing restructuring has the urgency to remove information asymmetry, which is a consideration to restructure accordingly. In addition, primary and related businesses compromise implicit operational knowledge that cannot be easily transferred to other companies. The high growth potential of such restructuring assets cannot be realised under parent organisations, except for making the assets a standalone company. Consequently, spin-off is a more suitable option for the intended restructuring assets residing in primary and related core business, to address the need for restructuring to refocus (Allen, 2001).

⁴ Due to the limitation of bachelor thesis on the number of words between 6000 and 8000, this thesis cannot describe all needs as examples; instead only take restructure to refocus as an example to demonstrate who the logic works specifically.

If residing in secondary and unrelated business, these assets are typically used as revenue hedge and mitigation of managerial risks. Managers are inclined to use sell-off for intended restructuring assets. Additionally potential buyers are likely to have greater knowledge to generate value from restructuring assets (Bergh et al., 2008). Sell-off also triggers accumulation of capacity for change, which is a consideration to restructure and a critical ability for companies to absorb changes, therefore resulting in competitive advantages and exceeding performance (Bergh and Ngah-Kiing Lim, 2008). Overall, sell-off is a fit option for the restructuring assets residing in secondary and unrelated businesses, in order to fulfil the need for restructuring to refocus.

5.2 Limitations and Recommendations

Limitations

This thesis has focused on how different restructuring options fulfil the various needs for company restructuring, with considerations to restructure. It is not the intention of this thesis to compare various restructuring options and exploit their advantages and disadvantages. Additionally this thesis does not emphasize the difference between mergers and acquisitions and the difference between joint ventures and alliances. Mergers and acquisitions are considered as a single category of restructuring option being analysed collectively, likewise joint ventures and alliances.

Given the fact that this is a bachelor thesis, there are specific restrictions applying to this thesis. First, the words count must be between 6000 and 8000, this restriction limits extensive researches and explanatory efforts. Second, this thesis is required to be based upon literature reviews. Other research and data collection methods for instance, questionnaires and interviews are prohibited. Therefore, mentioned points above are subject to limitations.

Recommendations

Further research direction can be considered at thoroughly exploited analysis of advantages and disadvantages of each restructuring option. Hence, comparison can be

made among restructuring options at their strength and weakness. Moreover, future study can further develop a methodology or framework structurally analysing the various considerations to restructure and their impacts on an organisation.

In addition, detailed researches can focus on the differences between mergers and acquisitions, and the differences between joint ventures and alliances, also the significance of such differences. A study can also be conducted from a different angle of how company-restructuring options evolve along with the fast pace changing world. A new or hybrid form of restructuring option may emerge.

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