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INFLUENCE OF CORPORATE RESTRUCTURING ANNOUNCEMENTS ON THE INVESTMENT DECISIONS OF THE INVESTORS

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Abstract

Corporate restructuring strategies of the business entities may be resorted to enhance the profitability of a company or to tide over its weak financial position. Equity investors may give more importance to corporate restructuring deals of the company. Hence this study analyses the investor's opinion about the influence exerted by corporate restructuring strategies on their investment decisions. This study is descriptive in nature and based on primary data which have been collected from 513 equity investors. This study reveals that investors are interested in investing on shares of companies selling their loss making business. This study also reveals that gender, number of family members and investment avenues cast the maximum influence on investment decisions of investors based on corporate restructuring announcement.

Keywords:

Corporate Restructuring, Joint Ventures, Divestures, Capital Structure, Organization and Management

1. INTRODUCTION

Corporate restructuring is an act of reorganizing the company's ownership, capital structure and so on. Corporate restructuring may be classified into two broad categories such as internal restructuring and external restructuring.

Until the early 1990s, Indian economy was a closed one. Corporate restructuring seldom occurred during this period. The era was marked by strict Government intervention limiting corporates liberty to draft and implement such expansion strategies. However, this closed set-up incapacitated Indian economy from competing with global players. The country confronted numerous economic problems which necessitated implementation of structural changes in the form of opening up of the economy. This led to the formulation of liberalisation, globalisation and privatisation policy resulting in the opening up of the Indian economy. Many strict legislations and policies were replaced with liberal ones and the Industrial Policy of 1991 is one such policy. Opening up of the Indian economy led to innumerable benefits for the corporate sector with improvement in access to better and sophisticated technology and infrastructure [1]. This empowered Indian enterprises to start restructuring programmes to encounter problems and challenges posed by the market. Furthermore, the World Trade Organisation reign has led to the free flow of financial and other resources across the globe, compelling all the Indian corporates, irrespective of their size, to undertake corporate restructuring programmes. This study concentrates on four corporate restructuring strategies such as joint ventures, divestures, restructuring capital structure and organization and management of the company.

2. REVIEW OF LITERATURE

Sun [11] analysed the impact of divestures on corporate performance of listed firms in Taiwan by considering 266 divestures announcements during 1995 to 2005. The corporate performance variables used were cash flow by current debts, return on assets and excess value. The study revealed that divestures resulted in a positive growth in shareholders wealth. A significant development in firm's performance has also been established after divestures. Ferrer [3] established the adverse relationship between activity ratios and M&A.

Kayo et al. [5] have analysed the factors influencing choice of growth strategies such as joint ventures, acquisitions and arm's-length alliances, considering 460 announcements which included 81 joint ventures, 294 acquisitions and 85 arm's-length alliances. The factors considered for this study were joint venture experience, acquisitions experience, intangibility, financial leverage, systematic risk and relatedness, of which firms experience influences the choice of company. Top management team influences post-acquisition performance [15].

Marquette & Williams [7] have studied the effect of takeover and divestures on value of US companies by applying market model. The study examined 70 acquisitions and 58 spinoffs announcements made during 1/1/1980 to 12/12/1992 by considering estimation period of 200 and 50 days before the takeover and divesture deals. The study has revealed that takeover yields negative wealth while spinoff yields positive wealth. Tanure & Gonzalez-Duarte [12] discussed strategic role of HRM in M&A process. Hassan et al. [4] analysed 405 M&A deals in US pharmaceutical industry and found that acquisition deals resulted in shareholders wealth creation. Motives behind merger influence the shareholders wealth [6].

Dragun & Howard [2] have ascertained the value effect of 26 corporate consolidation measures of the European retail industry made during 1997-2001. Result indicates that corporate consolidation measures are not yielding short-term returns.

Park [8] has interviewed 11 CEOs of companies which have struck large merger deals during 1993-2000. The study has unveiled 3 motives of mergers as management structure, strategic direction and cultural aspects. Schraeder & Self [9] have studied the various determinants of successful M&A deals and have found that organizational culture is the key factor determining the success of M&A deals. Company performance influences merger premiums [10]. Urban & Pratt [14] analysed the relationship between M&A deals and consumer perception about service quality. Wright et al. [16] have examined the budding phenomenon of secondary management buy-outs and buy-ins.

Tavakolian [13] discussed the Bankruptcy amendments. The function of HRM is to support managers to reduce disturbances and complications in the organization [17].

3. RESEARCH METHODOLOGY

This study is based on primary data and descriptive in nature. Primary data have been collected in Puducherry and Chennai from 513 equity investors. Interview schedule is carried out to collect the data. The researcher has verified the reliability of data collected by using Cronbach's alpha [18]. The statistical tools of simple mean, cluster analysis, discriminant analysis, chi-square test, correspondence analysis, ANOVA, post-hoc analysis and canonical correlation have been applied to analyse the collected data. Statistical softwares and packages such as Microsoft Excel, SPSS 19 and STATA 10 have been utilized for this study.

4. MOST INFLUENCING CORPORATE RESTRUCTURING

Equity investors were asked to indicate their opinion about the influence exerted by corporate restructuring strategies on their investment decisions in a seven-point scale and Table.1 displays the mean scores and their ranks in respect of each of the strategy.

Table.1. Mean Analysis and Rank Scores

Sl. No.	Most Influencing Corporate Restructuring	Mean	Rank
1	My investment decision is influenced by joint ventures announcements (Joint ventures)	3.96	4
2	My investment decision is influenced by divestures announcements (Divestures)	4.31	1
3	My investment decision is influenced by capital restructuring announcements (Capital structure)	4.01	3
4	My investment decision is influenced by organisation and management restructuring announcements (Organization and management)	4.15	2

It can be observed that divestures has been rated very high by the investors (mean of 4.31), followed by organization and management (4.15), capital structure (4.01) and joint ventures (3.96). Hence, it can be observed that investors accord maximum importance to divestures announcements before deciding about making their investment decisions while they accord the least importance to joint ventures.

4.1 SEGMENTATION OF INVESTORS

Investment decision based on corporate restructuring will vary from person to person. Some investors are interested in internal restructuring of their company while others may accord utmost importance to external restructuring. K-means cluster analysis has been utilised to segment the investors based on their opinion about the influence exerted by corporate restructuring strategies on their investment decision.

The Table.2 contains mean scores, investors encompassed in each of the cluster and ANOVA results. The first cluster has been labeled as "Divestures and capital structure" because mean values in respect of divestures and capital structure factors for this cluster is greater than four. This cluster contains 79 investors whose investment decision is influenced by restructuring announcements of divestures and capital structure. The second cluster has been designated as "Both internal and external restructuring" because mean scores in respect of all the factors for this group is greater than four. This cluster encompasses 213 investors, whose Investment decision is influenced by all types of corporate restructuring strategies. The third and final segment has been labeled as "Organization and management restructuring" because mean score in respect of organization and management factor for this cluster is four. This cluster includes 220 investors whose Investment decision is influenced by restructuring announcements of organization and management.

Table.2. Final Cluster Centers and ANOVA

	Final Cluster Centers			ANOVA	
	1	2	3	F	Sig.
Joint venture	3	5	3	173.431	0.000
Divestures	5	5	3	151.210	0.000
Capital structure	6	5	3	175.595	0.000
Organization and management	2	5	4	143.408	0.000
Cases	79	213	220		

It can further be inferred from the Table.2 that the F value of all the factors are significant at one percent level. Hence, all the factors significantly contribute to the segmentation process.

4.2 RELIABILITY OF SEGMENTATION

Investors have been grouped under the three heads of divestures and capital structure, both internal and external restructuring and organization and management. Consistency of this segmentation has been examined by conducting discriminant analysis. The factors of joint venture, divestures, capital structure and organization and management have been taken as independent variables while cluster membership scores of most influencing corporate action is taken as grouping variable.

Table.3. Eigen Values and Wilks' Lambda

Function	Eigenvalue	Canonical Correlation	Wilks' Lambda	Chi-Square	Sig.
1	1.544	0.779	0.173	891.725	0.000
2	1.278	0.749	0.439	417.846	0.000

Discriminant analysis has yielded two functions and the Eigen values in respect of both the functions exceed one. Canonical correlation values of the two functions are 0.779 and 0.749 respectively. This suggests that good correlation exist between items related to most influencing corporate action and the two functions. There is difference in values of Wilks' lambda. This indicates that the functions are separated. The value of significance falls well short of 0.01 mark, indicating significance at one percent level. Hence, it can be decisively said that segmentation has been done with utmost precision and consistency.

Table.4. Structure Matrix

	Function	
	1	2
Capital structure	0.627*	-0.254
Divestures	0.617*	0.066
Joint ventures	0.528*	0.443
Organization and management	0.116	0.652*

The Table.4 shows standardized beta scores. Beta scores will explain characteristics of population. Two functions have been formed, which are:

Z1 = 0.627 * Capital structure + 0.617 * Divestures + 0.528 * Joint ventures

Z2 = 0.652 * Organization and management

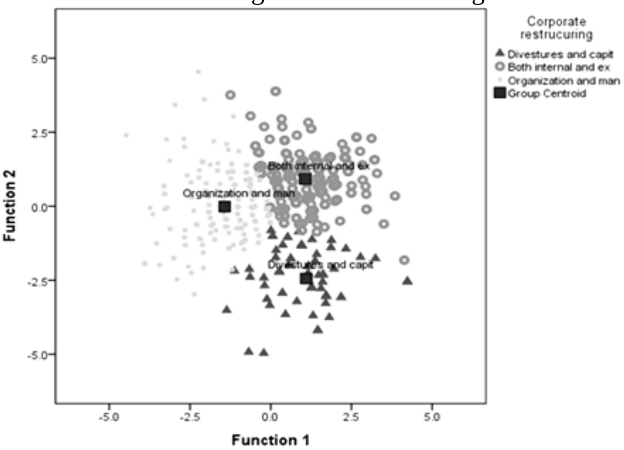


Fig.1. Group Centroids

The Fig.1 displays group centroids of organization and management, both internal and external restructuring and divestures and capital. It can be observed that there is a significant difference among the group centroids. This implies that investors have been grouped correctly.

Table.5. Extent of Correct Classification

	Most Influencing Corporate Restructuring	Predicted Group Membership			Total
		Divestures and capital structure	Both internal and external restructuring	Organization and management restructuring	
Count	Divestures and capital structure	77	0	2	79
	Both internal and external restructuring	3	206	4	213
	Organization and management restructuring	0	0	220	220
%	Divestures and capital structure	97.5	0.0	2.5	100.0
	Both internal and external restructuring	1.4	96.7	1.9	100.0
	Organization and management restructuring	0.0	0.0	100.0	100.0

The Table.5 shows that all the 220 investors (100 percent) are correctly grouped into "organization and management restructuring" cluster, while 97.5 percent of the investors have been properly classified under "divestures and capital structure" and 96.7 percent of the investors have been properly categorized under the "both internal and external restructuring" cluster. Hence, it can be said that segmentation has been accomplished with huge degree of accuracy.

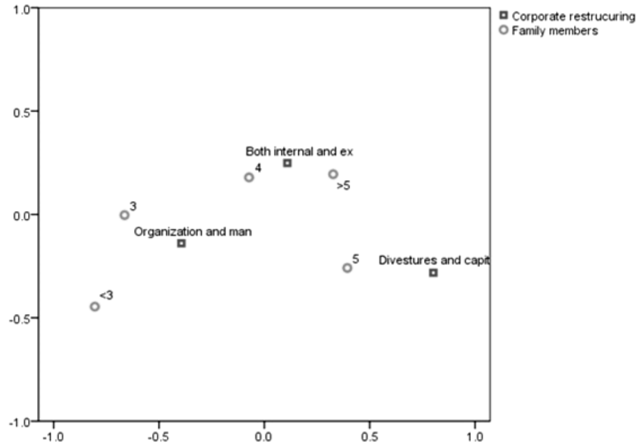
4.3 RELATIONSHIP BETWEEN PROFILE OF INVESTORS AND MOST INFLUENCING CORPORATE RESTRUCTURING STRATEGY

Relationship between profile of investors and most influencing corporate restructuring strategy has been analyzed using chi-square test, independent samples t-test and ANOVA. The Table.6 displays the chi-square test results.

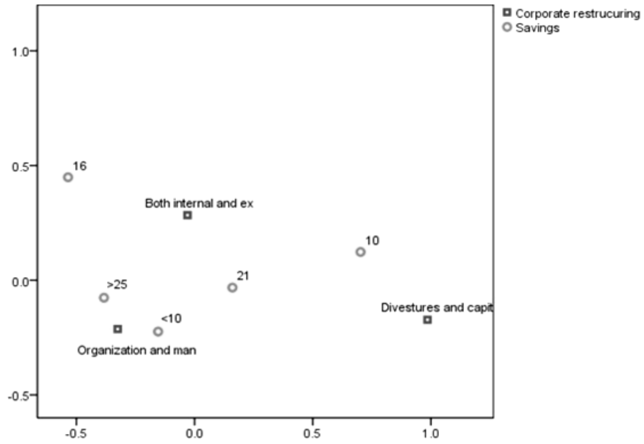
Table.6. Association between Personal Profile and Most Influencing Corporate Restructuring

	Most Influencing Corporate Restructuring	
	Value	Sig.
Gender	4.994	0.082
Age	8.662	0.193
Educational qualification	2.059	0.979
Occupation	18.464	0.186
Monthly income	13.339	0.101
Family members	16.050	0.042
Dependents	12.291	0.266
Income earning members	11.272	0.080
Family members in share market	5.186	0.520
Savings	21.287	0.006

The Table.6 displays that only the two items such as number of family members and savings have significance value less than 0.05, suggesting the absence of significant association between the most influencing corporate restructuring strategy and the personal profile variables.



(a) Family Members & Corporate Restructuring



(b) Savings & Corporate Restructuring

Fig.2. Association between Personal Profile and Most Influencing Corporate Restructuring

The Fig.2 shows that investors with four family members are investing based on both the internal and external restructuring announcements. Investors with saving of more than 25 percent are investing based on organization and management restructuring. Those profile variables which have yielded insignificant results have been further tested for existence of relationship using ANOVA and the results have been displayed in Table.7.

Table.7. Relationship between Personal Profile and Most Influencing Corporate Restructuring

	Joint Venture F (Sig.)	Divestures F (Sig.)	Capital Structure F (Sig.)	Organization and Management F (Sig.)
Gender	0.543 (0.588)#	1.771 (0.086)#	0.632 (0.532)#	-2.913 (0.006)#
Age	2.223 (0.085)	2.918 (0.034)	1.545 (0.202)	2.913 (0.034)
Educational qualification	0.774 (0.542)	0.782 (0.537)	0.724 (0.576)	0.46 (0.765)
Occupation	1.354 (0.223)	1.91 (0.066)	0.925 (0.486)	1.691 (0.109)
Monthly income	1.786 (0.13)	4.746 (0.001)	1.361 (0.246)	1.592 (0.175)
Dependents	1.394 (0.225)	3.372 (0.005)	1.258 (0.281)	0.864 (0.505)
Income earning members	3.373 (0.018)	0.825 (0.48)	2.838 (0.038)	0.177 (0.912)
Family members in share market	0.732 (0.533)	1.272 (0.283)	0.393 (0.758)	1.706 (0.165)

 # indicates t value and its significant level.

The Table.7 reveals that the demographic variables of gender, age, monthly income, number of dependents and number of income earning members in family have significant value of less than 0.05. Furthermore, it can be observed that gender influences investments based on organization and management restructuring announcements, while age influences investments based on divestures and organization and management restructuring, monthly income influences investments based on divestures announcements, number of dependents influences investments based on divestures and income earning members influences investments based on joint venture and capital structure announcements.

Table.8. Post Hoc Analysis

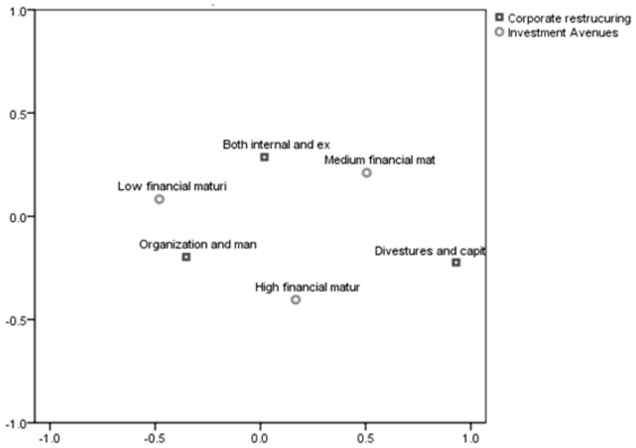
Age	Divestures		Monthly Income	Divestures		Income Earning Members	Capital Restructuring	
	1	2		1	2		1	2
>70	2.25		>60000	3.33		1	3.91	
<30		4.13	<15000	3.78	3.78	3	3.95	
51-70		4.36	45001-60000	3.92	3.92	2	4.06	
30-50		4.38	30001-45000	4.39	4.39	>3		5.27
			15001-30000		4.51			

It can be inferred from Table.8 that investors with age of more than 70 years and those with income of greater than Rs. 60,000 are not investing based on divestures announcements while investors with more than three income earning members in family are investing based on capital structure reorganization strategies.

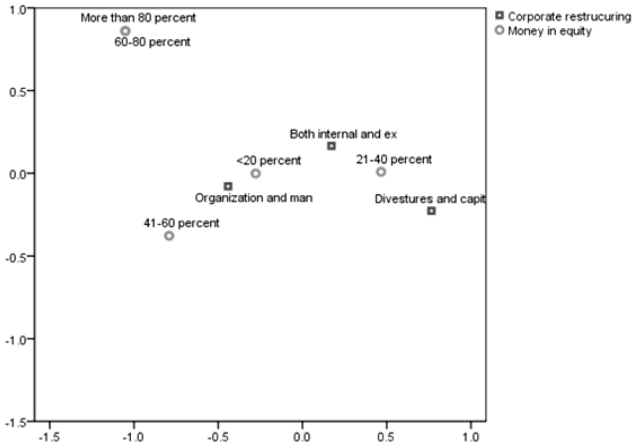
Table.9. Association between Investment-Related Factors and Most Influencing Corporate Restructuring

	Most Influencing Corporate Restructuring	
	Value	Sig.
Investment avenues	19.654	0.001
Period of investments	9.386	0.153
Equity investment avenues	13.153	0.107
Money in equity	18.049	0.021

It can be inferred from Table.9 that two investment-related variables of investment avenues and proportion of money invested in equity have significant association with investors' opinion about the most influencing corporate strategy on investors' decision.



(a) Investment Avenues & Corporate Restructuring



(b) Money in Equity & Corporate Restructuring

Fig.3. Association between Investment-Related Factors and Most Influencing Corporate Restructuring

The Fig.3 portrays that investors who have invested less than 20 percent of their money in equity are investing based on organisation and management restructuring announcements.

Table.10. Relationship between Investment-Related Factors and Most Influencing Corporate Restructuring

	Joint Venture F (Sig.)	**Divestures F (Sig.)**	**Capital Structure F (Sig.)**	**Organization and Management F (Sig.)**
Period of investments	0.884 (0.449)	4.412 (0.004)	1.97 (0.118)	1.839 (0.139)
Equity investment avenues	2.712 (0.029)	3.057 (0.017)	1.075 (0.368)	3.607 (0.007)

The Table.10 highlights that period of investment is influencing investment based on divesture announcements while avenues of equity investment is influencing investment based on joint ventures, divestures and organisation and management restructuring. The nature of this relationship has been explored using post hoc analysis and the results have been displayed in Table.11.

Table.11. Post Hoc Analysis

Period of Investment	**Divestures**		**Equity Investment Avenues**	**Joint Venture**	
	1	**2**		**1**	**2**
>15 years	3.86		Equity, derivatives and mutual funds	3.56	
<5 years	4.06	4.06	Equity and mutual fund	3.72	3.72
11-15 years	4.34	4.34	Both cash segment and derivatives	4.04	4.04
5-10 years		4.55	Purely equity in secondary market		4.11
			Purely equity in primary as well as secondary market		4.19

It can be inferred from Table.11 that investors with more than 15 years of experience are viewing divestures announcements differently while investors who invested in equity, derivatives and mutual funds are viewing joint ventures announcements differently.

Table.12. Post Hoc Analysis

Equity Investment Avenues	**Divestures**		**Equity Investment Avenues**	**Organization and Management**	
	1	**2**		**1**	**2**
Purely equity in secondary market	3.93		Equity, derivatives and mutual funds	3.93	
Both cash segment and derivatives	4.01		Purely equity in primary as well as secondary market	3.97	
Equity and mutual fund	4.28	4.28	Both cash segment and derivatives	4.06	
Purely equity in primary as well as secondary market		4.50	Purely equity in secondary market	4.22	4.22
Equity, derivatives and mutual funds		4.59	Equity and mutual fund		4.66

It can be inferred from Table.12 that investors with investments in equity, derivatives and mutual funds are investing based on divestures announcements while investors who have invested in equity and mutual funds are investing based on organization and management restructuring announcements.

4.4 INFLUENCE OF PROFILE OF INVESTORS ON SELECTION OF CORPORATE RESTRUCTURING

Results of chi-square analysis, ANOVA and independent samples t-test have confirmed the prevalence of significant relationship between most influencing corporate restructuring strategy on investment decision and the 11 profile related variables such as gender, age, monthly income, family members, number of dependents, number of income earning members in family, savings, investment avenues, period of investments, equity investment avenues and proportion of money invested in equity. Canonical correlation has been employed to explore the profile variable which has strong relationship with the corporate strategy exerting the most influence on investment selection. For the purpose of assessing the canonical correlation is used. Cluster score has been considered as set one while the 11 profile variables have been considered as set two.

Table.13. Canonical Correlation

		Coef.	Std. Err.	t	P > |t|	[95% Conf. Interval]	
U1	Cr	-1.401	0.277	-5.06	0.000	-1.946	-0.857
V1	Gen	-1.868	0.889	-2.10	0.036	-3.615	-0.121
	Age	-0.263	0.340	-0.77	0.440	-0.931	0.405
	Mornin	-0.103	0.210	-0.34	0.731	-0.692	0.486
	Fm	0.466	0.235	1.98	0.048	0.005	0.927
	Dep	0.111	0.201	0.55	0.581	-0.284	0.505
	Incrmem	0.234	0.328	0.71	0.477	-0.411	0.878
	Sav	-0.098	0.158	-0.62	0.536	-0.411	0.878
	Inav	0.707	0.301	2.35	0.019	0.117	1.30
	Per	-0.170	0.282	-0.60	0.547	-0.723	0.384
	Equin	-0.172	0.155	-1.11	0.268	-0.476	0.133
	Mone	0.257	0.307	0.84	0.404	-0.347	0.860
	(Standard errors estimated conditionally)						
Canonical Correlations: 0.2186							
Tests of significance of all canonical correlations							
		Statistics	**df1**	**df2**	**F**	**Prob > F**	
Wilks' lambda		0.952	11	500	2.2801	0.010 e	
Pillai's trace		0.048	11	500	2.2801	0.010 e	
Lawley-Hotelling trace		0.050	11	500	2.2801	0.010 e	
Roy's largest root		0.050	11	500	2.2801	0.010 e	
e = exact, a = approximate, u = upper bound on F							

It can be inferred from Table.13 that canonical correlation value is 22 percent and it is significant at one percent level. This implies that significant relationship exists between the two sets. Gender, number of family members and investment avenues has significant value of less than 0.05, suggesting that these three profile variables primarily influence selection of investment based on corporate strategy. Furthermore, the Table.13 suggests that personal profile and investment profile influences selection of investment based on corporate strategy.

5. CONCLUSION

Corporate restricting strategies are immensely influencing the investor's investment decisions. This study finds that the investors are interested in investing on shares of companies selling their loss making business while they accord least interest on companies entering into joint venture with another company. Cluster analysis has grouped the investors into three groups of divestures and capital structure, both internal and external restructuring and organization and management restructuring. Existence of significant relationship between investors opinion about the most influencing corporate restructuring strategy and their profile characteristics of gender, age, monthly income, family members, number of dependents, number of income earning members in family, savings, investment avenues, period of investments, equity investment avenues and proportion of money invested in equity has been affirmed.

Gender, number of family members and investment avenues cast the maximum influence on investment decisions of investors based on corporate restructuring announcement.

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