A SURVEY OF THE PRACTICE OF VALUE BASED MANAGEMENT BY COMPANIES IN KENYA: A CASE OF COMPANIES QUOTED AT THE NAIROBI STOCK EXCHANGE.

BY
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A management project submitted in partial fulfillment of the requirement of the Master degree in Business Administration, Faculty of Commerce, University of Nairobi.

September, 2002

DECLARATION

This is my own original work and has never been submitted for a degree in any other University.

Signed: ______________________ Date 10/9/2002

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This project has been submitted for examination with my approval as a University supervisor.

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DEDICATION

This paper is dedicate to my wife, Josephine Nyanduko Ogega, for her outstanding inspiration and encouragement during my entire MBA programme and to our sons Steve, Obed, Paul and Ian for challenging me to go back to school.

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ACKNOWLEDGEMENT

My special thanks go the all the academic staff on the MBA program for their dedication and support without which I would not have succeeded in this work. In particular many thanks go to my supervisor, Professor Evans Aosa whose guidance, support and constructive critiques enabled me to complete my MBA project. My special thanks also go to Mr. Vincent Kamasara who together with my supervisor ensured that my proposal was comprehensive and up to the required standard.

Many special thanks go to my MBA colleagues Justus Nyarandi and Stephen Isaboke for providing me with numerous opportunities to discuss various academic issues.

My special gratitude goes to my boss Mr. Adan Mohamed, the Managing Director of Barclays Bank of Kenya for his support and encouragement without which my MBA programme would have been impossible.

Last but not least, my special thanks go to the Chief Executives of all the companies listed in the Nairobi Stock Exchange for finding time to complete the questionnaire; without their responses this study would not have been a success. Special thanks also go to Mr. Christopher Gekonge and his staff for distributing and collecting the questionnaires.

God bless you all.

ABSTRACT

Shareholders are putting huge pressure on top managers of corporations to deliver superior performance that is unmatched by peers. This has made top managers to look for management practices that could help them to fulfil shareholder expectations. One such practice that leading companies like Coca Cola, Cadbury Schweppes, and Barclays have adopted as response to these challenges is called value based management (VBM). The success of VBM in these companies has lead to its acceptance and adoption by many companies in the world including those doing business in Kenya.

The key objective of VBM is to create value for the shareholders and in so doing VBM enables the company to fulfil the expectations of all other stakeholders. This is made possible because shareholders are recipients of residual profits and hence the requirements of all the other stakeholder in the chain must be fulfilled if not exceeded to ensure more residual profits are generated.

The key corporate and business performance measure of VBM is called economic value added (EVA). It is also called economic profits (EP) or value added profits (VAP). The logic behind this measure is that it provides managers with a measurable target that could be linked to their performance. This way managers are motivated to achieve their targets.

The objectives of this study were, first to establish the extent to which VBM is practiced in Kenya and second, to test the managers/company's knowledge, awareness and extent of VBM practice.

The study was done in Kenya and the sample covered all the 51 companies listed at the Nairobi Stock Exchange. A questionnaire with open-ended and closed questions was used to collect data for the study. The data was then analyzed and presented using descriptive statistics. 62.7 percent of the companies responded, representing finance and investment, industrial and allied, commercial and services and agriculture.

The findings of the study show that the corporate goals of most companies in Kenya are, profitability, customer service, social responsibility, market share, employer of choice and technological advancement. The study also revealed that customer satisfaction, improved processes, leadership, cost cutting and improved technology make significant contribution to company performance.

The findings of the study revealed that chief executive officers, senior managers, shareholders and competitive pressure have a significant influence on the company's management practices and formulation and implementation of company goals. The results of the study further revealed that current management practices encourage employee training especially in the middle and higher levels of management. The results of the study indicated that most employee compensation policies link compensation to performance.

The results from study revealed that majority of the respondents (59.4 percent) practice VBM. These findings seem to suggest that most companies in Kenya practice VBM. The study results further revealed that VBM is practiced across all sectors of the economy that are represented at the Nairobi Stock Exchange. Furthermore the study revealed that majority of the companies that have adopted VBM in Kenya use economic value added (EVA) as a key performance indicator. The respondents also revealed that VBM is desirable because it leads to higher profitability and productivity, higher shareholder value and also leads to employee motivation. The results of the study also revealed the difficulties that many Kenyan companies experienced while implementing VBM. The difficulties listed were resistance to change, lack of understanding of VBM, lack of training, high technology cost and culture.

In conclusion, the results of the study revealed that VBM is practiced by Kenyan companies. The results further revealed that the key characteristics of VBM have been adopted by majority of these companies. These characteristics include adoption of EVA, employee training, linking employee compensation to performance and investment in technology.

CHAPTER ONE: INTRODUCTION

1.1 Background

According to the Nairobi Stock Exchange (NSE) yearbook 2001, the Kenyan capital market is very fragile and some investors, who entered the market in recent years, have suffered heavy losses in their investments. This has discouraged further investments. There is need for companies to uplift their financial performance by offering innovative value adding products and services to their customers. The performance of the stock market in Kenya, over the last eight years, has shown a consistent downward trend, as indicated by NSE 20 share index. The index high was at its peak in 1994 at 5137.08 before starting to decline and was standing at a high of 1936.11 in 2001. This is indicative of the performance of the companies listed at the Nairobi Stock Exchange and is a pointer to unsatisfactory returns to the shareholders.

The private sector is therefore faced with the challenge of generating superior returns to reverse this trend. The poor performance of the equities market in Kenya has led to increased participation of institutional investors in government Treasury bills and bonds, thus starving the private sector of essential capital.

According to Haspeslagh, et al, (2001), there is huge pressure on companies to deliver superior value to their shareholders regardless of their corporate or cultural heritage because of increased competition, globalization of capital markets and an increasingly active and powerful class of institutional investors that is demanding unequalled performance. Delivering shareholder value has therefore become a mandatory and inescapable performance target for senior executives across the globe. Furthermore, the developments of the 1980's, in the capital markets and opportunities created from revitalizing (under performing) companies, gave rise to corporate riders and, as a result, companies started to focus their attention on the market valuations of their stock (Collies et al, 1998).

Companies operate in an open environment and are therefore affected by changes that take place in their environment. A successful company must be in a position to match its resources to the demands of its environment and in particular its markets and customers expectations so as to meet stakeholder's expectations. (Johnson & Scholes, 1993). Companies are under enormous pressure to deliver increased value to their shareholders and this has forced them to look for better prescriptions of optimizing profitability. Ansoff et al (1993) have listed some of the prescriptions for optimizing profitability as: strategic planning, back to basics, emerging strategy, logical incrementalism, stick to the knitting, return to core business, and put your customers first. These prescriptions have common characteristics; most have worked successfully in some companies and yet failed in others. According to Ansoff et al (1993), the success of these prescriptions is determined by environmental conditions.

Ansoff et al (1993) has also stated that no company is going to survive by virtue of history but rather by using its historical strengths to build the future. This conclusion is based on the fact that companies operate in a dynamic environment and therefore companies could use past and current strengths to prepare themselves for change.

Porter (1995) has argued that for a company to deliver superior profits, it must develop a competitive advantage over its peers. He has advocated for the adoption of the following three generic strategies to achieve this objective. These strategies are cost leadership, differentiation of its products and focus.

Reisner (2002) has argued that companies could improve their performance first by ensuring that there is a connection between change initiatives and core business. Second by recognizing that incremental improvement is not strategic transformation and thirdly by setting realistic limits and finally by developing and implementing change initiatives at the right time.

A number of other authors have given several other prescriptions. Kaplan & Norton (1992) described the Balanced Score Card as an appropriate tool by which companies need to ensure that they focus on the key areas that drive performance. This is achieved by managing a framework of four groups of measures of performance, which reflect shareholders' key success factors. These four groups of measures are financial, customers, internal processes and learning and growth.

Diversification and portfolio management have also been used by many companies as prescriptions that could optimize profitability. Diversification occurs when a company acquires new products or services and is usually achieved through internal configurations, mergers, acquisitions, integrations and strategic alliances. On the other hand, portfolio management allows the company to enter into more than one unrelated business line or activities with the key objective of managing income/profit risk, thereby guaranteeing stable profit to the shareholders. Collies et al (1998) have stated that companies diversify because of two factors. Firstly, because of external inducements i.e. opportunities in the companies external environment and secondly because of internal inducements i.e. opportunities within the company, mainly to take advantage of excess capacity.

Re-engineering and restructuring have also been advocated as prescriptions that many companies have tended to use particularly when they want to restructure their activities and operations to make them more efficient. Companies undertake restructuring activities in order to improve profitability and ultimately increase shareholder value.

In the recent decades, companies and especially those in the same industry or with strong linkages in their value chains have chosen to use the route of forming strategic alliances to benefit from each other's distinct competencies with the key objective of improving each company's performance. Collies et al (1998) have stated that alliances whether joint venture, franchise, equity participation or long term contractual agreements, are designed to optimize the benefits of internal development and acquisition while avoiding the drawbacks of both. Kenya Airways and KLM partnership is an example of companies that have chosen to enter into a strategic alliance that meets the above description.

Another latest prescription for creating tremendous business value is sustainable growth prescribed by Holliday (2001), the Chief Executive Officer of Dupont, USA. Sustainable growth is a three-pronged strategy that uses three strategic pathways for achieving sustainable growth and creating increasing value for shareholders. The three strategies are integrated science, knowledge intensity and continuous productivity improvement.

The above prescriptions were developed by reputable academicians and/or experienced managers and have been used by companies with varying success rates. Some companies have improved their performance as a result of using one or a combination of these prescriptions while others have failed to record any improvements. Also none of these prescriptions could be said to be better than the other and hence the search for a more superior formula has continued in earnest.

Faced with an ever-changing environment, enlightened and more demanding shareholders, senior company managers are turning to new and emerging management practices to respond to their challenges. Some of these emerging management practices that are increasingly finding acceptance among academicians, consulting firms and senior company managers alike are generally referred to as Value based strategies/management practices. One such practice that has gained wide acceptance among major successful corporations is Value Based Management (VBM).

Value based management has been popularized and presented by consultants led by Stern Stewart & Company of New York (McMenamin 1987), as the savior that managers need to respond to the challenge of delivering superior shareholder value. The key objective of VBM is to deliver superior shareholder value. VBM is a management practice that enables a company to create value by identifying and focusing on key value drivers. At the same time the company ensures that value destroying activities are also identified and discarded. VBM has its history in financial theory, which states that a company creates value only when its cost of capital is lower than its returns.

According to the VBM practice, the true measure of profitability is economic profits (Haspeslagh et al 2000) and hence, economic profits have been adopted widely as a key measure of the success of VBM. VBM is different from other management practices because it requires managers to evaluate each investment opportunity on the basis of its value adding capacity to shareholder value. Under VBM capital is allocated to investments that are able to generate returns that are in excess of cost of capital. Also assets or investments that do no meet the minimum or hurdle/threshold required rate of return should be disposed off.

The concept of maximizing shareholder value is gaining increased acceptance among senior managers and shareholders of major companies. The main reason is that since shareholders are the residual claimants of the company's profits, any activity that aims at maximizing shareholder value must first maximize the value of other stakeholders. This is the reason why it has been argued that, in an attempt to maximize shareholders value, VBM ends up maximizing the value for all other stakeholders. Shareholder value is measured by the market price of the shares of a company and annual declared dividends. Companies are increasingly relying on economic profits as a measure of their performance and traditional measures such as earnings per share and returns on investments are becoming less important.

Several companies have been successful in increasing shareholder value using VBM. Examples of these companies include Cadburys Schweppes and Coca-Cola (Haspeslagh et al 2001). Because of this success, VBM has been studied and documented in many parts of the world and particularly USA and Europe. It has not, however, been studied and documented in Kenya.

1.2 The characteristics of effective Value Based Management.

According to Haspeslagh, et al, (2001), effective Value Based Management is characterized by the following factors. First, an effective leadership that is explicitly committed to value creation and its measurement, using economic value added (EVA) as the appropriate metric. Second, intensive training of employees at all levels of the organization to create an environment that is receptive to the change initiatives that VBM constantly generates. Third, empowerment of employees at all levels of the organization to speedily make value creating decisions at their point of work. Fourth, changes in company's systems and processes that are broad and inclusive that do not focus only on narrow financial reports. Fifth, employee compensation that is closely tied to performance as measured by EVA and sixth, identification of value drivers, integrating annual budgeting with strategic planning and investing heavily on information technology to ensure fully integrated data interchange.

Further, successful implementation of VBM programs, not only raise value for shareholders, but also raise shareholder's expectations. This makes it imperative for the company to continually find new ways of creating value to ensure sustained growth of the company that produces a virtuous circle of behavior and benefits.

1.3 Statement of the Problem

Companies doing business in Kenya are increasingly finding it difficult to achieve profit levels that shareholders consider satisfactory. As a result, several companies have in the recent past either closed down or have relocated their business operations to other countries. Examples of companies that have relocated operations or quit from Kenya include Johnson & Johnson, Stage Coach and Proctor & Gamble. Coca-Cola scaled down its operations in Kenya. Many more companies are under receivership such as Alliance Hotels, Kenya Cooperative Creameries, Muhoroni Sugar Factory and several other industrial concerns.

There is further evidence of poor performance by companies doing business in Kenya and this is reflected by the performance of their shares at Nairobi Stock Exchange. According to the NSE yearbook 2001, the NSE share 20 index high for the year was lowest in 2001 in eight years at 1936.11.

The traditional performance measures such as Return on Investment, Earnings per Share, Price Earnings Ratio, Dividend Per Share and Dividend Payout Ratio are based on historical information and do not provide shareholders with any indications about the company's future performance or any risks that may be associated with future earnings. It is increasingly becoming clear that the key determinant of a company's performance is its cash flow potential.

Companies are increasingly turning to VBM to improve their performance and especially their cash flow potential. The success of VBM is measured by economic value added (EVA) and any investments with a negative EVA are not undertaken. Many companies in USA and Europe have used VBM and its main tool of measurement (EVA) to significantly improve their performance and in particular their shareholders value.

Whereas the practice of VBM is widely documented in the USA and Europe, there is little evidence that would suggest that VBM has gained acceptance among Kenyan companies. Given that VBM has been used elsewhere with a lot of success to deliver superior shareholder returns, it is important to establish whether Kenyan companies are practicing it and also to ascertain its success or failure rate among these companies.

1.4 Objectives of the study

- To establish the extent to which Value Based Management is practiced in Kenya.
- To test the managers/company's knowledge, awareness and extent of Value Based Management practiced.

1.5 Importance of the Study

- The study will be available to company managers in Kenya and this will enable them to focus on value creation and in particular shareholder value.
- The study may also be important to capital market analysts and in particular the application of VBM's performance metrics and how they influence the market price of shares.
- The study will contribute to existing literature on VBM and in so doing; stimulate further research into the practice of VBM in Kenya.

CHARPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents the literature review on value based management (VBM). The key issues covered by this chapter include; the relationship between corporate strategy, goal and objectives of the firm and VBM; financial measures of VBM, characteristics of VBM and reasons why VBM has failed in some companies.

VBM is an emerging management practice that is taking root in western countries and especially so in the USA where it has been widely studied and documented. However, literature on VBM practice by Kenyan companies is scanty and no studies have been done by the MBA students of the University of Nairobi on this subject. Notwithstanding this fact, VBM practice is universal and hence could be used by any company, anywhere in the world to create value for its shareholders.

2.2 Relationship between VBM and Corporate Strategy

VBM is a management practice and philosophy that provides a guide for management processes and a set of tools for maximizing the value of a company on a continuing basis. Goel, (2001), has defined VBM as the process of maximizing the value of the company on a continuing basis. He sees it as a management approach whereby the company's overall aspiration, analytical techniques and management processes are aligned to help the company maximize its value by focusing management decision making on the key value drivers. According to him, value-addition to shareholder wealth takes place when

the return (cash flow) generated from investment is greater than the opportunity cost of funds invested in the business. This basically means that VBM is a strategy of creating maximum value to the company's shareholders and this is achieved by investing in value creating activities only.
This view is also supported by Montell et al (2001), who stated that VBM provides companies with a comprehensive and consistent methodology to support decision-making situations. According to Montell et al (2001), value is created as long as the return from an investment is higher than the cost of capital of the company. VBM is therefore a philosophy that could lead to creation of value in a business.

The Center for Economic and Social Justice in Arlington, Virginia USA (2001), has described VBM as a business philosophy and management system for competing effectively in the global market place that is based upon the inherent value, dignity and empowerment of each employee, customer and supplier. As a customer focused service philosophy, VBM is built upon a shared set of core values. As a management system, VBM offers a logical framework for designing a company's strategy, structures and processes that instill an ownership culture among employees that make it possible for the organization to achieve its mission most effectively. These definitions clearly show that VBM provides a guide to management on decision making and also a set of tools for measuring management performance. In other words, VBM makes strategy to happen.

Research conducted by Haspeslagh, et al, (2001), that covered 1862 large corporations in Europe, USA and Asia, found that VBM is widely practiced across the globe and has moved from its original narrow financial definition into a broad set of management processes. According Haspeslagh et al (2000), VBM is a holistic management approach that encompasses redefined goals, redesigned organizational structures and systems, rejuvenated strategic and operational processes, and revamped human resources practices. This suggests that VBM encompasses a total review of the company's operations, culture and strategic direction.

According to Porter, (1987), strategy is the overall plan for a diversified company. Collis et al (1998) have argued that there are many definitions of corporate strategy and they see corporate strategy as the way a company creates value through the configuration and coordination of its market oriented activities. From the above it could be argued that the key goal of the firm is to create value.

Collies et al (1998), have identified five elements that collectively lead to competitive advantage that creates value and they have called these elements; the corporate strategy Triangle. The three sides of this triangle are; firstly resources and these include the company's assets, skills and capabilities; secondly strategic business units and other key segments of the company and lastly structure, systems and processes. These three sides of the triangle must be aligned to the company's vision, goals and objectives to produce competitive advantage that would lead to value creation. It could therefore be argued that VBM is a tool that companies use to achieve corporate strategy.

2.3 The goal of the firm and VBM .

The goals and aspirations of a company are usually stated in a mission statement. According to Pearce et al (1994), a firm needs to determine the basic goals and philosophies that shape its strategic posture. A mission statement sets a firm apart from other firms of its type and identifies the scope of its operations in product and market terms.

A mission statement defines the business of the company, the relationship between the company and its key stakeholders and the basic corporate policies and values. In addition the mission statement provides the broad goals and the expected performance of the company. Goals of the company may be financial or non financial and may include: earnings per share (EPS), dividends per share (DPS), return on investment (ROI), employee welfare, health and safety, social and environmental goals (Mcmenamin, 1999). Companies which have adopted VBM would incorporate economic profits (EP) as one of their primary goals.

It has often been argued that the goal of the firm is profit maximization and that Earning Per Share (EPS) is the preferred measure of profit maximization. However, Van Horne et al (1998), has pointed out that EPS is not an appropriate goal of the firm because of several reasons. Firstly EPS, does not consider the time value of money. Secondly, EPS like other traditional return measures, like return on investment (ROI), does not consider risk and lastly EPS does not consider the effect of dividend policy on the market price of the company's stock. EPS is therefore not the same thing as maximizing the market price of the company's shares. Market Price Per Share (MPS) takes into account the present and future profit potential of the company including the timing of the earnings, the risks associated with the earnings and the dividend policy of the company. MPS could therefore be said to be better measure of the shareholder's value and is a good indicator of how well the managers of the company are performing.

In financial management theory, the goal of the company is to create maximum value for its shareholders i.e. to maximize owners economic welfare. This goal is referred to as maximization of shareholder wealth and is reflected in the market value of the company's shares (Mcmenamin 1999; Pandey 1999). The objective of maximizing shareholder wealth has been described as an appropriate and operationally feasible basis of making investment decisions. This means that companies should make investment decisions on the basis of returns and this is measured by the potential cashflow of the investments. Investments with positive net present value (NPV) are selected on the basis that they are going to create shareholder value while those with negative NPV are rejected because they are likely to destroy shareholder value. The goal of maximizing shareholder value is valid to both public and private companies.

According to Mcmenamin (1999), many companies have gone public on their goals to maximize shareholder value. These companies include; Cadbury Schweppes, AT&T, Coca Cola, Polaroid Corporation and Quarter Oats. For example, when John Sunderland became Chief Executive Officer of Cadbury Schweppes in 1996, he went public with a commitment to double shareholder value over the years 1997 to 2002. (Haspeslagh et al 2000). This meant that market value of the company as represented by the price of its ordinary shares in the financial markets was expected to double over this period. According to research finding of Haspeslagh et al (2000), the stock market noticed this key goal and gave its approval and as a result Cardury's share performance between 1996 and 1999 had beaten the performance of its peer group by a wide margin.

Another example of a company that has also gone public with a similar commitment to double shareholder value in four years is one of the leading British banks; Barclays Bank PLC. When Matt Barret became Chief Executive Officer, in 2000, he announced the bank's goal of doubling economic profits every four years and immediately set about implementing VBM at Barclays. The announcement and subsequent adoption of VBM has also been recognized by the financial sector in the UK and as a result Barclays PLC was given an award in 2001 by the Institute of Financial Services UK, in recognition to the business strategy that best creates shareholder value for its organization. According to the annual accounts of Barclays PLC, the bank is committed to maximizing value for shareholders by transforming everything it does do for customers. To achieve this, innovative strategies have been put in place throughout every area of the bank's operations and this has included adoption of stretching goals in order to deliver sustainable and profitable growth.

Top company Executives are facing increasing pressure to deliver top quartile shareholder returns compared to peer companies and as a result their top priority is focused on creating superior shareholder value. Creating shareholder value / wealth has therefore become the primary goal of many successful global companies. According to

Haspeslagh, et al, (2000), many companies faced with these challenges are turning to VBM to achieve their stretching goals.

2.4 Financial measures of VBM.

For many years, managers have relied on traditional performance metrics to measure the performance of the company and in particular shareholder's interests. Welsch et al (1979) and Pandey, (1999) have given some of these performance measures as; Return on Investment (ROI), also called capital yield, or return on assets employed, or return on capital or rate of return; Earnings per share (EPS); Price earnings ratio (PER), Dividend Per share (DPS), and Dividend payout ratio.

Unfortunately, these ratios do not give managers any guidance on how the resources of the company should be employed to maximize shareholder value. Also the above performance measures do not sufficiently explain the relationship between a company's operations and its share market price. Managers are therefore looking for enhanced performance measures that would also enable their organizations to optimally configure available resources within the changing environment, to meet the needs of their customers and in so doing, fulfill their shareholder expectations. The search for better strategies and other formulas by both practicing managers and academicians that would increase company's profitability and thus enhance shareholder value, has shifted to top gear and as a result several VBM metrics have been developed.

The key objective of VBM is deliver superior shareholder value. Haspeslash, et al, (2001) and Mcmenamin, (1999) have identified the following performance measures of VBM:

2.4.1 Economic Value Added (EVA).

This is also called economic profits (EP) and has been advocated as the true measure of a company's profitability. It is arrived at by adjusting traditional accounting profits with the cost of capital. EVA is calculated as follows (Mcmenamin 1999):

Operating profit	xxx
Less:	
Cost of capital	xxx
EVA	xxx

Cost of capital = total capital employed * cost of capital.

The research by Haspeslagh, et al, (2001) found that this method is widely accepted as an internal measure of shareholder value creation.

2.4.2 Market Value added (MVA).

It has been stated above that the goal of a VBM company is to maximize shareholder value or wealth and that this is measured by the market value of the company's ordinary share price. Mcmenamin, (1999) has stated that MVA is a technique of directly measuring the real value added to the market price of a company's ordinary share price and is used as a measure of shareholder value creation.

MVA is calculated as follows:

Market value of ordinary shares	xxx
Less:	
Book value of ordinary shares	xxx
MVA	xxx

2.4.3 Shareholder Value Added (SVA).

Mcmenamin (1999), stated that the objective of SVA is to maximize the net present value (NPV) of cash flows attributable to shareholders by focusing on seven key value drivers. These drivers are; sales growth, operating profit margin, cash tax rate, fixed asset investment, working capital investment, planning horizon and cost of capital. This concept links cash flow generation to shareholder value creation. It has been argued that this is a complex method of measuring shareholder value and in particular its is difficult to extend the planning to horizon in the long term. An example of a successful company that uses SVA is Dupont which has its own customized measure called "shareholder value added per pound of production or SVA/Ib". According to Holliday (2001), Dupont has defined SVA as the shareholder value created above the cost of capital, which for USA corporations is between 10% to 12%

It should be noted that adopting performance measures alone can not deliver superior returns to shareholders. VBM requires managers to do a lot more including training employees, investing in modern technolgy, aligning reward and performance and creation of value centres.

2.5 Key Components of VBM.

In their research Haspeslash, et al, (2001), found out that " a successful VBM program is really about introducing fundamental changes to a big company's culture". According to the Center for Economic and Social Justice USA (2001), VBM calls for a new style of leadership in which the leaders see themselves as teachers in addition to being ultimate workers. True leaders are accountable to others and also they empower their subordinates to realize their hidden potential.

In their research findings, Haspeslash, et al, (2001), have identified six streams of actions that senior company managers must take to ensure the success of VBM in their organizations.

2.5.1 Explicit commitment to shareholder value.

This is a public declaration by a company's Chief Executive Officer (CEO) stating the company's commitment to deliver unmatched shareholder value. This is usually the first step towards implementing VBM and it fixes the company's focus on value creation. According to Haspeslash, et al, (2001), this explicit commitment has two purposes, namely to communicate to the outside world that the company is committed to change and also to energize the internal environment of the company to focus on value creation. Examples of companies that have kicked off VBM implementation by stating a commitment to shareholder value include Cadbury Schweppes whose Chief Executive Officer committed the company to doubling its share price every five years when he became the CEO in 1996. The same happened when the current Chief Executive of

Barclays PLC, Matt Barrett, was appointed CEO in 2000. He announced to investing public that Barclays was committed to doubling economic profits every four years. Companies which have gone public with firm commitments have also gone a step further to identify the performance measure of their progress and in many cases economic profits (also called economic value profits) has been adopted as an appropriate metric.

It has been argued that some companies do not like to make such explicit commitment because the concept of shareholder value is not culturally acceptable to their stakeholders. Also it has been said that not many European and Asian companies are prepared to make such explicit commitments. There is also no evidence to suggest that any company doing business in Kenya has gone public with an explicit commitment to improve shareholder value.

2.5.2 Employee compensation.

Haspeslash, et al, (2001), have argued that successful VBM companies ensure that employees have a stake in the company's performance. This is done by linking employee compensation to the company's performance. Their research showed that leading companies such as Siemens and Cadbury have linked employee compensation to EVA targets. The Center for Economic and Social Justice USA (2001), has gone a step further to state that VBM encompasses the quality, educational and participation aspects of total quality management and open book management with the equity and ownership concepts underlying employee stock ownership plans. The center has further argued that VBM offers employees an opportunity to participate as shareholders in the company's shareholding thus enabling them to increase their wealth at the same pace as other ordinary shareholders of the company. According to Leahy (2001), integration of strategic planning, performance measurement and compensation is the key to increasing shareholder wealth, and hence the metric that the company chooses to focus on, must reflect and support its strategic goals. Also employees' compensation must be tied to how well they achieve those metrics. The more employees succeed in hitting their metric targets, the more they are rewarded and the more value they create for the organization.

According to Jensen, et al. (1990), shareholders rely on chief executive officers (CEO) to adopt policies that maximize the value of their shares. However like other human beings, CEOs tend to engage in activities that improve their own well being. This is why board of directors have a critical role to formulate incentives that make it in the CEO's interest to do what is in the shareholder' best interests. These could be achieved by; firstly making it possible for CEO's to acquire company's shares; secondly by structuring salaries, bonuses and stock options to provide big rewards for good performance and lastly by punishing poor performance.

The link between employee compensation and performance is increasingly becoming popular among many companies and in particular in the USA and Europe. However, there is little documentation to support the link between VBM and employee compensation in the less developed countries like Kenya.

2.5.3 Employee training.

It has been argued that in any company, it is the employees who create value and hence it is critical for employees to be convinced that VBM is a worthwhile management practice and also that it leads to value creation. According to Haspeslash, et al, (2000), employees who understand the impact of their jobs on the company's performance can turn around a poorly performing company. This is the reason why it is important to train employees to understand why VBM is necessary and also how they will also benefit as individual employees from VBM. Training enables the employees to see the link between their pay and the company's performance. Employees who do not understand the importance of VBM metrics are most unlikely to embed VBM. Employee training ensures minimal resistance to change initiatives that VBM constantly generates.

Under VBM programme, companies must identify their leadership imperatives that managers must ebbed in order to sustain VBM. Cadbury's leadership imperatives for example are: accountability, aggressiveness, adaptability, assertiveness, ability to motive, forward thinking and international outlook. Barclays Bank PLC has similar leadership imperatives and they include; exceeding customer expectations, delivering results, pulling together and straight talking. It is important for managers to understand what these key leadership imperatives mean and also to cultivate a culture of embedding these imperatives in everything they do. Training is therefore a critical component of VBM at all levels in the organization.

Research done by Haspeslash, et al, (2000), found out that successful VBM companies invest a lot of effort and resources to train large numbers of their employees. According to this, research companies are unlikely to successfully implement VBM if they do not train majority of their employees. Their research shows that companies like Dow Chemical, Cadbury, and Siemens have been able to successfully implement VBM as a result of training a majority of their work force.

Although some employers in Kenya are known to train their employees, no research findings are available that show the links between training and VBM.

2.5.4 Value centres.

VBM implementation calls for the company's reorganization to align strategies for all key functions to VBM. This is usually done by creating value centres. Most of the companies which have implemented VBM have moved from traditional organization structures such as matrix structures to form strategic business units (SBUs). In their research, Haspeslagh et al (2000), found out that top company executives do not know where value is either created or destroyed in their companies. Also this research found out that there is often resistance to change due to personal ambitions, pride and other priorities of many company executives. It is important to identify value creating activities of a company and also value destroying activities. Accordingly value creating activities are those that deliver value in excess of the company's cost of capital, while value destroying activities are those whose activities deliver value that is below the cost of capital of the company and should be eliminated.

VBM is ruthless and uncompromising in weeding out of the company activities that do not deliver superior shareholder value. Under VBM each SBU is assigned a performance target that must be met within an agreed time frame to ensure its survival within the company.

In creating value centres, VBM ensures firstly, that the strategic thinking capabilities and entrepreneurial potential of business line managers is stretched and secondly that a true partnership is established between head office and business line managers.

2.5.5 Operational / process reforms.

When VBM was first introduced, many companies believed that all they needed to do to boost their market value was to install new accounting systems and a set of new measures of performance. However, companies soon discovered that new accounting systems and a set of financial performance metrics cannot deliver superior shareholder value. More is needed.

According to Haspeslagh, et al, (2000), successful implementors of VBM should do the following:

Firstly, avoid accounting complexities and this requires the technical aspects of VBM to be kept simple so that VBM is understood by majority of employees.

Secondly, the companies should identify value drivers and since economic profit cannot be measured directly at the level at which majority of employees in most companies work. Successful VBM practitioners invest time and effort in identifying and assessing the operational factors or value drivers, that have the greatest influence on the creation of economic profit. Identifying value drivers is important because it enables employees to focus on value creation in addition to forcing managers to develop their strategies with more clarity.

Thirdly, the companies should integrate budgeting with strategic planning. This enables managers to set challenging but realistic goals. VBM also enable the company to allocate resources to the strategic alternatives that have the highest potential to create value.

And lastly, the companies should invest heavily in information systems. Managers need accurate information to make decisions and this information must also be available when it is needed. Without accurate data it may not be possible for managers to identify value creating activities or value destroying activities. These are some of the key reasons why companies invest heavily in information systems. The need for a comprehensive data base of facts on the company's past and current performance is critical to VBM decision making process. It has been argued that VBM success requires a company to review the appropriateness of its operational and process systems. Also companies should be prepared to invest in modern and efficient systems.

2.5 Commitment to VBM as a true way of life.

In their research, Haspeslagh, et al, (2000), found that VBM consists of several concrete steps from goal setting to linking incentive pay with Economic Profit. The success of VBM depends on the extent to which employees have embraced the concept of value creation as a way of life. A company that believes in VBM would not hesitate to divest from business portfolios that are destroying value or whose value created is below the company's cost of capital. VBM brings with it greater need for companies to plan for increased profitability to guard against steady decline in performance.

As a way of life, VBM often requires the company to change its culture. Changing a company's culture is one of the most challenging aspects of VBM. Haspeslagh et al (2000), believe that are there are three reasons why VBM is an effective cultural transformation agent. These reasons are firstly, VBM provides focus and clarity thus ensuring that company goals are clear to all. Secondly, VBM provides repeated reinforcement of shareholder value as the unifying goal of the company. Lastly VBM challenges employees to work as a team to deliver superior shareholder returns.

Successful implementation of VBM requires solid and explicit support from the company's Chief Executive Officer. This support is critical if a cultural transformation that is so vital to the success of VBM is to be achieved. It is important for companies to manage and advertise VBM success stories in order to maintain the VBM momentum and also to motivate employees. The key issue here is to ensure consistent communication with all key stakeholders on the progress of VBM programmes in the company.

According to Haspeslagh et al (2000), above six characteristics of VBM that is explicit commitment to shareholder value, aligning reward and compensation, employee training, creation of value centres, investing in modern technology and operational process and commitment of all senior managers and other employees to VBM as a away of life are essential for successful implementation of VBM by any company.

2.6 Why some companies fail with VBM.

Although VBM has been used by many companies to deliver superior shareholder returns, not all companies have managed to implement VBM successfully. Haspeslagh, *et al*, (2000), have identified several reasons that explain why companies fail to implement VBM. Companies fail because they focus too much attention on complex performance measures that employees find difficult to understand. Also companies do not invest time, effort and money in training their employees. Research findings by Haspeslagh, *et al*, (2000), found out that companies that did not invest in training of the employees, were less successful with VBM compared to companies that ensured majority of their employees were trained to understand why VBM is important.

The other reason that has been given is failure by Chief Executive Officers and other senior members of the management team to demonstrate a firm commitment to VBM. This lack of support from the top makes it difficult for companies to embed VBM as a way of life and as a result employees do not know the link between VBM and the company's goals and objectives. It is important for top company managers to support VBM because VBM requires difficult decisions to be made including selling off non performing assets and also letting go employees who are unable to shift their mindset to the VBM approach.

The other reason that has been given is failure by companies to innovate and invest in more efficient production and more importantly in improved information systems. Lack of investment in technology means that managers have no access to accurate management information and hence their decisions are not based on facts. Also where accurate information is available, it may not be timely to enable prompt decision-making.

Companies also fail to implement VBM because investment decisions are not made on the basis of value created but rather on the basis of other reasons e.g. senior management's personal interests. This leads to investment in activities that are value destroying.

For VBM to succeed, employees must believe that they have a stake in the success of the company. This calls for a clear link between employees incentive packages and VBM.

Many companies have difficulties linking remuneration and performance.

It has also been pointed out that employees of companies whose earnings performance is above average in their industry do not see the reason for VBM and hence are less motivated to support it. On the other hand it is easier to implement VBM in companies that are under performing.

It has also been argued that companies which have adopted major initiatives such as Activity Based Accounting and the balanced scorecard are more receptive to VBM because of a cultural shift that may have already occurred. It is also difficult to sell VBM to old companies with outdated , hard to remove legacies. Therefore, in addition to education, communication to employees on the progress and success of VBM is important in consolidating success.

2.7 Evidence of VBM practice in Kenya.

Local companies and especially those that are listed at the Nairobi Stock Exchange have tended to communicate their business strategies to various stakeholders through their published annual reports. One would therefore expect to see bold statements on the companies' commitment to shareholder value in the annual reports.

Elsewhere in the world companies use their annual reports to communicate key financial goals. Van Horne, et al, (1998), has given the following examples of multinational companies and what they say about their corporate goals in their annual reports;

Coca Cola Company, 1992 Annual Report - "Management's primary objective is to increase shareholder value over time";

Mobil Annual Report 1992 - " Early in 1992 Mobil intensified its ongoing efforts to achieve its primary goal: build shareholder value";

The Quartes Oats Company, 1992 Annual Report - " ... Our overriding goal is to maximize value for our shareholders over the long term";

These are examples of successful VBM companies.

However, a review of the annual accounts of three leading local financial institutions for 1999 and 2000 indicates that there are no such explicit statements in the annual reports.

The chairman of Standard Chartered bank has stated in the bank's annual reports (2001), that the bank's strategy "remains focused in our strategy of positioning the bank as a secure, innovative, modern and customer orientated. We will enhance this image through improved service quality, new products and superior automation". There is no mention of improving shareholder value in the reports.

The chairman of Kenya Commercial Bank has stated in the annual accounts (2001) that the mission of the bank is "to be the best bank in Kenya and in the region in the eyes of its customers, shareholders, KCB team and other stakeholders". Again there is no specific commitment to deliver superior shareholder value.

In his report to shareholders in 2001, the chairman of Barclays Bank has stated that the bank will leverage its competitive advantage to turn the challenges of 2001 into opportunities for "customers, through better products, and shareholders through improved value creation". This is the closest Barclays has come to stating its commitment to shareholder value. However, the annual reports of Barclays PLC is explicit in its commitment to shareholder value. The bank's Chief Executive Officer has stated in the annual accounts (2002), that " we try to ensure that everything we do as an organization adds to shareholder value". This is reinforced by the bank's primary goal which says " Our primary goal is consistently to deliver top-quartile total shareholder return (TSR) versus our peers over time. The theme of Barclays Kenya annual report for 2001 is "The value story. Delivering the best possible returns and increasing shareholder value".

Various studies have been done in Kenya on the areas of performance measures but none has specifically focused on VBM and its metrics, economic profits, shareholder value analysis or Market value analysis. Maluki (2000), did an assessment of the use of value analysis by companies quoted at the Nairobi stock exchange. This study focused on value analysis as a tool for managing costs and nowhere in the study is VBM mentioned.

Osewe (1998), did a study on the choice of performance measures in divisionalised companies in Kenya. The study focused on the traditional performance measurements and did not touch on emerging metrics such as Economic Profits / Economic value added and Shareholder value analysis.

Gekonge, (1999), did a study; a survey on the strategic change management practices by Kenyan companies. This study did not focus on the emerging change management practices such as VBM.

Many companies in USA and Europe are choosing to adopt VBM as a means that would help them to create more value for their shareholders. Goel (2001), has argued that there is empirical evidence to support the view that companies are under enormous pressure to deliver superior shareholder value. This view is also shared by Montell et al (2001), and Haspeslagh, et al, (2001). Also with the rapid spread of free market systems and globalization, investors are guided by shareholder returns in their investments and hence companies which focus on shareholder value are able to attract equity funding. Furthermore, several studies have shown that the market price of a company's share reflects the true potential of that company's cash flow and not the accounting profits or earnings per share. VBM is focused on the long run cash flow potential of a company and hence does not encourage companies to generate short term profits by engaging in value destroying activities.

The situation is no different in Kenya. The number of educated and more enlightened shareholders is increasing and they are putting pressure on companies to deliver superior shareholder returns. Furthermore, some of the companies operating in Kenya are subsidiaries and branches of multinational companies, which may have adopted VBM. In any case, continued investment of equity in Kenya must be supported by superior returns. Also, the cost of borrowing from the financial sector in Kenya is high and hence companies are turning to the Nairobi stock exchange to raise cheaper funds. For these companies to succeed, they must demonstrate to potential shareholders that the market price of their shares is going to be above the industry average.

This study, therefore is focusing on the extent to which Value Based Management is practiced in Kenya and also the level of the managers/company's knowledge, awareness of VBM practices.

CHAPTER THREE: RESEARCH METHODOLOGY

This chapter sets out research methodology that was used to meet the objectives of the study. The research methodology consisted of, research setting, research design, population size, data collection procedures and analysis of data.

3.1 Research Setting

The research was carried out in Kenya and covered all companies listed at the Nairobi Stock Exchange. All key sectors of the economy are represented at the Nairobi Stock Exchange and furthermore, the listed companies consist of both locally owned and foreign controlled companies; hence the research findings are likely to be representative of the VBM practice in Kenya.

3.2 Research Design

According to Cooper and Emory (1995), a research design is a framework for specifying the relationships among the study's variables and it starts with a plan for selecting the sources and types of information used to answer the research question. It is a blueprint that outlines each procedure from the hypothesis to analysis of data. To fulfil the objectives of this study, exploratory survey method has been used to explore the extent to which VBM is practiced in Kenya.

3.3 Population Size

The population comprised all the 51 companies listed at the Nairobi Stock Exchange (NSE) as at 30th April 2003. A sample size of 30 is considered reasonable since it would lead to stable statistical results. However all the listed companies were contacted due to anticipated non response on the part of some companies as shown by Gekonge (1999), who received 32 or 58% responses from companies that were contacted in his survey of the strategic change management practices by Kenyan Companies. This study was limited to companies listed at Nairobi stock exchange due to time and financial constraints.

3.4 Data Collection

This study used a survey method to collect data. According to Cooper and Emory (1995), a researcher questions the respondents and collects responses by personal or impersonal means in a survey. The survey was cross - functional since the companies were studied at one point in time. This study used a questionnaire with open-ended and closed questions to collect data for the study. The questionnaires were sent to the Chief Executive Officers or other senior managers who are familiar with the formulation and implementation of the company's strategies.

"Drop and Pick" later method was used to serve questionnaires on respondents who are resident in Nairobi while post office mailing system was used to serve respondents who are outside Nairobi. The respondents received a letter of introduction and a copy of the questionnaire to complete. In addition the group outside Nairobi also received a self addressed postage paid envelope to facilitate a prompt response. In both cases respondents were contacted by telephone to confirm receipt of the questionnaires and also to provide any needed assistance in completing the questionnaire. These methods have been selected because of the limitations of time and money. The "drop and pick" method has been used in similar studies in Kenya (Njuguna, 1996) and Gekonge (1999).

The questionnaire was divided into three parts; the first part collected data on the company's mission statement, goals and also sought to establish the factors that have contributed to performance over the last five years. The second part collected data on the factors, which have influenced the company's current management practices and the impact of these management practices on the company's performance. The third part collected data on the practice of VBM in each of these companies. All the three parts of the questionnaire were designed to collect data to establish the extent to which value based management is practiced in Kenya and also to test the managers / company's knowledge, awareness and extent of value based management. The first two parts collected data on VBM without specific reference to VBM while the third part was specific on VBM. This approach was found necessary to ensure that correct data was captured from all respondents, a number of whom may not be aware that they are practicing VBM.

3.5 Data analysis

Completed questionnaires were edited for completeness and accuracy before processing. The data collected was then coded to facilitate statistical analysis using SPSS computer package. The results of the analysis were summarized using tables, percentages, frequency tables and descriptive statistics to analyze the extent to which VBM is practiced in Kenya and also the number of companies with knowledge of VBM among the respondents.

A five point scale analysis was used to determine factors that influence formulation and implementation of goals; factors that contribute to company performance; factors that influence current management practices and the impact of these practices on the company's performance. The five point scale contains statements like least / most influence, least /most and least/ most impact. The SPSS package was used to analyze each of these factors to determine factors with least / most influence, contribution or impact.

CHARPTER FOUR: RESEARCH FINDINGS

The data was collected in this study using a questionnaire. The data collected was analyzed and then summarized and presented in the form of tables, frequency distribution and descriptive statistics. Also analysis was done to establish the factors that that have influenced the practice of VBM in Kenya.

4.1 Analysis of the companies studied by sector.

Questionnaires were sent to all the 51 companies listed at the Nairobi Stock Exchange and 32 (or 62.7%) of these companies responded. Table 1 below shows the distribution of the companies studied by sector:

Table 1: Analysis of companies studied by sector.

	Frequency	Percentage
Agricultural	6	18.8
Commercial and Services	8	25.0
Finance and Investment	9	28.1
Industrial and Allied	9	28.1
TOTAL	32	100

All the questionnaires received back from the 32 respondents were usable. The responses were; finance and investment 28.1 percent, industrial and allied services 28.1 percent, commercial and services 25.0 percent and agriculture 18.8 percent.

4.2 Company mission, Goals and Objectives.

In the study, data was collected on the company's mission statement and goals of the respondents. The following results were obtained:

Table 2 (a) Companies with mission statements:

Mission statement	Frequency	Percentage
Yes	26	81.3
No	6	18.8
Total	32	100

As shown on table 2 (b) above, 81.3 percent of the respondents have mission statements while those that do not have mission statements were 18.8 percent. Of those respondents with a mission statement, 76.9 percent have written statements while 23.1 percent do not have written statements.

Further analysis was done to establish the nature of company goals and table 2 (b) below contains the results.

Table 2 (b) Company Goals

Goals	Frequency	Percentage
Profitability	27	84.4
Customer Service	14	43.7
Social Responsibility	8	25
Market Share	4	12.5
Employer of Choice	4	12.5
Technological Advancement	3	9.4
Quality Products	2	6.3

Findings from the study indicated that most of the respondents listed more than one key goal. As shown on table 2 (b) above, 84.4 percent listed profitability as one of their key goals followed by customer service 43.7 percent, social responsibility 25 percent, market share and employer of choice 12.5 percent each, technological advancement 9.4 percent and quality products 6.3 percent.

These findings show that the majority of the respondents (84.4 percent) listed profitability as a key goal of their companies. These results are consistent with Mcmenamin (1999) and Grant (1998) who have stated that the underlying goal of commercial organizations is profitability. These findings are also supported by Thompson (1997), who stated that managers are expected to concentrate on those issues which are essential for corporate and competitive success. These issues which have been presented as " balanced score card" are financial, customers, internal processes, growth and improvements. The findings of this study have shown that many of the " balanced score card" have been listed as goals by respondents.

According to research findings of Haspeslagh et al (2000), economic value added (EVA), is a key goal of the firm. EVA is also called economic profit or value added profits. As expected therefore most respondents have listed profitability as a key corporate goal.

Also it could be argued that this findings are also consistent with goals of companies listed at the Nairobi Stock exchange whose key objective is to grow company profitability to ensure regular and higher dividend payouts.

4.3 Formulation and implementation of goals

The study also sought to establish the extent to which the following factors influence the formulation and implementation of key company goals. The factors were; Chief executive Officer, Senior Managers, Head Office, Shareholders, Legal requirements and competitive pressure. The results are shown on table 3 below.

Table 3: Factors that influence formulation and implementation of goals

	Least influence		Moderate influence		Most influence	
	Frequency	%	Frequency	%	Frequency	%
Chief executive officer	2	6.3	2	6.3	25	78.1
Senior managers	3	9.4	8	25	18	56.3
Head office	5	15.6	8	25	12	37.5
Shareholders	4	12.5	7	21.9	20	62.5
Legal requirements	9	28.1	8	25	7	21.9
Competitive pressure	4	12.5	2	6.3	23	71.9

A majority of the respondents indicated that formulation and implementation of company goals is influenced by more than one factor. As shown on table 3 (a) above, 78.1 percent of the respondents indicated that the chief executive officers have most influence on the formulation and implementation of their company goals. Only 6.3 percent of the respondents indicated that their chief executive officers have least influence while an equal percentage (6.3 percent) indicated moderate influence. These findings are consistent with those of Haspeslagh et al (2001), who in their study of VBM found out that in majority of the companies studied, the chief executive officer played a key role in the formulation and implementation of company goals and especially those that relate to profitability and shareholder value.

Other factors that most influence formulation and implementation of company goals as reported by respondents were; 71.9 percent competitive pressure, 62.5 percent shareholders, 56.3 percent senior managers, 37.5 percent and 21.9 percent legal requirements.

In the study, correspondents were also asked if current management practice is a tool to analyze new opportunities. 65.6 percent of the respondents strongly agreed while 6.3 percent reported that this was not the case in their companies.

4.4 Factors that contribute to company performance

The study also sought to establish the factors that contribute to company performance and respondents were asked to indicate from a list of thirteen factors those that least contributed or most contributed to company performance. Table 4 below shows the results of the survey.

Table 4: Factors that contribute to company performance

	Least contribution		Moderate contribution		Most contribution	
	Frequency	%	Frequency	%	Frequency	%
Shareholder value	3	9.4	5	15.6	24	75
Employee compensation	9	28.1	12	37.5	7	21.9
Employee training	3	9.4	12	37.5	13	40.6
Value centres	4	12.5	15	46.9	10	31.2
Improved technology	3	9.4	9	28.1	18	56.3
Improved processes	1	3.1	9	28.1	22	68.8
Improved products range	7	21.9	7	21.9	14	43.8
Market share	8	25	4	12.5	17	53.1
Employee empowerment	5	15.6	11	34.4	11	34.4
New acquisitions	15	46.9	2	6.3	8	25
Cost cutting	2	6.3	10	31.3	19	59.4
Leadership	2	6.3	7	21.9	21	65.6
Customer satisfaction	1	3.1	6	18.1	24	75

Majority of the respondents identified more than one factor as contributing most to company performance as shown on table 4 above. Those factors identified by more than 50 percent of the respondents as contributing most to performance were; shareholder value 75 percent, customer satisfaction 75 percent, improved processes 68.8 percent, leadership 65.6 percent, cost cutting 59.4 percent, improved technology 56.3 percent and market share 53.1 percent.

As expected a smaller number of respondents indicated that some of these factors contribute least to company performance. The percentage of these respondents were; shareholder value 9.4 percent, customer satisfaction 3.1 percent, improved processes 3.1 percent, leadership 6.3 percent, cost cutting 6.3 percent, improved technology 9.4 percent and market share 25 percent.

These results were consistent with some of the characteristics of companies that practice VBM. Haspeslagh et at (2000), identified some of these factors that drive performance as; commitment to shareholder value, leadership, aligning structures and systems and investment in technology. The other key characteristics of VBM companies; employee training and employee compensation have not been identified by most of the respondents as factors that contribute most to company performance. As shown on table 4 above, the respondents have identified these factors as contributing most to performance were; employee compensation 21.9 percent, employee training 40.6 percent. 28.1 percent of the respondents indicated that employee compensation contributes least to company performance.

4.5 Factors that influence company's management practices

In the study, the respondents were asked to identify from a list of twelve factors, those that least or most influence the company's management practice. The following results were obtained:

Table5: Factors that influence current management practices.

	Least influence		Moderate influence		Most influence	
	Frequency	%	Frequency	%	Frequency	%
Chief Executive Officer	1	3.1	2	6.3	29	90.6
Senior Managers	1	3.1	6	18.8	23	71.9
Group / Head Office policy	2	6.3	7	21.9	20	62.5
Shareholders	6	18.8	4	12.5	21	65.6
New shareholders	12	37.5	6	18.8	5	15.6
Consultants	9	28.1	5	15.6	10	31.5
Competition	3	9.4	5	15.6	23	71.9
Employee compensation	14	43.8	5	15.6	8	25
Cutting costs	1	3.1	7	21.9	22	68.8
Improve products	3	9.4	3	9.4	22	68.8
Improve market share	1	3.1	5	15.6	20	62.5
Customer satisfaction	0	0	4	12.5	26	81.3

The results shown on table 5 above indicate that most of the respondents identified most of the factors listed as having most influence on the company's management practices. Leading is the chief executive officer who has been identified by 90.6 percent of the respondents as having most influence on company's management practices, followed by customer satisfaction 81.3 percent, senior managers 71.9 percent, competition 71.9 percent, desire to cut costs and improve products 68.8 percent, shareholders 65.6 percent, desire to increase market share 62.5 percent, head office 62.5 percent, consultants 31.5 percent and employee compensation 15.6 percent.

The factors identified by more than 20 percent of the respondents as having least influence on current management practices were employee compensation 43.8 percent, new shareholders 37.5 percent and consultants 28.1 percent.

These results validate the findings reported on section 4.3 above (formulation and implementation of goals) wherein a majority of the respondents (78.1 percent) indicated that the chief executive office has significant influence on the formulation and implementation of goals; competitive pressure 71.9 percent and shareholders 62.5 percent.

The study also sought to establish whether the chief Executive Officers of the respondents were new when the management practices were adopted. 49.9 percent of the respondents indicated that the chief executive officer was new when the current management practices were adopted while 53.1 percent indicated that the chief executive officer was not new.

The respondents were also asked if current management practices require support of the chief executive officer to succeed. 53.1 percent of the respondents reported that management practices require support from chief executive officers to succeed. This is consistent with the research findings of Haspeslagh et al (2000), who found out that success of company's management practices require the support and commitment of the company's chief executive officer. These research findings show that when John Sunderland was appointed the chief executive officer of Cardbury Schweppes, he called a meeting of institutional investors and made known his commitment to double Cardbury's economic profits every four years. Economic profits is a key metric in VBM.

4.6 The impact of management practices on company performance

The study also sought to find out the impact of the company's management practices on various company activities and performance measures. A list of thirteen factors was provided to the respondents and they were requested to indicate the impact of the company's management practices on each of these factors. The following results were obtained:

Table 6: The impact of management practices on various company activities and performance measures

	Least impact		Moderate impact		Most impact	
	Frequency	%	Frequency	%	Frequency	%
Earnings per share	8	25	8	25	16	50
Market price per share	8	25	7	21.9	13	40.6
Employee compensation	8	25	7	21.9	12	37.5
Employee training	6	18.8	5	15.6	17	53.1
Employee motivation	4	12.5	6	18.8	19	59.4
Customer satisfaction	0	0	5	15.6	27	84.4
Profitability of segments	3	9.4	5	15.6	23	71.9
Operational processes	2	6.3	12	37.5	12	37.5
Technology	5	15.6	4	12.5	21	65.6
Cost management	2	6.3	8	25	18	56.3
Product range	4	12.5	6	18.8	16	50
Market share	4	12.5	7	21.9	15	46.9
Company culture	6	18.8	3	9.4	20	62.5

The results on the table 6 above show more than 50 percent of the respondents indicated that management practices have most impact on nine out of the thirteen factors that were listed. These responses were; customer satisfaction 84.4 percent, profitability of segments 71.9 percent, technological improvements 65.6 percent, company culture 62.5 percent, employee motivation 59.4 percent, cost management 56.3 percent, employee training 53.1 percent, product range 50 percent and earnings per share 50 percent.

These findings are consistent with the findings of Haspeslagh et al (2000), who found out that adoption of VBM leads to creation of value centers, increased investment in technology, focus on employee training and improved operational processes.

The percentage of respondents who indicated that earning per share, market price per share and employee compensation are least impacted by management practices were 25 percent while those who held similar view on employee motivation, product range and market share were 12.5 percent. 18.8 percent of the respondents indicated that management practices have least impact on employee training and company culture. These findings and in particular those that relate to employee compensation are inconsistent with the findings of Haspeslagh et al (2000), who have stated that aligning employee compensation to performance is a key characteristic of VBM companies. The findings of the study with regard to employee compensation seems to suggest that some kenyan corporations have not adopted VBM.

The study also sought to find out if the current management practices led to new financial goals. 71.9 percent of the respondents confirmed that current management practices led to new financial goals. Of these respondents 95.7 percent further indicated that the new financial goals were stretching with 65.2 percent saying that their financial goals changed by between 50 to 100 percent. The findings also indicated that the timeframe for achieving the goals changed for 65.2 of the respondents who had new financial goals. Those respondents whose current management practices did not change were 28.1 percent.

These results are consistent with Haspeslagh et al (2001), who have indicated that new management practices were often accompanied with new financial goals. This was the case when Cadbury Schweppes adopted VBM in 1996.

4.7 Employee training.

The study also sought to find out if current management practices have necessitated employee training. The results in table 7 below show that this was the case for 93.8 percent of the respondents.

Table: 7 Employee training

	Frequency	Percent
Yes	30	93.8
No	2	6.3
Total	32	100

Further findings of the study found out that 81.3 percent of the respondents use a combination of both in-house and consultants to train their employees while 9.4 percent use in-house and another 9.4 percent use external consultants.

The study also sought to find out the number of employees in various cadres whose training was necessitated as a result of the company's management practices. 65.6 percent of the respondents indicated that over 60 percent of their senior managers have been trained as a result of new company management practices. 40.6 percent of the respondents reported that over 60 percent of supervisors have been trained while 25 percent reported that over 60 percent of clerical / subordinate staff and union members have been trained.

These results support the view that some of the respondents are practicing an element VBM. Haspeslagh et al (2001), in their study of VBM companies found out that successful VBM companies invest a lot of effort and money in training a large number of their employees and that training created an enabling environment that is supportive of change initiatives that always come along with VBM.

4.8 Employee compensation.

The study also sought to find out if the respondents have a company policy on employee compensation. 96.6 percent of the respondents reported that they have a company policy while only 3.1 percent do not have a policy. Of those with a company policy 93.5 percent have formal / explicit policy while 6.5 percent have an informal or implicit policy.

In the study, respondents were asked if employee compensation is linked to performance. 71.9 percent of the respondent's reported that employee compensation is linked to performance while 28.1 percent reported that there is no link between employee compensation and performance. These results seem to support the view that most of the respondents are practicing a key characteristic of VBM. In their research on VBM Haspeslagh et al (2001) found out that VBM companies used broad based incentive systems that were closely tied to VBM performance measures to motivate employee performance and also to give them a sense of ownership in the company.

4.9 Technology.

The study also sought to find out from the respondents whether investment in information technology is given top priority. 68.8 percent of the respondents indicated that investment in technology is given top priority while 25 percent reported that investment in information technology is not a priority.

Respondents were also asked to state how the information technology of their companies compared with pears in the same industry. 12.5 percent of the respondents rated themselves as the best in their industry, 56.3 percent rated themselves as better than most in the industry, 25 percent rated themselves as average while a minority of 3.1 percent reported that they lag behind peers in their sectors.

In the study, respondents were asked whether their company has introduced new products in the last five years. 78.8 percent responded in the affirmative while 21.9 percent reported that they have not introduced any products in the last five years. Of the respondents who have introduced new products, 88 percent was as a result of new innovation from within, 15.6 percent was due to licensing and another similar number of 15.6 percent also reported that new products were introduced as a result of acquisitions.

Respondents were further asked whether current management practices led to acquisition of new technology. 62.5 percent of the respondents strongly agreed that current management practices lead to acquisition of new technology while 9.4 percent reported that this was not the case in their companies.
Asked further if the current management practices are about changing accounting systems only, 71.9 percent of the respondents strongly disagreed while only 6.3 percent said that this was the case.

These findings are consistent with some of the characteristics of VBM companies. Haspeslagh et al (2000), found out in their research on VBM practice in USA and Europe that organizations that have adopted VBM, invest heavily on upgrading their management information systems. According to their research findings, VBM companies like Daimler, Dow and Hoya were found to have made significant investments their management information systems.

In the study, respondents were also asked whether their company's current management practices led to acquisition of new technology. 62.5 percent of the respondents strongly agreed that current management practices have led to acquisition of technology while 9.4 percent reported that this was not the case. Asked further if current management practices were about changing accounting systems only, 71.9 percent of the respondents disagreed while 6.3 percent reported that this was the case.

4.10 The practice of value based management by Kenya Companies

The main objective of the study was to establish the practice of VBM among Kenyan companies. Respondents were asked whether they practice VBM. The following results were obtained.

Table 8 (a) Companies that practice VBM

	Frequency	Percent
Yes	19	59.4
No	8	25
Don't know	5	15.6
Total	32	100

The results on table 8 (a) above show that 59.4 percent of the respondents are VBM companies, 25 percent have indicated that they do not practice VBM while 15 percent do know if they practice VBM or not.

Table 8(b): Sectoral distribution of companies that practice VBM.

	Frequency	Percentage
Agricultural	3	15.8
Commercial and Services	6	31.6
Finance and Investment	5	26.3
Industrial and Allied	5	26.3
TOTAL	19	100

As shown on table 8(b) above, the distribution of the responses represents, 31.6 percent commercial and allied companies, 26.3 percent finance and investment companies, 26.3 percent industrial and allied companies and 15.8 percent agricultural companies. All key sectors of the Kenyan economy are represented in these findings.

Table 8(c) formality of VBM

	Frequency	Percent
Formal	12	63.1
Informal	6	31.6
Don't know	1	5.3
Total	19	100

The study further sought to establish if VBM practice is formal / explicit or informal / implicit and table 8(c) above shows the findings. 63.1 percent of the respondents who practice VBM reported that it is formal; 31.6 percent reported that it is informal while 5.3 percent did not indicated whether it is formal or not.

Table 8 (d) VBM performance measures

	YES		NO	
	Frequency	Percent	Frequency	Percent
Economic Value Added (EVA)	4	21.1	15	78.9
Value Added Profits (VAP)	13	68.4	6	31.6
Market Value Added (MVA)	10	52.6	9	47.4
Shareholder Value Added (SVA)	9	47.4	10	52.6

In the study, respondents were also asked to identify VBM performance measures that their companies had adopted. As shown on table 8 (d) above, 21.1 percent of the respondents who practice VBM reported that they have adopted economic value added (EVA); 68.4 adopted value added profits (VAP); 52.6 percent of the respondents have adopted market value added (MVA) while 47.4 percent adopted shareholder value analysis (SVA) as a measure of performance. Since economic value added (EVA) is also called value added profits (VAP), it could be said that the percent of respondents who have adopted EVA is 89.5 percent indicating that majority of the respondents use EVA as a key performance metric.

These findings are consistent with Mcmenamin (1999) who identified economic value added (EVA), market value added (MVA) and shareholder value added (SVA) as key measures of VBM. Gandy (2002), has stated that the key calculation used in value based management is economic value added (EVA). Haspeslagh et al (2001) in their research of VBM companies found out that the first step towards implementation of VBM is the adoption of EVA.

The study also sought to find out whether VBM is desirable among the VBM companies. 94.7 percent of these companies confirmed that VBM is desirable while 5.3 percent said VBM was not desirable. These findings are consistent with those of Haspeslagh et al (2001) who found out that not all companies who adopt VBM find the practice desirable.

The study further sought to find out the reasons why VBM is desirable and the following results were obtained.

Table 8 (e) Reasons why VBM is desirable

	Frequency	Percent
Focus on value drivers	6	31.6
Improve profitability	8	42.1
Improves productivity	4	21.0
Creating shareholder value	3	15.8
Employee motivation	4	21.0

The results on table 8 (e) above show the reasons why respondents say that VBM is desirable. 42.1 percent of the respondents reported that VBM is desirable because it improves profitability; 31.6 percent because it focuses the company on value drivers; 21.0 percent because it improves productivity, 21.0 percent because it leads to employee motivation and 15.8 percent because it leads to creation of shareholder value.
These findings are consistent with those of Haspeslagh et al (2000) who identified the key components of VBM as creation of shareholder value, focus on profitability as measured by economic value added , employee training and compensation and increased investment in operational processes and technology.

The study also sought to find out if any of the respondents experienced resistance to VBM practice. The following results were obtained.

Table 8 (f) Reasons for resistance to VBM

	Frequency	Percent
Resistance to change	10	52.6
Lack of understanding	8	42.1
Lack of training	5	26.3
Culture	3	15.8
Technology cost	4	21.0

The table 8 (f) above shows the reasons why some of the respondents who have adopted VBM experienced resistance to the VBM practice. 52.6 percent of the respondents indicated that resistance to VBM practice was caused by resistance to change; 42.1 percent of the respondents experienced resistance due to lack of understanding on the part of those who were involved; 26.3 percent indicated that it was due to lack of training; 21.0 percent indicated that it was due to high cost of technology while 15.8 percent of the respondents reported that resistance to change was caused by existing culture in their organizations.

These findings are in agreement with those of Gekonge (1999), who found out in his survey of strategic change management practices by Kenyan companies that most companies experienced resistance when implementing change initiatives. Haspeslagh et al (2001) has also indicated that a successful VBM program is about introducing fundamental change in the company's culture. This is the reason why employee training was identified as one of the critical success factors in VBM. Training would lead to employee understanding and hence reduce resistance to VBM.

CHAPTER FIVE: SUMMARY AND CONCLUSIONS

5.1 Introduction.

The study had two objectives. First was to establish the extent to which Value Based Management is practiced in Kenya and second was to test the managers/company's knowledge, awareness and extent of Value Based Management practice.

The research was carried out in Kenya and covered all fifty one (51) companies listed at the Nairobi Stock Exchange. Data was collected in this study using a questionnaire. The questionnaire were dropped and picked from the respondents. Thirty two (or 62.7 percent) of companies responded.

The data collected in this study was then summarized and presented in the form of tables, frequency distribution and descriptive statistics. Also analysis was done to establish the factors that that have influenced the practice of VBM in Kenya.

5.2.1 Extent of VBM practice in Kenya

The study revealed that majority of the respondents (59.4 percent) practice VBM in Kenya. 25 percent of the respondents were categorical that they do not practice VBM while 15.6 percent do not know whether they practice VBM. In terms of sectoral distribution of companies that practice VBM, the study revealed that 31.6 percent of the responses came from the commercial and allied sector, 26.3 percent from finance and investment, another 26.3 percent from industrial and allied sector while 15.8 percent were received from agriculture. These findings seem to suggest that VBM is practiced across all sectors of the Kenyan economy.

The findings of the study further revealed that management practices have an impact on the company's performance. 84.4 percent of the respondents indicated that customer satisfaction plays a major role in the company's performance. The other factors identified by the respondents as having high impact on performance were; profitability 71.9 percent, technology 65.6 percent, company culture 62.5 percent, employee motivation 59.4 percent and cost management 56.3 percent.
These findings are consistent with those of Haspeslagh et al (2000) who identified economic value added, shareholder value, employee training and compensation, investment in technology and new processes as having a high impact on the company's performance. These are all critical factors in the practice of VBM.

The results of the study also revealed that most Kenyan companies have policies on employee compensation. 96.6 percent of the responses indicated that the companies have a compensation policy. Majority of the responses (71.9 percent) also suggested that employee compensation is linked to performance. According to Haspeslagh et al (2001), the link between employee compensation and performance is a key indicator of the extent to which companies have implemented VBM.

The study further revealed that majority of the responses (68.8 percent) give investment in information technology top priority. These findings seem to suggest that Kenyan companies invest significant amount of their resources in information technology. The study further revealed that majority of the respondents (68.8 percent) believe that they are better than most in their respective sectors. Furthermore, 62.5 percent of the respondents said that their current management practices have led to investment in new technology. Also majority of the respondents (71.9 percent) do not believe that new management practices is about changing accounting systems.

In the study, respondents were asked to identify VBM performance measures. The findings revealed that 89.5 percent of the respondent who practice VBM, use economic value added (EVA) or value added profits (VAP), 52.6 percent use market value added (MVA) while 47.4 percent use shareholder value added (SVA). The high level of VBM companies in Kenya that use EVA or VAP seems to demonstrate a high level of technical competence and understanding of VBM principles in Kenya.

5.2.2 Knowledge and awareness of VBM

The results of the study revealed that 93.8 percent of the respondents train their employees to understand the company's management practices. The findings of the study, further revealed that in 65.6 percent of the responses, over 60 percent of the managers had been trained. In 40.6 percent of the responses, over 60 percent of the supervisors had been trained while in 25 percent of the responses over 60 percent of the lower level staff had been trained. These results are supported by Haspeslagh et al (2000), whose research findings indicated that successful VBM companies invest substantial effort and money in training their employees. The results of the study seem to suggest that some of these companies who are training large number of their employees could be VBM companies. These high levels of training seem to suggest that the knowledge and awareness of VBM could be high among the companies that have adopted the practice.

In the study, respondents were asked whether the practice of VBM is formal or informal. The findings revealed that 63.1 percent of those respondents who practice VBM have a formal VBM practice while 31.6 percent of the responses said VBM is not formal. Only a small percentage (5.3 percent) of those who practice VBM do not know whether it is formal or not. These findings seem to suggest that the levels of awareness of VBM practice is high among the Kenyan corporations that have adopted the practice.

The study further revealed that 94.7 percent of the VBM companies believe that VBM is desirable because it leads to improved profitability and productivity, creates shareholder value, leads to employee motivation and also focuses the company on value drivers. These results further suggest a high level of knowledge and awareness among Kenyan companies on the benefits of VBM.

The respondents were further asked to identify the difficulties that they may have experienced in implementing VBM in Kenya. The difficulties listed by the respondents were; 52.6 percent of the responses listed resistance to change, 42.1 percent lack of understanding, 26.3 percent lack of training, 21 percent high technology cost and 15.8 percent due to culture. These findings are consistent with those of Gekonge (1999) who found out that culture, training and resistance to change as some of the factors, which hinder strategic change by Kenyan companies. Only respondents who have a high level of knowledge and awareness of VBM could list the difficulties encountered in implementing VBM in their companies.

5.3 Conclusions

The questionnaires were sent to all 51 companies listed at the Nairobi stock exchange and 32 (or 62.7 percent) questionnaires were received back. The sectoral distribution was highest from finance and investment (28.1 percent), industrial and allied (28.1 percent), commercial and services (25 percent) and agriculture (18.8 percent). These responses were well distributed across all sectors of the Kenyan economy.

The study revealed that most Kenyan companies have mission statement and goals with 81.3 percent of the respondents confirming that they have mission statements and goals. Furthermore the study revealed majority of the Kenyan companies have one or more of the following goals; profitability, customer service, social responsibility, market share, employer of choice, technological advancement and quality of products.

The findings also revealed that formulation and implementation of a company's goals is most influenced by the company's chief executive officer, senior managers, shareholders, head office (in the case of subsidiary companies) and competitive pressure. These same factors were also found in the study to have great influence on the company's management practices. Other factors which the study also found to have great influence on the company's management practices included; cost cutting, improved products, improved market share and customer satisfaction. In both cases majority of the respondents reported that the chief executive officer had most influence; 78.1 percent of the respondents reported that chief executive officer had most influence in formulation and implementation of goals while 90.6 percent said that the chief executive officer has great influence on the company's management practices. The study therefore seems to suggest that chief executive officers of Kenyan companies have great influence in the formulation and implementation of company goals and the company's management practices. These findings concur with those of Haspeslagh et al (2000), who found that chief executive officers play a key role in formulation of company goals and management practices.

The study revealed that customer satisfaction, shareholder value, improved processes, leadership, cost cutting, improved technology, market share and employee training contribute most to company performance. Many of these factors were also found to have the greatest impact on the company's management practices. Other factors that have great impact on the company's management practices included; profitability, company culture, employee motivation, product range, and market price per share. Majority of the respondents listed customer service as having that greatest impact on both company performance and management practices. Many of these factors also form some of the key characteristics of VBM companies and they include; shareholder value, profitability, improved technology, improved processes, employee training and employee motivation. These findings seem to suggest that majority of the Kenyan companies do practice some elements of VBM.

Other key elements of VBM were tested in the study and the results on employee training, employee compensation, investment in technology seems to suggest that some Kenyan companies are practicing VBM.

The findings from study revealed that 59.4 percent of the respondents practice VBM. The sectoral distribution of the companies that practice VBM was; commercial and services 31.6 percent, finance and investment 26.3 percent, industrial and allied 26.3 percent, and agriculture 15.8 percent. These responses are well distributed across all sectors of the Kenyan economy and seem to suggest that majority of Kenyan companies are practicing one or more elements of VBM.

The results of the study further revealed that many Kenyan companies have adopted performance metrics that are associated with VBM and these are economic value added (EVA) or value added profits (VAP), market value added and shareholder value added. Respondents that had adopted EVA/VAP were 89.5 percent indicating that most VBM companies in Kenya use this metric to measure financial performance.

A number of reasons have been given in the study why VBM is desirable. These reasons are; focus on value drivers, improved profitability and productivity, creation of shareholder value and employee motivation. These are the key deliverables of VBM thus suggesting that most Kenyan companies have adopted VBM to achieve superior performance.

Respondents also listed difficulties that they experienced when implementing VBM in Kenya. Some of the difficulties identified were; resistance to change, lack of understanding of VBM, lack of VBM training, culture and high technology costs. These difficulties are not unique to Kenyan companies. Haspeslagh et al (2000) has identified lack of training, culture and technology cost as possible impediments to VBM implementation.

From the study findings it is clear that many of the Kenyan companies practice VBM and based on the analytical results from this study, the number could be as high as 59.4 percent. Majority of the Kenyan companies have also adopted at least one performance measure that is closely associated with VBM. Based on study findings up to 89.5 percent of the Kenyan companies could be using EVA / VAP as one of their key performance metrics.

5.4 Recommendations

From the findings of the study it is apparent that at least 40 percent of the Kenyan companies do not practice VBM. Also it is apparent that not all Kenyan companies that practice VBM may have implemented the management practice fully. This is evidenced by a significant number of responses that suggest that some key elements of VBM such as value centres, improved product range, employee compensation and employee training are not considered as major contributors to the company's performance. Also not all companies have adopted economic value added (EVA) as a key financial performance metric. On this basis, following recommendations could be made:

First, it is recommend that VBM should be implemented by many of those companies that do not currently practice VBM. This would refocus their efforts and resources to only those activities that create superior value for their shareholders. This would enable them to become leaders in cost management and product differentiation.

Secondly, Kenyan companies should adopt VBM fully. This would require them to identify and to establish value / profit centres. This would also enable them to identify activities that destroy the shareholders value and thus provide a transparent basis of divestiture where necessary. Also by adopted VBM fully, Kenyan companies would put more effort in training and in developing comprehensive employee compensation policies. Full implementation of VBM would also ensure that companies gain sustainable competitive advantages.

Thirdly, Kenyan companies should adopt EVA as a performance metric. This would force them to understand VBM and its practice. Also since EVA targets are usually set by the chief executive officer and are normally public pronouncements, the companies would be put under pressure to continuously seek better ways of improving performance.

5.5 Limitations of the study:

The study was limited by the following factors:
First, no responses were received from 19 (or 37.3 percent) companies. This is a significant number whose responses could potentially change findings of this study.

Second, the time available for the study was short and this made it difficult to do a thorough analysis of the responses.

Thirdly, many companies may have been unwilling to provide full disclosure on their VBM practices on the suspicion that the information could be made available to their competitors. It was not clear from the responses the extent to which these could have been the case and hence it is difficult to conclude that the findings of this study are based on respondents' full disclosure of their VBM practices.

5.6 Suggestions for further research:

This study covered all sectors of the Kenyan economy as represented by the companies listed at the Nairobi stock exchange. No attempt was made in this study to quantify the benefits of VBM practice. Neither has any attempt been made to confirm that those companies that have adopted VBM deliver better results to customers, employees and shareholders compared to those companies that have not adopted VBM.

It is therefore suggested that a study should be carried out to quantify the benefits that VBM has brought to Kenyan companies and also to establish the extent to which VBM has created competitive advantage for these companies.

Appendix 1:

UNIVERSITY OF NAIROBI
FACULTY OF COMMERCE,
DEPARTMENT OF BUSINESS ADMINISTRATION
P.O Box 30197,
NAIROBI.
June 19th, 2002.

Dear

RE: MBA RESEARCH PROJECT

As part of the requirement of the Master of Business Administration degree, the undersigned who is a student in the faculty of Commerce, Department of Business Administration is required to undertake a management project in partial fulfillment of the degree of Master of Business Administration (MBA). He intends to undertake a study on the practice of Value Based Management among companies listed at the Nairobi Stock Exchange.

The questionnaire is designed to gather information on the practice of Value based management by companies listed at the Nairobi Stock Exchange.
All the information you disclose will be used for this academic exercise and will be treated in strict confidence. Confidentiality will be ensured by coding of survey findings.

Your cooperation will be highly appreciated.

Many thanks,
Yours Faithfully,

C. O Ongwae
MBA Student.
Tel 254 02 241591

Prof. E O Aosa
Supervisor.
Tel 254 02 731260

Appendix 11

QUESTIONNAIRE

PART 1.

1. a) Do you have a mission statement?

Yes [ ]

No [ ]

b) If Yes, is it written? Yes [ ] No [ ]

c) What is your mission statement? ....

....

....

....

2. a) Do you have goals for your company?

Yes [ ]

No [ ]

b) If Yes, are these goals?

	Yes	No
Financial	[ ]	[ ]
Non financial	[ ]	[ ]
Both financial and non financial	[ ]	[ ]
Other (Specify)	[ ]	[ ]

c) What are your company's key goals?

Financial:..

....

....

Non Financial: ....

....

....

d) Have your key goals changed in the last five years?

Yes [ ]

No [ ]

f) To what extent did the following influence the formulation and implementation of the goals? (tick)

	Least Influence 1	2	3	4	Most Influence 5
Chief Executive Officer	[ ]	[ ]	[ ]	[ ]	[ ]
Senior Managers	[ ]	[ ]	[ ]	[ ]	[ ]
Head Office	[ ]	[ ]	[ ]	[ ]	[ ]
Shareholders	[ ]	[ ]	[ ]	[ ]	[ ]
Legal requirements	[ ]	[ ]	[ ]	[ ]	[ ]
Competitive pressure	[ ]	[ ]	[ ]	[ ]	[ ]

3. To what extent did the following contribute to the performance of your company over the last five years? (tick).

	Least Contribution 1	2	3	4	Most Contribution 5
Commitment to shareholder value	[ ]	[ ]	[ ]	[ ]	[ ]
Employee compensation	[ ]	[ ]	[ ]	[ ]	[ ]
Employee training	[ ]	[ ]	[ ]	[ ]	[ ]
Creation of value centres	[ ]	[ ]	[ ]	[ ]	[ ]
Improved Technology	[ ]	[ ]	[ ]	[ ]	[ ]
Improved processes	[ ]	[ ]	[ ]	[ ]	[ ]
Improved product range	[ ]	[ ]	[ ]	[ ]	[ ]
Increased market share	[ ]	[ ]	[ ]	[ ]	[ ]
Employee empowerment	[ ]	[ ]	[ ]	[ ]	[ ]
New acquisitions	[ ]	[ ]	[ ]	[ ]	[ ]
Cost cutting	[ ]	[ ]	[ ]	[ ]	[ ]
Leadership	[ ]	[ ]	[ ]	[ ]	[ ]
Customer satisfaction	[ ]	[ ]	[ ]	[ ]	[ ]

4. Number of employees working in Kenya ....

Please give breakdown of employees as follows:

Kenyan Citizens [ ] Expatriates [ ]

Other (specify) [ ]

PART 2

5. Which of the following factors influenced your company's current management practices ? (tick).

	Least Influence 1	2	3	4	Most Influence 5
Chief Executive Officer	[ ]	[ ]	[ ]	[ ]	[ ]
Other Senior managers	[ ]	[ ]	[ ]	[ ]	[ ]
Group / Head Office policy	[ ]	[ ]	[ ]	[ ]	[ ]
Shareholder's pressure to increase value	[ ]	[ ]	[ ]	[ ]	[ ]
New Shareholders	[ ]	[ ]	[ ]	[ ]	[ ]
Consultants	[ ]	[ ]	[ ]	[ ]	[ ]
Competition	[ ]	[ ]	[ ]	[ ]	[ ]
Employee compensation policy	[ ]	[ ]	[ ]	[ ]	[ ]
Desire to cut costs	[ ]	[ ]	[ ]	[ ]	[ ]
Desire to improve product range	[ ]	[ ]	[ ]	[ ]	[ ]
Desire to increase market share	[ ]	[ ]	[ ]	[ ]	[ ]
Desire to achieve customer satisfaction	[ ]	[ ]	[ ]	[ ]	[ ]

Other (please specify) -----------------------

6. Was your Chief Executive Officer new when you adopted your current management practices? (tick)

Yes [ ] No [ ]

7. What is the impact of your current management practices on the following areas? (tick)

	Least Impact 1	2	3	4	Most Impact 5
Earnings per share	[ ]	[ ]	[ ]	[ ]	[ ]
Market price per share	[ ]	[ ]	[ ]	[ ]	[ ]
Employee compensation	[ ]	[ ]	[ ]	[ ]	[ ]
Employee training	[ ]	[ ]	[ ]	[ ]	[ ]
Employee motivation	[ ]	[ ]	[ ]	[ ]	[ ]
Customer satisfaction	[ ]	[ ]	[ ]	[ ]	[ ]
Profitability of business segments	[ ]	[ ]	[ ]	[ ]	[ ]
Operational processes	[ ]	[ ]	[ ]	[ ]	[ ]
Technological improvements	[ ]	[ ]	[ ]	[ ]	[ ]
Cost management	[ ]	[ ]	[ ]	[ ]	[ ]
Product range	[ ]	[ ]	[ ]	[ ]	[ ]
Market share	[ ]	[ ]	[ ]	[ ]	[ ]
Customer satisfaction	[ ]	[ ]	[ ]	[ ]	[ ]
Company's culture	[ ]	[ ]	[ ]	[ ]	[ ]
Other (Specify)	[ ]	[ ]	[ ]	[ ]	[ ]

8. a) Did your current management practice lead to new financial goals?

Yes [ ] No [ ]

b) Were the new goals more stretching? Yes [ ] No [ ]

9. By how much did the financial goals change?

Less than 50%? [ ]

Between 50 and 100% [ ]

Between 100 and 150% [ ]

More than 200% [ ]

10. a) Did the timeframe for achieving these goals change? Yes [ ] No [ ]

If yes:

b) what was the old timeframe? --------------------------

c) What is the new timeframe? ------------------------------

11. a) Has your current management practice necessitated employee training in your company?

Yes [ ] No [ ]

If yes;

b) What is the percentage of the company's employees that have been trained since adopting your current management practice? ----------------------

c) How do you conduct your training?

In house [ ]

External consultants [ ]

Both In house & consultants [ ]

Other (specify) [ ]

d) How many employees have been trained from each of the following cadres?

	0-20%	20-40%	40-60%	over 60%
Senior managers	[ ]	[ ]	[ ]	[ ]
Supervisors	[ ]	[ ]	[ ]	[ ]
Clerical / subordinate	[ ]	[ ]	[ ]	[ ]
Union members	[ ]	[ ]	[ ]	[ ]
Other (specify)	[ ]	[ ]	[ ]	[ ]

12. a] Is there a company policy on employee compensation? Yes [ ] No [ ]

If Yes:

b) Is the policy Formal / Explicit [ ] or Informal / Implicit [ ]

c) Is employee compensation linked to performance? Yes [ ] No [ ]

If Yes:

13. a) How would you rate your Information Technology compared to peers in your industry?

The best in the industry [ ]

Better than most in the industry [ ]

Average in the industry [ ]

Lags behind the average in the industry [ ]

The worst in the industry [ ]

Other (specify) [ ]

b) Is your company's investment in information technology:

Top priority?	Yes [ ]	No [ ]
Minimal	Yes [ ]	No [ ]

14. a) In the last five years, did your company introduce new products / services?

Yes [ ] No [ ]

If Yes:

b) Is the new product (s) due to any of the following:

Innovation from within	Yes [ ]	No [ ]
Licensing	Yes [ ]	No [ ]
Acquisition	Yes [ ]	No [ ]

15. Please indicate your agreement or disagreement with the following statements.

	Strongly Disagree			**Strongly Agree**	
Our current management practice:	**1**	**2**	**3**	**4**	**5**
Is key to budget formulation	[ ]	[ ]	[ ]	[ ]	[ ]
Leads to training of employees	[ ]	[ ]	[ ]	[ ]	[ ]
Leads to acquisition of new technology	[ ]	[ ]	[ ]	[ ]	[ ]
Uses value drivers in decision making	[ ]	[ ]	[ ]	[ ]	[ ]
Is a tool to analyze new opportunities	[ ]	[ ]	[ ]	[ ]	[ ]
Identifies unproductive costs	[ ]	[ ]	[ ]	[ ]	[ ]
Inhibits flexibility and adaptability	[ ]	[ ]	[ ]	[ ]	[ ]
Leads to a cultural shift	[ ]	[ ]	[ ]	[ ]	[ ]
Is an Accountants tool	[ ]	[ ]	[ ]	[ ]	[ ]
Is about changing accounting systems only	[ ]	[ ]	[ ]	[ ]	[ ]
Leads to increase in shareholder value	[ ]	[ ]	[ ]	[ ]	[ ]
Is not understood by lower level staff	[ ]	[ ]	[ ]	[ ]	[ ]
Is good for corporate governance	[ ]	[ ]	[ ]	[ ]	[ ]
Requires support from CEO to succeed	[ ]	[ ]	[ ]	[ ]	[ ]

Responds to competitive pressure	[ ]	[ ]	[ ]	[ ]	[ ]
Responds to impact of globalisation	[ ]	[ ]	[ ]	[ ]	[ ]
Other (Specify)	[ ]	[ ]	[ ]	[ ]	[ ]

PART 3.

16. a) Do you practice VBM in your company? (tick)

Yes [ ] No [ ]

Don't know [ ]

17. For how long have you practices VBM?

Less than 1 year [ ] 1 to 2 years [ ]

3 to 4 years [ ] Over 5 years [ ]

Not applicable [ ]

18. Is VBM Formal / Explicit [ ] or Informal / Implicit [ ] Don't know [ ]

19. Which of the following VBM performance measures has your company adopted?

Economic Value Added (EVA) [ ]

Value Added Profits (VAP) [ ]

Market Value Added (MVA) [ ]

Shareholder Value Analysis (SVA) [ ]

Other (specify) ....

20. How would rate your company's performance before and after adopting VBM?

a) The company's profits after tax was in the top quartile performance among peers before adopting VBM? Yes [ ] No [ ] Don't know [ ]

21. a) In your opinion is VBM desirable? (tick)

	Strongly Disagree			Strongly Agree	
	1	2	3	4	5

b) Why?

....

....

....

....

....

22. Briefly list the difficulties you experienced in implementing VBM in your Kenyan operations.

....

....

....

....

....

....

PERSONAL DETAILS OF RESPONDENT:

Your position in the company ....

Number of years in this position ....

Number of years with the company ....

Date: ....

Thank you for sparing your valuable time to fill this questionnaire.

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Appendix 1V

List of companies quoted at NSE (Daily nation, Tuesday April 23, 2002).

Agricultural

1. Broke Bond
2. Kakuzi
3. Rea Vipingo Plantations
4. Sasini Tea & Coffee

Commercial and Services

5. African Lakes Corporation
6. Car & General
7. CMC Holdings
8. Hutchings Biemer
9. Kenya Airways
10. Marshalls (EA) Ltd
11. Nation Media Group
12. Tourism Promotion Services
13. Uchumi Supermarkets

Finance and Investment

14. Barclays Bank
15. CFC Bank
16. Diamond Trust Bank Kenya
17. Housing Finance
18. ICDC Investments
19. Jubilee Insurance
20. Kenya Commercial Bank
21. National Bank of Kenya
22. NIC Bank Ltd

23. Pan African Insurance
24. Standard Chartered Bank

Industrial and Allied

25. Athi River Mining
26. BOC Kenya Ltd
27. Bamburi Cement
28. British American Tobacco
29. Carbacid Investments
30. Crown Berger
31. Dunlop Kenya
32. E.A. Cables
33. E.A. Portland Cement
34. East African Breweries
35. Firestone East Africa
36. Kenya National Mills
37. Kenya Oil Co
38. Mumias Sugar Co Ltd
39. Kenya Power & Lighting
40. Total Kenya
41. Unga Group Ltd

Alternative Investment Market Segment

42. A.Baumann & Co Ltd
43. City Trust Ltd
44. E.A. Packaging Ltd
45. Eaagard Ltd
46. Express Ltd
47. Williamson Tea Kenya Ltd
48. Kapchorua Tea Co Ltd

49. Kenya Orchards Ltd
50. Limuru Tea Co ltd
51. Standard Newspapers Group