AN INVESTIGATION OF THE IMPACT OF CORPORATE RESTRUCTURING ON SHAREHOLDER VALUE: A CASE STUDY OF COMPANIES QUOTED ON THE NAIROBI STOCK EXCHANGE

MBA PROJECT

PRESENTED BY:

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MBA PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION, FACULTY OF COMMERCE

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JULY 2000
DECLARATION

This Research Project is my original work and has not been presented for a degree in any other University.

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This research project is dedicated to my parents Richard and Theresia Kinai, and my sister and brothers Miriam, Mutisya, and Musyoka for their love, support, and prayers throughout my MBA program.

God bless you
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I am grateful to the respondents who filled my questionnaires, and the Nairobi Stock Exchange library staff who provided data used in this project.

To all of you I say, Thank You.
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ABBREVIATIONS

DPS  dividends per share
EPS  earnings per share
MPS  market price per share
NCF  net cash flow
NSE  Nairobi Stock Exchange
ABSTRACT

In the recent past difficult operating conditions have motivated companies to restructure by retrenching staff and downsizing their scope of operations. However it is unclear whether restructuring has resulted in improvements in financial performance given the difficult operating environment that have prevailed in the country. It is uncertain whether there has been an enhancement of shareholder value of the restructured companies given the plummeting Nairobi Stock Exchange Index.

The objectives of this research project were to determine if there was an improvement in financial performance of the restructured companies, to determine whether there was an improvement in shareholder value of the restructured companies, to examine the changes made as companies restructured, and to report the findings making necessary recommendations.

Sixteen companies quoted on the Nairobi Stock Exchange were sampled, ten of which responded by filling a questionnaire in which they verified whether or not they had restructured and also reported the changes they made as they restructured. From this data it was found out that restructured companies implemented significant changes including reduction of the number of employees, delayering the organizational hierarchy, outsourcing none-core services, changing work processes by assigning employees more tasks, and requiring them to learn new skills, and changing their remuneration policy such that employees are now remunerated on the basis of individual, work-group, and/or company performance. The companies also attempted to focus on delivering greater customers satisfaction.
To determine the extent of improvements in financial performance and shareholder value of the respondent companies, data on net cash flow, earnings per share, dividends per share, and market price per share was collected and analyzed to isolate trends in the variables. It was observed that in a majority of the restructured companies, net cash flow, earnings per share, dividends per share, and market price per share had improved. This implied that restructuring contributed to the improvement in financial performance and enhancement of shareholder value.

Further it was found that there existed a relatively strong positive correlation/association between earnings per share and market price per share, and also between dividends per share and market price per share. This implied that shareholders had an affinity for current dividends and earnings over future dividends and earnings. Thus if a company wanted to increase its shareholder value it had to pay regular dividends to it’s shareholders.

On the basis of these findings it was recommended that it is necessary for a company to pay regular dividends in order to enhance shareholder value. It was recommended that prospective shareholders invest their funds in firms that have a good track level in creating shareholder wealth. It was recommended that the government should improve the quality of public services, improve the country's infrastructure, and create conditions that are conducive to economic growth. It was recommended that the regulatory agents of the government should exercise their mandate professionally to avoid exerting undue regulatory pressure on private sector firms. It was also recommended that the government should strictly enforce controls over counterfeit, pirated and untaxed goods to ensure that there is fair competition with above board products.
CHAPTER 1

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Stahl (1995) defines restructuring as a series of actions aimed at downsizing or cutting back the scope of the firm. These actions are designed to improve organizational efficiency, productivity and/or competitiveness (Cameron et al, 1995). Such actions lead to the creation of more adaptability and also seek to focus a firm on its core competences in which it is likely to achieve excellence (Carnall, 1997). The justification given for restructuring being that it is attempt to maximize the market value of the firm's shares in order to satisfy the primary goal of investors, which is to maximize their rate of return, or equivalently, the terminal value of their investment in financial securities (Van Horne, 1974; Francis, 1993).

In the recent past, Kenyan companies have restructured being motivated by difficult operating conditions that have prevailed in the country. Evidence of restructuring being mainly in the form of press reports about retrenching of staff by companies, closing down of branches or subsidiaries, or installing new technology. However the impact of restructuring on financial performance and shareholder value remains uncertain, given the depressed state of the economy and a plummeting Nairobi Stock Exchange Index. This research project reports on the findings of a study into the extent to which restructuring resulted in improvements in financial performance and shareholder value of sampled Kenyan companies.
1.2 STATEMENT OF THE PROBLEM

The problem addressed in this research project is the need to determine the impact of restructuring on financial performance and consequently on the shareholder value of the sampled companies. That is, was there an improvement in a company's financial performance and consequently in its shareholder value after restructuring.

This problem is addressed because it is not clear whether the restructuring of Kenyan companies resulted in an improvement in financial performance given the difficult operating conditions that have prevailed in the country in most of the 1990s. It is also uncertain whether the shareholder value of Kenyan companies improved after restructuring given the plummeting Nairobi Stock Exchange Index. Thus, this research project reports on the extent to which restructuring has resulted in the improvements in financial performance and shareholder value of a sample of Kenyan companies.

1.3 OBJECTIVES OF THE STUDY

The general objective of the study is to determine the impact of corporate restructuring on financial performance and shareholder value of sampled companies.

The specific objectives of the study were stated as:

1) To determine if there was an improvement in the restructured companies' financial performance.

2) To determine if there was an increase in the shareholder value of the restructured companies.

3) To examine the changes that were made in Kenyan companies as they restructured.

4) To report and recommend on the effects of restructuring on financial performance and shareholders value within a Kenyan context.
1.4 RESEARCH QUESTIONS

The following questions guided this study:

1) Did the sampled companies report an increase, after restructuring, in financial performance measured by net cash flow, earnings per share, and dividends per share?

2) Did the sampled companies report an increase, after restructuring, in shareholder value measured by market price per share?

3) What changes were made in the sampled companies as they restructured?

1.5 SIGNIFICANCE OF THE STUDY

From the findings of the study, it will be possible to generalize about the extent of improvements in financial performance and shareholder value created after the restructure of the sampled companies. This information is useful to shareholders because they will know whether restructuring was effective in enhancing their wealth.

The findings of this study will be useful to lecturers and students by giving insight to the changes that have been made in the management of Kenyan companies as they respond to difficult operating conditions. This information will be useful in instructing students and preparing them for careers in business.
1.6 DEFINITIONS

**Dividends per share:** this refers to the amount of after tax earnings that are paid out by a company to each issued ordinary share. And is calculated as follows:

\[
\text{dividend per share} = \frac{\text{after-tax earnings paid to shareholders in a financial period}}{\text{number of ordinary shares issued}}
\]

**Earnings per share:** this refers to the after tax earnings generated for each issued ordinary share. And is calculated as follows:

\[
\text{earnings per share} = \frac{\text{net profit after tax} - \text{preference share dividend}}{\text{number of ordinary shares issued}}
\]

**Market price per share:** this is the value of an ordinary share assigned on trading at the stock exchange.

**Net cash flow:** this is a measure of financial performance which matches periodic cash inflows and outflows, free of credit transactions and arbitrary accounting allocations.

**Restructuring:** this refers to a series of actions aimed at downsizing or cutting back the scope of the firm (Stahl, 1995). These actions are designed to improve organizational efficiency, productivity and/or competitiveness (Cameron et al, 1995).

**Shareholder value:** this is the stake held by shareholders in a firm (Moles and Terry, 1997). The central purpose of a corporation is to maximize shareholder wealth (Kochan and Useem, 1992).

**Stock exchange:** this is a centrally located market where financial securities are traded, transactions being executed by brokers.
CHAPTER 2
LITERATURE REVIEW

2.1 OBJECTIVES OF BUSINESS ORGANIZATIONS

The central purpose of a corporation is to maximize shareholder wealth (Kochan and Useem, 1992). That is, decisions are made with a view to maximizing shareholder value, which is the stake held by shareholders in a firm (Moles and Terry, 1997). In today's markets an effective organization is considered to be one that meets the expectations of multiple stakeholders including shareholders, employees, customers, and societies (Kochan and Useem, 1992).

In order to maximize shareholder wealth as well as to satisfy their other stakeholders in a business environment characterized by discontinuous changes in market needs, technology, geographical, economic, cultural, social or political settings (Ansoff, 1988), business organizations have had to restructure from organization design forms that are bureaucratic and slow to respond, to more adaptable and responsive organizational forms.

2.2 ORGANIZATION DESIGN OPTIONS

Schermetherorn (1993) defines organizational design as the process of choosing and implementing structures that meet the needs of an organization. The ultimate purpose of the organization is to put into place structures that facilitate the accomplishment of financial and other key objectives.
2.2.1 Mechanistic And Organic Organization Design Forms

A study by Burns and Stalker (1961) concluded that two extreme organizational design forms exist, namely: 1) mechanistic organizations, and 2) organic organizations. Mechanistic organizations are a bureaucratic form, which thrives when the environment is stable. While the organic organization is much less bureaucratic and much more flatter and responsive, performing best in rapidly changing, uncertain environments (Schermerhorn, 1993).

2.2.2 Human Resource Characteristics

The human resource in a mechanistic organization tends to exhibit a motivational profile consistent with McGregor's Theory X (McGregor, 1960). Managers with Theory X assumptions are overly directive, narrow and control-oriented. These behaviors create passive, dependent and reluctant subordinates (Schermerhorn, 1993). Such employees fit well into mechanistic organizations.

In an organic organization, the human resource tends to exhibit a Theory Y profile in which accountability to performance is emphasized, and creativity is encouraged.

2.2.3 Arguments For The Organic Organizational Design Form

In today's discontinuously changing business environment, the organic organizational design form, coupled with a Theory Y motivational orientation is most appropriate. Contemporary management scholars argue in favor of the organic form, referring to it with a variety of terms. For example, Peters and Waterman (1982) refer to the organic form as "loose" structures, Jarillo (1988) uses the term "strategic network", Orton and Weick (1990) uses "loosely coupled organizations", J.B. Quinn (1991) labels it the "intelligent enterprise", while Chesbrough and Teece (1996) call it a "virtual corporation".
Jarillo (1988) advocates for the superiority of the organic organizations writing: “If a firm is able to obtain an arrangement whereby it ‘farms out’ activities to the most efficient supplier, and keeps for itself that activity in which it has a comparative advantage and lowers transaction cost, a superior mode of organization emerges: the strategic network” (Jarillo, 1988). Activities may be farmed out to any one or more of a variety of loosely coupled organizations within and outside “the hub” or sponsoring organization - to autonomous subunits, subsidiaries, franchisees, subcontractors and/or independent organizations. The resultant organization is superior precisely because it is able to orchestrate diverse resources and distinctive competences of different organizations to a new common purpose (Limerick and Cunnington, 1993).

2.3 WHAT IS CORPORATE RESTRUCTURING?

Restructuring is the series of actions aimed at downsizing or cutting back the scope of the firm (Stahl, 1995). And it is designed to improve organizational efficiency, productivity and/or efficiency (Cameron et al., 1995). It leads to the creation of more adaptability and also to seek to focus firms on their core competences in which they are likely to achieve excellence (Carnall, 1997). By restructuring an organization moves away from a stodgy mechanistic form to a more adaptable and responsive form capable of competing in a dynamic business environment.

2.4 ORGANIZATION DESIGN TRENDS

2.4.1 Creation Of Flatter Organizations

Corporate restructuring has led to dramatic changes in organizations. Firms are de-layering. There are in those organizations, many fewer managers, carrying more responsibility and more demanding jobs than formerly. Information technology, which makes access to data easier, is supporting team-based approaches
to management. The need to respond quickly to market pressures is leading many organizations to push responsibility down the organization. For these and other reasons connected with shareholder value many large businesses have demerged (Carnall, 1997).

2.4.2 Creation Of Networked Organization

Over and above all of this companies out-source, engage in joint ventures, and strategic alliances in order that each element of the 'value chain' (see Porter, 1985) is delivered in a high value added way. This development is having a powerful impact creating what some call the 'networked' organization and others are now calling the 'virtual' organization (Carnall, 1997). There has been a shift from a belief in the advantages of size to the advantages of adaptability (Carnall, 1997).

2.4.3 Focus On Core Competences

Thus we can see countless organizations focusing on their core competences (Prahalad and Hamel, 1990), dealing with 'preferred' suppliers with whom they develop strong links, de-layering, downsizing and focusing upon 'invisible assets' like product-market knowledge, competitor intelligence and the like as a source of added value (Itami, 1987). The practical consequences of these trends are that organizations are now much more likely to be engaged in strategic alliances, joint ventures, outsourcing, networking, joint development projects and so on (Carnall, 1997).

In the new organization the manager is much more concerned with managing across boundaries (often as well as across borders). There is more dependence on 'outsiders' and less reliance on 'insiders'. Any part of the organization can be 'outsourced' (Carnall, 1997).

All of this implies that empathy, the ability to seek gains for all partners, flexibility and learning all becomes vital skills in the new organization. Hastings (1993) talks about organizational networking in
terms of the need to break down organizational boundaries, create successful partnerships, connect computers and connect people. This he describes as a vital role for success of joint ventures and strategic alliances but it can be extended into project teams and other internal networks (Carnall, 1997).

2.5 IMPLEMENTING CORPORATE RESTRUCTURING

Cameron et al (1993) in their investigation identified three major restructuring strategies, namely: workforce reduction strategy, organization redesign strategy, and systemic strategy.

2.5.1 Workforce Reduction Strategy

Workforce reduction strategy focuses mainly on eliminating headcount or reducing the number of employees in the workforce. It consists of activities such as offering early retirements, transfers and outplacements, buyout packages, golden parachutes, attrition, job banks and in the extreme, layoffs and firings (Cameron et al, 1993).

2.5.2 Organization Redesign Strategy

The primary focus of the organization redesign strategy is to cut out work rather than workers. It often consists of activities such as eliminating functions, hierarchical levels (de-layering), groups or divisions and products. Others are redesigning tasks, consolidating and merging units and reducing work hours. Though organizational downsizing achieves a greater degree of efficiency as it simplifies structure, it is difficult to implement and is therefore a medium term strategy (Cameron et al, 1995).
2.5.3 Systemic Strategy

Systemic strategy focuses on changing the organization's culture and the attitudes and values of employees. It defines downsizing as a way of life, as an ongoing process, rather than as a program or a target. Downsizing is equated with simplification of all aspects of the organization including suppliers, inventories, design processes, production methods, customer relations, marketing and sales support and so on. Costs all along the customer chain, especially invisible and immeasurable costs, are the main targets. Examples of downsizing targets include reducing wait time, response time, networks, paper, incompatibilities in data and information systems, number of suppliers, and rules and regulations. Instead of being the first targets of elimination, employees are defined as resources to help generate and implement downsizing ideas (Cameron et al, 1995).

2.6 LIMITATIONS OF RESTRUCTURING

Corporate restructuring does have some limitation. Prominent among these is that it rarely creates a sustainable competitive advantage. These sentiments are accentuated by a number of management scholars. For example Stalk and Hout (1990) write: "Restructuring is a weak competitive innovation, however, because durable competitive advantage is not the objective. Rather the objective is at best, to revalue undervalued companies and, at worst to preserve the status and jobs of existing management."

C. F. Freidheim is cited in Monks and Nell (1995) stating that: "EPS can be driven up by liquidating the franchise, switching conventions, by restructuring and weakening the balance sheet, by playing the accounting game with acquisitions, convertible securities, and none of those things would increase the value of the business a wit."
After studying the nature of corporate change for 40 years, Beer and Nohria (2000) concede that: “Despite of individual successes, however, change remains difficult to pull off, and few companies manage the process as well as they would like. Most of the initiatives — installing new technology, downsizing, restructuring, or trying to change corporate culture — have had low success rates. The brutal fact is that 70% of all change initiatives fail.”

2.7 LITERATURE GAP

Much of literature quoted relates to research work done on firms operating in developed western countries. There is a conspicuous lack of literature relating to corporate restructuring on the African continent and especially within the Kenyan context.

Information relating to restructuring of Kenyan companies is scanty, and is treated by companies as being proprietary information. Widely available information relating to corporate restructuring is made up of newspaper articles and annual reports and accounts published by public companies. However, these sources give little insight into specific restructuring processes and their effects on financial performance and shareholder value.

Thus, it was necessary to investigate and report on the impact of corporate restructuring on financial performance and shareholder value of Kenyan public companies.
CHAPTER 3

METHODOLOGY

3.1 STUDY POPULATION

The population of interest was defined as all companies quoted on the Nairobi Stock Exchange (NSE) that had undergone some form of restructuring. Currently, 54 companies have their equity shares quoted on the NSE. A representative sample was drawn from these companies.

3.2 SAMPLING DESIGN

A stratified random sample will was drawn from the study population. The sample being defined as 30 percent of the 54 companies quoted on the NSE. Thus, 16 companies were sampled.

The sampled companies were distributed proportionately in the 4 sector of classification for companies quoted at the NSE. There are 9 companies classified under the agricultural sector, a proportional sample of 3 companies was drawn from this sector. There are 14 companies classified under the Commercial and Services sector, from which a proportional sample of 4 companies was drawn. From the 13 companies classified under the Financial and Investment sector, there were sampled 4 companies. From the 18 companies classified under the Industrial and Allies sector a sample of 5 companies was drawn.

The companies sampled were drawn randomly.

The table below presents the number of companies to be drawn from each sector.
Table 3.2.1: Number Of Companies To Be Sampled

<table>
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<tr>
<th>SECTOR</th>
<th>POPULATION</th>
<th>SAMPLE</th>
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<tr>
<td>Agricultural</td>
<td>9</td>
<td>3</td>
</tr>
<tr>
<td>Commercial &amp; Services</td>
<td>14</td>
<td>4</td>
</tr>
<tr>
<td>Finance &amp; Investment</td>
<td>13</td>
<td>4</td>
</tr>
<tr>
<td>Industrial &amp; Allied</td>
<td>18</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>54</strong></td>
<td><strong>16</strong></td>
</tr>
</tbody>
</table>

The companies that were sampled are listed in Appendix 1.

3.3 DATA COLLECTION

Two sets of data were collected. The first set was primary data relating to the changes made as the sampled companies restructured. This data was collected by distributing a questionnaire to the sampled companies. A sample of the questionnaire used is given in Appendix 2.

The second set of data collected was secondary data relating to net cash flow (NCF), earnings per share (EPS), dividends per share (DPS), and market price per share (MPS). NCF, EPS and DPS were used as indicators of financial performance. While MPS was used as an indicator of shareholder value. This data was accessed from published annual reports and accounts of the companies, and market capitalization reports provided by the Nairobi Stock Exchange library.

3.4 DATA ANALYSIS

Data collected was analyzed and reported using Spearman’s rank correlation coefficient, Pearson chi-square, trend analysis, and descriptive statistics. The data was analyzed using SPSS and Excel software.
Pearson chi-square analysis was used to determine the significance of the changes made in the companies as the restructured. Trend analysis – that is, time series and moving averages - were used to analyze the trend in the variables used as indicators of financial performance and shareholder value. While Spearman’s rank correlation coefficient was used to determine the strength of association between the indicators of financial performance, namely NCF, EPS, and DPS, and shareholder value indicated by MPS.

4.1.2 Data Collection

Verification as to whether the restructured companies had revealed their annual financial statements for the prior five years, was carried out by an officer of the company. To complement the financial statement information, respondents were urged by filling in the questionnaire. Of the ten companies reported to have been identified between 1994 and 1998.

Once a company responded by filling the questionnaire, its financial information and market value over a six-year period between 1994 and 1998 was analyzed to determine the rate of mean (NCF), earning per share (EPS), dividend per share (DPS), and market price per share (MPS).
CHAPTER 4

DATA ANALYSIS, FINDINGS, AND INTERPRETATIONS

4.1 INTRODUCTION

4.1.1 Objectives Of The Study

The general objective of the study was to determine the impact of corporate restructuring on the financial performance and shareholder value of the sample companies. Specific objectives being stated as:

1) To determine if there was an improvement in the restructured companies' financial performance.

2) To determine if there was an increase in the shareholder value of the restructured companies.

3) To examine the changes that were made in the sampled companies as they restructured.

4) To report and recommend on the effects of restructuring on financial performance and shareholders value within a Kenyan context.

4.1.2 Data Collection

Verification as to whether or not a sampled company restructured was secure by having a scheduled, pretested questionnaire filled by an officer of the company. 16 companies were sampled. 10 companies responded by filling in the questionnaires. 7 of the ten companies reported to have restructured between 1993 and 1998.

Once a company responded by filling the questionnaire it's financial performance and shareholder value over a six-year period between 1994 and 1999 was analyzed to isolate trends in net cash flow (NCF), earning per share (EPS), dividends per share (DPS), and market price per share (MPS).
4.1.3 Tools Of Analysis

Data relating to the first 2 objectives, i.e. NCF, EPS, DPS, and MPS, was analyzed using trend analysis models – namely, time series and moving averages – in order to isolate trends in the variables. To determine which indicator of financial performance had the strongest association with shareholder value, NCF, EPS, and DPS were correlated with MPS using Spearman’s rank correlation coefficient in a bivariate analysis. To determine whether the changes made in the restructured companies were significant Pearson chi-square tests were performed.

The following are the findings of the study.

4.2 CHANGES MADE IN RESTRUCTURED COMPANIES

4.2.1 Changes In Number Of Employees

Respondents who reported to have restructured implemented a variety of policies that significantly reduced the number of employees. 85.7% of the companies that restructured reported to have encouraged early retirement of long service staff. 85.7% of the companies that restructured reported to have stopped hiring for a period of time i.e. attrition. 71.4% of the restructured companies reported to have laid-off staff.

In addition, restructured companies reported to have reduced the number of managers employed. 85.7% of the restructured companies reduced the number of supervisory and middle managers. While 71.4% of the companies that restructured reduced the number of top-level managers.

All in all, 85.7% of the restructured companies reported to have reduced the number of employees by between 21 and 55 percent. 14.3% of the restructured companies (namely Company 3) reported to have
increased the number of employees by 7 percent (net). This company diversified its operations into new market segments.

The policies implemented to reduce the number of employees are presented in the table below.

### Table 4.2.1: Changes In Number Of Employees

<table>
<thead>
<tr>
<th>Changes In Number Of Employees</th>
<th>Frequency</th>
<th>Percentage</th>
<th>Chi-square</th>
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<tbody>
<tr>
<td>Encouraged early retirement</td>
<td>6</td>
<td>85.7</td>
<td>0.011</td>
</tr>
<tr>
<td>Attrition</td>
<td>6</td>
<td>85.7</td>
<td>0.011</td>
</tr>
<tr>
<td>Laid-off staff</td>
<td>5</td>
<td>71.4</td>
<td>0.26</td>
</tr>
<tr>
<td>Reduced supervisory managers</td>
<td>6</td>
<td>85.7</td>
<td>0.011</td>
</tr>
<tr>
<td>Reduced middle managers</td>
<td>6</td>
<td>85.7</td>
<td>0.011</td>
</tr>
<tr>
<td>Reduced top-level managers</td>
<td>5</td>
<td>71.4</td>
<td>0.038</td>
</tr>
</tbody>
</table>

All except one chi-square p-value are less than 0.05. This means that the restructured companies made significant changes in reducing the number of employees by encouraging early retirements, attrition, reducing the number of supervisory managers, middle managers, and top-level managers.

### 4.2.2 Changes In Organization Structure

100% of the restructured companies reported to have merged or eliminated functions or departments. 71.4% of the restructured companies reported to have outsourced non-core activities and services like management consultancy, recruiting, public relations, training and development, maintenance and cleaning services, etc. While 71.4% of the restructured companies also reported to have reduced their scope of operation by sale, liquidation, or making dormant some or all of their subsidiaries.

Organization hierarchies were observed to have become flatter. 71.4% of the restructured companies reported to have delayered, that is, to reduce the number of management levels in their organization hierarchy. Sampled companies reported to have between 3 and 13 levels of managers in their
organizational hierarchy. The average number of hierarchical levels being 6, and the modal class being 3 levels.

Table 4.2.2 presents changes made in organization structure of the restructured companies.

Table 4.2.2: Changes In Organization Structure

<table>
<thead>
<tr>
<th>Changes In Organization Structure</th>
<th>Frequency</th>
<th>Percentage</th>
<th>Chi-square</th>
</tr>
</thead>
<tbody>
<tr>
<td>Merged departments</td>
<td>7</td>
<td>100</td>
<td>0.003</td>
</tr>
<tr>
<td>Outsourced non-core services</td>
<td>5</td>
<td>71.4</td>
<td>0.038</td>
</tr>
<tr>
<td>Sale of subsidiaries</td>
<td>5</td>
<td>71.4</td>
<td>0.035</td>
</tr>
<tr>
<td>Delayered</td>
<td>5</td>
<td>71.4</td>
<td></td>
</tr>
</tbody>
</table>

From the above results it is observed that all chi-square p-value is less than 0.05. These results are interpreted to means that significant changes were made in the restructured companies’ organization structure through merging departments, outsourced non-core services, selling or liquidation of subsidiaries, and by delayered.

4.2.3 Changes In Work Processes

100% of the restructured companies reported to have reorganized work tasks and processes. 100% of the restructured companies reported to have multitasked their employees by assigning them new tasks, and required their employees to learn new skills. 85.7% of the restructured companies reported to have introduced new technology into work processes. This implies that the companies changed the way work gets done, and consequently employees were required to learn new skills and perform additional tasks.

The table below summarizes these observations.
Table 4.2.3: Changes In Work Processes

<table>
<thead>
<tr>
<th>Changes In Work Processes</th>
<th>Frequency</th>
<th>Percentage</th>
<th>Chi-square</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reorganize work tasks and processes</td>
<td>7</td>
<td>100</td>
<td>0.003</td>
</tr>
<tr>
<td>Employees assigned new tasks</td>
<td>7</td>
<td>100</td>
<td>0.107</td>
</tr>
<tr>
<td>Required employees to learn new skills</td>
<td>7</td>
<td>100</td>
<td>0.107</td>
</tr>
<tr>
<td>Introduced new technology</td>
<td>6</td>
<td>85.7</td>
<td>0.284</td>
</tr>
</tbody>
</table>

From the above results it is observed that only one chi-square p-value is less than 0.05. The interpretation of these results is that the restructured companies did significantly reorganize work tasks and processes. The insignificance of the other changes can be explained by the fact the same changes in work processes were also implemented by the other sampled companies that reported not to have restructured.

4.2.4 Changes In Remuneration Policy

100% of the restructured companies reported to have changed their remuneration policy. Employees in these companies are now remunerated on the basis of: 1) actual individual performance, this was observed in 100% of the restructured companies; 2) company performance, this being reported in 85.7% of the restructured companies; 3) tasks assigned in a job description, being reported in 71.4% of the restructured companies; and 4) the employee’s work group performance, this being reported in 71.4% of the restructured companies. An employee’s duration of service in the organization ceased to be an important factor in determining an employee’s remuneration. Only 8.29% of the restructured companies reported to base remuneration on an employee’s duration of service. This implies that restructured companies have tied employee remuneration to performance, whether individual, work-group, or company.

The table below summarizes these observations.
Table 4.2.4 Changes In Remuneration Policy

<table>
<thead>
<tr>
<th>Changes In Remuneration Policy</th>
<th>Frequency</th>
<th>Percentage</th>
<th>Chi-square</th>
</tr>
</thead>
<tbody>
<tr>
<td>Changed their remuneration policy</td>
<td>7</td>
<td>100</td>
<td>0.003</td>
</tr>
<tr>
<td>Based on individual performance</td>
<td>7</td>
<td>100</td>
<td>0.107</td>
</tr>
<tr>
<td>Based on company performance</td>
<td>6</td>
<td>85.7</td>
<td>0.49</td>
</tr>
<tr>
<td>Based on tasks assigned</td>
<td>5</td>
<td>71.4</td>
<td>0.571</td>
</tr>
<tr>
<td>Based on work group performance</td>
<td>4</td>
<td>57.1</td>
<td>0.858</td>
</tr>
<tr>
<td>Based on duration of service</td>
<td>3</td>
<td>42.9</td>
<td>0.151</td>
</tr>
</tbody>
</table>

From the above results it is observed that only one chi-square p-value is less than 0.05. This is interpreted to mean that the restructured companies significantly changed their remuneration policy. The insignificance of the specific changes in employee remuneration can be explained by the implementation of the same policies by companies that reported not to have restructured.

4.2.5 Changes In Employer – Employee And Peer – Peer Relationships

71.4% of the restructured companies reported to have encouraged regular communication between managers and employees. 71.4% of the restructured companies encouraged employee participation in the running of the organization. 100% of the restructured companies encouraged teamwork among peers. While 71.4% of the restructured companies initiated training programmes to help prepare employees for restructuring. This implies that the restructured companies had adopted a more egalitarian management style that encouraged exchange of ideas and information across the organization's ranks.

The table below summarizes these observations.

Table 4.2.5 Changes In Employer – Employee And Peer – Peer Relationships

<table>
<thead>
<tr>
<th>Changes in relationships</th>
<th>Frequency</th>
<th>Percentage</th>
<th>Chi-square</th>
</tr>
</thead>
<tbody>
<tr>
<td>Encouraged regular communication</td>
<td>5</td>
<td>71.4</td>
<td>0.88</td>
</tr>
<tr>
<td>Encouraged employee participation</td>
<td>5</td>
<td>71.4</td>
<td>0.88</td>
</tr>
<tr>
<td>Encouraged teamwork</td>
<td>7</td>
<td>100</td>
<td>0.107</td>
</tr>
<tr>
<td>Initiated training programmes</td>
<td>5</td>
<td>71.4</td>
<td>0.571</td>
</tr>
</tbody>
</table>
From the above results it is observed that none of the chi-square p-value is less than 0.05. This means that the results are insignificant. The insignificance being explained by the implementation of the same initiatives by some of the companies that reported not to have restructured.

### 4.2.6 Changes In Companies’ Perception Of The Customer

100% of the restructured companies reported to have articulated a new customer focused organizational vision. In 57.1% of the restructured companies, the customer focused organizational vision was reinforced by the introduction of total quality management programmes aimed at creating superior customer satisfaction. This implies that the restructured companies appreciated the pre-eminence of the customer, leading to the adoption of a business model designed to deliver superior customer satisfaction.

The table below summarizes these observations.

<table>
<thead>
<tr>
<th>Changes in perception of the customer</th>
<th>Frequency</th>
<th>Percentage</th>
<th>Chi-square</th>
</tr>
</thead>
<tbody>
<tr>
<td>Articulated a customer focused vision</td>
<td>7</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Introduced of total quality management</td>
<td>4</td>
<td>57.1</td>
<td>0.858</td>
</tr>
</tbody>
</table>

It is observed that the chi-square p-value for the first parameter could not be computed, while for the p-value for the second parameter is greater than 0.05, meaning that the results are insignificant. This implies that the changes towards a customer focused culture and the introduction of total quality management programmes were not unique to the restructured companies; companies that reported not to have restructured also made similar changes.
4.2.7 Factors That Motivated Companies To Restructure

A number of factors motivated the sampled companies to restructure. 100% of the restructured companies reported to have been motivated to restructure by customers demanding better services. These companies had come under increasing pressure from the customers to deliver high value added products and greater customer satisfaction.

100% of the restructured companies reported that unfavorable economic conditions – specifically, depressed consumption, a depreciating shilling, and high interest rates – motivated them to restructure. The consequences of these conditions were that customers were no longer spending as they used to. The cost of importing materials continued to escalate as the shilling depreciated. While high interest rates made borrowing expensive for the average business firm.

100% of the restructured companies reported to have been motivated to restructure by the country’s dilapidated infrastructure and inefficient public services. This made it especially attractive for firms to outsource for example transportation services.

85.7% of the restructured companies reported that the opportunity for market share expansion, and the threat to an individual company’s market share posed by new entrants into their markets prompted the companies to restructure. This implies that there exists opportunity to earn profits in the Kenyan market and that this opportunity attracted new entrants into various industries resulting in an escalation of competitive pressure.

57.1% of the restructured companies reported that undue regulatory pressure from the government’s regulatory agents, such as the Central Bank of Kenya, Kenya Bureau of Standards, and the Communication Commission of Kenya contributed to the decision to restructure.
57.1% of the restructured companies reported that counterproductive activities of trade unions and the Industrial Court of Kenya contributed to their restructuring. This was an important reason why financial sector firms opted to retrench after a series of industrial action and salary increase awards by the Industrial Court of Kenya to the sector’s employees in the early 1990s resulting in an increased the proportion of expenditure that went into salary payments.

42.9% restructured to reposition themselves to cope with increased competition from imported products, including counterfeit, pirated, or untaxed goods. After the repeal of foreign exchange controls, imported products some smuggled into the country to avoid paying taxes and other imported products being counterfeit or pirated, were competing with the products sold by the sampled companies. This motivated the sample companies to restructure in response to the decline in turnover.

The table below presents these factors.

Table 4.2.7 Factors That Motivated Companies To Restructure

<table>
<thead>
<tr>
<th>Factors motivating restructuring</th>
<th>Frequency</th>
<th>Percentage</th>
<th>Chi-square</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers demanding better service</td>
<td>7</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Unfavorable economic conditions</td>
<td>7</td>
<td>100</td>
<td>0.453</td>
</tr>
<tr>
<td>Poor public services and infrastructure</td>
<td>7</td>
<td>100</td>
<td>0.107</td>
</tr>
<tr>
<td>Prospects for market share expansion</td>
<td>6</td>
<td>85.7</td>
<td>0.284</td>
</tr>
<tr>
<td>New entrants into its industry</td>
<td>6</td>
<td>85.7</td>
<td>0.284</td>
</tr>
<tr>
<td>Undue regulatory pressure</td>
<td>4</td>
<td>57.1</td>
<td>0.858</td>
</tr>
<tr>
<td>Trade unions and the ICK</td>
<td>4</td>
<td>57.1</td>
<td>0.2</td>
</tr>
<tr>
<td>Competition from imported products</td>
<td>3</td>
<td>42.8</td>
<td>1</td>
</tr>
</tbody>
</table>

From the table above it is observed that all, except the first chi-square p-value which was not computed, are greater than 0.05. This implies that the factors that motivated companies to restructure were not unique to the restructured companies; this is because companies that reported not to have restructured also reported that the same factor plagued their operations.
4.2.8 Who Planned The Restructuring?

85.7% of the restructure companies reported that their own managers formulated their companies' restructuring strategy. While 71.4% of the restructured companies reported to have formulated their restructuring strategy with the assistance of independent management consultants.

This data is presented in the table below.

<table>
<thead>
<tr>
<th>Who Planned The Restructuring?</th>
<th>Frequency</th>
<th>Percentage</th>
<th>Chi-square</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy designed by managers</td>
<td>6</td>
<td>85.7</td>
<td>0.571</td>
</tr>
<tr>
<td>Strategy designed by consultants</td>
<td>5</td>
<td>71.4</td>
<td>0.537</td>
</tr>
</tbody>
</table>

These results imply that managers gave the most input in the restructuring process though consultants provided much advise in the implementation of corporate change.

4.3 TREND IN FINANCIAL PERFORMANCE AND SHAREHOLDER VALUE

Financial performance data (NCF, EPS, DPS) was collected for a six-year period ended 1999. Data on MPS for the same period was collected to serve as an indicator of shareholder value. For each company, the average MPS over a financial year was calculated using the month-end MPS extracted from Nairobi Stock Exchange monthly capitalization reports.

To isolate trends in these variables, a trend analysis was performed using time series and moving averages analyses. The time series analysis was unable to isolate any trend or seasonality from the data. This is attributed to the limited duration of time over which certain categories of data were available – cash flow data was available for six years since 1994. In addition the data used to indicate MPS was the
annual average, which had already eliminated inter-year variation in the movement of MPS in the market.

However, using moving averages, trends were isolated from the NCF, EPS, DPS, and MPS data. The following are the results of the trend analysis.

4.3.1 Trend In Financial Performance

In 85.7% of the restructured companies it was observed that NCF declined then improve over the 1994 - 1999 period. Only one company (i.e. Company 4) representing 33.3% of the companies that reported not to have restructured reported an improvement in NCF. This company is a monopoly in its industry being the only producer in the region.

EPS and DPS were observed to have improved in 71.4% of the restructured companies. 66.6% of the companies that reported not to have restructured saw their EPS and DPS improve over the same period.

The tables below summarize the observations presented above.

Table 4.3.1: Trend In Financial Performance Within The Restructured Companies

| Variable | Increased | | | | Decreased |
|----------|-----------|-----------|-----------|-------------|
| Frequency | Percentage | Frequency | Percentage |
| NCF       | 6         | 85.7      | 1         | 14.3        |
| EPS       | 5         | 71.4      | 2         | 28.6        |
| DPS       | 5         | 71.4      | 2         | 28.6        |
Table 4.3.2: Trend In Financial Performance Within Companies That Did Not Restructure

<table>
<thead>
<tr>
<th>Variable</th>
<th>Increased Frequency</th>
<th>Percentage</th>
<th>Decreased Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>NCF</td>
<td>1</td>
<td>33.3</td>
<td>2</td>
<td>66.7</td>
</tr>
<tr>
<td>EPS</td>
<td>2</td>
<td>66.7</td>
<td>1</td>
<td>33.3</td>
</tr>
<tr>
<td>DPS</td>
<td>2</td>
<td>66.7</td>
<td>1</td>
<td>33.3</td>
</tr>
</tbody>
</table>

These finding indicate that there was increase in NCF of 85.7\% of the companies that restructured. Similarly, an increase was observed in EPS and DPS of 71.4\% of the companies that restructured. The implication of these findings is that corporate restructuring contributed to the improvement in financial performance.

4.3.2 Trend In Shareholder Value

MPS was observed to have improved in 71.4\% of the companies that restructured. By contrast, MPS decline in 100\% of the companies that reported not to have restructured. These findings are presented in the tables below.

Table 4.3.3: Trend In Shareholder Value Within The Restructured Companies

<table>
<thead>
<tr>
<th>Variable</th>
<th>Increased Frequency</th>
<th>Percentage</th>
<th>Decreased Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>MPS</td>
<td>5</td>
<td>71.4</td>
<td>2</td>
<td>28.6</td>
</tr>
</tbody>
</table>

Table 4.3.4: Trend In Shareholder Value Within Companies That Did Not Restructure

<table>
<thead>
<tr>
<th>Variable</th>
<th>Increased Frequency</th>
<th>Percentage</th>
<th>Decreased Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>MPS</td>
<td>0</td>
<td>0</td>
<td>3</td>
<td>100</td>
</tr>
</tbody>
</table>
These findings indicate that there was an increase in MPS of 71.4% of the companies that restructured. The implication of these findings is that corporate restructuring contributed to the improvement in shareholder value.

4.3.3 Association Between Financial Performance And Shareholder Value

To determine the strength of association between the indicators of financial performance and shareholder value, the financial performance indicators, namely – NCF, EPS, and DPS were correlated with MPS using Spearman’s rank correlation coefficient in a bivariate analysis. This analysis helped determine which financial performance variable had the strongest influence/association on MPS on the Kenyan financial securities market.

A weak positive association was observed to exist between NCF and MPS in data relating to 20% of the sampled companies. This implies those shareholders are relatively insensitive to a company’s cash flows as an indicator of financial performance. The correlations between NCF and MPS of the sample companies are summarized in the table below.

Table 4.3.5: Association Between Net Cash Flow And Market Price Per Share

<table>
<thead>
<tr>
<th>Company</th>
<th>Spearman’s rho correlation coefficient between NCF &amp; MPS</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>-0.944</td>
<td>0.005</td>
</tr>
<tr>
<td>2</td>
<td>-0.829</td>
<td>0.042</td>
</tr>
<tr>
<td>3</td>
<td>0.29</td>
<td>0.957</td>
</tr>
<tr>
<td>4</td>
<td>-0.886</td>
<td>0.019</td>
</tr>
<tr>
<td>5</td>
<td>-0.657</td>
<td>0.156</td>
</tr>
<tr>
<td>6</td>
<td>0.1</td>
<td>0.873</td>
</tr>
<tr>
<td>7</td>
<td>-0.029</td>
<td>0.957</td>
</tr>
<tr>
<td>8</td>
<td>-0.2</td>
<td>0.704</td>
</tr>
<tr>
<td>9</td>
<td>-0.486</td>
<td>0.329</td>
</tr>
<tr>
<td>10</td>
<td>-0.6</td>
<td>0.208</td>
</tr>
<tr>
<td>Total-positive</td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>Total-negative</td>
<td></td>
<td>8</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>10</td>
</tr>
</tbody>
</table>
The correlation analysis found that there exists a relatively strong positive association between EPS and MPS in data relating to 40% of the sampled companies. This implies that shareholders were sensitive to current earnings as indicators of financial performance. The correlations between EPS and MPS of the sample companies are summarized in the table below.

Table 4.3.6: Association Between Earnings Per Share And Market Price Per Share

<table>
<thead>
<tr>
<th>Company</th>
<th>Spearman's rho correlation coefficient between EPS &amp; MPS</th>
<th>SIG.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.886</td>
<td>0.019</td>
</tr>
<tr>
<td>2</td>
<td>0.543</td>
<td>0.26</td>
</tr>
<tr>
<td>3</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>-0.03</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>-0.371</td>
<td>0.468</td>
</tr>
<tr>
<td>6</td>
<td>-0.8</td>
<td>0.104</td>
</tr>
<tr>
<td>7</td>
<td>-0.429</td>
<td>0.397</td>
</tr>
<tr>
<td>8</td>
<td>-0.429</td>
<td>0.397</td>
</tr>
<tr>
<td>9</td>
<td>0.771</td>
<td>0.072</td>
</tr>
<tr>
<td>10</td>
<td>-0.657</td>
<td>0.156</td>
</tr>
<tr>
<td>Total-positive</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Total-negative</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>10</td>
<td></td>
</tr>
</tbody>
</table>

The correlation analysis found that there exists a relatively strong positive association between DPS and MPS in data relating to 40% of the sampled companies. This implies that Kenyan shareholders were sensitive to current dividends as indicators of financial performance. The correlations between DPS and MPS of the sample companies are summarized in the table below.
Table 4.3.7: Association Between Dividend Per Share And Market Price Per Share

<table>
<thead>
<tr>
<th>Company</th>
<th>Spearman's rho correlation coefficient between DPS &amp; MPS</th>
<th>SIG.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.812</td>
<td>0.05</td>
</tr>
<tr>
<td>2</td>
<td>0.464</td>
<td>0.354</td>
</tr>
<tr>
<td>3</td>
<td>0.829</td>
<td>0.042</td>
</tr>
<tr>
<td>4</td>
<td>-0.31</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>-0.841</td>
<td>0.036</td>
</tr>
<tr>
<td>6</td>
<td>-0.8</td>
<td>0.104</td>
</tr>
<tr>
<td>7</td>
<td>-0.928</td>
<td>0.008</td>
</tr>
<tr>
<td>8</td>
<td>-0.031</td>
<td>0.954</td>
</tr>
<tr>
<td>9</td>
<td>0.88</td>
<td>0.021</td>
</tr>
<tr>
<td>10</td>
<td>-0.638</td>
<td>0.173</td>
</tr>
</tbody>
</table>

| Total-positive | 4 |
| Total-negative | 6 |
| Total          | 10 |

The observations presented in Tables 4.3.5, 4.3.6, and 4.3.7 above imply that MPS is relatively strongly associated with both DPS and EPS. However, MPS is relatively weakly correlated to NCF. This means shareholders prefer current dividends and earnings to the future dividends and earnings. They don’t care much about a company’s net cash flow, which is an indicator of a company’s long-term viability.

The data presented in the Tables 4.3.5, 4.3.6, and 4.3.7 above reports a majority of negative correlation coefficient readings. This is attributed to the sharp decline in MPS in the 1990s with only marginal improvements. In 80% of the sampled companies, the MPS was the highest in 1994, and declined in subsequent years. When the MPS eventually increased, the gains were generally marginal and never reached the 1994 level. Similarly, as a result of the difficult operating conditions, NCF were volatile in all the sampled companies. However, the sampled companies attempt to report annual growth in EPS and DPS.
CHAPTER 5

CONCLUSIONS AND RECOMMENDATION

5.1 INTRODUCTION

The general objective of the study was to determine the impact of corporate restructuring on the financial performance and shareholder value of the sample companies. Specific objectives being stated as:

1) To determine if there was an improvement in the restructured companies’ financial performance.

2) To determine if there was an increase in the shareholder value of the restructured companies.

3) To examine the changes that were made in Kenyan companies as they restructured.

4) To report and recommend on the effects of restructuring on financial performance and shareholders value within a Kenyan context.

Data relating to the above objectives was collected and analyzed and the findings are presented in Chapter 4. In the following section, conclusions are drawn from the presented findings.

5.2 CONCLUSIONS

The first conclusion drawn relates to the third objective. As a result of the difficult operating conditions that prevailed in the country in much of the 1990s a large proportion of Kenyan companies have restructured in order to bolster financial performance and create value for their shareholders. This is evident in that 70% of the companies that responded reported to have restructured between the years 1993 through 1998. Changes made as the companies restructured are discussed in Section 4.2.
Referring to the first objective, it is concluded that restructuring seems to have contributed to the improvement in financial performance. This is because in a majority of the restructured companies, an improvement was observed in the variables that were used to indicate financial performance, namely, NCF, EPS, and DPS.

Referring to the second objective, it is concluded that restructuring seems to have contributed to the enhancement of shareholder value. This is because in most of the restructured companies an increase was observed in MPS indicating enhancement of shareholder value.

A relatively strong positive rank correlation coefficient was observed to exist between EPS and MPS. Similarly, a relatively strong positive rank correlation coefficient exists between DPS and MPS. While there was observed to exist a relatively weak positive rank correlation coefficient between NCF and MPS. This implies that shareholders were concerned more about a company's EPS and DPS than with NCF. Shareholders prefer current dividends and earnings to future dividends and earnings. Because of their affinity for regular dividends and earnings, shareholders will revalue their shareholding upwards when they receive a dividend or anticipate the receipt of a dividend. Thus a company that wants to maximize its shareholder value must play a regular dividend to its shareholders.

The above conclusions lead to the following recommendations are raised.
5.3 RECOMMENDATIONS

It is recommended that companies pay regular dividends in order to enhance their shareholder value. This is because of shareholders’ affinity for regular dividends and earning. In order to be able to pay regular dividends, firms must strive to be productive, efficient, and responsive to their customers. Restructuring may help achieve these objectives.

Shareholders are recommended to invest their funds in those firms that have a good track record of creating shareholder value. This ensures that their investments yield the best possible return. Shareholders are also recommended to be more aggressive in demanding that managers of their companies implement initiatives that lead to the creation of greater wealth for the shareholders.

It is recommended that the government should improve the quality of public services delivered, improve the country’s infrastructure especially the road network, and create conditions that are conducive to economic growth. With these in place there would be no motivation for companies to restructure thus preserving jobs. This is because companies were motivated to restructure by difficult operating conditions, for example poor infrastructure, inefficient public services, high interest rates, high inflation rates, weak consumer demand, and so on.

The government’s regulatory agents must exercise their mandate professionally to avoid undue regulatory pressure on private sector firms.

The government must strictly enforce controls over counterfeit, pirated and untaxed goods that enter the country through dubious channels. This is because these illicit goods are sources of unfair competition for above board products sold by honest tax paying firms. In addition counterfeit, pirated and untaxed goods lead to loss of revenue for the government.
5.4 LIMITATIONS OF THE STUDY

This study was constrained by lack of time. This led to the abandonment of sampled companies that were slow to respond. Another important limitation was the lack of urgency among several respondents. This caused delays in the course of the research project.

5.5 SUGGESTIONS FOR FURTHER RESEARCH

It would worthwhile to continue this study over a longer period of time and with a larger sample. This will enable a clearer understanding of the way managers of companies go about satisfying various stakeholder to their companies and especially in creating shareholder value.

A similar study needs to be carried on private limited companies that were outside the population of companies considered for sampling in the current study. This would help understand how private companies, whose shares are restricted from sale to the general public, go about creating shareholder value.

Further, a similar study may be carried out in Uganda and Tanzania to determine whether conditions in those countries led companies to restructure. It would also reveal similarities and differences in the way companies in the three East African countries responded to changes in their operating environments.

There is also a need to study the behavioral consequences of restructuring.
BIBLIOGRAPHY


APPENDIX I

SAMPLED COMPANIES

Agricultural
- Brooke Bond Kenya Limited
- George Williamson Kenya Limited
- Sasini Tea and Coffee Limited

Commercial and Services
- CMC Holdings Limited
- Marshalls East Africa Limited
- Nation Media Group Limited
- Standard Newspapers Limited

Financial and Investment
- Barclays Bank of Kenya Limited
- Housing Finance Corporation of Kenya Limited
- ICDC Limited
- Standard Chartered Bank of Kenya Limited

Industrial and Allied
- BOC Kenya Limited
- British American Tobacco Limited
- Carbacid Investments Limited
- East African Breweries Limited
- Total Kenya Limited
APPENDIX 2

RESEARCH QUESTIONNAIRE

William Kinai,
Department of Accounting,
Faculty of Commerce,
Kenyatta University,
P.O. Box 43844,
Nairobi


Dear Respondent,

RE: RESEARCH QUESTIONNAIRE

As part of the requirement for the Master of Business Administration degree course, I am writing a research project whose objective is to investigate the impact of corporate restructuring on the shareholder value of a cross section of Kenyan companies.

On completion this research project will give insight into which restructuring initiatives resulted in enhanced shareholder value given the extremely challenging Kenyan environment.

Your company has been selected for sampling. Please fill the attached questionnaire regarding your company’s restructuring. The questions have been carefully structured to ensure that responses do not reveal proprietary information.

Data collected will be put to academic use and will be handled with utmost confidentiality. I appreciate you assistance.

Yours faithfully,

William Kinai.
28 February 2000

TO WHOM IT MAY CONCERN

RESEARCH PROJECT BY D53/8238/98 – KINAI WILLIAM MUTHAMA

The above named is a second year MBA student at the Faculty of Commerce.

He is carrying out a research project entitled "AN INVESTIGATION OF THE IMPACT OF CORPORATE RESTRUCTURING ON SHAREHOLDER VALUE". A Case Study of Companies Quoted on the Nairobi Stock Exchange.

The information obtained in the course of this project will be used for academic purposes only and will be treated with utmost confidentiality.

Please provide him with the necessary assistance.

Thank you.

Yours faithfully,

[Signature]

G. KATHERU
MBA CO-ORDINATOR
Please give accurate answers to the following questions relating to your company's restructuring.

1. When did your company commence restructuring? _______________

2. How many employees (including managers) did your company have when restructuring commenced? _______________

3. Did your company encourage early retirement of long service employees? Yes ( ) No ( )

4. Did your company restructure by attrition (i.e. stop hiring for some time)? Yes ( ) No ( )

5. Did your company lay-off excess, redundant staff? Yes ( ) No ( )

6. Did your company reduce the number of supervisory managers employed? Yes ( ) No ( )

7. Did your company reduce the number of middle managers employed? Yes ( ) No ( )

8. Did your company reduce the number of top managers employed? Yes ( ) No ( )

9. Did your company restructure by de-layering (i.e. reducing the number of levels in the organizational hierarchy)? Yes ( ) No ( )

10. How many levels of managers are there in your organization? _______________

11. Did your company merge and/or eliminate functions or departments? Yes ( ) No ( )

12. Has your company introduced new products and services? Yes ( ) No ( )

13. Did your company outsource any none-core activities/services (e.g. management consultancy, recruiting, public relations, training and development, maintenance and cleaning services, etc)? Yes ( ) No ( )

14. Did your company reorganize tasks and work processes? Yes ( ) No ( )

15. Has your company increased communication and participation of employees? Yes ( ) No ( )

16. Did your company change its reward and appraisal system? Yes ( ) No ( )

17. Is employee remuneration (salary, benefits and bonus) based on:
   a) Task assigned in job description Yes ( ) No ( )
   b) Employee's actual performance Yes ( ) No ( )
   c) Employee's duration of service Yes ( ) No ( )
   d) Work-group's performance Yes ( ) No ( )
   e) Company's performance Yes ( ) No ( )

18. Has your company increased emphasis on teamwork? Yes ( ) No ( )

19. Did your company assign new tasks to existing employees? Yes ( ) No ( )

20. Did your company require existing employees to learn new skills? Yes ( ) No ( )
21. Did company managers draw-up the restructuring strategy? Yes ( ) No ( )

22. Did outside consultants assist in drawing the restructuring strategy? Yes ( ) No ( )

23. Did the company articulate a new vision? Yes ( ) No ( )

   What is your company's vision? ________________________________

24. Did employees attend training programs to prepare them for restructuring? Yes ( ) No ( )

25. Did your company introduce new technology (e.g. new computer system)? Yes ( ) No ( )

26. Did your company introduce Total Quality Management programs? Yes ( ) No ( )

27. Has your company encountered the following opportunities and challenges:
   a) Prospects of market share expansion. Yes ( ) No ( )
   b) Customers demanding better services. Yes ( ) No ( )
   c) Entry of new competitors into the market. Yes ( ) No ( )
   d) Increase in competition from imported goods and services including counterfeit, pirated and untaxed goods. Yes ( ) No ( )
   e) Increase in undue regulatory pressure from Central Bank of Kenya, Kenya Bureau of Standards, Communication Commission of Kenya, etc. Yes ( ) No ( )
   f) Counterproductive activities of trade unions and Industrial Court of Kenya. Yes ( ) No ( )
   g) Unfavorable economic conditions (depressed consumption, depreciating shilling, high interest rates, etc. Yes ( ) No ( )
   h) Inefficient public services e.g. telecommunication, dilapidated road, water shortages, etc. Yes ( ) No ( )

28. Please list subsidiary companies currently owned by your company.
   a)  (c)
   b)  (d)

29. Please provide a list of subsidiary companies sold or liquidated during the restructuring of your company.
   a)  (c)
   b)  (d)

30. Please give the number of employees (including managers) currently employed by your company. ________________________________

32. Is the restructuring of your company going on? Yes ( ) No ( )