Business reorganisation 12

Chapter preview

In this chapter we recognise the fact that firms are not limited to expanding and contracting the scale and nature of their business activities by internal, organic, means. There are occasions when it will make good economic sense to expand a business by means of an external investment, such as in an acquisition or a merger. There are also occasions when it will make good economic sense to divest some parts of the business and concentrate on core business activities.

Both of these scenarios presuppose that a firm is in a relatively good trading and financial position, but sadly there are occasions when a firm may face insolvency and the only hope of survival is a reorganisation via which the relevant stakeholders agree to revise their claims and expectations, as a better option than filing for bankruptcy.

In considering these various forms of business reorganisation, it should be noted that the principal objective that management need to pursue remains the best interests of their shareholders. This chapter therefore builds upon the earlier discussions in Chapters 8 and 9 and extends the discussion of the previous chapter, Chapter 11.

Business reorganisations of whatever type involve investment appraisal considerations. As we will see, in practice, there is often a lack of necessary financial data and, for this reason, a number of adjustments and approximations need to be made as part of the appraisal. Most business reorganisations involve a large amount of discussion and debate and inevitably a lot of subjectivity enters into the terms of any final agreement. The aim of this chapter is to provide managers with an overall framework for the various processes involved. Even though this is an area were a number of external advisors will inevitably be involved, managers cannot abdicate their responsibility to have an understanding of the basic tools and assumptions that they will be presented with.