



Standard Oil Building¹

¹ Standard Oil Company of New Jersey (1899) is a prime example of historical M&A first wave. This American oil and gas company was founded in Ohio in 1870. By 1880, through elimination of competitors, mergers with other firms, and use of favourable railroad rebates, it controlled the refining of 90 to 95 percent of all oil produced in the United States. It officially became a trust as the “New Jersey Holding Company” in 1899. This consolidation advanced the large-scale production and distribution of oil products, however the resulting concentration of economic power was becoming excessive. In 1906 the U.S. government brought suit against Standard Oil Company (New Jersey)

1. What is Company Restructuring?

Restructuring refers to the procedure of reorganizing and reconfiguring a business in order to improve its condition and accomplish its objectives. The overall objective of restructuring is to enhance the business's effectiveness by aligning it with its existing mission, vision, and strategic direction. A thorough restructuring initiative encompasses various aspects, including the organizational structure, human resources, management and operational procedures, activities and processes, as well as other resources of the business.

Restructuring involves evaluating and reorganizing one or several parts, or the entirety of an organization, typically a company.

According to restructuring theory, it is important to not only assess the functional management activities and their respective tasks but also focus on refining the processes spanning from raw material sourcing to production, marketing, and distribution. The company, therefore, must undergo a series of processes.

2. Primary Motivations for Restructuring

- i. poor management;
- ii. new strategy or a business opportunity;
- iii. business inefficiency;
- iv. growing competition;
- v. macroeconomic volatility;
- vi. technological advancements, tax policy changes, and legal reforms ²

3. Types of Restructuring

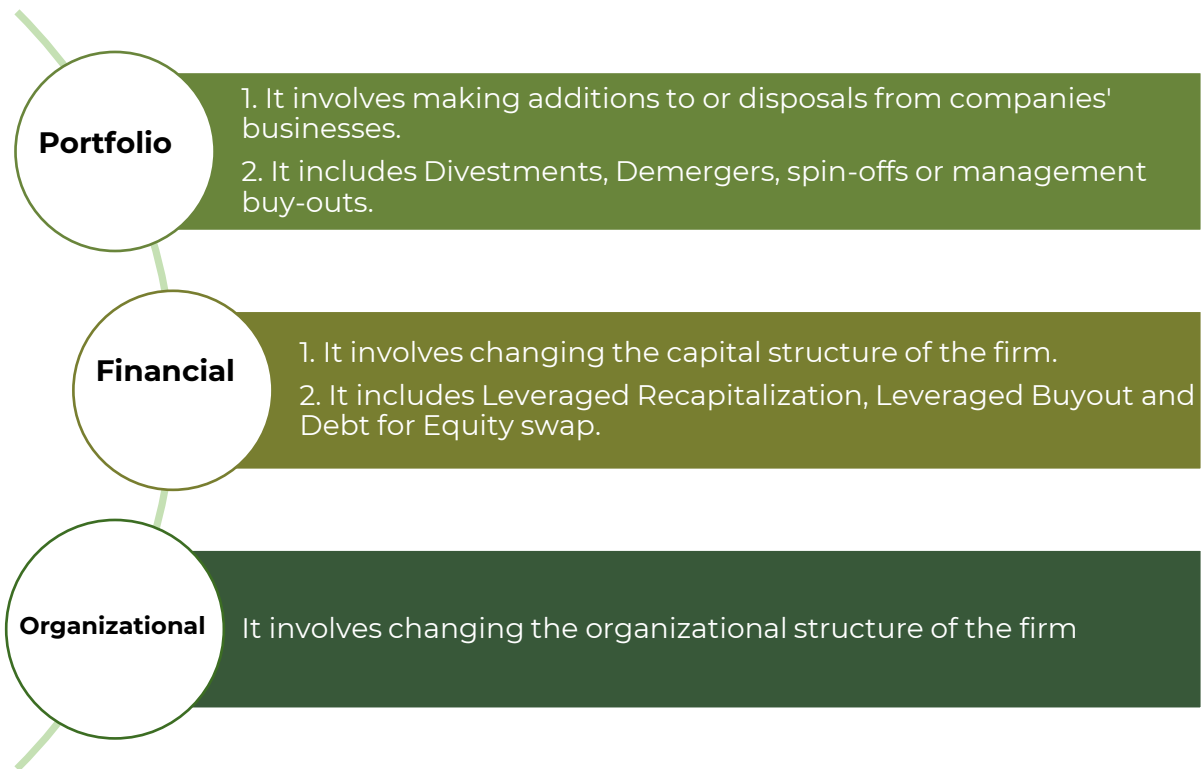
At the highest level of integration

Bowman and Singh (1993) propose that there are three distinct types of restructuring at the highest level of integration.³

under the Sherman Antitrust Act of 1890; in 1911 the New Jersey company was ordered to divest itself of its major holdings - 33 companies in all. (Britannica)

² Gilson, S. C. (2001), *Creating Value through Corporate Restructuring: Case Studies in Bankruptcies, Buyouts, and Breakups*, John Wiley & Sons.

³ Edward H. Bowman and Harbir Singh (1993), *Corporate restructuring: Reconfiguring the firm*, Strategic Management Journal, Vol 14



- i. **Portfolio restructuring** refers to the procedure of reshaping a company's primary business lines by mergers, acquisitions (M&A) and divestiture transactions. This process often involves internal management adjustments to align with the company's revised operational focus. It may be perceived that the need for additional diversification is appropriate to utilize surplus resources or capacity. Conversely, strategic divestment programs may be considered necessary to avoid dilution of the company's core assets.



Divestment

- Thong Nhat Production and Investment Joint Stock Company (“GTN”) successfully undergone proactive restructuring. Right from the outset, GTN set its sights on establishing a comprehensive food and beverage business chain, encompassing production and distribution to end consumers. Consequently, the company's business steps consistently adhere to the planned roadmap.
- To begin with, GTN divested its capital from unrelated companies, even though these companies were still profitable, such as brick and mineral companies. Concurrently, GTN acquired companies within the agricultural industry, including the Vietnam National Tea Corporation (Vinatea, with a 95% ownership stake), Vietnam Livestock Corporation (Vilico, with a 65% ownership stake), Seed Moc Chau Dairy Cattle Corporation (with a 51% ownership stake through Vilico), and Lam Dong Foodstuffs JSC (Ladofoods, with a 35% ownership stake). The parent company actively executed its strategy by acquiring controlling shares in the target companies and providing financial support for business activities across the group of companies. Both Vinatea and Vilico possessed their own partnerships and extensive distribution networks, but their full potential had not been fully exploited. After the transition with GTN, positive changes have been observed.



M&A

- In early 2021, GTN merged with Vilico in a unique deal where the parent company merged into its subsidiary in a reverse manner. Prior to the merger, Vinamilk held a 75% stake in GTN, which in turn owned 74.49% of Vilico, and Vilico held a 51% stake in Moc Chau milk. For Vinamilk, the merger aimed to restructure the business operations of GTN branch, leading to reduced management costs and expediting the goal of fully acquiring Moc Chau milk. These series of acquisitions and mergers align with Vinamilk's strategy of expanding market share by controlling the supply chain.
- On March 9, 2022, Vilico issued 156.2 million new shares to facilitate the swap with GTN shares at a ratio of 1.6:1. This means that shareholders holding 1.6 GTN shares would exchange them for 1 VLC share. The entire 156.2 million newly issued Vilico shares would be exchanged with 250 million GTN shares, equivalent to 100% of GTN's registered capital. Following the swap, GTN shares would be delisted. By May 31, 2022, 156.2 million additional Vilico shares were officially traded on the stock market, and Vilico also canceled all 47 million Vilico shares that GTN held (equivalent to 74.79% of Vilico's charter capital before the merger took place) to ensure investors' rights. At the end of the transaction, Vilico increased its charter capital to VND1,723 billion.
- Prior to the stock swap, GTN's stock price was approximately 18,450 VND per share, while Vilico's stock price was 32,800 VND per share (February 7, 2022 trading session). Consequently, compared to the exchange ratio of 1.6 : 1, Vilico's shares were being valued higher. As a result, after the swap, GTN shareholders would benefit from the difference in market assessment. However, in terms of the control ratio, small shareholders of GTN would have a reduced level of control following the merger with Vilico. Additionally, in order to have enough shares for the swap with GTN, Vilico had to issue an additional 156.25 million shares, which would further dilute the ownership ratio of existing shareholders.

- ii. **Financial restructuring** typically entails modifications to the capital structure and ownership structure. Financial restructuring can be commonly undertaken in many ways. For instance, the company can conveniently modify its equity structure, adjust its cross-ownership model, streamline its debt management procedures, and allocate owners' capital. Implementing these regulations will facilitate the attainment of an optimal capital structure, sustain business profits, and foster market development.

Binh An Seafood Joint Stock Company, also known as Bianfishco, had accumulated significant loans from multiple banks as well as unpaid debts to suppliers, adversely impacting fish farmers and the nationwide fisheries industry, particularly the pangasius sector. In response to this challenging situation, the company has taken difficult yet reasonable steps to coordinate the interests of all parties involved, including banks and suppliers, in order to gradually stabilize its financial situation.

Bianfishco prioritized repaying the principal debt owed to fish farmers. Additionally, it engaged in negotiations with banks to reschedule and defer debts, as well as sell off assets to meet its obligations. The company also proposed converting debt into equity and implemented a debt trading approach with the participation of DATC (Vietnam Debt and Asset Trading Corporation) in its restructuring efforts.

Although Bianfishco may not currently rank among the top 10 companies in the fisheries industry, it holds a significant reputation and influence due to its large workforce of approximately 5,000 employees. Redressing the stability of Bianfishco is crucial for consolidating the advantage of Vietnamese pangasius, a unique advantage that sets Vietnam apart from other countries in the world. The pangasius export market, in which Vietnam holds a 90% market share, stands to benefit from the successful revival of Bianfishco.

- iii. **Organizational restructuring** focuses on making significant changes to the structure of an organization, typically undertaken when managers prioritize enhancing efficiency and effectiveness in the organization's operations. It often goes hand in hand with portfolio restructuring and financial restructuring, as alterations in the company's strategic scope and financial structure necessitate corresponding adjustments within the power hierarchy. The reconfiguration of functions, task assignments, and authority distribution across various management levels and positions is the manifestation of organizational restructuring.

As an example, in situations where it becomes necessary to reduce personnel costs for the sake of business operations, companies can undertake restructuring measures such as reducing hierarchical levels, downsizing the workforce, redesigning job positions, and altering reporting relationships.

At a lower level of integration

Subordinately, corporate restructuring can be categorized into restructuring transactions. These transactions are employed to facilitate organizational changes, such as leveraged buyouts or managers repurchasing the company they work for, etc which result in simultaneous modifications to ownership, financial structure, and power hierarchy within the company. There are four types of restructuring transactions as follows:

i. Consolidation and merger: This is the most prevalent type of transaction.

In 2023, ESR Group Limited invested USD450 million to acquire strategic shares of BW Industrial Development JSC (BW Industrial), a prominent and rapidly expanding industrial and logistics developer in Vietnam. The capital infusion from ESR Group will enable BW Industrial to maintain its leading position in developing crucial infrastructure for the emerging economy and capitalize on the manufacturing shift towards Vietnam.

ii. Downsizing and divestiture: Downsizing involves a deliberate reduction in the number of employees in order to enhance the effectiveness and efficiency of the organization's operations. Divestiture, on the other hand, results from a management decision to cease operating a business unit because it is not part of a company's core competency. It is the partial or full disposal of a business unit through sale, exchange, closure, or bankruptcy.

In light of the challenging economic conditions and decreasing purchasing power within the retail industry, coupled with lower-than-anticipated operational efficiency of the Bach Hoa Xanh chain, Mobile World Investment Corporation undertook a restructuring effort that involved closing a series of stores. According to data available on Mobile World's website, as of November 30, 2022, the company has closed a total of 375 Bach Hoa Xanh stores since the beginning of the year, resulting in the current store count of only 1,731.

iii. Ownership transfer: This transaction is common in countries where the stock market is relatively large compared to the overall economy. Two main forms of ownership transfer are public offerings and company acquisitions. A public offering involves sale of shares to the general public for trading on a regulated exchange.

Vingroup exchanged all of its shares in VCM Services and Trading Development Joint Stock Company, its subsidiary and the owner of the VinMart supermarket chain and VinMart+ convenience stores, with Masan Group. As a result of this swap, Vingroup will no longer oversee or act as the direct parent company of VCM.

iv. Internationalization and decentralization are typically not considered as explicit forms of corporate restructuring. However, according to Alfred Chandler's research on changes in the structure of American companies, he argues that, corporate structure has shifted, 'from a centralized, functionally departmentalized structure to a multi-divisional one with a corporate office and a number of product or geographic divisions'. Accordingly, decentralization is 'a response rather than an innovation in management to increasing responsibilities and roles falling upon the shoulders of top tier managers, as a result of 'the rapid expansion into distant or unrelated

businesses⁴. Internationalization refers to the expansion of an organization's engagement in cross-border activities. According to Fouraker và Stopford, 'this new form of diversification should be dominated by firms with experience in managing diversified activities'⁵. The factors driving internationalization include extensive experience in international markets, firm-level competitiveness, the presence of advanced technology and organizational advantages at both regional and national levels.

4. Company Restructuring in Vietnam

Vietnam Economy Overview

Following the COVID-19 pandemic, the year 2023 has presented numerous challenges and concerning status for many businesses. Several negative growth indicators in industrial production, including machinery, equipment relating to mining; wood, paper, apparel manufacturing; motor vehicles and other means of transport production, etc highlight the difficulties within this industry group.

Furthermore, global economic factors such as political instability, inflation, and tightened monetary policies in various countries have adversely affected the global supply chain of goods and services. These factors have directly impacted the production activities of Vietnamese enterprises. Additionally, bottlenecks in institutional frameworks and policies within the domestic business environment pose as barriers, limiting development.

Import-export turnover has declined, investment growth is minimal, and there has been a decrease in actual final consumption compared to 2022. Consequently, it is crucial to strengthen traditional drivers such as exports, investment, and consumption. Moreover, it is essential to identify and effectively leverage new growth drivers within the digital economy, while promoting labor productivity and undertaking business restructuring.

In response to the challenges posed by disrupted cash flows and difficulties in accessing capital, domestic businesses tend to undergo significant operational restructuring. This restructuring aims to progressively overcome obstacles and adapt flexibly to market dynamics. It involves diversifying products, expanding customer segments, and placing greater emphasis on enhancing the quality of human resources, management systems, and technology infrastructure.

Consulting-Focused Company Restructuring Framework

This refined model focuses on the application of the 7S framework ⁶ to guide the implementation of a business restructuring plan under specific conditions in Vietnam.

i. Strategy Review and Reset:

⁴ Chandler, A.D. 1991, *Corporate strategy and structure: Some current considerations*, Society (New Brunswick), Vol 28

⁵ Fouraker, L. E., & Stopford, J. M. (1968), *Organizational Structure and the Multinational Strategy*, Administrative Science Quarterly, Vol 13

⁶ The model was created in the early 1980s by two experts, Tom Peters and Robert Waterman, who were affiliated with the management consulting firm McKinsey.

By conducting a thorough assessment of operational efficiency and organizational processes, businesses can redefine their vision, mission, and strategic goals. This realignment ensures that the business is positioned correctly, taking into account available resources and the prevailing operating environment.

ii. Reevaluation regarding the organizational structure, operations, and departments and implementation of necessary modifications:

Establish a suitable structure to realize the defined vision and strategic objectives; establish protocols for interdepartmental coordination and efficient functioning; define the roles and responsibilities of each department and division to ensure clarity in task execution and work processes.

iii. Concentration on reorganizing four key areas:

Resource allocation, products and services, management system, and finance; establish a comprehensive set of tools and policies for human resource management to enhance the internal capabilities and efficiency; foster a corporate culture and professional work environment; enhance leadership skills to effectively guide and steer the organization towards success.⁷

Law on Enterprises 2020 Facilitates Company Restructuring Process

As outlined in Chapter IX, clear guidelines on the company restructuring, dissolution, and bankruptcy are provided, aiming to streamline and reduce costs associated with merger, consolidation, division, separation, and change in business types. For example, if all the necessary conditions are met, a private enterprise owner can convert their business into a limited liability company, joint stock company, or partnership.⁸

The law also permits limited liability companies with two or more members to issue bonds, allowing them to raise capital from organizations and individuals for investment and business purposes.⁹

Furthermore, the law promotes the development of the capital market to diversify sources of capital for production and investments. It includes provisions that supplement regulations on non-voting depository receipts, thereby expanding the range of trading products available on the stock market. Additionally, these provisions provide businesses, especially those operating in industries with restricted foreign ownership, with more opportunities to attract capital from investors, including foreign investors.¹⁰

There are also provisions regarding rights and responsibilities of common shareholders¹¹ These provisions aim to expand the scope and level of shareholders' rights in accessing information about the company's operations. This creates favorable conditions for shareholders to protect their legitimate rights and interests, while also preventing managers or large shareholders from abusing their

⁷ Đỗ Tiến Long (2013), *Enterprise Restructure in Vietnam*, VNU Journal of Science, Economics and Business, Vol 29

⁸ Article 205.1

⁹ Article 46.4, 74.4

¹⁰ Article 114.6

¹¹ Article 115, 119, 166

positions and powers, which could potentially harm the company and its minor shareholders. Additionally, there are supplementary regulations on corporate governance for joint stock companies, aligning them with international practices¹².

Development Strategy of Businesses

The case of Bianfishco highlights that the most persistent and challenging issue many businesses in Vietnam has been facing is management-related. Although financial aspects are also significant, they were considered of secondary importance. Since the difficulties faced by Bianfishco primarily stemmed from management problems, its top priority is given to building and enhancing the human resources team.

According to Mr. Nguyen Hoan Vu, the Director of Kori Beauty Group Joint Stock Company, a leading fashion production and trade company in Vietnam, restructuring and streamlining have become crucial factors in adapting quickly to the current market's competitive and challenging landscape. Companies are prioritizing the elimination of unnecessary processes, streamlining their organizational structures, and focusing on key market segments. This approach enhances flexibility, reduces costs, and, most importantly, expands sales capabilities. By adopting these measures, enterprises can achieve efficiency and pave the way for international development, while also promoting sustainability in the increasingly competitive fashion industry. Mr. Vu further emphasizes that repositioning the brand, restructuring the organization, and optimizing the workforce undoubtedly enhance the operational efficiency of the business in 2024.

Restructuring is an essential requirement in the wood processing industry as well. Mr. Nguyen Hoang Phuoc, the Director of Nam Viet Furniture Trading Manufacturing and Services company Limited, stated that the company is currently focused on fulfilling orders and actively seeking new ones. To optimize efficiency and investment resources, the enterprise has reoriented its production activities, implemented strict control over economic and technical aspects, and minimized costs to offer competitive prices. This approach serves as a foundation for developing new customers and securing new orders.

During this period, the company has prioritized the restructuring of its production lines and invested in equipment to reduce labor costs. Additionally, it has kept pace with new consumer trends to diversify its product range. While wood remains the primary material, the company has increased its combination with other materials to enhance aesthetics and meet customer requirements.

Simultaneously, Nam Viet has set a roadmap towards producing environmentally friendly products by partnering with suppliers and manufacturers that adhere to green production criteria and employ environmentally-safe processes. Additionally, the company is actively exploring investments in the application of artificial intelligence in certain design and production processes, reflecting a keen interest in leveraging advanced technology to enhance operational efficiency and innovation.

¹² Chapter VI