

Corporate Restructuring: A Strategy for Improving Organizational Performance

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ABSTRACT

The paper examined the role of corporate restructuring in improving organizational performance by reviewing various literature in the domain of strategic management, where key authors, relevant theories, and studies were identified and reviewed, and a premium was placed on books and articles in peer-reviewed academic journals published between 2017 and 2023. Consequently, 30 authors were examined to isolate the corporate restructuring strategies beneficial to improving organizational performance. Analysis showed that these strategies can take various forms, and many empirical studies were underpinned by the dynamic capabilities theory, the resource-based theory, or the strategy-structure contingency theory, and the relationships were significant. Thus, corporate restructuring was adjudged to have the potential to enhance organizational performance. Scholars in the field of strategic management should therefore pay attention to the long-term consequences of restructuring.

KEYWORDS

Corporate, Environment, Organizational, Performance, Restructuring, Strategy

INTRODUCTION

Corporate reorganization is a thoughtful overhaul of a troubled entity to restore it to prosperity, and if performed correctly should be an incentive for improving performance. The extent of the failure of some organizations would necessitate not just minor changes, but major reforms, and reorganizations are useful in this respect (Ndege & Ogollah, 2020). The main reasons for reorganizing an entity are to increase revenue and to improve efficiency, however, restructuring may lead to the loss of jobs, and as a result, even those who remained often do not deliver the expected value, which eventually fails to improve the overall organizational performance (Girod & Karim, 2017). While organizational performance involves setting goals and making a concerted effort to meet the goals, corporate restructuring can eliminate financial, and infrastructure obstacles, and thus be useful in addressing organizational performance challenges. An organization's performance measures the set indicators of success and provides the basis for the development of plans, assessment of accomplishments, and compensation, and this has attracted the attention of managers and other stakeholders because it

DOI: 10.4018/IJSDS.319974

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indicates the health and well-being of organizations. Although corporate restructuring has had historic interactions with performance, the success or failure of this relationship depends on the deployment of an appropriate strategy. Consequently, there is a constant search for strategies to improve performance, and one candidate, especially for moribund entities, is corporate restructuring.

Corporate restructuring is a strategy that can help businesses deal with poor performance by encouraging synergy, and studies that underscore this position are often underpinned by the dynamic capabilities theory, which emphasizes the benefits of keeping organizational structures aligned to the changing demands of the environment; the resource-based theory, which maintains that firms possess resources, which they use to achieve competitive advantage and superior performance; or the strategy-structure contingency theory, which presents restructuring as a strategy that encourages organizations to interface with their environment. It has been observed that a significant percentage of the restructuring efforts have been conducted but many did not yield the desired results. While reasons for this abound, they are yet to be articulated in a format that can assist managers to take appropriate action at the design and implementation stages. Furthermore, results from cases of successful restructuring efforts appear not to fully justify the expenditure of resources, because of the high rate of failure. The objective of this paper is therefore to examine these restructuring strategies as they interface with organizational performance, and, in the process, conduct a conceptual review, identify the applicable theoretical perspectives, and examine empirical studies on the relationship between corporate restructuring and organizational performance.

Despite indications that organizational restructuring influences corporate performance significantly (Kanyagia, 2020; Nweze *et al.*, 2022; Nyambura & Maina, 2021), there are still persistent questions on the applicability of restructuring as a strategy to achieve this aim. For instance, what are the corporate restructuring strategies that influence organizational performance? In which forms does corporate restructuring come? What are the underpinning theories? How has corporate restructuring influenced organizational performance? Most studies in the field of restructuring for improving performance are based on the various dimensions of both variables, thus presenting a limited view of the domain. To view the corporate restructuring as an essential activity in corporate governance, therefore, a holistic approach is required, which is why this review coalesced many of the dimensions of restructuring that were hitherto studied in isolation, with the view to identifying how restructuring can influence organizational performance. Performance has also been measured mainly in terms of financial performance, limiting the significance of non-financial measures of performance. It is thus hoped that the study will benefit scholars, managers, and other stakeholders.

LITERATURE REVIEWS

In this section, issues, controversies, problems, concepts, and results from empirical studies in the literature on the role of corporate restructuring on organizational performance are presented. The section is guided by the conceptual framework that related corporate restructuring, to organizational performance.

Organizational Performance

Organizational performance measures an organization's ability to channel its resources to achieve organizational goals effectively and efficiently and has both financial and non-financial measures. Financial measures comprise such indicators as profits, turnover, return on investment, return on capital employed, and inventory turnover, while non-financial measures include the ability to evaluate alternatives, ability to avoid mistakes, improved budget process, innovation and market standing, market share, innovation rate or customer satisfaction. Another measure of performance is the balanced scorecard, which challenged the usual use of financial indicators to measure the performance of a company from a strategic point of view, by considering indicators from other perspectives, and has

evolved from a performance measurement system to a strategic management system (Anwar & Shah, 2020; Rashid *et al.*, 2018).

Organizational performance is often a by-product of its culture, and a good culture encourages employee better performance, and invariably the organization benefits, while a bad culture does the exact opposite. The culture of an organization is therefore an important factor to be considered whenever restructuring is contemplated (Bhabad & Upadhyay, 2022) because as is often the case, the cultural dimension is ignored at the commencement of the restructuring process, while attention is directed almost exclusively on financial issues.

Corporate Restructuring

Corporate restructuring involves changing the organization by modifying its structure, business model, and management team, to address challenges, enhance efficiency, increase shareholder value, and employee output, hence organizational performance. The scope of corporate restructuring encompasses cost reduction, increased efficiency, and improved profitability, and it is concerned with arranging the business activities of the entity as a whole to achieve certain predetermined objectives. Thus, when a company wants to flourish in a competitive environment, it needs to restructure (Girod & Karim, 2017). Organizational restructuring involves conducting an assessment to identify areas of competence, improvement, and potential risks and applying the findings to inform strategic solutions. Consequently, the commonly stated objectives of restructuring include improving the overall value of the organization and its competitive position. The reasons for restructuring range from expansion, corporate control, and contraction.

Important reasons for expansion can be traced to growth, product differentiation, politics, technology, economy, and diversification. Corporate control ensures that a program for the successful performance of companies can be carried through without disruption. Contraction may take the form of a spin-off, split-off, divestitures, split-ups, and equity-carved out. Various motives such as maneuvering leverage, alteration in the control structure, government policies, globalization, providing fairness to minority shareholders, and changing the nature of companies act as drivers in corporate restructuring activities, while an important rationale behind every corporate restructuring is to increase focus on essential areas of work, customer satisfaction, cost reduction, and managerial efficiency (Florio, *et al.*, 2018).

Types of Corporate Restructuring

There are several types of restructuring available to management, depending on the objective of the restructuring. Legal restructuring takes place when the changes, such as ownership, legal business paperwork, or agreements in a company pertain to legal norms. Financial restructuring is when there is a change in the capital structure of the business. Repositioning relates to a transition to a new business model. A cost-reduction restructuring takes place to cut costs in administration and operations. A turnaround involves changes in the operations, administration, products, and/or services (Estin, 2018; Tang, 2019).

Various forms of restructuring such as portfolio restructuring, financial restructuring, organizational restructuring, and technological structuring have been identified. Portfolio restructuring entails significant changes in the asset mix of a company or the lines of business in which a company operates, which include asset sales, divestitures, liquidation, and spin-offs. This involves selling off undesirable assets and possibly replacing them with other preferred assets. Financial restructuring involves significant changes in the capital structure of a company and can take the form of leveraged recapitalizations, leveraged buyouts, and debt-for-equity swaps. This is done to sustain the market and the profitability of the company, and a common way of financial restructuring is by increasing equity through the issuance of new shares. Organizational restructuring emanates from the changes in human resources policies, which may occur when there are changes in the external environment. Corrective action may include reducing product diversification, revising compensation, downsizing,

spreading the span of control, and flattening hierarchic levels. Technological restructuring implies the adoption of new technological trends to improve the company's competitiveness. It could require a partnership with other companies to exploit technological expertise (ElBannan, 2021).

Corporate restructuring can be internal or external. It is internal when a company has a large debt profile and it desires to retain its corporate identity without the involvement of any third party, and common examples are portfolio restructuring and organizational restructuring. It is external when the restructuring of resources is asset-based, capital or financial, and changes in ownership, as encountered in mergers and acquisitions, takeovers, etc.

Dimensions of Corporate Restructuring

The dimensions of corporate restructuring are numerous. Prominent ones are strategy restructuring, process restructuring, organizational restructuring, manpower restructuring, market restructuring, financial restructuring, assets (business portfolio), capital structure, management/organizational, product restructuring, organizational restructuring, external restructuring, internal restructuring, downsizing, down scoping, business process reengineering, cost restructuring, governance reformation, departmentalization, decentralization, mergers, and acquisition (Kinyua & Kihara, 2021).

Restructuring Strategies

Restructuring strategy is the act of changing the lawful structures of a company to make it more valuable, and it involves a significant modification of a company's operations, and managers have a wide variety of strategies at their disposal to achieve this end. Commonly recommended strategies are mergers and acquisitions, joint ventures, divestments, corporate takeovers, strategic alliances, corporate buyouts, tender offers, down scoping, downsizing, recapitalization, etc. (King, 2022; King *et al.*, 2018).

Mergers and acquisitions are generally where two or more business entities are combined either by way of absorption or amalgamation or by forming a new company. through the consolidation of their major assets. Specifically, a merger occurs when two separate entities combine forces to create a new, joint organization, while an acquisition refers to the takeover of one entity by another. In a merger, the boards of directors for two companies approve the combination and seek shareholders' approval, while in a simple acquisition, the acquiring company obtains the majority stake in the acquired company, which does not change its name or alter its organizational structure. Through mergers and acquisitions, companies derive greater financial strength, because the bigger the entity, the better for it, since bigger companies can compete more favorably. The resultant synergies from the merger and acquisition could be financial or operational. Financial synergies would impact the cost of capital while operating synergies would impact economies of scale and efficiency. Diversification is yet another objective of mergers and acquisitions, which could lead to stability and profitability (Nwariaku & Okoroiwu, 2022; Ray, 2022).

A corporate takeover is taking control over the management of a company by another in ways such as the holding of minority ownership. Takeovers and acquisitions are occasionally used synonymously, however, the distinction may be down to whether it was a hostile or friendly acquisition or forced or unwilling. A takeover would mean the acquisition of shares, not to invest in the securities of that company but to acquire the management of the company. When the acquirer acquires a substantial quantity of shares of the target company, a takeover bid is supposed to have been made. While most takeovers are friendly, some are hostile, and this is where an unsolicited offer is made by a potential acquirer that is resisted by the target company's management (Bellomarini *et al.*, 2022).

A joint venture is a combination of two or more parties to create a single enterprise that shares the risks and profits of the intended project. As a commercial arrangement between two or more participants who agree to collaborate to achieve a specific objective, the parties agree to contribute in proportion as agreed to form a new entity and also share the expenses, revenues, and control. Because it is intended to meet a specific goal, the venture ends when the objective is achieved, or

when a mutually agreed milestone is reached. It is particularly useful when a technically advanced foreign partner collaborates with an indigenous company to execute projects in the host community. It promotes the transfer of technology to the host and business penetration for the foreign partner (Chae & Kim, 2022).

Divestments are the sale of a portion of the company's assets to a third party in a private transaction, where these assets could be a product line, a division, a segment, or a subsidiary, for which in return the seller receives either cash or securities or a combination of both. Besides getting rid of an unwanted subsidiary, sell-offs also raise cash, which can be used to pay off debt or be reinvested, or be distributed to the company's claim holders (Nyiwul & Iqbal, 2023).

In a strategic alliance, two or more entities agree to collaborate to achieve specific objectives while still acting as independent organizations, unlike in a merger and acquisition or a joint venture agreement. Thus, the parties agree to undertake a mutually beneficial project while each still retains its individuality. The parties share resources, competencies, expertise, knowledge, and other benefits such as new market penetration, expanding production capabilities, and building innovation between them to achieve the agreed objectives. The agreement in a strategic alliance is less complex and obligatory than in a joint venture, and could be either equity-based or non-equity-based (Green & McCann, 2020; Talebi *et al.*, 2017).

A leveraged buyout is a financing technique where debt is used in the acquisition of a company, and it happens when a group of persons gains control of a company by buying all or majority of its shares and can be either a leveraged buyout (LBO) or a management buyout (MBO). LBO is a restructuring strategy where a party, often a private equity company, buys all of a company's assets, using a combination of debt and equity, thereby taking control of the company. Once a private equity company completes this type of transaction, the target company's stock is no longer traded publicly. MBO on the other hand is a form of LBO where a group led by people in the current management of a company buy out the majority of the shares from existing shareholders and take control of the company (Bédu & Palard, 2021; Gompers & Kaplan, 2022).

In the case of a tender offer, a public offer is made for acquiring the shares of the target company, thus, the acquisition of shares of the target company indicates the acquisition of management control in that company. A tender offer is a means of acquiring one company by another and often occurs when an investor proposes buying shares from every shareholder of a publicly traded company for a certain price at a certain time, at a premium. A tender offer is a conditional offer to buy a large number of shares at a price that is typically higher than the current price of the stock. The higher asking price is a sweetener to encourage the current holders to accept the deal (Michael, 2019).

Theoretical Perspectives

Like any investigation, those on corporate restructuring and organizational performance are also grounded on theories that explain the workings of the relationship. For instance, dynamic capability theorists emphasize the benefits of keeping organizational structures aligned to the changing demands of the environment, which helps in examining the relationship between restructuring and organizational performance. The restructuring enables the companies to create dynamic capabilities through the reorganization of the available resources to ensure optimum performance. Another frequently used theory is the resource-based theory, which argues that firms possess resources, a subset of which enables them to achieve a competitive advantage, and superior long-term performance. Accordingly, restructuring organizational resources like employees, firm capabilities, knowledge assets, etc. meets organizational goals and objectives. Examples of firm resources include managers, employees, firm capabilities and knowledge, and assets that are specific to the firm's performance, and firms should therefore pay more attention to how to structure resources and processes to create dynamic capabilities. The strategy-structure contingency theory presents restructuring as an essential and economically suitable strategy that organizations use to familiarize themselves with their environment. When diversity in an organization increases, there arises a need for subsequent realignment of the company's

structure to reinstate and even enhance performance. Thus, no single best organizational structure exists, rather, it is about the suitability of the organizational structure about the contingencies that the organization experiences.

Corporate Restructuring and Organizational Performance

One cardinal objective of restructuring is improving performance, which may occur as a result of unforeseen changes in the business environment, or simply in pursuit of competitive advantage. Several scholars were attracted to this phenomenon and the outcome of their studies shows that a significant relationship exists between corporate restructuring and organizational performance, and hereunder are a few of these studies.

Chege *et al.* (2022) examined the effect of the demerger strategy on organizational performance in the State Department of Trade and Enterprise Development, Kenya in descriptive research of 146 employees in the study area. The linear regression analysis revealed that the demerger strategy adopted by the government institution did have a positive and significant relationship with performance.

Nyambura and Maina (2021) examined the effects of organizational restructuring on the performance of commercial banks in Mombassa County, Kenya by conducting a survey of 42 commercial banks located in the study area using a structured questionnaire to collect data. The data were subjected to both descriptive and inferential statistical analysis and it was discovered that the bank's adoption of various restructuring strategies and specifically, the adoption of departmentalization, human resources restructuring, decentralization of processes, mergers, and acquisition had resulted in improved performance.

Kinyua and Kihara (2021) examined the influence of organization restructuring on the performance of selected media firms in Kenya in a study designed to establish the influence of cost restructuring, governance reformation, downsizing, and processes centralization on the performance of three media firms (Nation Media Group, Royal Media Services, and Standard Group Limited). Using a total of 131 employees in the managerial positions of the selected media firms, data were analyzed using Pearson's correlation analysis and multiple regression analysis, the results show that cost restructuring, governance reformation, process centralization, and downsizing positively and significantly influence the performances of media firms and that an increase in one indicator increases the levels of performance.

Duong and Nguyen (2021) examined the impact of bank restructuring on the financial performance of commercial banks trading on HOSE and HNX in Vietnam, with data obtained from the audited financial statements of 30 Vietnamese commercial banks from 2007 to 2019. Pooled least squares (Pooled OLS), fixed effects model (FEM), random effects model (REM), and system generalized moment regression model (System GMM) are the estimated methods used to increase the accuracy of the regression coefficient for the study. The research results show that the variables of financial restructuring activities such as government intervention and the ratio of equity to total assets; variables of ownership restructuring such as capital adequacy ratio, privatization of state-owned commercial banks, mergers, and acquisitions; variables of operational restructuring such as employees, branches, the cost to total assets; GDP variables and the second restructuring period have a positive impact on financial performance. However, variables such as debt-to-capital ratio, bad debt ratio, state ownership ratio, expense-income ratio, and inflation harm financial performance.

Mazimpaka and Rusibana (2021) assessed the factors that lead to mergers and acquisitions in commercial banks in Rwanda, the factors that determine the performance of three commercial banks (BPR Atlas Mara, I&M Bank, and Ecobank), determine the relationship between merger and acquisition and the financial performance of banks, using a sample of 88 employees from the three selected banks. It was discovered that mergers and acquisitions can increase the performance of commercial banks in terms of CAR, ROA, ROE, and ROI.

Kanyagia (2020) determined the effect of corporate restructuring strategy on the performance of insurance companies in Kenya with the case study of Britam Holdings. The specific research

objectives for the study were about establishing the influence of financial restructuring, investment restructuring, and governance restructuring on the performance of Britam Holdings Limited. A descriptive research design was adopted for the study, with a target population of all the top and mid-level management employees of Britam Holdings Limited. Descriptive statistics such as the mean, standard deviation, and frequencies were obtained and inferential statistical analysis such as correlation and regression analysis were also conducted. It was discovered that there is a positive association between financial restructuring, investment restructuring, governance restructuring, and performance at Britam Holdings Limited.

Ingow and Opuodho (2019) evaluated the effect of corporate restructuring on the financial performance of SACCOs in Kenya, specifically to identify the effect of capital restructuring on the financial performance of SACCOs, to establish how asset restructuring affects the financial performance of SACCOs and finally to find out how operational restructuring affect the financial performance of SACCOs. Using a descriptive research design, a total of 35 managerial staff members from the 35 SACCOs were targeted by way of completing a structured questionnaire. Secondary data were also collected from SACCOs financial statements and other financial records using a document review guide. Data were processed and then analyzed using descriptive statistics and correlation analysis, and the conclusion was that capital restructuring had a positive and significant effect on the financial performance of SACCOs, asset restructuring had a negative but significant effect on the financial performance of SACCOs, and operational restructuring had a negative but significant effect on the financial performance of SACCOS in Kenya

Emmanuel *et al.* (2018) examined the impact of mergers and acquisition strategies on the performances of 24 consolidated Deposit Money Banks in Nigeria, from 2002 to 2017, anchored on two specific objectives. To assess the extent to which merger and acquisition strategies can promote the corporate survival of the banks, and examine the degree to which profits can be improved under merger and acquisition strategies in the banks. Samples from Access Bank Plc., First Bank Plc., Unity Bank Plc., and Union Bank Plc. were used to analyze the first objective while secondary data was used in analyzing the second objective. The *t*-test statistical tool and correlation analysis were used as a relationship determinant between the variables using SPSS Package and results revealed that there is a statistically significant relationship between merger and acquisition and the performance of the selected banks. Results also show that there is a significant relationship between the pre - and post-merger and acquisition and corporate survival of the selected banks.

METHODOLOGY

To achieve the aim of the paper, a conceptual framework was designed, where the independent variables are the corporate restructuring strategies while the dependent variable is the improvement of organizational performance. Thus, the methodology adopted was the analysis of the keywords, which was used to identify the main research theme related to corporate restructuring and organizational performance. Several kinds of literature in the domain of strategic management, corporate restructuring, and performance were extensively reviewed. Key authors, relevant theories, and significant studies were identified and reviewed. To find relevant articles in the consulted databases, basic keywords were identified from the literature, and to ensure data quality, a premium was placed on books and articles in peer-reviewed academic journals published between 2017 and 2023. Consequently, 30 authors from a pool of six books, 22 journal articles, one report, and a website were examined to isolate the corporate restructuring indicators and strategies with the potential to improve organizational performance.

Findings of the Review

Following the review of the literature, it was discovered that there are various strategies for restructuring, ranging from mergers and acquisitions, joint ventures, divestments, corporate takeovers, strategic alliances, corporate buyouts, and tender offers. Different corporate restructuring

and organizational performance concepts such as portfolio restructuring, financial restructuring, organizational restructuring, and technological structuring, financial and non-financial performance were reviewed in line with the general practice in the domain. The dynamic capabilities theory, the resource-based theory, and the strategy-structure contingency theory are the three theories isolated and accorded significance in the relationship between restructuring and performance. Scholars have contributed in the area of restructuring dimensions and performance, and eight recent studies were present in this review, where it was discovered that the relationships between the variables are generally but not unanimously positive or significant.

CONCLUSION AND RECOMMENDATIONS

Notwithstanding the health and well-being of an organization, let alone those that have obvious existential problems, organizations should adopt some level of survival strategies. Thus, for businesses in trouble, restructuring remains a veritable option for recovery. The restructuring strategic options could be mergers and acquisitions, joint ventures, divestments, corporate takeovers, strategic alliances, corporate buyouts, and tender offers depending on the root cause of the problem, the specific objective desired, and the prevailing environmental factors. The dynamic capabilities theory, the resource-based theory, and the strategy-structure contingency theory are the three theories invaluable to the understanding of restructuring for improved organizational performance. Based on the analysis of available literature, it is rational to declare that corporate restructuring has the potential to provide the necessary motivation for not only reversing the trends of ailing businesses but also positioning them on the path to recovery and success, through the enhancement of performance.

Restructuring strategies are sensitive to environmental forces. Thus, constant environmental scanning is required before, during, and after adopting any specific or a combination of restructuring strategies. As a result of the observations made based on the review, scholars in the strategic management and corporate governance domain should focus attention on the long-term consequences of restructuring, not just on personnel or the bottom line, but the overall organizational performance, value creation, and cultural dimensions. The available theoretical bases upon which studies relating corporate restructuring to performance are appropriate, but are too general to address the specific requirements of the diverse environments many organizations operate. All these steps are requirements necessary to reduce the unfortunate incidences of dismal organizational performance and corporate failures.

Contributions of the Study

The important contribution of this study is to add another layer to the understanding of the motives for restructuring, types of restructuring, dimensions of restructuring, strategies for restructuring, the underpinning theories, and their overall bearing on organizational performance. The paper has identified the choices and scope of strategies available and how they can be deployed to achieve the desired results. Thus, the low performance occasioning the corporate world during periods of global pressures can be overcome by the strategy of restructuring, since evidence has shown that some companies that were hitherto moribund have recovered as a result of the adoption of one form of restructuring or the other.

Implications of the Study

Although the underpinning theories appear to be adequate, the high rate of failure experienced in corporate restructuring casts doubt on their efficacy in explaining the relationships, perhaps because the theories are too general to cater to the specific needs of the effects of the environment on the organization. It would appear as if the operators of the entire restructuring process are unmindful of the dynamic nature of the environment, thus, compromising the very essence of the exercise. Based on the findings of the review, corporate restructuring is considered a veritable tool for the improvement

of organizational performance, but theorists must incorporate elements of the environment and non-financial performance in the model to achieve a robust philosophy in the relationship.

The process of restructuring requires the commitment of all stakeholders. The operator of the restructuring on all sides must be forthcoming with information that is essential for the success at every stage of the restructuring process because the absence of honesty and transparency will lead to mistrust and mutual suspicion, especially at the later stages. Between the dual challenges of poor understanding of the environment and the indifference of operators, the managers of the amalgamated entities will find it difficult not only to perform but to ultimately achieve the desired organizational goal.

Limitations of the Study

As a conceptual paper, the review concentrated on the synthesis of existing literature and findings from empirical studies, thus, is deficient in active data for analysis. The methodology used, though standardized, has its limits in terms of time horizon and depth of coverage, as is the experience in literary works of this nature.

Suggestions for Future Studies

The future scholar should explore in depth the merits and demerits of the restructuring strategies, by capturing data from both successful and failed restructuring efforts in a longitudinal study. A chronological review, matching the advent of globalization will also benefit the body of knowledge because it will highlight the trend from the past to the present. The intervening role of organizational culture in the relationship between corporate restructuring and organizational performance is worth further examination.

ACKNOWLEDGEMENTS

The author appreciates the invaluable comments of the reviewers which contributed to the improvement of the manuscript immeasurably.

CONFLICT OF INTEREST

I hereby declare that I have no financial or personal relationships that may have inappropriately influenced me in writing this article.

FUNDING STATEMENT

This research received no specific grant from any funding agency in the public, commercial or not-for-profit sectors.

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