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A SURVEY ON CORPORATE RESPONSE TO POOR  
PERFORMANCE BY COMPANIES LISTED ON THE  
NAIROBI STOCK EXCHANGE. 2

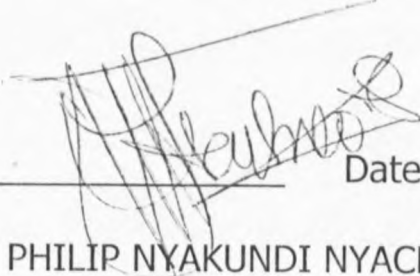
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Fulfillment of the Requirements for the Degree of  
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This Management Research Project is my original work and has not been presented for a Degree in any other University.

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This Research Project has been submitted for Examination with my approval as University Supervisor.

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MR. VINCENT KAMASARA.

This Project is dedicated to My Wife Florence and my two Children Paul and Neema.

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## **ABSTRACT**

This study sought to establish what course of action companies choose to take in times of poor performance. There are two broad categories of actions that firms may pursue in lean times. One is that companies in an effort to improve performance will take action that is geared towards cutting of costs. Such action includes among others closure of non profitable branches, layoff of staff and omission of dividend payments. The other category of action that companies may elect to pursue are those that are geared towards increased revenue generation. Such actions include increased market effort by moving to new market areas, forming strategic alliances and employing managers with skills that will enhance the performance of a firm. In the extreme case companies may file for protection under the bankruptcy Act in the event that they are unable to meet their financial obligations as they fall due. Others may altogether fold up. Yet others may relocate from one geographical position to another. Whatever the case firms respond one way or the other in lean times.

The Kenyan economy has been on the decline since the early 1990's, because of poor weather, a dilapidated infrastructure and a decline of prices for Kenyan goods in the international market. Other factors attributed to this state of affairs include an increase in the price of oil in the early 1990's caused by the Gulf War, a drop in the Tourism industry and an Aid embargo from the Development Partners. Almost all companies in their annual reports state that they have operated under difficult conditions prevailing in the economy. It is therefore worth finding out what corporate response firms have taken in the prevailing circumstances.

An investigation of companies listed on the NSE was carried for a ten year period ending the year 2000. This was done by computing return on assets for each company. Those companies whose return on assets was below the average return together with those whose return was above average formed the sample. An analysis was then done by looking at the annual accounts of each company under study. The study established that in times of poor performance the most preferred response was that of top management replacement followed by dividend omission and employee layoffs in that order. All poor performing companies in the commercial and finance sectors replaced top management. In the industrial and agricultural sectors 69% and 63% replaced their top management respectively. Another interesting observation was that in the industrial and commercial sectors all the poor performing companies omitted dividend payments while in the finance and agricultural sectors only 47% and 36% omitted dividends respectively. Less than 50% of all poor performing companies in each market sector laid off employees. The above three were the major responses that were tested. Another response noted was asset restructuring. One company sought to improve its revenue by seeking a strategic alliance. It was noted however that there was no difference between poor performing companies and well performing companies when it comes to Top Management replacement. That response was not unique only to poor performing companies. 5 companies were wound up because of consistently making losses.

The study also established that neither any characteristic considered nor the market sector has any influence on the course of action poor performing companies will take.

## A LIST OF TABLES

TABLE		PAGE
1.1	Industry response on how environmental factors affect them.....	4
4.1	Corporate relative response to poor performance.....	32
4.2	Responses of poor corporate performance in each market sector.....	34
4.3	Overall proportion of Dividend Omission by firms in each market sector by poor and superior performing companies.....	36
4.4	t- Test for dividend omission by poor and superior performing firms.....	37
4.5	Overall proportion of Employee layoff by firms in each market sector by poor and superior performing companies.....	38
4.6	t- Test for employee layoff by poor and superior performing firms.....	38
4.7	Overall proportion of top management replacement in each market sector by poor and superior performing companies.....	39
4.8	t-Test for top management replacement by poor and superior performing companies.....	40
4.9	Proportion of poor performing companies not paying dividends based on Size of company.....	41
4.10	t- Test of differences in two sample proportions for poor performing Companies omitting dividends based on size of Company .....	41
4.11	Proportion of poor performing companies not paying dividends based on Size of board.....	43
4.12	t – Test of differences in two sample proportions for poor performing companies Omitting dividends based on size of the board.....	43



4.13	Proportion of poor performing companies not paying dividends based on age of company.....	44
4.14	T- Test of differences in two sample proportions for poor performing companies omitting dividends based on age of company .....	45
4.15	Proportion of poor performing companies not paying dividends based on domicile of control.....	46
4.16	t- Test of differences in two sample proportions for poor performing companies omitting dividends based on domicile of control .....	46
4.17	Proportion of poor performing companies laying off staff based on size of company.....	49
4.18	t- Test of differences in two sample proportions for poor performing companies laying off staff based on size based on size of company.....	49
4.19	Proportion of poor performing companies laying off staff based on size board.....	50
4.20	t- Test of differences in two sample proportions for poor performing companies laying off staff based on size of Board .....	50
4.21	Proportion of poor performing companies laying off staff based on on age of company.....	51
4.22	t- Test of differences in two sample proportions for poor performing companies laying off staff based on age of company.....	52

4.23	Proportion of poor performing companies laying off staff based on domicile of control.....	53
4.24	t- Test of differences in two sample proportions for poor performing companies laying off staff based on domicile of controll.....	53
4.25	Frequency of responses in each market sector.....	54
4.26	Expected frequencies of responses in each market sector.....	55
A	Return on Assets---- Agricultural sector.....	80
B	Return on Assets---- Industrial sector.....	80
C	Return on Assets---- Commercial sector.....	81
D	Return on Assets---- Finance sector.....	81

## TABLE OF CONTENTS

	<u>Page</u>
Declaration .....	II
Dedication .....	III
Acknowledgment .....	IV
Abstract .....	VI
A list of tables .....	VIII

### CHAPTER 1

#### **INTRODUCTION**

1.1 BACKGROUND .....	1
1.2 POOR PERFORMANCE.....	1
1.3 THE PERFORMANCE OF THE ECONOMY .....	2
1.4 THE STATEMENT OF THE PROBLEM .....	5
1.5 OBJECTIVES OF THE STUDY .....	7
1.6 IMPORTANCE OF THE STUDY .....	8

### CHAPTER 2

#### **LITERATURE REVIEW**

2.1 INTRODUCTION .....	10
2.2 ASSET RESTRUCTURING.....	10
2.3 EMPLOYEE LAYOFFS .....	12
2.4 TOP MANAGEMENT REPLACEMENT .....	15
2.5 DEBT RESTRUCTURING .....	16
2.6 BANKRUPTCY, FINANCIAL DISTRESS AND REORGANISATION.....	18
2.7 DIVIDEND CHANGES .....	21

## CHAPTER 3

### **RESEARCH METHODOLOGY**

3.1	RESEARCH DESIGN.....	25
3.2	POPULATION.....	25
3.3	SAMPLE .....	25
3.4	DATA COLLECTION.....	26
3.5	DATA ANALYSIS .....	27

## CHAPTER 4

4.1	DATA ANALYSIS AND INTERPRETATION .....	30
4.2	THE AGRICULTURAL SECTOR.....	30
4.3	THE INDUSTRIAL AND ALLIED SECTOR.....	30
4.4	THE COMMERCIAL AND SERVICES SECTOR.....	31
4.5	THE FINANCE AND INVESTMENT SECTOR.....	31
4.6	CORPORATE RESPONSE TO POOR PERFORMANCE.....	32
4.7	STRATEGY 1- DIVIDEND CHANGES.....	36
4.8	STRATEGY 2- EMPLOYEE LAYOFF .....	37
4.9	STRATEGY 3- TOP MANAGEMENT REPLACEMENT.....	39
4.10	DIVIDEND CHANGES AND SIZE OF COMPANY.....	40
4.11	DIVIDEND CHANGES AND SIZE OF BOARD .....	42
4.12	DIVIDEND CHANGES AND AGE OF COMPANY.....	44
4.13	DIVIDEND CHANGES AND DOMICILE OF CONTROL..	45
4.14	EMPLOYEE LAYOFF AND SIZE OF COMPANY.....	48
4.15	EMPLOYEE LAYOFF AND SIZE OF BOARD.....	49
4.16	EMPLOYEE LAYOFF AND AGE OF COMPANY...	51
4.17	EMPLOYEE LAYOFF AND DOMICILE OF CONTROL.	52
4.18	INDUSTRY- WIDE APPROACH.....	54
4.19	CHI- SQUARE TEST OF INDEPENDENCE...	55

CHAPTER 5

CONCLUSIONS..... 57

5.1 PAYMENT OF DIVIDENDS..... 57

5.2 EMPLOYEE LAYOFF ..... 58

5.3 TOP MANAGEMENT REPLACEMENT..... 58

5.4 LIMITATIONS OF THE STUDY..... 59

5.5 RECOMMENDATIONS..... 60

REFERENCES..... 62

APPENDIX 1..... 66

APPENDIX 2..... 69

APPENDIX 3..... 71

APPENDIX 4..... 73

APPENDIX 5..... 76

APPENDIX 6..... 78

## CHAPTER ONE.

### INTRODUCTION.

#### **1.1 BACKGROUND.**

Firms experiencing poor returns on their assets respond either operationally by making changes in top management (Gilson 1989) or in organizational strategy and structure (Wruck 1990) or financially through debt structuring and bankruptcy filings (Wilson, John and Lang 1990). Typical responses to poor performance include asset restructuring, employee layoffs and management replacement (John Lang and Netter 1992). Dividend omissions are frequently preceded by announcements of poor earnings (Chimnoy & Rendall 1991).

Analyzing the responses to poor performance sheds light on how a firm reacts to poor performance and thus preserve value. In the extreme case a firm will fold up and file for bankruptcy if it is beyond salvage.

This paper sought to determine how companies listed in the Nairobi Stock Exchange react to poor performance as reported in their annual reports and accounts. The study also sought to establish whether there are certain characteristics which influence the kind of response a firm will take.

#### **1.2 POOR PERFORMANCE.**

A study by Ofek (1993) on poor performance of some 358 firms in the U.S defined poor performance as those stocks whose returns had declined below market and

industry levels. For the purpose of this study the asset return criteria was used to determine poorly performing companies quoted in the Nairobi Stock Exchange. Since there were 50 companies listed on the Stock Exchange as at the year 2000 those that fell below their average industry return were included for study. Other firms investigated were those previously listed on the Nairobi Stock Exchange but were wound up before the year 2000.

In the period between 1991 through 2000 the Kenyan economy continuously declined. The study therefore covered the period 1991- 2000. Care was exercised to ensure that companies that suffered temporary setbacks were not included in this study as performing poorly.

### **1.3 THE PERFORMANCE OF THE ECONOMY.**

The performance of the Kenyan economy can be grouped into four distinct growth episodes (Mwega and Ndungu 2002).

1960-1974 – a period of improving economic performance.

1975-1984 – a period of poor performance.

There was a brief economic recovery in 1985-1989.

1990s – a period of poor performance.

In the first decade of independence (1964-1973) the economy performed relatively well with an average growth rate of about 6%. Then came the oil shocks of 1973 and 1979 compounded by bad policies (especially the mismanagement of the 1976-1977 coffee

boom), which led to the balance of payments problems, with an average growth rate declining to 5.2% between 1974-1979.

Balance of payment problems induced the country to seek conditionality finances from Bretton Woods institutions, so that substantial donor driven reforms were therefore implemented in 1980s and 1990s that covered nearly all sectors of the economy including the liberalization of the foreign exchange market; trade and payments systems; domestic money and capital markets and privatization and commercialization of public corporations. These reforms however did not improve economic performance.

The first half of the 1980s for example was characterized by a slow economic growth (averaging 3.2% p.a.) that reflected the impact of the second oil price shock, (1979) a military coup attempt in 1982 and a severe drought between 1983 and 1984.

In the second half of the 1980s growth rebounded (averaging 5% per annum). This period was associated with a mini coffee boom in 1986, a decrease in oil prices and good weather. (Mwega and Ndungu 2002).

In the first half, of 1990s there was a worsening of the economic environment with an average growth rate of 2.5%. There was a drought in 1991/1992, the oil price increase due to the Gulf War, compounded by the aid embargo of 1991 –1993 and ethnic clashes in 1992. These shocks were accompanied by an increase in the budget deficit and money supply with the rate of inflation rising rapidly alongside large exchange rate depreciations as the foreign exchange market was liberalized in the context of large macroeconomics imbalances in the run-up to the 1992 general elections (Mwega and Ndungu 1999).



In the second half of the 1990s, economic growth declined further to an average of 1.9% with the period characterized by an aid embargo through 1997 – 2000. Ethnic clashes in the run up and after 1997 general elections and bad weather conditions (el nino rains in 1997/98) followed by a major drought leading to power rationing in 2000. These three factors impacted negatively on the performance of the Kenyan economy. With the aid embargo the government resorted to heavy domestic borrowing to finance its budget deficit. Interest rates inadvertently shot up thereby blocking any borrowing from the private sector. This caused the economy to be depressed further.

The tourism industry which is a key foreign exchange earner in Kenya was adversely affected by reports of ethnic clashes in the run up to the 1997 general elections. The el nino rains further complicated the performance of the economy by destroying the infrastructure. Kimuyu and Mugerwa (1998) established that roads and electricity have a great impact on the following sectors as shown in the Table below:-

**Table 1.1 Industry response to how enviromental factors affect them.**

<u>Sector</u>	<u>Electricity</u>	<u>Water</u>	<u>Roads</u>	<u>Telephone</u>	<u>Waste dis</u>	<u>Security</u>	<u>Other</u>
	%	%	%	%	%	%	%
Food	21.7	15.2	3.7	6.5	10.9	8.7	---
Textile	36.0	8.0	20.0	8.0	12	12	2
Wood	18.2	7.3	43.6	9.1	---	16.4	1.8
Metal	22.6	3.8	15.1	13.2	9.4	24.5	5.7
Average	24.5	8.3	28.9	9.2	7.8	15.7	2.5

Source: Kimuyu and Mugerwa DP No. 011/98 Ipar Discussion Paper Series pp 11

The figures above indicate the response from participants attending a workshop when asked how each infrastructure impacts on their sector. For example in the textile industry 36% of the participants indicated that their greatest problem was electricity while 20% considered poor roads as a hindrance to their business.

When there was power rationing in the year 2000 a number of manufacturing firms were operating at half capacity with the result that a number of them laid off their staff. Small businesses that depend on electricity were so adversely affected that the economy registered a  $-0.3\%$  growth rate. Such then is the harsh economic environment in which Kenyan companies operated.

With the liberalization of the economy the Kenyan firms faced even stiffer competition from international firms and had to re-evaluate their strategies in order to survive in a very hostile economic environment.

#### **1.4 THE STATEMENT OF THE PROBLEM.**

Having looked at the background information on the poor performance of the Kenyan economy which registered a negative growth of  $-0.3\%$  for the year 2000, one can only conclude that firms operating in Kenya have done so under very hostile economic conditions. Agriculture and Manufacturing which contribute over one third of the Kenyan GDP were most adversely affected, recording a negative growth of  $2.4\%$  and  $1.5\%$  respectively. The banking sector was relatively stable in the year 2000 despite the

apprehension that gripped the banking sector at the turn of the century due to the anticipated millennium bug problems. The banks however continued to grapple with non-performing loans which as at December 2000 constituted 39.3% of the total loan portfolio. In the energy sector the hydro-electric power generation recorded a 41.4% drop in output. This resulted in a prolonged period of power rationing which had a negative impact on the overall performance of the economy. Activity at the Nairobi Stock Exchange was depressed in the year 2000 in terms of share price and foreign capital inflows. This was due to low corporate earnings as a result of the economic down turn experienced in the last couple of years. It is therefore not surprising that a number of companies have performed poorly particularly in the last 10 years. The question to ask then is how have companies responded to this poor performance in an effort to turn the performance of their operations around taking into account that no detailed and specific responses have been documented in the Kenyan economic environment. Further in determining how poor performing companies have responded another question that needs to be addressed is whether there are factors that influence the kind of response a company will adopt. These factors may include the following

- a) The size of the company as measured by its market capitalization
- b) The size of the Board of Directors
- c) The age of the company
- d) The domicile of control.

The following then were the hypotheses that were tested in this study

1) a)  $H_0$ \_\_ There is no difference in strategy response between poor performing companies and good performing companies.

b)  $H_a$ \_\_ There is a difference in strategy response between poor performing companies and good performing companies.

2) a)  $H_0$ \_\_ There is no relationship between the strategy responses of poor performing companies and the following factors:

i) Size of the company.

ii) Size of the board of the directors.

iii) Age of the company.

iv) Domicile of control.

3)  $H_a$ \_\_ There is a relationship between the strategy responses of poor performing companies and the following factors:

a) Size of the company.

b) Size of the board of directors.

c) Age of the company.

d) Domicile of control.

### **1.5 OBJECTIVES OF THE STUDY.**

1. To determine the financial and operational measures companies have adopted in dealing with poor performance.
2. To determine the factors which may influence the choice of policies or strategies in dealing with poor performance.

## **1.6 IMPORTANCE OF THE STUDY.**

This study will facilitate the following:

### **Company management.**

The study will provide valuable knowledge to top executives running companies on what courses of action to take in the event of continuous poor performance. Chief Executive Officers armed with this knowledge should be able to take corrective action before the value of a firm declines and hence cause the investors to incur losses.

### **Investors.**

When looking for investment opportunities investors will be attracted to put their money in companies that know what corrective action to take in lean times. This study will be a good reference point when investors want to establish how companies have reacted to the challenges they have faced in the past.

### **Scholars and Researchers.**

No doubt Scholars and Researchers will find this study useful as reference material when carrying out similar studies and investigations. Included in this group are students of finance who may use this study as their literature review.

## **Business correspondents.**

In their contributions to various journals and other reputable publications business correspondents will draw a lot of useful material from this study in educating their readers. This study can also be used in seminars and workshops.

## CHAPTER TWO.

### LITERATURE REVIEW.

#### **2.1 INTRODUCTION.**

Firms experiencing poor performance respond either operationally by making changes in top management or in organizational strategy and structure or financially through debt structuring and bankruptcy filing. Typical corporate responses to a consistent period of poor financial performance are:

- a) Asset restructuring
- b) Employee layoffs
- c) Top management replacement
- d) Debt restructuring
- e) Bankruptcy filing
- f) Dividend policy change

#### **2.2 ASSET RESTRUCTURING.**

This is defined as the divesture or spin off of a subsidiary or a division (Brigham-1985 Rosefeld 1994). It is the sale of a substantial part of the firm's operating or non-operating assets, the discontinuance of operations in a division, line of business or geographic region, or the restructuring of operations through closing or consolidating of plants or regional headquarters. This is done to stem losses and at the same time raise much needed cash for other purposes. An illustration of divesture by Brigham (1995)

states thus "As a result of some imprudent loans to oil companies and to developing nations, Continental Illinois, one of the largest U.S. bank holding companies was threatened with bankruptcy. Continental then sold off several profitable divisions such as its leasing and credit card operations to raise funds to cover bad loan-losses and deposit withdrawals. In effect Continental sold assets in order to stay alive. Ultimately Continental was bailed out by the Federal Deposit Insurance Corporation and the Federal Reserve which arranged a \$7.5 billion rescue package and provided a blanket guarantee for all of Continental's \$ 40 billion of deposits which kept deposits of larger than \$ 100,000 from fleeing the bank because of their uninsured status."

A spin-off occurs when the firm distributes all of the common stock it owns in a subsidiary to existing shareholders, thereby creating a separate publicly traded company. A sell-off on the other hand occurs when the divested assets are purchased and become part of another firm. According to Rosefeld(1994) both types of divestures have a significant positive influence on price shares and that the spin-offs outperform the sell-offs over the announcement period.

Divestiture is not the only alternative for companies that wish to restructure their assets due to poor performance. Two companies can merge to form a single unit.

There are a number of reasons why companies merge but the most primary motivation is to increase the value of the combined enterprise. Such a combination causes synergy to exist from four sources (Brigham 1995).



- a) Operating economies which result from economies of scale in management marketing, production or distribution.
- b) Financial economies including lower transaction costs.
- c) Differential management efficiency.
- d) Increased market power due to reduced competition.

### **2.3 EMPLOYEE LAYOFFS.**

Layoff decisions induced by unexpected adverse market conditions should be associated with declines in profitability measures and firm values while unexpected layoff decisions resulting from improved efficiency should be associated with improved profitability measures and higher firm values. Palmon, Oded, Sun and Huey-Lian (1997) demonstrate that future performance measures are associated with reasons cited by management in layoff announcements and that investors consider these reasons as credible signals of future performance. This implies that investors consider layoffs an effective cost reduction tool that enhances firm value but they deem that layoff decisions, which are induced by adverse market conditions, connote negative information. Palmon et al (1997) tested three hypotheses to determine the impact of layoff announcements and related corporate decisions due to unexpected market conditions on stock market and financial performance of a firm.

Their first hypothesis was that the returns on equities should be abnormally negative (positive) for those firms that cite as an adverse market condition (improving efficiency) as a reason for lay off. They also examine whether the reasons cited for layoffs help

explain the impact of the layoffs magnitude on firm value. Their second hypothesis was that the magnitude of the abnormal negative (positive) returns on an equity are directly related to the magnitude of the layoffs for those firms that cite an adverse market condition (improving efficiency) as a reason for layoffs.

They also examined whether the reasons firms cite for layoffs are associated with their subsequent performance. Their third hypothesis then was that firms that cite an adverse market condition as a reason for layoffs have the future profitability and sales measures worse than those for firms that cite improving efficiency as a reason. Such an association would indicate that the cited reasons could indeed reflect the true motivation for layoffs.

They found negative abnormal returns for firms that announce layoffs that are motivated by declining demand and positive abnormal returns for firms that announce layoffs that are motivated by efficiency improvement. One interesting issue in their findings is why firms announce a declining market condition as a reason for a layoff when investors perceive such an announcement as a negative signal. One explanation they note is that an incomplete or misleading disclosure could hurt management's reputation. Another possible reason is the improvement in management's position in future labour negotiations.

Throughout the 1980s and 1990s large scale layoffs of employees by US companies have been common place every day occurrences. According to one estimate over 2.2

million people were laid off by major US firms between 1990 and 1995 about twice as many as in the previous five years. Approximately 85% of the top 1000 US corporations have undergone restructuring, primarily downsizing between 1989 and 1993 . The list of companies that have reduced staff count reads like who is who of US business: AT& T, Boeing, Dupont, Eastman Kodak, General Motors, IBM, Philip Morris, Proctor & Gamble, Sears, Roebuck & Co., TPW, Xerox, etc. Even firms that had long maintained policies that promised their employees job security reluctantly abandoned the policies because of severe and extraordinary economic problems, which threatened the very survival of the firm.

Employers reasons for dismissing staff the world over are all too familiar; general business or industry downturns; efforts to improve efficiency; technological change and automation, competitive pressures (including those stemming from foreign competition and firm deregulation of previously regulated industries); mergers and acquisitions; cuts in military contracts; and the belief that the best staff is a lean staff.

Workforce reductions have been accepted by US business as a quick way to cut costs by lowering overheads, eliminating unnecessary work, reducing bureaucracy and getting rid of surplus employees. Additional expected benefits from the reductions include faster decisions, greater innovation and entrepreneurship, smoother communication and employee empowerment, resulting in increased productivity and higher profitability (Cascio, 1993; King, 1995; Zemke 1990).

However, these hoped for benefits have not always or automatically followed from cutbacks in head count. Some recent studies have cast doubt on the presumed benefits of downsizing; in many cases expected gains have failed to materialize. For example, a survey by the Wyatt Company Company, a management consulting firm, of 1005 companies that downsized found that only 46% of the companies achieved their expense reduction goals, 32% increased profits to the degree anticipated 22% reached their targets for increased productivity, and 21% met their expectations for improving return on investment (Bennett 1991).

Labich, Kenneth, Davies, Erin M. (1996) advise managers on the process of firing employees. In laying off employees managers should consider the following. Questioning motives before instituting layoffs; considering the multiple costs involved in firing; Human costs worth considering. The role of managers in large layoffs; warning employees about impending down sizing.

From the above literature it is clear that firms should not just proceed to reduce head count in a bid to improve performance. Care should be exercised to ensure that action taken is beneficial to the company and should lead to the achievement of the objective of the company.

#### **2.4 TOP MANAGEMENT REPLACEMENT.**

According to Wruck (1990) incumbent managers and directors can inhibit a firm's ability to recover if new or special skills are required to turn the firm's performance around. He finds that distressed firms experience a 52% annual turnover of top management.

“Poor stock price performance is not enough to remove incumbent managers but financial distress provides a mechanism to initiate top management changes.”

Gilson (1990) finds evidence of substantial changes in directors roles and responsibilities when the firm restructures its liabilities. Turnover among the board members is high. Gilson finds that within four years after the onset of financial distress only 47% of old directors still hold their seats. 8% of the firms replace their entire board. Capelli (1992) finds that managers are more vulnerable to displacement than other employees. They are more vulnerable to displacement from plant closings and efforts to streamline, both of which are central to the restructurings of organizations.

The above literature strongly implies that a firm that is experiencing persistent low returns should seek to replace top management as a first step to improving performance.

## **2.5 DEBT RESTRUCTURING.**

Debt Structuring is defined by Ofek (1993) to occur if a firm reaches an agreement with its creditors to restructure its debt. A new debt agreement is classified as a debt restructuring only if it comes after a violation of debt covenants or a default by the firm or if a firm describes it as a debt restructuring or debt reorganization in its financial statements. This definition underestimates the frequency of debt restructuring agreements because it does not include new debt agreements that are restructuring in effect but are not identified as such by the firm. For example a new agreement that is signed to prevent a firm from defaulting will often not be included as a debt restructuring because of identification problems.

A firm that must restructure the terms of its debt contracts to remedy or avoid default is faced with two choices. It can either file for bankruptcy or attempt to renegotiate with its creditors privately in a workout. A study by Kose (1993) states that one mechanism of dealing with financial distress is to negotiate with creditors and restructure the terms of the hard contracts such that the current obligation is either reduced to an amount that is closer to the cashflows currently generated by assets or deferred to a later date. Another mechanism is to replace the hard contract with soft securities with residual rather than fixed pay-offs. In general debt restructuring includes replacing an existing debt contract by a new contract with

- a) A reduction in the required interest or principal payments
- b) Extension of maturity
- c) Placement of equity securities with creditors

In an article by Akhigbe & Madura (1996) loans scheduling is modeled as the optimizing decision of a large creditor. The theory reproduced the familiar empirical fact that loans rescheduling takes the form of a reduction in the debt payments of the defaulter. Rescheduled loans were also shown to be typical loans where the borrower had defaulted marginally rather than drastically and where the prospect of return of rewriting the contract exceeded that of liquidation.

Under the new contract there is less financial distress. Rescheduling of debts as a solution to the problem of default is a significant policy alternative for banks especially in reversionary environments.

## **2.6 BANKRUPTCY, FINANCIAL DISTRESS AND REORGANIZATION.**

Chartterjee et al (1996) set out to examine empirically a comprehensive sample of firms undertaking Chapter 11 reorganizations, prepackaged bankruptcies and workouts. Their sample of firms was drawn from three different sources. First, they generated a sample of firms filing for chapter 11, prepackaged bankruptcy, or distressed workouts from In Depth Data Inc., Salmon Brothers High Yield Research Reports, The Default Yearbook and Almanac by the New Generation Group, and Lexis-Nexis. They then investigated the financial characteristics of firms using chapter 11 reorganizations prepackaged and workouts. These included firm size (measured by book value of total assets and sales) and debt levels (book value of total liabilities and long term debt). According to their findings there were significant differences in terms of firm size and level of debt among the four restructuring methods. Chartterjee et al (1996) also examined the determinants of the choice of debt restructuring method. Their findings are chapter 11, prepackaged, private workout and public workout firms exhibit differences in the degree of liquidity and financial distress. Prepackaged firms have a significantly larger proportion of current debt due compared with chapter 11 and workout firms, reflecting the need for immediate debt relief by these firms. Workout firms have a significantly greater proportion of long term debt to total assets than chapter 11 firms.

This confirms Jensen's (1989) hypothesis that firms with greater debt have more incentive to restructure out of court.

The nature and complexity of debt claims is different among firms using different types of debt restructuring. Firms filing for chapter 11 have greater bank debt and trade credit than prepackaged or workout firms. Their results also indicate that more firms filing for chapter 11 are in economic distress than are prepackaged and workout firms. Private and public workout firms also have greater EBIDTs( Earnigs Before Interest Depreciation and Taxes) ratios than chapter 11 firms. The magnitude of these ratios suggests that better quality firms restructure out of court, relatively good quality firms with liquidity problems use prepackaged bankruptcies and lesser quality firms opt for a traditional chapter 11.

Finally there are significant differences in firm size and level of debt among the firms using the three restructuring mechanisms, studied. Prepackaged and chapter 11 firms are significantly smaller (total assets and sales) and have significantly lower debt levels (total liabilities and long term debt) than work out firms. These results suggest that larger firms have an advantage in restructuring their debt claims out of court.

Eli Ofek (1993) in his study sought to test the relation between capital structure and a firm's response to short term financial distress. In a sample of 358 firms that perform poorly for a year his findings were that a higher predistress leverage increases the



probability of operational actions particularly asset restructuring and employee layoffs.

His findings were that poor performance of the sample led to the following actions:-

- (i) Asset restructuring
- (ii) Employee layoffs
- (iii) Top management replacement
- (iv) Debt structuring
- (v) Bankruptcy filing
- (vi) Dividend policy changes

While Eli Ofek (1993) based his study performance on annual stock returns, the current study bases performance on return on assets. De Angelo & De Angelo (1990) investigated the link between dividend policy and financial distress in a sample of 80 financially distressed firms from 1980 through 1985. The authors found that dividend growth during the pre-distress period was high (approximately 11% per year for the ten year period prior to the onset of distress), but the managers substantially decreased dividends during the distress period. Moreover, they found that on average, managers reduce dividends quite early in reaction to the onset of financial distress.

Wruck (1990) documents the fact that firms in financial distress undergo dramatic organizational changes as part of their recovery refocusing their strategy and undertaking restructuring. Often some assets are sold while others are reorganized and restaffed. The U.S steel industry is an example; "Increased international competition in steel during the 1980s led many U.S steel firms into financial distress. Some firms such as Wheeling – Pittsburgh, filed under chapter 11, others such as Inland Steel,

restructured privately. These firms reduced their fixed obligations and employment and refocused operations to produce primarily speciality steel products.”( pp 292)

Kose (1993) documents various ways of dealing with financial distress. He states that assets can be wholly or partially liquidated to generate cash to meet current obligations. Another set of mechanism to deal with financial distress involves restructuring the financial constraints. A third mode of financial restructuring is to raise additional current liquidity by issuing new financial claims against future cash flows generated by the assets, which may avoid or reduce premature liquidation of these assets.

While Gilson et al (1989) set out to find what determines the corporate bankruptcy decision, the results of their study indicate that the greater expected direct bankruptcy costs of chapter 11 act as a deterrent to filing under this chapter and leads some firms to liquidate under chapter 7. Other firms are willing to endure the higher direct costs of chapter 11 if managers of these firms feel that the business conditions for their industry are favourable. In kenya Bankruptcy proceedings will not apply to corporations and companies registered under the Companies Act since the procedure in Liquidation and winding up is dealt with in the Companies Act Cap 486 of the Laws of Kenya.

## **2.7 DIVIDEND CHANGES.**

Chimnoy and Rendall (1991) state that dividend omission are frequently preceded by announcements of poor earnings or loss and/or by previous cuts in payouts. This

confirms the notion that managers tend to defer an omission until low prospects make it imperative.

Andreas (2000) sought to examine the impact of cash flows earnings and losses in setting dividend policy in Japan. He sought to test the following hypothesis.

- 1) There exists a positive association between earnings measures (losses, levels and changes in operating earnings) and dividend changes in a pooled Japanese sample of:-
  - a) firms that report losses and
  - b) firms that report positive but declining operating earnings
  
- 2) There exists a positive association between cash flow measures and dividend changes given earnings in a pooled Japanese sample of:-
  - a) firms that report losses and
  - b) firms that report positive but declining earnings.
  
- 3) There exists a positive association between dividend increases and future earnings and cash flows in a pooled sample of Japanese firms.

The results of his study confirmed all three hypotheses. The study also established that an annual loss is a necessary but not a sufficient condition for dividend reductions in firms with established earnings and dividend records. About 80% of the loss firms reduced or omitted dividends during their initial loss year for the period 1990-1994 a rate greatly exceeding the 15.7% incidence of dividend reductions in a sample of firms with no losses during the same period. The results also verified the second hypothesis that is the cashflows have information content beyond annual losses and earnings in

explaining dividend changes. Finally, the third hypothesis was also confirmed as analysis revealed that the dividends reductions and cash flows variables are significantly positively related to future earnings.

De Angelo De Angelo and Skinner (1992) analysed the relation between dividend reductions and poor earnings performance by firms listed in the New York Stock Exchange with established track records of positive earnings and dividend payments. Like Charlton (2000) they established that an annual loss is essentially a necessary, but not a sufficient condition for dividend reduction in firms with established earnings and dividend record. After comparing dividend decisions of 167 NYSE firms with at least one annual loss during 1980 –1985 to those of 440 NYSE firms with no losses during the same period where all firms have ten or more prior years of positive earnings and dividends. Approximately half (50.9%) or 85 of 167 of the loss firms reduced dividend in the initial loss year. “The 50.9% dividend reduction rate for loss firms far exceeds the 1% incidence of dividend reduction for the 440 non-loss firms during 1980-1985.” They also established that the relation between losses and dividend omissions is quite dramatic. 25 (15%) of the 167 loss firms omitted dividends during their initial loss year whereas only one of the 440 non-loss firms did so during the six year sample period.

Akhigbe and Madura's (1996) objective was to measure the long term performance of corporations following dividend initiations and omissions. Their results were that firms experience favourable long-term share price performance following dividend initiations. Conversely firms omitting dividends experience unfavourable long term share price

performance. Though the objective of the current study is different from that of Akhgbe and Madura they like Healy and Palepu (1988) find that dividend initiation occur subsequent to improvements in performance and dividend omissions occur after performance begins to deteriorate.

Caton et al (2003), Balachandran et al (1996) and Michaely et al (1992) all sought to test the reaction of dividend omissions and initiations with regard to stock performance. While their investigations were different from the current study, it is worth noting that of the firms studied, those that had omitted dividend previously performed poorly and managers of these firms being aware of the effect of dividend omissions only did so when it was imperative.

## CHAPTER THREE.

### RESEARCH METHODOLOGY.

#### **3.1 RESEARCH DESIGN.**

In carrying out this research the study adopted the survey method which entailed gathering of secondary data from annual accounts of companies listed on the Nairobi Stock Exchange. This method was deemed appropriate as a lot of information was required in order to generalize the conclusions.

#### **3.2 POPULATION.**

The population consisted of all the 50 companies quoted on the Nairobi Stock Exchange as at 31<sup>st</sup> December 2000. The companies quoted on the Nairobi stock Exchange are shown on appendix 1 on page 66 as at the year ended 31<sup>st</sup> December 2000.

#### **3.3 SAMPLE.**

The sample consisted of companies quoted on the Nairobi Stock Exchange for ten years ending in the year 2000. This duration was used because Kenya's economy was on the decline during this time. A ten year period was necessary for this survey so as not to include companies that suffer temporary setbacks in performance. The ten year period was broken down into 3 distinct periods. From 1991 to 1993 covered the first duration . From 1994 to 1996 covered the second duration. The third duration was from 1997 to 2000. This had the potential to increase the company cases studied to 150.

Another criteria considered was that companies must have been quoted consistently for a period of five years. Two companies under Commercial and services sector known as African Lakes corporation and Mumias Sugar Company from the Industrial and Allied Sector were excluded because both were not consistently quoted at the Nairobi Stock Exchange for the five year period. City Trust from the finance market sector was also excluded from the study as the asset return criteria was not suitable in its case. In most of its trading years the City Trust company disposed of its assets thus earning its income predominantly from extraordinary activities. Even when this extraordinary income was adjusted for, the earnings were found to be out of proportion with the assets available. For this reason this company was excluded from the study. This meant that only 47 companies were studied.

Because the study was broken down into three distinct periods over the ten years these 47 companies translated into 136 firm events instead of the expected 141 firm events ( $47 \times 3$ ). This was because 5 firms were not listed in the period 1991 to 1993 as shown on table A through table D on pages 81 and 82.

After computing the return on assets for the 136 company cases, 88 such cases were found to have performed poorly over the 10 year period studied. These 88 company cases are shown in Table A to Table D on pages 81 and 82.

### **3.4 DATA COLLECTION.**

This study wholly used secondary data gathered from annual reports and accounts of the sample companies from 1991 to 2000 for the 47 companies. The study was mainly concerned with the performance of companies under investigation. This was done by

by obtaining the profit after tax for all the 47 companies quoted on the Nairobi Stock Exchange. The next step was to obtain the value of the fixed assets of all the companies in the sample. Other information sought from the annual accounts was Dividend changes, employee layoffs, Top management replacement, Debt restructuring, Asset restructuring and Strategic Alliances. The potential responses available for poor performing enterprises identified from the literature include:

- a) Dividend Changes
- b) Asset restructuring
- c) Employee Layoff
- d) Top Management Replacement
- e) Debt restructuring
- f) Bankruptcy filing

The above information was obtained from the annual reports of the respective firms.

The study also sought to establish if there were any factors which influence the kind of responses a company adopts in dealing with poor performance.

### **3.5 DATA ANALYSIS.**

A database was created using SSPS to analyse the data collected. To determine which companies performed poorly during the period under study, all the 47 companies were grouped into their various industrial market sectors using the Nairobi Stock Exchange classification. Then the return on assets for every company for the three distinct periods of the 10 years was computed. An average return was computed for every company. The next step was to compute the average return for every sector. This was



done by taking all the average returns of each firm in the sector and then dividing that total average return obtained by the total number of companies in that sector. The study opted to compute the average return by market sectors rather than taking the entire market because what may be considered as poor performance in one sector may not necessarily be so in another sector. All the companies whose return on assets was below the average return for the sector was regarded as having performed poorly as shown in appendix 2 on page 69.

Other set of information obtained and analysed from the annual reports included episodes of dividend omission, employee layoffs, top management replacement, asset restructuring, debt restructuring and formation of strategic alliances. Outside of the sample were 5 companies which previously were listed on the Stock Exchange but have since been wound up. These companies were Eliots Ltd, Kenya Finance Corporation, African Tours & Hotels, Lonrho Ltd and Pearl Drycleaners Ltd.

The corporate responses data were then classified and compressed into a more usable form for analysis purposes. An independent sample  $T$  test of equal variances was done for poor and good performance to determine the relationship between poor performance and the responses identified. A  $T$  test of differences in two sample proportions was also done to determine if there is any relationship between the responses so identified and the following factors:

- a) Size of the company
- b) Size of the board
- c) Age of the company
- d) Domicile of control

Finally a Chi- Square Test of independence was also performed to determine the relationship between the responses identified and the different market categories.

## CHAPTER FOUR.

### **4.1 DATA ANALYSIS AND INTERPRETATION.**

The study period was broken down into three durations. Potentially there were 141 company events that were to be studied. But since five companies were not listed during part of the study period, this left 136 firm events for investigation. Of the 136 firm events, 88 were found to have performed poorly over the study period. In other words 65% of the total firm events performed poorly.

### **4.2 AGRICULTURAL SECTOR.**

In the agricultural sector there were 23 company episodes studied. In this sector only Limuru Tea company performed above average sector return for the entire three period episodes. Sasini Tea and Coffee was above average in the first three year episode but subsequent to that its performance was below the sector average. Brooke Bond, Kakuzi Ltd, Rea Vipingo, George Williamson Tea, Eaagards Ltd and Kapchorua had average returns that were below the average sector return throughout the study period.

### **4.3 INDUSTRIAL AND ALLIED SECTOR.**

In the Industrial and Allied sector there were 50 company episodes analysed. Dunlop Kenya, East African Cables and Firestone EA had average returns on assets that were above the average sector returns for the entire three period episode. Crown Berger's average return was above the average sector return for the first two periods but fell below average in the last event period. Total Kenya had an above average performance in the first and last episodes. The middle episode was however below the sector average return. BOC Kenya Ltd, BAT, Carbacid Investments, Kenya Oil and EA

Packaging had an above average return in only one episode. In all the three periods , Athi River, Bamburi Cement ,E A Portland, E A Breweries, Kenya Power and Lighting Co, Unga Group and Kenya Orchards Ltd had below average sector performance in all the three distinct periods .

#### **4.4 COMMERCIAL AND ALLIED SERVICES SECTOR.**

In the Commercial and Services sector there were thirty one company episodes. Only Uchumi Supermarkets Ltd and Nation Media Group had an above average sector performance in all the three periods . CMC Holdings had a below average sector performance in the first episode but performed well in the subsequent two periods. Conversely Express Kenya Ltd, Hutchings Biemer and Baumans Company Ltd performed well in the first period but were below the sector performance in the subsequent two periods. Car and General, Kenya Airways, Marshalls(EA), Tourism Promotion Services and Standard Newspapers were all below average sector performers in the entire three periods duration.

#### **4.5 FINANCE AND INVESTMENT SECTOR.**

In this sector there were thirty two company episodes studied. Barclays Bank, Credit Finance Corporation, ICDC Investment Company and National Industrial Credit Bank were above average performers throughout the three periods. In the first duration HFCK Ltd and Jubilee Insurance Co had returns that were above the average sector returns but in the subsequent two periods were below the average sector returns. Standard Chartered Bank was below average sector return in the first two periods but above average sector return in the third period. Throughout the three periods Diamond

Trust, Kenya Commercial Bank, National Bank of Kenya and Pan Africa Insurance had below average sector returns.

#### 4.6 CORPORATE RESPONSE TO POOR PERFORMANCE.

The total number of responses observed in all the market sectors was 169 as shown in the table below. This was in excess of the 136 company episodes studied because of the possibility of each company being able to have more than one response.

The dominant responses noted in the study were Dividend omission, Employee layoffs and Top management replacement. The most preferred response was top management replacement as shown in the table below:

**Table 4.1: corporate relative response to poor performance**

<u>Response</u>	<u>Incidents</u>	<u>Episodes</u>	<u>Proportion</u>
Top management replacement	71	88	81%
Dividend omission	67	88	76%
Employee layoffs	31	88	35%
<b>TOTAL</b>	<b>169</b>		

It is not surprising that the most preferred response is that of Top Management Replacement. Top management of any company are expected to manage resources of the organisations they head in such a way as to meet the expectations of all the stakeholders. They pay dearly when these expectations are not met. This is notwithstanding the fact that businesses operate in environments where at times

management may have no control over. Indeed tests carried out in this study show that both superior and poor performing companies do not exhibit a significant difference when it comes to top management replacement. Incumbent directors and managers can inhibit a firm's ability to recover if new or special skills are required to turn the performance of a firm around. Here the logical thing to do is to replace them. The same case applies when firms are financially distressed. According to Wruck (1990) financially distressed firms experience 52% annual turnover of top management. Capelli (1992) finds that top managers are more vulnerable to displacement than other employees.

Dividend Omission was the next most preferred response after top management replacement at 76%. According to literature review (Andreas 2000) an annual loss is essentially a necessary but not a sufficient condition for dividend reduction or omission. Managers tend to defer dividend omission until low performance prospects make it imperative. It must be noted that dividend omission causes the share price of a firm to decline. This explains why firms are not quick to discontinue paying dividends even in the face of an annual loss—Caton et al (2003), Balachandran et al (1996) and Michaely et al (1992).

Employee layoff is the least preferred response to poor performance at 35% of the performers. Employee layoff can have either of the following effects on the performance of the company. If investors perceive management's announcement of staff layoffs as an effective tool of cost reduction which will enhance the future value of a firm then the firm may continue to enjoy confidence by investors in the market. Layoff decisions that are induced by adverse market conditions connote negative information. This may have

an adverse effect on the value of a firm. Perhaps the main reason why this is the least preferred response to poor performance stems from the fact that it has social and political implications. The community and trade unions do not view favourably firms that lay off staff. Besides there is the cost implication of laying off employees (Labich, Kenneth, Davies, Erin M. 1996).

**Table 4.2: Responses of poor corporate performance in each market sector.**

SECTOR	TMR			DO			ELO		
	Incidents	cos	%	incidents	cos	%	incidents	cos	%
Industrial	22	32	69	32	32	100	8	32	25
Commercial	20	20	100	20	20	100	9	20	45
Finance	17	17	100	8	17	47	7	17	41
Agriculture	12	19	63	7	19	36	7	19	36
<b>TOTAL</b>	<b>71</b>	<b>88</b>	<b>81</b>	<b>67</b>	<b>88</b>	<b>76</b>	<b>31</b>	<b>88</b>	<b>35</b>

KEY

DO : Dividend omission

EL : Employee Layoffs

TMR: Top Management Replacement

As observed above, Top management replacement was the most preferred response in the market. Even when the market sectors are separately analysed, in both the commercial and finance sector all the poor performing companies replaced their top management. As for the industrial and agricultural sectors the percentage Top management replacement was 69% and 63% respectively.

There was also an interesting observation on dividend omission. For both the commercial and industrial sectors all the poor performing firms omitted dividend distribution as was the case with top management replacement in the commercial sector. However for the finance and agricultural sectors the percentage of poor performing companies that omitted dividend distribution was 47% and 36% respectively.

As was expected, the employee layoff response was below 50% in all of the four market sectors. The commercial and finance sectors had a response of 45% and 41% respectively while the industrial and agricultural sectors had a response of 25% and 36% respectively. The social ramifications of this response is so great that it is least preferred. The cost implication of this response could also be another reason why firms do not find it a popular avenue to apply in times of poor performance.

From the above analyses the Agricultural sector appears most conservative in responding to poor performance than any of the other sectors whereas the commercial sector appeared most sensitive as their response in all the 3 areas was highest.



The various Hypotheses are tested in the following sections and the findings are stated as determined.

**4.7 strategy 1 : Non payment of dividends:**

Ho—There is no difference in the strategy of non payment of dividends between poor and good performing compnies. ( $\mu 1 = \mu 2$ )

Ha\_\_ There is a difference in the strategy of non payment of dividends between poor and good performing companies ( $\mu 1 > \mu 2$ )

**Table 4.3: Overall proportion of dividend omission by firms in each market sector by poor and superior performing companies.**

<u>Strategy 1: Dividend omission.</u>							
	Poor				Superior		
	incidence	Firms	%		incidence	Firms	%
Agriculture	7	19	36.84		0	4	0.00
Industrial	32	32	100.00		5	18	27.78
Commercial	20	20	100.00		3	11	27.27
Finance	8	17	47.06		4	15	26.67
<b>TOTAL</b>	<b>67</b>	<b>88</b>	<b>76</b>		<b>12</b>	<b>48</b>	<b>25</b>

**Table 4.4: t-Test:Two – Sample Assuming Equal Variances for dividend omission by poor and superior performing companies**

	poor	superior
mean	0.70975	0.2043
variance	0.114068	0.018571
pooled variance	0.066319	
hypothesized mean	0	
df	6	
t stat	2.775705	
P(T<= t) one-tail	0.01609	
t critical one-tail	1.943181	

Since our calculated  $t$  value of 2.775705 is greater than the critical value of 1.943181 we reject the null hypothesis and conclude that poor performing companies omitted dividends more frequently than the superior performing companies.

#### **4.8 strategy 2: Laying off employees**

Ho : There is no difference between the proportion of the good and poor performers laying off employees.

$$\mu_1 = \mu_2$$

H1 There is a difference between the two companies carrying out of employee lay offs.

$$\mu_1 > \mu_2$$

**Table 4.5: Overall proportion of employee layoff in each market sector by poor and superior performing companies.**

<b>Strategy 2: Employee Layoffs.</b>							
Poor				superior			
	incidence	firms	%		incidence	firms	%
Agriculture	7	19	36.84		1	4	25.00
Industrial	8	32	25.00		5	18	27.78
Commercial	9	20	45.00		2	11	18.18
Finance	7	17	41.18		3	15	20.00
<b>TOTAL</b>	<b>31</b>	<b>88</b>	<b>35</b>		<b>11</b>	<b>48</b>	<b>23</b>

**Table 4.6: t- Test: Two – Sample Assuming Equal Variances for employee layoff for poor and superior performing companies.**

	poor	superior
mean	0.37005	0.2274
variance	0.007517	0.00196
pooled variance	0.004738	
hypothesized mean	0	
df	6	
t stat	2.930675	
P(T<= t) one-tail	0.013132	
t critical one-tail	1.943181	

Since the calculated value is greater than the critical value , we reject the null hypothesis and conclude that there is a difference in proportion of employee layoffs

between the poor and superior performers. The poor performers tend to lay off employees more often than the superior performers.

#### 4.9 Strategy 3: Corporate replacement of the top management.

H<sub>0</sub>: There is no difference in the proportion of top management replacement between the poor and superior corporate performers.

$$\mu_1 = \mu_2$$

H<sub>1</sub> : There is a difference in proportion of top management replacement between the poor and superior performing sets of firms.

$$\mu_1 > \mu_2$$

**Table 4.7: Overall proportion of top management replacement in each market sector by poor and superior performing companies**

**Strategy 3: Top management replacement.**

	Poor			superior		
	incident	firms	%	incident	firms	%
Agriculture	12	19	63.16	4	4	100
Industrial	22	32	68.75	12	18	66.67
Commercial	20	20	100.00	11	11	100
Finance	17	17	100.00	11	15	73.33
<b>Total</b>	<b>71</b>	<b>88</b>	<b>81</b>	<b>38</b>	<b>48</b>	<b>79</b>

**Table 4.8: t- Test: Two – Sample Assuming Equal Variances for top management replacement for poor and superior performing companies.**

	poor	superior
mean	0.829775	0.85
variance	0.039156	0.030739
pooled variance	0.034948	
hypothesized mean	0	
df	6	
t stat	-0.153	
P(T<= t) one-tail	0.441707	
t critical one-tail	1.943181	

The calculated  $t$  value is less than the critical value. We fail to reject the null hypothesis and conclude that empirical results indicate there is no difference in proportion of companies replacing top management between the poor and superior corporate performers. A possible explanation for this scenario may be that those managers that do well tend to seek new challenges elsewhere while those who do not perform are shown the door. There are many examples of such instances in Kenya. A successful chief executive officer of one foreign commercial bank was contracted to revive an ailing local commercial bank. Four years later the same executive was shown the door because of poor performance.

#### **4.10 Corporate Strategy of Dividend omissions:**

In this section the study seeks to determine whether certain factors could be possible indicators of corporate response to the proportion of dividend omissions. A  $t$  test of differences in two sample proportions was used to measure this relationship.

## A: Size of Company

The size of the company is determined by its market capitalization as shown in appendix 3 on page 71

Ho: The size of a company will not affect dividend omission by poor performing firms.

$$\pi_1 = \pi_2$$

H1 : The size of a company will affect dividend omission by poor performing firms.

$$\pi_1 \neq \pi_2$$

**Table 4.9 : Proportion of poor performing companies not paying dividends based on size of company.**

Dividend Status	Size of Company					
	Small			Large		
	incident	firms	%	incident	firms	%
No dividend	12	19	63	6	11	55
Dividends	7	19	37	5	11	45

**Table 4.10: t- Test of differences in two sample proportions of poor performing companies omitting dividends based on size of company.**

	small	large
proportion	0.63	0.55
df	16	
observations	12	6
t stat	0.324	
t critical two-tail	2.1199	

Since the calculated t value is less than the critical value we fail to reject the null hypothesis and conclude that poor performing companies will omit dividends irrespective of size.

#### **4.11 Size of the Board.**

The size of the board was studied in relation to its impact on dividend payment . The size of the board was measured by the number of board members at a particular point in time. The number of board members of all poor performing companies was totalled and an average obtained. Those below the average were considered small. The size of board members is shown on appendix 4 on pp 74.

Ho: The size of a company board will not affect dividend omission by poor performing firms.

$$\pi_1 = \pi_2$$

H1 : The size of a company board will affect dividend omission by poor performing firms.

$$\pi_1 \neq \pi_2$$

**Table 4.11 showing proportion of poor performing companies not paying dividends based on size of board.**

Dividend Status	Size of Board					
	Small			Large		
	incident	firms	%	incident	firms	%
No dividend	10	16	63	8	13	61
Dividends	6	16	37	5	13	39

**Table 4.12: t- Test of differences in two sample proportion for poor performing companies omitting dividends based on size of board.**

	small	large
proportion	0.63	0.61
df	16	
observations	10	8
t stat	0.086	
t critical two-tail	2.1199	

Since the calculated t value is less than the critical value we fail to reject the null hypothesis and conclude that poor performing companies will omit dividends irrespective of size of the board.



#### 4.12 Age of the Company.

This section sought to determine whether age of the company has any influence on the course of action management takes in times of poor performance with respect to dividend omission. The age of the company was determined by the year of incorporation. All the ages of the poor performing companies were totalled up and averaged. Those below the average were considered as young and those above were regarded as old.( appendix 5 on pp 77).

Ho: The age of a company will not affect dividend omission by poor performing firms.

$$\pi_1 = \pi_2$$

H1 : The age of a company will affect dividend omission by poor performing firms.

$$\pi_1 \neq \pi_2$$

**Table 4.13 showing proportion of poor performing companies not paying dividends based on age.**

Dividend Status	Age of Company					
	Young			Old		
	incident	firms	%	incident	firms	%
No dividend	9	12	75	6	15	40
Dividends	3	12	25	9	15	60

**Table 4.14: t- Test of differences in two sample proportions for poor performing companies omitting dividends based on age .**

	small	large
proportion	0.75	.40
df	13	
observations	9	6
t stat	1.4198	
t critical two-tail	2.1604	

Since the calculated t value is less than the critical value we fail to reject the null hypothesis and conclude that poor performing companies will omit dividends irrespective of the age of a company.

#### **4.13: Control of the Company**

The study sought to find out whether domicile of control has any influence on the strategy a firm takes in lean times with particular regard to dividend omission. The domicile of control classified in to two groups: whether company is foreign controlled or locally controlled (see appendix 6 pp 79).

Ho: The domicile of control of a company will not affect dividend omission by poor performing firms.

$$\pi_1 = \pi_2$$

H1 : The domicile of control of a company will affect dividend omission by poor performing firms.

$$\pi_1 \neq \pi_2$$

**Table 4.15 showing proportion of poor performing companies not paying dividends based on domicile of control.**

Dividend Status	Domicile of Control					
	Local			Foreign		
	incident	firms	%	incident	firms	%
No dividend	13	19	68	3	9	33
Dividends	6	19	32	6	9	67

**Table 4.16: t- Test of differences in two sample proportions for poor performing companies omitting dividends based on domicile of control .**

	small	large
proportion	0.68	0.33
df	14	
observations	13	3
t stat	1.1643	
t critical two-tail	2.145	

Since the calculated t value is less than the critical value we fail to reject the null hypothesis and conclude that poor performing companies will omit dividends irrespective of domicile of control.

The above tests with respect to dividend omission shows that size of the company, size of the board, age of the company and domicile of control have no influence in the way a company will react in poor performance. The above results would support conventional understanding that whether a company is small or large in size, whether the size of the

board is large or small, whether it is locally or foreign controlled whether it is young or old in times of poor performance one would expect corrective action from all the companies. However, though the above results confirm this view there are two characteristics that are worth mentioning. The differences in proportion of both size of companies and size of boards was only 7% and 2% respectively. As such one would not have expected significant results in terms of action taken. However for the differences in proportion for the ages of the companies and the domicile of control there was an interesting observation. Though the  $t$  test of proportion did not reveal significant differences in action, for both characteristics there was a difference of 35%. Of the 12 young companies who performed poorly 75% of them opted to omit dividend payments while of the 15 old companies who performed poorly only 40% opted not to pay dividends. A possible explanation for this is that old companies have been in operation for long and they may be well established. They can draw on past earnings to pay dividends even if performance is dismal. On the other hand young companies may be unwilling to pay dividends because their desire is not only to grow but also may have many investment opportunities they wish to pursue. It is therefore possible that a dismal performance provides a good excuse for young companies to omit payment of dividends even if they are able to pay. For domicile of control, of the 19 local firms that performed poorly 68% of them did not pay dividends while of the 9 foreign controlled firms that performed poorly only 33% did not pay dividends. From the literature review dividend omission owing to poor performance causes the value of a stock to depreciate. It is possible that foreign controlled firms are aware of this fact as most studies on

dividends have been done in the developed world. Almost all the literature review used in this study is from studies done in the developed markets.

#### **4.14 CORPORATE STRATEGY OF EMPLOYEE LAYOFFS**

Many companies resort to the strategy of laying off employees when times are difficult . They may call this reengineering, downsizing , and right sizing among others. Whatever the niceties of the name it all boils down to employee layoffs.

In this section, the study seeks to determine if size, size of board, age and domicile of control have influence on the way poor performing companies will layoff employees.

##### **Size of Company**

The size of the company is determined by its market capitalization as shown in appendix 3 on page 71

Ho: The size of a company will not affect employee layoffs by poor performing firms.

$$\pi_1 = \pi_2$$

H1 : The size of a company will affect employee layoffs by poor performing firms.

$$\pi_1 \neq \pi_2$$

**Table 4.17 showing proportion of poor performing companies laying off staff based on size of company.**

	Size of Company					
	Small			Large		
	incident	firms	%	incident	firms	%
Staff layoff	10	19	52	9	11	82
No staff layoff	9	19	48	2	11	18

**Table 4.18: t- Test of differences of two samples for poor performing companies laying off staff based on size of the company .**

	small	large
proportion	0.52	0.82
df	17	
observations	10	9
t stat	1.475	
t critical two-tail	2.109	

Since the calculated t value is less than the critical value we fail to reject the null hypothesis and conclude that poor performing companies will lay off staff irrespective of size of the company.

#### **4.15 Size of the Board.**

The size of the board was studied in relation to its impact on employee layoff . The size of the board was determined by taking the number of board members of the poor performing companies as at 31 December 2000. An average was obtained for all the participating companies. Those below the average were taken to have small boards

while those that were above average were taken to have big boards. This is shown in appendix 4 on page 74.

Ho: The size of a company board will not affect employee layoffs by poor performing firms.

$$\pi_1 = \pi_2$$

H1 : The size of a company board will affect employee layoffs by poor performing firms.

$$\pi_1 \neq \pi_2$$

**Table 4.19 showing proportion of poor performing companies laying off staff based on size of board.**

	Size of Board					
	Small			Large		
	incident	firms	%	incident	firms	%
Staff layoff	8	16	50	10	13	77
No staff layoff	8	16	50	3	13	23

**Table 4.20: t- Test of differences in two samples for poor performing companies laying off staff based on size of the company board .**

	small	large
proportion	0.5	0.77
df	16	
observations	8	10
t stat	1.2206	
t critical two-tail	2.1199	

Since the calculated t value is less than the critical value we fail to reject the null hypothesis and conclude that poor performing companies will lay off staff irrespective of size of the company board.

#### 4.16 Age of the Company.

This section sought to determine whether age has any influence on employee layoff in times of poor performance. The age of the company was established from its date of incorporation. An average was obtained for all the participating companies. Those with a below average age were considered to be young while those with an above average age were regarded as old. This is shown in appendix 5 on page 77.

Ho: The age of a company will not affect employee layoffs by poor performing firms.

$$\pi_1 = \pi_2$$

H1 : The age of a company will affect employee layoffs by poor performing firms.

$$\pi_1 \neq \pi_2$$

**Table 4.21 showing proportion of poor performing companies laying off staff based on age of company.**

	Age of Company					
	Young			Old		
	incident	firms	%	incident	firms	%
Staff layoff	8	12	67	9	15	60
No staff layoff	4	12	33	6	15	40



**Table 4.22: t- Test of differences in two sample proportions for poor performing companies laying off staff based on age of the company .**

	small	large
proportion	0.67	0.60
df	15	
observations	8	9
t stat	0.2919	
t critical two-tail	2.1315	

Since the calculated t value is less than the critical value we fail to reject the null hypothesis and conclude that poor performing companies will lay off staff irrespective of the age of the company .

#### 4.17 Control of the Company

The study sought to find out whether domicile of control has any influence on the strategy a firm takes in lean times with particular regard to employee layoffs. The domicile of control was classified in to two groups: whether a company is foreign controlled or locally controlled (see appendix 6 pp 79)

Ho: The domicile of control of a company will not affect employee layoffs by poor performing firms.

$$\pi_1 = \pi_2$$

H1 : The domicile of control of a company will affect employee layoffs by poor performing firms.

$$\pi_1 \neq \pi_2$$

**Table 4.23 showing proportion of poor performing companies laying off staff based on domicile of control.**

	Domicile of Control					
	Local			Foreign		
	incident	firms	%	incident	firms	%
Staff layoff	14	19	74	4	9	44
No staff layoff	5	19	26	5	9	56

**Table 4.24: t- Test of differences in two Sample proportions for poor performing companies laying off staff based on domicile of control .**

	small	large
proportion	0.74	0.44
df	16	
observations	14	4
t stat	1.0933	
t critical two-tail	2.1199	

Since the calculated t value is less than the critical value we fail to reject the null hypothesis and conclude that poor performing companies will lay off staff irrespective of domicile of control of the company .

From the above results it is clear that irrespective of size of a company, size of the board, the age of the company or domicile of control poor performing companies will layoff staff. That notwithstanding it is worth mentioning that 52% of the small firms laid off staff while 82% of the large firms laid off staff. A possible explanation could be that

large firms are both large in terms of market capitalization and in terms of operation. In times of poor performance they would wish to trim their operation and by extension layoff staff to match their operations. By contrast small firms may not have large numbers of staff as in large firms. Hence they layoff staff on a much lower scale.

#### 4.18 INDUSTRY – WIDE APPROACH TO CORPORATE STRATEGIES FOR DEALING WITH POOR PERFORMANCE.

The study sought to understand whether there is a difference in approach to strategies adopted by firms considered on the basis of industry category application. Participating firms were considered on the basis of the following grouping /sector:

Agriculture

Industrial and allied

Commercial

Financial services

**Table 4.25: The frequency with which firms in the above categories carried out respective strategies is given below:**

<u>Category</u>	<u>DO</u>	<u>EL</u>	<u>TMR</u>	<u>TOTAL</u>
Agriculture	7	7	12	<b>26</b>
Industrial and allied	32	8	22	<b>62</b>
Commercial	20	9	20	<b>49</b>
Financial services	8	7	17	<b>32</b>
<b>Total</b>	<b>67</b>	<b>31</b>	<b>71</b>	<b>169</b>

## KEY

DO : Dividend omission

EL : Employee Layoffs

TMR: Top Management Replacement

### 4.19 CHI –SQUARE TEST OF INDEPENDENCE

This data was subjected to a chi – square test of independence to find out if the given strategies are independent or differ from one category to another. The appropriate hypotheses are as follows:

Ho: The category of the firm and strategies taken are independent one from the other

Ha: The criteria of classification are not independent.

Level of significance = 0.05

Using the data from the table above the following expected frequencies are obtained.

**Table 4.26: Expected frequencies.**

Category	DO	EL	TMR	TOTAL
Agriculture	10	5	11	<b>26</b>
Industrial and allied	25	11	26	<b>62</b>
Commercial	19	9	21	<b>49</b>
Financial services	13	6	13	<b>32</b>
Total	<b>67</b>	<b>31</b>	<b>71</b>	<b>169</b>

The calculated value of Chi-Square is 8.185

The table critical value is 12.592 at the same alpha level and 6 degrees of freedom.

Since the calculated value of chi-square test is less than the critical value, we fail to reject the null hypothesis and conclude that corporate strategies taken by various firms is not dependent or informed by the category of industry the company is in.

Thus the way companies approach the strategy of dividend payment (or non-payment) employee layoffs and top management replacement is not informed by the business category it is in. It does not matter the market sector in which a firm falls in. When performance is poor all firms irrespective of their industry will seek to respond by way of dividend omission, employee layoffs or top management replacement. There is therefore no corporate response that is unique to any market sector. This result conforms to the earlier test where the study sought to determine if certain characteristics have any influence on the kind of response poor performing firms will take. As the tests showed there were no significant results in terms of the characteristics tested.

## CHAPTER 5.

### CONCLUSIONS.

The study looked at the strategies companies adopt when they experience poor returns on their assets. It was noted from the study that certain market sectors were so sensitive to poor performance that virtually all firms in those sectors took deliberate action. The most notable one was the commercial sector followed by finance and the industrial sector. For the commercial sector in all the incidents of poor performance there was dividend omission and top management replacement. As for the finance and industrial sectors in all the incidents of poor performance there was top management replacement and dividend omission respectively. The findings are summarized below:

#### **5.1 PAYMENT OF DIVIDENDS.**

Good and poor corporate performers differ significantly in their approach to payment of dividends. Whereas poor performing companies display a high proportion for non – payment of dividends during difficult times, good performing companies have a much lower proportion. They try to be consistent in payment of dividends even when times are difficult.

It is possible that this consistency plays an important role in reinforcing the good image of good performance of the company. This payment of dividends even in difficult times build an expectational drive among investors leading to better market activity and better profits in future.

It is a case of investors believing in the financial health of the company which in turn leads to actual good performance.

In contrast to good performers, poor performing companies by their actions on non-payment of dividends discourage investors thus feeding the downward trend in profitability (investors are also customers). This becomes a cyclical chain with no end in sight. This accounts for the reluctance of firms with poor performance to omit payment of dividends until it is imperative.

## **5.2 EMPLOYEE LAYOFFS.**

It was found that there is a difference in the approach taken by good and poor performers in undertaking employee layoffs.

Poor performers are more likely to fire employees than superior performing companies. However in the entire market it was observed that this was the least popular response owing to the fact that it has social and political implications.

## **5.3 TOP MANAGEMENT REPLACEMENT.**

If companies do not perform as expected then the top management are called upon to answer for the dismal performance to the shareholders. However the results of tests carried out showed that there is no significant differences between superior and poor performers. Poor performing companies are as likely to effect top management replacement as superior performers. In other words there could be different reasons

why companies replace top management other than poor performance. In a number of instances directors are replaced because of age.

#### **5.4 LIMITATIONS OF THE STUDY.**

The study relied heavily on the availability of information at the Nairobi Stock Exchange. The information required was sometimes lacking. For example the study was not able to obtain information on debt restructuring directly from the annual accounts. The findings in this study were therefore based on the information that was available. Time did not allow the researcher to delve into other factors that may have been relevant to this study. Such factors include top management control and capital structure. To this extent this research was limited. When determining both the size of the company and the board of directors the study used data obtained from the annual accounts for the year 2000. There was no particular basis for using data in this financial year but rather it was to facilitate the study as any other year could have been picked. This means that if a different year was used the results may have been different. Again to this extent the study was limited. It was not possible owing to the method used to obtain information deemed necessary for the study. While it was possible to establish from the annual accounts of poor performing companies when they restructured their assets this was not possible with well performing firms. One poor performing company did get a strategic investor. But the study was not able to ascertain scientifically whether this was as a result of poor performance. However it was noted from the information obtained from the accounts, that company's performance in the last quarter of the study period was dismal. The company reported a drastic drop in its profits and there was massive layoffs of both the top management and employees. The same company



restructured its assets substantially and even discontinued its non core businesses. Again this was only speculative. To this extent the study was limited.

## 5.5 RECOMMENDED AREAS FOR FURTHER RESEARCH

The study recommends the following for further Research.

- a) As already observed the study revealed some very interesting findings. The commercial sector was found to be so sensitive to poor performance that there was deliberate action taken to forestall that. This sector was closely followed by both the finance and industrial sectors. It would be interesting to know why these sectors are so sensitive to poor performance that they have to send their top managers packing. Perhaps another study focusing on why sectors prefer certain causes of corrective action could well provide an answer to this question.
- b) Another observation noted was that despite the fact that certain firms performed well there was change in top management in almost equal numbers as was in the case with poor performing companies. General speculation is that successful managers leave prospering firms to seek new challenges elsewhere. This speculation needs to be confirmed by an exhaustive study and establish the real reason for successful managers opting to seek jobs in not too secure firms.
- c) Firms experiencing poor performance have mostly responded by cutting or omitting dividends altogether. Though literature available shows that omitting dividends

causes the price of a stock to decline why are firms resorting to this action. In other words how effective has this action been in improving performance of a company.

b) Why have firms mostly resorted to actions that reduce costs as opposed to actions that increase revenue in times of poor performance?

c) This study looked at a number of factors that would influence the action a firm takes in times of poor performance but other factors not considered because of time were:

i) Top management control

ii) Capital Structure

It would be interesting to know if these factors have any influence a firm will take in lean times.

d) How well informed are shareholders both potential and actual in knowing when a company is not performing well? These are issues another study could well answer.

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## **APPENDIX 1**

### **COMPANIES LISTED ON THE NAIROBI STOCK EXCHANGE BY SECTOR.**

#### **AGRICULTURAL SECTOR**

1. Brooke Bond Kenya Ltd.
2. Eaagads Ltd.
3. George Williamson Kenya Ltd.
4. Kakuzi Ltd.
5. Kapchorua Tea company. Ltd.
6. Limuru Tea Co. Ltd.
7. Rea Vipingo Co. Ltd.
8. Sasini Tea Coffee Ltd.

#### **COMMERCIAL AND SERVICES SECTOR**

- 9 Bauman & company ltd
- 10 African Lakes Corporation PLC
- 11 Car & General (K) Ltd.
- 12 CMC Holdings Ltd.
- 13 Express Kenya Ltd
- 14 Hutchings Biemer
- 15 Kenya Airways Ltd]
- 16 Marshalls (E.A) Ltd
- 17 Nation Media Group

- 18 T.P.S. (Serena)
- 19 The Standard Newspaper Group Ltd.
- 20 Uchumi Supermarkets Ltd.

## **FINANCE AND INVESTMENT SECTOR**

- 21 Barclays Bank of Kenya Ltd
- 22 CFC Bank Ltd
- 23 City Trust Ltd
- 24 Diamond Trust of Kenya Ltd
- 25 Housing Finance Co. Ltd
- 26 I.C.D.C Investments Co. Ltd
- 27 Jubilee Insurance Co. Ltd.
- 28 Kenya Commercial Bank
- 29 National Bank of Kenya Ltd
- 30 National Industrial Credit Ltd
- 31 Pan African Insurance Co. Ltd
- 32** Standard Chartered Bank (K) Ltd.

## **INDUSTRIAL AND ALLIED SECTOR**

- 33. Athi River Mining Ltd.
- 34. BOC Kenya Ltd
- 35. Bamburi Cement Ltd.
- 36. British American Tobacco (K) Ltd.



37. Crown-Berger (K) Ltd.
38. Dunlop (K) Ltd.
39. E.A. Cables Ltd.
40. E.A. Packaging Industries Ltd.
41. E.A. Portland Cement Ltd.
42. Firestone (East Africa) Ltd.
43. E.A. Breweries Ltd.
44. Kenya Oil Ltd.
45. Kenya National Mills Ltd.
46. Mumias Sugar Co. Ltd.
47. Kenya Orchards
48. Kenya Power & Lighting Co. Ltd
49. Total (K) Ltd.
50. Unga Group Ltd.

## APPENDIX 2

### POOR RETURN ON ASSETS OVER THE TEN YEAR PERIOD.

<u>COMPANY</u>	<u>AVERAGE RETURN</u>
1) Kakuzi Ltd.	0.101
2) Rea Vipingo	0.092
3) Brooke Bond	0.201
4) George Williamson	0.117
5) Egaards Ltd	0.240
6) Kapchorua Tea Co	0.140
7) Athi River Mining Co	0.033
8) B.O.C Kenya Ltd.	0.250
9) Bamburi Cement	0.145
10) British American Tobacco	0.382
11) Carbacid Investments	0.304
12) E.A Portland Cement	0.084
13) E. A. Breweries	0.140
14) Kenya Ochards Ltd	-0.123
15) Kenya Power & Lighting Co.	0.138
16) Unga Group Ltd.	-0.004
17) E A Packaging	0.279
18) Car and General	-0.035
19) Hutchings Biemer	0.162

20) Marshalls (E.A)	-0.013
21 Toursim Promotion services	0.117
22) Standard Newspapers	-0.015
23) Express Kenya Ltd	0.130
24) Bauman & Company Ltd	0.151
25) Diamond Trust	0.020
26) Housing Finance Company of Kenya	0.034
27) Jubilee Insurance	0.040
28) Kenya Commercial Bank	0.027
29) National Bank of Kenya	0.006
30) Pan Africa Insurance	0.031

### APPENDIX 3

#### SIZE BASED ON MARKET CAPITALIZATION

##### AGRICULTURAL MARKET SEGMENT

<b>Company</b>	<b>Market Capitalization</b>
	KSH
Kakuzi Ltd.	1, 303, 399, 934
Rea Vipingo	231, 000, 000
Brooke Bond	3, 616, 750, 000
George Williamson	656, 724, 000
Eaagards Ltd	160, 785, 000
Kapchorua Tea	586, 800, 000

##### THE INDUSTRIAL AND ALLIED SECTOR

<b><u>Company</u></b>	<b><u>Market Capitalization</u></b>
	KSH
Athi River Mining	341, 250, 000
B.O.C Kenya Ltd.	922, 577, 324
Bamburi Cement	10, 616, 016, 206
British American Tobacco	5, 700, 000, 000
Carbacid Investments	471, 948, 150
E. A. Portland Cement	1, 116, 000, 000
E. A. Breweries	6, 130, 947, 506
Kenya Power & Lighting Co.	4, 075, 092, 000

Unga Group	721, 624, 873
Kenya Ochards	2,000,000
E A Packaging	101,375,736

### COMMERCIAL AND SERVICES SECTOR

<u>Company</u>	<u>Market Capitalization</u>
	KSH
Car & General	223, 910, 141
Hutchings Biemer	7, 290, 000
Marshalls (EA)	277, 786, 946
Tourism Promotion Services	616, 930, 050
Standard Newspapers	78,152,340
A Bauman	52,992,911
Express Kenya Ltd	91,440,000

### FINANCE AND INVESTMENT SECTOR

<u>Company</u>	<u>Market Capitalization</u>
	KSH
Diamond Trust	1, 590, 000,000
HFCK	810, 750, 000
Jubilee Insurance	792, 000, 000
Kenya Commercial Bank	3, 141, 600,000
National Bank of Kenya	720, 000, 000
Pan Africa Insurance	480, 000, 000

**APPENDIX 4**

**SIZE BASED ON NUMBER OF BOARD MEMBERS.**

**AGRICULTURAL MARKET SEGMENT**

<b><u>COMPANY</u></b>	<b><u>SIZE OF THE BOARD</u></b>
Kakuzi Ltd.	8
Rea Vipingo	5
Brooke Bond	9
George Williamson	7
Eaagards Ltd	3
Kapchorua Tea	5

**THE INDUSTRIAL SECTOR**

<b><u>COMPANY</u></b>	<b><u>SIZE OF THE BOARD</u></b>
Athi River Mining	6
B.O.C. Kenya	7
Bamburi Cement	15
British American Tobacco	9

Carbacid Investments	5
E.A. Portland Cement	8
E.A. Breweries	12
KPLC	9
Unga	5
E A Packaging	7
Kenya Ochards Ltd	3

**THE COMMERCIAL AND SERVICES SECTOR**

<b><u>COMPANY</u></b>	<b><u>SIZE OF THE BOARD</u></b>
Car & General	7
Express (k) Ltd	8
A Baumans	6
Standard Newspapers	12
Marshalls (E. A)	9
Tourism Promotion Services	11

## FINANCE AND INVESTMENT SECTOR

<u>COMPANY</u>	<u>SIZE OF THE BOARD</u>
Diamond Trust Bank	10
HFCK	7
Jubilee Insurance	10
Kenya Commercial Bank	12
National Bank of Kenya	10
Pan Africa Insurance	12



## APPENDIX 5

### CORPORATE AGES BY SECTOR.

#### AGRICULTURAL MARKET SEGMENT

<u>Company</u>	<u>Year of Incorporation</u>	<u>Age</u>
Kakuzi Ltd.	1927	73
Rea Vipingo	1995	5
Eaagards Ltd	1946	54
George Williamson Tea	1952	48
Kapchorua Tea	1948	52

#### THE INDUSTRIAL AND ALLIED SECTOR

<u>Company</u>	<u>Year of Incorporation</u>	<u>Age</u>
Athi River Mining	1973	27
B.O.C. Kenya	1940	60
Bamburi Cement	1951	49
British American Tobacco	1952	48
Carbacid Investments	1961	39
E.A. Portland Cement	1930	70
E.A. Breweries	1922	78
Kenya Power & Lighting Co.	1922	78
Unga Group	1908	92

Kenya Ochards	1948	52
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### COMMERCIAL AND SERVICES SECTOR

<u>Company</u>	<u>Year of Incorporation</u>	<u>Age</u>
Car & General	1936	64
Hutchings Biemer	1948	52
Marshalls (EA)	1947	53
A Bauman	1926	74
Express	1918	82
Standard Newspapers	1919	81

### FINANCE AND INVESTMENT SECTOR

<u>Company</u>	<u>Year of Incorporation</u>	<u>Age</u>
Diamond Trust	1965	35
HFCK	1965	65
Jubilee Insurance	1937	63
Kenya Commercial Bank	1896	104
National Bank of Kenya	1968	32
Pan Africa Insurance	1946	54

## APPENDIX 6

### DOMICILE OF CONTROL.

#### AGRICULTURAL MARKET SEGMENT

##### Foreign Controlled Companies

Kakuzi

Rea Vipingo

##### Locally Controlled Companies

Kapchorua Tea

Eaagards Ltd

George Williamson

#### THE INDUSTRIAL SECTOR

##### Foreign controlled Companies

Bamburi Cement

British American Tobacco

B.O.C

##### Locally controlled companies

Athi River Mining Ltd

Carbacid Investments Ltd

E.A. Portland Cement

E. A. Breweries

Kenya Ochards

Express (K) Ltd

## COMMERCIAL AND SERVICES SECTOR

### Foreign controlled companies

A Bauman

Standard Newspapers

### Locally controlled companies

Car and general (K) Ltd    sstard

Hutchings Biemer Ltd

Marshalls (EA)

Tourism Promotion Services

## FINANCE AND INVESTMENT SECTOR

### Foreign controlled companies

Diamond Trust (K) Ltd

Jubilee Insurance Co. Ltd

### Locally controlled companies

HFCK

Kenya Commercial Bank

National Bank of Kenya

Pan Africa Insurance

**RETURN ON ASSETS- TABLE A**  
**AGRICULTURAL SEGMENT**

COMPANY	Brook Bond	Kakuzi Ltd	Rea Vineyard	Ushni Tea & Coff	Williamson Tea	Easacada Ltd	Limuyu Tea Co	Kapchorua Tea Co	AVRERAGE
1991	0.455	0.081		0.424	0.105	-0.029	0.579	0.099	
1992	0.592	0.137		0.479	0.058	0	1.205	0.116	
1993	0.25	0.169		1.454	0.119	0.632	4.224	0.19	
<b>TOTAL</b>	<b>1.297</b>	<b>0.387</b>		<b>2.357</b>	<b>0.282</b>	<b>0.603</b>	<b>6.008</b>	<b>0.405</b>	
<b>AVERAGE</b>	<b>0.43</b>	<b>0.128</b>		<b>0.78</b>	<b>0.094</b>	<b>0.201</b>	<b>2.00</b>	<b>0.135</b>	<b>0.54</b>
1994	0	0.205		0.539	0.314	0.397	1.46	0.347	
1995	0	0.057	0.133	0.05	0.008	0.067	0.489	0.014	
1996	0.005	0.092	0.241	0.049	0.029	0.091	0.632	0.037	
<b>TOTAL</b>	<b>0.005</b>	<b>0.354</b>	<b>0.374</b>	<b>0.638</b>	<b>0.351</b>	<b>0.585</b>	<b>2.581</b>	<b>0.398</b>	
<b>AVERAGE</b>	<b>0.01</b>	<b>0.12</b>	<b>0.19</b>	<b>0.21</b>	<b>0.12</b>	<b>0.20</b>	<b>0.86</b>	<b>0.13</b>	<b>0.23</b>
1997	0.019	0.112	0.156	0.061	0.078	0.305	1.505	0.107	
1998	0.069	0.057	0.09	0.096	0.366	0.571	1.63	0.383	
1999	0.067	0.006	0.012	0.023	0.035	0.069	0.744	0.059	
2000	0.13	0.098	-0.081	0.077	0.059	0.023	0.97	0.045	
<b>TOTAL</b>	<b>0.305</b>	<b>0.273</b>	<b>0.177</b>	<b>0.277</b>	<b>0.538</b>	<b>0.968</b>	<b>4.849</b>	<b>0.594</b>	
<b>AVERAGE</b>	<b>0.08</b>	<b>0.07</b>	<b>0.04</b>	<b>0.07</b>	<b>0.13</b>	<b>0.24</b>	<b>1.21</b>	<b>0.15</b>	<b>0.25</b>

**RETURN ON ASSETS- TABLE B**

**INDUSTRIAL AND ALLIED SECTOR**

COMPANY	Adhi River Mining	BOC Kenya Ltd	Samburu Cement	B. A. T.	Carboid Investments	Crown Berger	Dunlop Kenya	E A Cable	E A Portland
1991		0.198	0.179	0.431	0.134	0.124	0.716	1.54	-0.0662
1992		0.216	0.144	0	0.116	0.509	1.358	2.158	0.239
1993		0.153	0.228	0	0.291	0.94	1.835	2.264	0.382
<b>TOTAL</b>		<b>0.567</b>	<b>0.551</b>	<b>0.431</b>	<b>0.541</b>	<b>1.573</b>	<b>3.908</b>	<b>5.962</b>	<b>0.5348</b>
<b>AVERAGE</b>		<b>0.19</b>	<b>0.18</b>	<b>0.43</b>	<b>0.18</b>	<b>0.52</b>	<b>1.30</b>	<b>1.99</b>	<b>0.18</b>
1994		0.245	0.187	0.293	0.167	0.95	1.757	2.299	0.473
1995		0.243	0.166	0.318	0.188	4.42	2.39	1.841	0.023
1996	0.038	0.274	0.184	0.391	0.301	2.77	2.078	2.078	0.021
<b>TOTAL</b>	<b>0.038</b>	<b>0.782</b>	<b>0.537</b>	<b>1.002</b>	<b>0.656</b>	<b>8.14</b>	<b>6.223</b>	<b>6.188</b>	<b>0.517</b>
<b>AVERAGE</b>	<b>0.04</b>	<b>0.25</b>	<b>0.18</b>	<b>0.33</b>	<b>0.22</b>	<b>2.71</b>	<b>2.07</b>	<b>2.08</b>	<b>0.17</b>
1997	0.043	0.367	0.169	0.335	0.379	0.172	0.229	0.631	0.021
1998	0.014	0	0.063	0.571	0.453	0.085	0	0.789	0.098
1999	0.022	0.345	0.082	0.517	0.628	0.227	0.225	0.324	-0.248
2000	0.05	0.211	0.044	0.196	0.384	0.113	0.191	0.483	-0.083
<b>TOTAL</b>	<b>0.129</b>	<b>0.923</b>	<b>0.358</b>	<b>1.819</b>	<b>1.844</b>	<b>0.587</b>	<b>0.645</b>	<b>2.427</b>	<b>-0.212</b>
<b>AVERAGE</b>	<b>0.032</b>	<b>0.308</b>	<b>0.090</b>	<b>0.405</b>	<b>0.461</b>	<b>0.149</b>	<b>0.215</b>	<b>0.607</b>	<b>-0.053</b>

<u>E.A Breweries</u>	<u>Firstone E.A</u>	<u>Kenya Oil Co</u>	<u>Mumias Sugar</u>	<u>K.P &amp; L.CO</u>	<u>Total Kenya</u>	<u>Unesa Group</u>	<u>Kenya Orchard</u>	<u>E.A Packaging</u>	<u>AVERAGE</u>
0.153		0.076		0.039	0.863	0.057	0	0.371	
0.167		0.181		0.043	0.793	0.028	0	0.556	
0.205	2.253	0.434		-0.063	2.231	0.029	0.176	0.807	
<b>0.525</b>	<b>2.253</b>	<b>0.691</b>		<b>0.019</b>	<b>3.887</b>	<b>0.114</b>	<b>0.176</b>	<b>1.734</b>	
<b>0.18</b>	<b>0.53</b>	<b>0.23</b>		<b>0.01</b>	<b>1.30</b>	<b>0.04</b>	<b>0.18</b>	<b>0.58</b>	<b>0.47</b>
0.145	1.489	1.199		0.185	0.411	0.109	-0.223	0.821	
0.067	1.667	0.366		0.311	0.742	0.185	-0.225	0.552	
0.112	1.485	0.448		0.302	0.408	0.044	-0.102	0.344	
<b>0.324</b>	<b>4.641</b>	<b>2.013</b>		<b>0.798</b>	<b>1.561</b>	<b>0.338</b>	<b>-0.55</b>	<b>1.717</b>	
<b>0.11</b>	<b>1.55</b>	<b>0.67</b>		<b>0.27</b>	<b>0.52</b>	<b>0.11</b>	<b>-0.18</b>	<b>0.57</b>	<b>0.69</b>
0.129	0.912	0.566		0.321	0.275	0.131	-0.192	0.056	
0.05	0.783	0.458		0.263	0.524	-0.215	-0.174	-0.157	
0.164	0.479	0.548		0.188	0.706	-0.106	0	-0.115	
0.206	0.363	0.284		-0.214	0.219	-0.297	0	-0.45	
0.549	2.537	1.856		0.558	1.724	-0.487	-0.366	-0.666	
0.137	0.834	0.484	0.000	0.140	0.431	-0.122	-0.183	-0.167	0.209

RETURN ON ASSETS- TABLE C

COMMERCIAL AND SERVICES

<u>COMPANY</u>	<u>African Lakes Cor</u>	<u>Car &amp; General</u>	<u>CMC Holdings</u>	<u>utchings Biem</u>	<u>Kenya Airways</u>	<u>Marshalls(EA)</u>
1991		0.019	0.157	0.684		0.023
1992		0.033	0.148	0.077		0.027
1993		0.063	0.155	0.21		0.06
<b>TOTAL</b>		<b>0.115</b>	<b>0.46</b>	<b>0.971</b>		<b>0.11</b>
<b>AVERAGE</b>		<b>0.04</b>	<b>0.15</b>	<b>0.32</b>		<b>0.04</b>
1994		0.085	0.48	0.112		0
1995		0.025	0.634	0.119		0
1996		-0.222	0.838	-0.071	0.427	0.152
<b>TOTAL</b>		<b>-0.112</b>	<b>1.952</b>	<b>0.16</b>	<b>0.427</b>	<b>0.152</b>
<b>AVERAGE</b>		<b>-0.04</b>	<b>0.65</b>	<b>0.05</b>	<b>0.43</b>	<b>0.15</b>
1997		-0.318	0.734	0.005	0.164	0.119
1998	0.079	-0.082	0.493		0.169	0.062
1999	0.049	0.027	0.154		0.123	-0.354
2000	0.005	0.022	0.12		0.267	-0.192
<b>TOTAL</b>	<b>0.133</b>	<b>-0.351</b>	<b>1.501</b>	<b>0.005</b>	<b>0.723</b>	<b>-0.365</b>
<b>AVERAGE</b>	<b>0.04</b>	<b>-0.09</b>	<b>0.38</b>	<b>0.01</b>	<b>0.18</b>	<b>-0.09</b>

RETURN ON ASSETS- TABLE D

FINANCE AND INVESTMENT

<u>COMPANY</u>	<u>Barclays Bank</u>	<u>C.F.C. Bank</u>	<u>Diamond Trust</u>	<u>H.F.C.K.</u>	<u>ICDC Investments</u>	<u>ubilee Insuranc</u>
1991	0.032	0.032		0.025	0.111	0.058
1992	0.035	0.04		0.029	0.098	0.037
1993	0.048	0.041		0.051	0.125	0.043
<b>TOTAL</b>	<b>0.115</b>	<b>0.113</b>		<b>0.105</b>	<b>0.334</b>	<b>0.138</b>
<b>AVERAGE</b>	<b>0.04</b>	<b>0.04</b>		<b>0.04</b>	<b>0.11</b>	<b>0.05</b>
1994	0.065	0.076	0.054	0.051	0.182	0.041
1995	0.056	0.064	0.048	0.039	0.216	0.039
1996	0.058	0.046	-0.013	0.045	0.203	0.046
<b>TOTAL</b>	<b>0.179</b>	<b>0.186</b>	<b>0.089</b>	<b>0.135</b>	<b>0.601</b>	<b>0.126</b>
<b>AVERAGE</b>	<b>0.06</b>	<b>0.06</b>	<b>0.03</b>	<b>0.05</b>	<b>0.20</b>	<b>0.04</b>
1997	0.056	0.062	-0.038	0.047	0.171	0.043
1998	0.053	0.056	0.028	0.032	0.232	0.04
1999	0.042	0.034	0.024	0.008	0.206	0.026
2000	0.036	0.031	0.037	0.014	0.144	0.023
<b>TOTAL</b>	<b>0.187</b>	<b>0.183</b>	<b>0.051</b>	<b>0.101</b>	<b>0.753</b>	<b>0.132</b>
<b>AVERAGE</b>	<b>0.047</b>	<b>0.046</b>	<b>0.013</b>	<b>0.025</b>	<b>0.188</b>	<b>0.033</b>

<u>Nation Media</u>	<u>T P Services</u>	<u>Uchumi Supermarket</u>	<u>Standard Newspapers</u>	<u>Express Ltd</u>	<u>Baumans Co Lt</u>
0.193			-0.43	0.176	0.123
0.184		0.263	0.075	0.156	0.268
0		0.641	-0.414	0.466	0.513
<b>0.377</b>		<b>0.904</b>	<b>-0.769</b>	<b>0.798</b>	<b>0.904</b>
<b>0.19</b>		<b>0.45</b>	<b>-0.26</b>	<b>0.27</b>	<b>0.30</b>
0.434		0.626	0.052	0.234	0.226
0.369		1.326	-0.256	0.199	0.089
0.219	0.142	1.463	0.236	0.076	-0.039
<b>1.022</b>	<b>0.142</b>	<b>3.415</b>	<b>0.032</b>	<b>0.509</b>	<b>0.276</b>
<b>0.34</b>	<b>0.14</b>	<b>1.14</b>	<b>0.01</b>	<b>0.17</b>	<b>0.09</b>
0.339	0.135	1.047	0.507	0.048	-0.008
0.352	0.136	0.955	0.007	0.042	0
0.197	0.087	0.742	-0.619	-0.086	0.043
0.168	0.087	0.576	0.689	-0.013	0.14
<b>1.056</b>	<b>0.445</b>	<b>3.32</b>	<b>0.584</b>	<b>-0.009</b>	<b>0.175</b>
<b>0.26</b>	<b>0.11</b>	<b>0.83</b>	<b>0.15</b>	<b>0.00</b>	<b>0.06</b>

<u>K. C. B</u>	<u>National Bank</u>	<u>N.I.C Bank</u>	<u>Pan Africa Insurance</u>	<u>Standard Bank</u>	<u>AVERAGE</u>
0.021	0.017	0.032	0.025	0	
0	0.013	0.043	0.035	0	
0.041	0.009	0.07	0.035	0.023	
<b>0.062</b>	<b>0.039</b>	<b>0.145</b>	<b>0.095</b>	<b>0.023</b>	
<b>0.03</b>	<b>0.01</b>	<b>0.05</b>	<b>0.03</b>	<b>0.02</b>	<b>0.04</b>
0.042	0.019	0.061	0.067	0.036	
0.055	0.026	0.065	0.016	0.052	
0.052	0.028	0.058	0.036	0.046	
<b>0.149</b>	<b>0.073</b>	<b>0.184</b>	<b>0.119</b>	<b>0.134</b>	
<b>0.05</b>	<b>0.02</b>	<b>0.06</b>	<b>0.04</b>	<b>0.04</b>	<b>0.06</b>
0.046	0.016	0.055	0.042	0.043	
0.014	-0.07	0.047	0.048	0.049	
-0.022	-0.08	0.05	0.018	0.051	
-0.007	-0.036	0.05	-0.01	0.056	
<b>0.031</b>	<b>-0.17</b>	<b>0.202</b>	<b>0.098</b>	<b>0.199</b>	
<b>0.008</b>	<b>-0.043</b>	<b>0.051</b>	<b>0.025</b>	<b>0.050</b>	<b>0.040</b>