THE EFFECT OF CHIEF EXECUTIVE OFFICER' SUCCESSION ON THE SHARE PRICE PERFORMANCE OF LISTED FIRMS IN KENYA

BY

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DECLARATION

This research project is my original work and has not been presented for an award of any Degree in this or any other University.

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To the University Of Nairobi for granting me the opportunity to be part of the prestigious institutions. Not forgetting to thank the almighty for keep me alive and enabling me to be alive and in good health to see this day.

DEDICATION

To those who supported and believed in me, I thank you. To those who did not, I thank you even more

To my parents Joseph and Emily; for their unwavering support and continuous encouragement throughout the course. To my sisters, Beverly, Lina and Victoria; for their firm belief in me and in my achievement. To my lecturers, fellow students and colleagues, for their support and academic backing.

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LIST OF ABBREVIATIONS

AAR Average Abnormal return

AR Abnormal Return

CAAR Cumulative Abnormal Return

CAPM Capital Asset Pricing Model

CBK Central Bank of Kenya

CEO Chief Executive Officer

EMH Efficient Market Hypothesis

GDP Gross Domestic Product

MFI Micro Finance Institutions

NSE Nairobi Stock Exchange

UK United Kingdom

UON University of Nairobi

USA United States of America

ABSTRACT

Stock markets in the world individually and collectively play a critical role in their economies. They provide an avenue for raising funds, for trading in securities including futures, options and other derivatives which provide opportunities for investors to generate returns.

The performance of the stock market is influenced by a number of factors including the change of CEO of a company and the general performance of the economy. Various studies have been carried out in the developed countries examining the performance of stock markets before and after CEO's exit. These studies indicate that the stock market react differently based on the party announcement of a new CEO.

This study analyzed the share price performance of listed companies in the Nairobi Stock Exchange before and after CEO exit. The share prices of listed companies during the event study and NSE month end indices for the period between 2008 and 2013 obtained from the NSE were analyzed using the event study market model where abnormal returns (AR) and cumulative average abnormal returns (CAAR) were derived. The results are displayed in APA tables and graphs. The volatility that follows a CEO change was found to have a significant impact on the performance of share prices, and listed companies' boards should plan a succession strategy taking these effects into account. In order to find out exact situation of how much and in which direction CEO change impacts stock returns in Kenya (prior to change and after CEO change) a detailed analysis at the technical level covering all aspects is required

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

There has been increased public and academic discussion of issues related to corporate governance in most countries with active capital markets. Corporate boards worldwide have been attracting a great deal of attention in the past decade because of corporate failures and concerns about the performance of corporations and the way they are governed. Both firms and regulator`s are considering how best to ensure good corporate governance.

A study by Sundin and Sven- Ivan (2004) asserts that the Chief Executive Officer is responsible for the operations of the Company and it is the Chief Executive Officer who makes most strategic decisions, even if approval from the board is sometimes needed. Such strategic decisions could include entering a new market, launching a new product, or reorganizing the company structure. It seems logical that such decisions should have an Effect on company performance. They further argue that the fact that a change of Chief Executive Officer often leads to many other managerial changes within a company further supports the argument that Chief Executive Officer turnover has an Effect on company performance.

Morck and Steier (2004) state that "Each corporation has a CEO who dictates corporate policies and strategies to largely passive boards of directors. The true owners of America's great corporations, millions of middle class shareholders, each owning a few hundred or a few thousand shares, are disorganized and generally powerless. Only a handful of institutional investors accumulate large stakes – 3 or even 5% of an occasional large firm's stock – that give them voices loud enough to carry into corporate boardrooms. Corporate CEOs use or abuse their considerable powers in accordance with their individual political, social, and economic beliefs."

Effective corporate governance requires a proactive, focused state of mind on the part of directors, the CEO and senior management, all of whom must be committed to business success through maintenance of the highest standards of responsibility and ethics. Good governance is far more than a "check list" of minimum board and management policies and duties. Even the most thoughtful and well-drafted policies and procedures are destined to fail if directors and management are not committed to enforcing them in practice. A good corporate governance structure is a working system for principled goal setting, effective decision-making and appropriate monitoring of compliance and performance. Through such a vibrant and responsive structure, the CEO, the management team and the board of directors can interact effectively and respond quickly to changing circumstances within a framework of solid corporate values, to provide enduring value to the stockholders who invest in the enterprise (The Business Roundtable, 2005).

Traditional Finance and economic theories assumes that individuals act rationally and the law of one price holds. This implies that under Traditional Finance economic decision makers are rational and utility maximizing. However studies done by Kahneman and Tversky (1979), Shefrin and Statman (1994) Shiller (1995) and Shleifer (2000) indicate that this is not always the case. These studies have further shown evidence of irrationality and inconsistency in the way human beings make decisions when faced with uncertainty.
Behavioural Finance theory applies cognitive psychology to explain the market and investor behaviour. In essence, this theory argues that investors do not apply full rationality while making choices, and it attempts to understand the investment market phenomena by dropping two key assumptions of Traditional Finance paradigm that is agents fail to update their beliefs correctly and there is a systematic deviation from the normative process in making investment choices (Fromlet, 2001).

1.1.1 CEO Succession

A CEO change occurs due to various reasons and varying preceding circumstances and is as a result of a number of reasons. These include; dismissal, voluntary exit, death, or retirement due to either age or ill health (Huson et al. (2004), Denis and Denis (1995), Behn, Dawley, Riley & Yang (2006), Rhim et al (2006). The performance level of the

organization prior to the CEO exit also varies. According to Wagner, Pfeffer and O'Reilly (1984) firms with performance that is either exceptionally high or exceptionally low are more likely to experience high turnover of the highest ranked executives.

Huson et al (2004) find that prior to the replacement of a CEO; deterioration in CEO performance precedes the replacement, with performance improving subsequent to the replacement of the CEO. This implies that an increase in managerial quality and operational performance obtains when a manager is replaced, mainly as anxiety ebbs away, creating room for certainty and confidence.

Succession focus on a systematic process for developing individuals to move into key positions within an organization (Harrison, McKinnon & Terry, 2006; Michaels, Handfield-Jones & Axelrod, 2001). These positions could be limited to the most senior executive positions or could apply to a broader plan for many levels of management within the organization.

According to Harrison, McKinnon & Terry (2006), succession "refers to a systematic process of developing individuals to fill an organization's key roles". When an organization has a well-planned succession planning and management program, there are a number of qualified people available who are prepared to transition into a number of leadership roles (Harrison, McKinnon & Terry, 2006; Bonczek & Woodward, 2006).

According to Rothwell (2001), continued survival of the organization depends on having the right people in the right places at the right times ,as a result of recent economic restructuring efforts in organizations , there are simply fewer people available to advance to the top ranks from within succession planning and management is needed to encourage diversity and mutil-culturalism and avoid "homosocial reproduction" by managers , succession forms the basis for communicating career paths, establishing development and training plans, establishes career paths and individual job moves.

The definition of the succession process is unique within each organization and therefore questions remain as to the impetus, stages, length of time, participants, support, outcomes and measurement of the success of this process (Karaevli & Hall, 2003; Kesner & Sebora, 1994; Vancil, 1987). Driven by the desire to unveil the truth behind the mysticism, previously known to only those in power, succession researchers have been creative in their approach to approximating how the process unfolds. Succession research to date circumvents the problem of access to covert, informal or secretive processes by simply defining the process from an event perspective, usually at the point in which the selection of the successor has been made (Datta &Rajagopalan, 1998; Holbeche, 1999; Karaevli & Hall, 2003; Pitcher, Chreim, & Kisfalvi, 2000; Scott, 2004).

Sharma et al. (2003) define the succession process as one that takes place over a long period of time and includes many activities and suggest that there is an overlap in the definition of succession planning and succession process. The succession process includes not only the identification of a pool of potentials, the designation of successor, the notification of that successor and others of the choice made; but also, the selection and training of the successor, the development of a vision or strategic plan for the firm following the succession; the definition of the role of the incumbent and the communication of the decision to key stakeholders. In Sharma et al. (2003), another study (Dyck, Mauws, Starke & Mischke, 2002), describes the relay process as one which includes sequence, timing, technique and communication.

1.1.2 Share Prices

The stock market has become an essential market playing a vital role in economic prosperity that fostering capital formation and sustaining economic growth. Stock markets are more than a place to trade securities; they operate as a facilitator between savers and users of capital by means of pooling of funds, sharing risk, and transferring wealth. Stock markets are essential for economic growth as they insure the flow of resources to the most productive investment opportunities.

Share prices change in stock markets on a daily basis. Moreover, during certain times of

the year, it is easy to notice that stock prices appreciate every morning, and this may take place many times in one day for some stocks. This means that share prices are determined by supply and demand forces. There is no foolproof system that indicates the exact movement of stock prices. However, the factors behind increases or decreases in the demand and/or supply of a particular stock could include company fundamentals, external factors, and market behavior.

Market movements are measured by the total value of stock in a particular stock market by aggregating the market value of the quoted stocks. Changes in market capitalization occur due to fluctuations in share prices or issuance of new share prices or issuance of new shares and bonus issues. This implies that high activity at the stock market may signal more investments in the stock markets. Market turn over indicates inflows and outflows in the stock market and is based on the actively traded shares. A change occurs due to the actively traded shares and to fluctuations in share prices or number of shares traded in a given day (Otuke 2006).

1.1.3 Effect of CEO Succession on Share Prices

Rose and Lawton (1999) observes that changes in the service institutions arise out of the need for efficiency, economy, effectiveness, performance evaluation ethics and market concerns. Rising demand for services and expectations of quality of those services have placed extreme pressure on managers and their organizations, depicting change as a continuous episode in the life of corporations.

The news of a CEO change may lead to a negative market reaction, especially in situations where the short-term negative effect is perceived by the market as outweighing the long-term positive effect. Overall, theory surrounding CEO succession is not clear and predictions of stock price reactions to turnover events are ambiguous (Huson et al, 2004).Suchard et al (2001) find that there is a negative short-term reaction to the announcement of a CEO change. In the long-term, a change in CEO is perceived to have a positive effect, assuming the CEO is competent and can improve firm performance over

time. If for instance, the incoming manager is expected to be of superior performance to the outgoing manager, the stock price may be expected to improve. Conversely if, the replacement of a CEO is as a result of previous poor management decisions, this could result in a drop in the stock price, if the market had previously been unaware of the extent of this poor decision making. Stock price reactions at the time of an announcement reflect the expected outcomes of the turnover, but the actual outcomes are only known with time (Huson et al, 2004).

Finkelstein and Boyd (1998) find that if high levels of discretion are given to CEO's by the Boards of Directors, this would increase their ability to directly influence firm performance. The argument by Finkelstein and Boyd (1998) revolves around the managerial discretion concept which postulates that strategic leadership, especially as embodied in the role of the CEO is pivotal to the success of the firm. Higher managerial discretion and the associated increased riskiness of the CEO role, leads to greater potential Effect of the CEO on the firm. According to Huson et al (2004), findings of studies conducted to establish the effect of CEO exit on stock price at the date of announcement are not consistent. The reaction of the stock price is therefore a function of the circumstances surrounding the said CEOs exit. Rhim et al (2006) establish that the stock market reacts more favourably in cases where the CEO exit was not anticipated by the market. Friedman and Singh (1989) find that stockholders react positively if prior firm performance is poor, and the succession was initiated by the Board or the CEO, and if the prior firm performance was good, the stock price reaction is negative. An unanticipated death of a CEO results in a reduction in company share price (Behn et al, 2006). Further, delays in the announcement of a replacement of a CEO in the case of CEO death results in a reduction in company share price. This means that the market places value on succession planning, because this would reduce uncertainty, implying that a CEO is perceived to add value to a company‘s bottom-line.

1.2 Research Problem

The transition of leadership is a critical point in a company's existence and many changes come from succession that not only effect the management directions of the company but often will change the ownership of the company (Schleifer & Badger, 2011). Planning for succession has been credited for minimizing the effects that come from leadership transition in companies (Behn et al, 2005). CEO change can be anticipated or unanticipated. A CEO retiring on his due date is an example of anticipated change whereas resignation of CEO is an anticipated event. Since stock market is already aware of anticipated CEO change, it does not react abnormally to this CEO succession. Firm's with anticipated CEO succession does not show any down turn in performance prior to retirement of CEO but shows a little improvement afterwards (Denis and Denis, 1995). However stock market responds more positively to an unanticipated CEO change (Rhim et al, 2006).

Efficient stock markets respond immediately to any negative or positive news arriving in the market. Investors respond positively to the stocks of the firm's which are likely to flourish in future in order to get higher returns and vice versa. CEO succession serves as a critical event to assess the firm's performance. Arrival of new CEO can be perceived as a good or bad signal for future growth depending on circumstances and person taking charge as CEO. Thus any such news to market can cause an upturn or downturn in stock prices of the firm. Several studies have shown that for stakeholders, like shareholders and customers, succession serves as an indicator of future success or failure of the firm (Davidson et al, 2002; Friedman and Singh 1989).

Stock market reaction to any CEO succession depends upon its efficiency. Efficient stock markets incorporate the effect of any news arriving in market immediately and share prices are adjusted accordingly. Stock markets respond more positively to unanticipated change of CEO as compared to that of anticipated change (Rhim et al, 2006).

Most studies conducted in this field of research have concentrated on developed markets, specifically the United States' experience. There is very little research on emerging markets (Kato and Long, 2006). Examining samples of American companies, Warner et al. (1988) Weisbach (1988), Jensen and Murphy (1990), Murphy and Zimmerman (1993), Denis and Denis (1995) concluded that a company's performance is significantly related to the probability of management turnover. Kaplan (1994) analyzed the probability of management turnover and company performance on a sample of Japanese companies. In both studies they found there is no significant relationship between the two variables in the present time period, however there is a negative relationship between delayed results in company performance and management turnover.

This controversy creates a knowledge gap which prompted the researcher to undertake survey to investigate the effects of chief executive officers 'succession on companies quoted at the Nairobi stock exchange. Lesssonet (2012) conducted a similar study but his study focused on listed companies that had a turnover above 50 billion shillings. The purpose of this study was therefore be to fill this research gap by examining the effect of CEO succession in the Kenyan context using a sample of Nairobi Stock Exchange listed companies. This study therefore attempted to address the following research question, "What is the Effect of CEO succession on share prices performance of listed firms in Kenya?"

1.3 Objective of the Study

To establish the effect of CEO succession on share prices performance of listed firms in Kenya.

1.4 Value of the Study

Understanding the ever changing business environment and developing a strategic plan for identifying the necessary skills to successfully manage through these changes will be imperative for the continued strength of any firm in any industry. In addition, organizations need to develop growth opportunities to retain talented employees by

challenging their skills and finding more opportunity than they would find elsewhere (Corporate Training and Development Advisor, 2006).

The findings of this study will further help the boards of directors of NSE listed firms to make informed choices in selecting top level management of their firms as a result of understanding the Effect of CEO succession on the performance of share prices of listed firms in Kenya.

The pursuit of knowledge is a major human endeavor; information on succession planning in corporate governance for listed firms will improve the existing academic body of knowledge. Exploration into an area of study helps scholars better understand the topic and answers questions related to that area of research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section of the study presents the theoretical and literature review. In the theoretical review, the researcher discusses theories related and that guided the study while in the empirical, the study discusses works of other authors in relation to CEO succession and firms'' performance.

2.2 Theoretical Review

This study was be anchored on Efficient Market Hypothesis and Behavioural Finance theory to establish the effect of CEO succession on the performance of share prices of listed firms .The study also reviewed Transformational Leadership Theory and Situational and Leadership Theory on succession.

2.2.1 Efficient Market Hypothesis

In an efficient market, competition among the many intelligent participants leads to a situation where, at any point in time, actual prices of individual securities already reflect the effects of information based both on events that have already occurred and on events which, as of now, the market expects to take place in the future. In other words, in an efficient market at any point in time the actual price of a security will be a good estimate of its inherent value (Fama, 1965).

The basis of the efficient market hypothesis is that the market consists of many rational investors who are constantly reading the news and react quickly to any new significant information about a security. There are also many funds whose managers are constantly reading new reports and news, and with the aid of high-speed computers, are constantly sifting through financial data looking for mispriced securities.

Efficiency management hypothesis was first given form by Paul Samuelson (1965), who posited that in an informational efficient market, price changes must be unforecastable if they are properly anticipated, that is, if they fully incorporate the information and expectations of all market participants. After developing a series of linear-programming solutions to spatial pricing models with no uncertainty, Samuelson came upon the idea of efficient markets through his interest in temporal pricing models of storable commodities that are harvested and subject to decay. Samuelson‘s abiding interest in the mechanics and kinematics of prices, with and without uncertainty, led him and his students to several fruitful research agendas including solutions for the dynamic asset-allocation and consumption-savings problem, the fallacy of time diversification and log-optimal investment policies, warrant and option-pricing analysis and, ultimately, the Black and Scholes (1973) and Merton (1973) option-pricing models.

After Samuelson‘s (1965) and Fama‘s (1965; 1965; 1970), many others extended their framework to allow for risk-averse investors, yielding a neoclassical version of the EMH where price changes, properly weighted by aggregate marginal utilities, must be unforecastable (for example, LeRoy, 1973; M. Rubinstein, 1976; and Lucas, 1978). In markets where, according to Lucas (1978), all investors have rational expectations‘, prices do fully reflect all available information and marginal-utility-weighted prices follow martingales. The EMH has been extended in many other directions, including the incorporation of non-traded assets such as human capital, state-dependent preferences, heterogeneous investors, asymmetric information, and transactions costs. But the general thrust is the same: individual investors form expectations rationally, markets aggregate information efficiently, and equilibrium prices incorporate all available information instantaneously.

Fama (1981) argues that expected inflation is negatively correlated with anticipated real activity, which in turn is positively related to returns on the stock market. Therefore, stock market returns should be negatively correlated with expected inflation, which is often portrayed by the short-term interest rate. In theory, the interest rates and the stock price have a negative correlation (Hamrita & Abdelkader, 2011). This is because a rise in

the interest rate reduces the present value of future dividend's income, which should depress stock prices. Conversely, low interest rates result in a lower opportunity cost of borrowing. Lower interest rates stimulate investments and economic activities, which would cause prices to rise.

2.2.2 Behavioral Finance Theory

The assumption that investors are rational and behave in a rational manner is at the core of the EMH. Over the years another school of thought has emerged. This school of thought hypothesizes that investors are not always rational and therefore the study of market efficiencies and security pricing should take into account the behavior of investors. This school of thought has evolved into a branch of finance known as Behavioural Finance.

As Barberis and Thaler (2003) points out Behavioural Finance has emerged by combining emotions and cognitive errors and their influence to investors and the decision making process. Various researchers have defined Behavioural Finance with considerable agreement between them. Sewell (2005) defines it as a study of the influence of psychology on investors and the effect of this influence to the market. Lintncr (1998) defines it, as a study of human decision-making errors when interpreting and acting on information. Kahneman and Tversky (1979), Shefrin and Statman (1994), Shiller (1995) and Shleifer (2000) are among the leading researchers who have used Behavioural Finance to explain investors behaviour.

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Belsky and Gilovich (1999) referred to behavioural finance as behavioural economics in that "Behavioural economics combines the twin disciplines of psychology and economics to explain why and how people make seemingly irrational or illogical decisions when they spend, invest, save, and borrow. Much of economic and financial theories presume that individuals act rationally and consider all available information in the investment decision-making process.

In the global financial markets, application of investment ideas based on the notion that the market is predictable, complete price flexibility, and complete knowledge of the other players in the markets are increasingly unrealistic (Fromlet, 2001). Thus, markets are irrational as stated by Burton Malkiel (1973) and when it comes to investing, people generally follow their emotions and not their reason.

De Bondt (2004) views Behavioural Finance theory as a model that applies cognitive psychology to explain the market and investor behaviour. In essence, this theory argues that investors do not apply full rationality while making choices, and it attempts to understand the investment market phenomena by dropping two key assumptions of Traditional Finance paradigm that is agents fail to update their beliefs correctly and there is a systematic deviation from the normative process in making investment choices (Fromlet, 2001).

Behavioural Finance theory has successfully explained stock price anomalies related to overreaction, under reaction, and momentum strategies and herding behaviour. Studies done by Barberis, Shleifer, and Vishny, (1996), Lakonishok, Shleifer and Vishny, (1997), Daniel, Hirshleifer, and Subramanyam, (1998), Daniel and Titman, (2000) and Barberis and Shleifer, (2003) have focused on these trading strategies and refers to them as trading anomalies. They argue that these anomalies violate the trading rules of the EMH theory and hence render the CAPM and other rational based models inappropriate in relating investment risk and returns.

2.2.3 Behavioral Theory of Leadership

The question that many organizations struggle with is “what behaviors should our leaders possess and develop to be most effective?” Behavioral theory attempts to answer these questions. When a person exhibits potential leadership behavior, he or she is assessed for distinctiveness regarding that behavior-if it distinguishable from behaviors of others in the group, then leadership may be attributed to that person (Kenney, Blascovish & Shaver, 1994). Behavioral theory specifically identifies two primary examples of behavior that leaders adopt: these are task orientation and follower orientation (Holdford, 2003). In those leaders who exhibit a task-oriented style, the focus is on accomplishing the assigned job, while concerns about followers take a back seat (Holdford, 2003).

These leaders bring structure and direction to followers by setting goals, providing training, defining expectations and limits on behavior and establishing rules and procedures (Holdford, 2003). While this behavior can lead to structure, there comes a point where it is no longer useful as it becomes restrictive to subordinates.

Follow oriented leaders focus less on the job at hand and express a greater concern for the follower as a human being and not a cog in the machine (Holdford, 2003).Leaders with this orientation demonstrate behaviors such as showing respect, gaining trust, demonstrating consideration and being friendly and approachable (Holdford, 2003).The ultimate goal should be to develop and promote leaders with a balance of these behaviors.

2.2.4 Transformational Leadership Theory

Transformational leadership theory also fits into the succession planning and management equation. This theory explains one of the fundamental ways in which leaders influence followers is by creating meaningful work (Purvanova, Bono & Dzieweczynski, 2006). Transformational leaders are charismatic and inspirational and provide individualized consideration to followers, attending to followers’ individual needs for growth and development (Bass, 1985).

Transformational leadership should result in more engaged, more devoted and less self-concerned employees, as well as in workers who perform beyond the level of expectations (Purvanova, Bono & Dzieweczynski, 2006). In short, transformational leadership is about achieving results beyond expectations. In succession planning and management, this theory could be a key component for success. By having leaders who possess these traits involved in the planning process, we could see greater engagement in the process and success of the program over time.

2.2.5 Situational Theory and Leadership

Situational theory attempts to develop an understanding regarding how leaders can and should adapt to the changing dynamics of leadership situations. According to this theory, the greatest predictor of leadership effectiveness and success is the situation in which a leader finds themselves (Holdford, 2003). The traits and the behaviors are important in this theory but the focus is on specific situations. Jobs can be routine or nonroutine, structured or unstructured. A far greater level of commitment is needed in professional work settings where individuals work independently to solve complex problems. Some followers are highly motivated, requiring little direction, while others are unmotivated and require close oversight and direction. Trust is essential to a leader's success. A good leader inspires confidence in and loyalty toward the leader. Many organizations place many constraints on leaders. Leaders are often hindered in their ability to hire, fire, discipline and reward staff. Some leaders are more capable and experienced in dealing with leadership situations than others. Adaptability is key.The key component in situational leadership theory is the ability of the leader to adapt to diverse situations, rather than changing them (Holdford, 2003). Also, Kenney,Blascovich & Shaver (1994), offer the relationship between leaders and their subordinates explains a situational contingency that is a critical determinant of a leaders' effectiveness. In today's ever changing health care environment, those individuals strong in their ability to adapt to diverse situations can be a critical component to success.

This study was based on the analysis of the theoretical framework, with the aim of understanding if and to what extent CEO succession can affect the share price performance of listed firms.

2.3 Factors Affecting Share Prices

The determinants of stock market performance include performance of the economy, monetary policies, fiscal policies, inflation, availability of substitute investments, change of investor preferences and market sentiments. Activities of government and general performance of the economy influence stock market activity and therefore the performance of stock markets. Reilly (1997) asserts that Monetary and fiscal measures enacted by various agencies of national governments influence the aggregate economies of those countries. The resulting economic conditions influence all industries and companies in an economy positively or negatively which in turn affect the performance of stock markets.

2.3.1 Fiscal Policy

Stiglitz (1993) posited that fiscal policy incentives such as tax cuts can encourage spending, where as additional taxes on income, petroleum products, cigarettes, and alcoholic beverages discourage spending. Increase or decrease in government spending also influence the general economic activity by triggering multiplier effect. Monetary policy has implications to the economy. A restrictive monetary policy reduces the supply of funds for working capital and expansion of business. According to Mendelson (1976), a restrictive monetary policy may lead to increased interests rates thus increasing the cost of capital which makes it more expensive for individuals to finance home mortgage and purchase of durable goods.

2.3.2 Inflation

Inflation affects the performance of stock markets as it causes differences between real and nominal interest rates thus changing the spending and saving behavior of consumers and corporations. Unexpected changes in the rate of inflation make it difficult for firms to plan, which inhibits growth and innovations .In Addition to the Effect of the domestic

economy, differential inflation and interest rate influence the trade balance between countries and exchange rate of currencies (Reilly, 1997). Events such as war, political upheavals within or outside a country ,or international monetary devaluation produces changes in the business environment that lead to uncertainties and earnings expectations of investors therefore increasing the risk premium of investors (Mendelson,1976).

2.3.3 Investments

Availability of other investments other than shares traded on the stock market affect the stock market performance. Stock markets compete for investments with other assets in an economy such as corporate bonds, governments bonds, treasury bills, real estate and foreign equity among others. The influx of government bonds and treasury bills in Kenya, resulted into-the bull-run at the Nairobi Stock Exchange between 2004 and 2006 (www.nse.co.ke)

2.3.4 Investor Composition

Changes in investor composition also affect stock market performance .As supply and demand for security change overtime, different types of investors are attracted to the market. If the risk preferences of the investors are not as those of current investors the required rate of return tend to shift .Accordingly price relationship will change quite independently of any modification in earnings expectations. Participation by institutional investors at Nairobi Stock Exchange influences pricing and returns generated at the stock market (Reilly, 1997).

2.3.5 Market Sentiment

Market sentiment affects stock market performance. Market sentiment is often subjective, biased, and obstinate .The uncertain mass reaction of individuals to developments affecting the stock market is one of the factors that handicaps stock market forecasting .A mild stock market flurry caused by a spurt in business activity may generate a wave of buying enthusiasm that raises prices to blossom levels .As an indication to this tendency, from January 1967 through December 1968 the American Stock Exchange index more

than doubled in the face of a business activity advance of about ten percent. The stay-eyed optimism of buyers who believe that prices that increase indefinitely may produce substantial advances that are not justified by underlying financial considerations. On the other hand, pervasive investor gloom, generated by political or economic uncertainties, could drive prices to levels that appear equally unjustified by standard financial tests Mendelson (1967).

2.4 Empirical Review

Lewellen and Huntsman (1970) analyzed 50 US firms at three-year intervals beginning from 1942 to 1963 and found strong evidence that top executives' compensation is heavily dependent upon generation of profits. Their results also indicate that firm profits and stock market values are substantially more important in the determination of executive compensation than are firm sales. Jensen and Murphy (1990) used CEO compensation data on a sample of 1,295 firms from 1974 to 1986. They estimated pay for performance models in first-differences to account how change in CEO compensation is related to change in shareholders' wealth. As a CEO compensation measure they used a broad measure of eight different components. They found that CEO pay-for-performance sensitivity has been modest and it has fallen in real terms from the 1930.

The use of stock price as a measure of firm performance has been advanced by Schellenger, Wood and Tashakori (1989) who established that the market concept of shareholder wealth represents an appropriate measure of financial performance. Venkatraman and Ramanujam (1986) posited that unlike accounting measures differences in accounting policies limit the usefulness of results but stock market indicators do not have this limitation. Studies done using non-market proxy measures to measure financial performance, such as earnings per share, return on assets, return on equity, profit margin, and sales among others do not measure the true financial performance of the firm. In addition, measures of financial performance are inconsistent

with finance theory which provides that, every significant decision made within the firm be measured in terms of its effect on shareholder wealth (Fama, 1970). Instructively, shareholder wealth is affected by the market price of the company's stock.

Puffer and Weintrop (1991) tested the relationship between Chief Executive Officer turnover and organizational performance using a sample of 48 large publically owned companies traded at the New York and American stock Exchange. On their first test they excluded companies in which the departing Chief Executive Officers were under 63 years old and thus were below retirement age. Their principal finding in this test was that Chief Executive Officer turnover occurs when reported annual earnings per share fall short of expectations, but also found a systematic relationship between high Chief Executive Officer turnover and declining market share.

Murphy and Zimmerman (1992) evaluated the behavior of various financial variables surrounding the CEO turnover simultaneously. By controlling firm performance and endogenous CEO turnover little evidence was found for earnings management i -e exercising discretion over accounting and investment variables , by outgoing CEOs, in order to increase their earnings-based compensation before leaving the organization. However the reduced growth rate of R&D, advertising, and capital expenditures prior to departures explains the overall poor performance of the firm.

Davidson, Worrel and Dutia (1993) examined the Effect of CEO successions on stockholder wealth in large firms faced with the bankruptcy. Results found that succession announcements, succeeding and following bankruptcy announcements, resulted into positive abnormal returns. Also the market reaction towards CEO from outside firm was comparatively more positive, especially in case of succession happening after bankruptcy.

Several studies have shown that chances of a distressed firm going through executive turnover are relatively high. Daily and Dalton (1995) found out that 45% of companies that had filed for bankruptcy had experienced CEO changes in the 5 years prior to filing, compared to 19% of the control group studied. Furtado and Karan (1990) found that

CEOs are more likely to be removed after poor firm performance or in the case of firms close to filing for bankruptcy. The continued involvement of the pre-bankruptcy management after the company has filed for bankruptcy protection strongly contributes to poor post-bankruptcy performance. This implies that a change in management in the firms improved firm performance.

The reasons as to why the CEO of a poorly performing organization is replaced vary (Hotchkiss, 1995) .Exits in poor performing firms may be voluntary or forced .Voluntarily resignations come about as a result of a firm's continuing poor performance, while in forced turnovers, the Boards of Directors replace those they consider to be poorly performing CEOs (Denis and Denis 1995). The forced exit of senior managers taken by the Boards of Directors is consistent with the role of Boards in monitoring and replacing poor performing CEOs (Huson et al, 2004).

CEO succession and its Effect have been evaluated by taking various aspects, related to CEO change, into consideration. Lausten (2002) examined the relationship between the replacement of CEOs and corporate performance in Danish firms. He tested the hypothesis that CEO turnover is inversely related to firm performance. Using several measures of corporate performance and corporate governance he found that threat of turnover force the CEO to act in the interest of the shareholders which strengthens the relationship between CEO turnover and firm performance.

Collins and Clark (2003) examined the relationship between the Chief Executive Officers and firm performance. They argue that the Chief Executive Officers membership in a social network whether intra or inter firm can potentially yield benefits for their firms. Grano Vetter (1985) further argued that Chief Executive Officer's social networks are an important factor that determines the extent to which firms can benefit from economic actions and outcomes influenced by the Chief Executive Officer's social network members.

Shen and Cannella (2003) found that the market responds more favorably to the news of a particular type of succession known as “relay succession process”. Relay succession refers to the process of identifying and grooming next heir. Results showed that stock market reacts positively to the initiation and successful completion of the process. However it responds negatively if heir exits the firm during process. Also strong positive reaction for outside CEO appointment has been observed.

Kaplan and Minton (2008) in their study in Sweden also indicate that bad performance is positively correlated with high Chief Executive Officer turnover. The study argues that the justification for the correlation could be that there is a belief that changing a Chief Executive Officer is a remedy for poor performance. Such beliefs according to the research study are based on the assumption that the Chief Executive Officer has a significant Effect on organizational performance. Fristedt and Sundqvist (2009) further argue in their study that possible explanations for the negative effect are; that it takes longer time than three years for a new Chief Executive Officer to have a positive effect, that restructuring costs the first years when a new one enters a company pressures the results, and that a new Chief Executive Officer often “clean the company’ by bringing to light all bad investments.

Kaplan and Minton’s (2008) study on how Chief Executive Officer turnover has changed and how it correlated stock performance was based on Chief Executive Officer turnover and stock performance for all fortune 500 firms in the United States of America. Their findings indicate that high Chief Executive Officer turnover has increased and is correlated with poor stock performance. Warner, Watts and Wruck (1998) used a random sample of 269 firms listed on New York and American stock exchanges in 1962. They recorded every Chief Executive Officer change from 1963 to 1978. Their study established that there is a relationship between Chief Executive Officer’s turnover and succession and organizational performance.

Friedi and Resebo (2009) carried out a study on effects of Chief Executive Officer turnover among 341 companies listed in Swedish Stock exchange. The researches argue that the Chief Executive Officer turnover has a negative correlation with company stock development. This effect is strongly significant in the short run (0-1 Year), and only slightly significant in the long run (0-2 and 0-3 years) but is consistent over all periods.

Fristedt and Sundqvist (2009) studied the rate of turnover of CEOs and established that between 1994 and 2009 the Chief Executive Officer turnover rose between 8.4% and 16.4%. The study attributed the rise to structural changes, globalization, cost-saving programs, reorganizations, higher demand for short-term returns and doing quarterly reports. The study argues that the Boards of directors change the Chief Executive Officer to avoid poor performance or to enhance performance.

Locally, Lessonet (2012) conducted a similar study but his study focused on listed companies that had a turnover above 50 billion. He found out that company CEO exit announcements had an impact on firm stock price in Kenya. The impact was however found to be varied, depending on the time period between the pre- and post-exit announcement date. The study also found that in the period between 5 and 12 months prior to the announcement date and that from 6 months and beyond after the announcement date, investors' reaction was insignificant, implying that in the said prior period investors had not got wind of the exit plans, while in the period after, the announcement had ceased to be news leading to the corporate action becoming insignificant in determining stock market price direction.

2.5 Event Study Methodology

The event-study methodology is based on the efficient markets hypothesis .The hypothesis states that as new information becomes available, it is fully taken into consideration by investors assessing its current and future Effect. Investors immediately re-assess individual firms and their ability to withstand potential economic, environmental, political, societal, and demographic changes resulting from the event. The

new assessment results in stock price changes that reflect the discounted value of current and future firm performance. Significant positive or negative stock price changes can then be attributed to specific events (Fama et al., 1969).The event-study method has the capability of identifying such abnormal changes because it is based on the overall assessment of many investors who quickly process all available information in assessing each individual firm‘s market value(Schwert, 1981). The methodology was be applied in this study since it allows for the determination and statistical analysis of abnormal share price returns arising from the event being analyzed (Binder, 1998).

2.6 Summary of Literature Review

The Chief Executive Officer is one important organizational resource that sets the path for the firm’s strategic direction. Existing research on the effects of Chief Executive Officer’s turnover and succession on the performance of state have majored on developed countries. From the empirical review, it’s clear that previous studies on CEO succession and the performance of institutions have had contradicting findings. Locally, the studies have focused on the effects of CEO on firm value. This study was aimed at filling the gap in literature and theory by providing more insight into CEO succession, focusing on its Effect on the share prices of listed firms on the Nairobi Securities Exchange in Kenya.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the research design and data collection methods that was used by the researcher in the study. It discusses the aspects such as research design, study population, data collection instruments, and data collection procedures and analysis.

3.2 Research Design

Ronald & Bernard (1995) defined event study as a statistical method to assess the effect of an event on the value of a firm. This design is a forward looking approach that focuses on identifying abnormal returns to firms from a specific event. If investors react favorably to an event, the expectation is that there would be positive abnormal stock returns around the event date. Conversely, if investors react unfavorably to an event, there would be negative abnormal stock returns. Hence, when analyzed using composite stock indices abnormal returns provide a means of assessing the capital market‘s response to specific events. Since the introduction of this methodology in 1969, it has become the standard method to use in the study of share price reactions to an announcement or event (Binder, 1998).

Kalay and Loewenstein (1985) assert that information risk i.e. non-diversifiable risk associated with event-specific information announcements may be priced by the market through the event study methodology. In line with the objective, this study was be conducted using event study methodology.

3.3 Study Population

The population of this study consisted of all the 57 listed firms in the Nairobi Securities Exchange in Kenya whereas the sample size consisted of 10 firms that had announced CEO change during the calendar years 2008 to 2013 (Appendix 1).

3.4 Data Collection

The study used secondary data from the NSE. Share price and the NSE 20-Share index data for the relevant period were collected from NSE monthly bulletins with the main focus being on the date of exit of the CEO as the event date. The relevant share price and NSE 20-Share index data used were the monthly price and 20-share index figures on the dates analyzed. To address the research problem, the study relied on all relevant public sources including the broadcast and print media and internet to corroborate information about this event and its exact date. Other sources included NSE announcements and company financial statements and articles in the financial press. Requisite adjustments were made to the data to ensure that only relevant dates before and after the announcement date were used in the analysis.

Table 3.1: Event Window for Sampled Companies

Company	Event Date	Pre-Event Window	Post-Event Window
Safaricom	Nov. 2010	Aug-Sept 2010	Dec-Feb 2011
EABL	July 2009	April-June 2009	Aug-Oct 2009
Bamburi	January 2009	Oct 2008-Dec 2008	Feb-April 2009
Total	July 2013	April-June 2013	Aug-Oct 2013
KCB	Jan 2013	Oct-Dec 2012	Feb-April 2013
NBK	June 2012	March-May 2012	July –Sept 2012
Barclays	Feb 2013	Nov- Jan 2012	March- May 2013
CMC	April 2012	Jan-March 2012	May-July 2012
NIC	July 2013	April- June 2013	Aug-Oct 2013
Mumias	July 2012	April-June 2012	Aug- Oct 2013

Source: Author

3.5 Data Analysis

This study employed The Event Study Standard Market Model to realize its objective. Statistical Package for Social Sciences (SPSS version 19.0) was used to analyze the

relevant data. The analysis involved estimating and examining abnormal returns for each of the sampled listed firm for 3 months before the event and for 3 months after the event. At each point in event time, the listed firm abnormal returns and the average abnormal returns across firms were calculated. The average abnormal returns were cumulatively summed up over the event time. Values were calculated comprehensively for the total event window of 6 months to study the effect on stock returns for sample firm. The null hypothesis for the study was that CEO change does not have any significant effect on stock price of the selected listed firm while the alternative hypothesis was that CEO change significantly affects the share price of the selected listed firm.

3.5.1 The Analytical Model

The standard market model used as a basis for estimating the normal rate of return on a security is specified as follows (Fama 1970):

$Rit = \alpha_i + \beta_i R_{mt} + \mu_{it}$

Where:

R_{it} = rate of return on security i in period t

R_{mt} = rate of return on the market index in period t

α_i = constant in regression equation

β_i = slope of regression equation (beta value of security)

μ_{it} = disturbance term

The normal (expected) returns (R_{it}) of all the sample stocks are calculated as:

$R_{it}= (P_t – P_{t-1})/P_{t-1}$

Where, R_{it}= Current Month Normal Return,

P_t= Current Month Stock Price,

P_{t-1} = Previous Month‘s Stock Price.

Factors which affect the whole market are captured by R_{mt} using the market index which is calculated as follows;

$R_{mt}= (I_t- I_{t-1})/I_{t-1}$

Where, R= Current Month Market Index Return,

I_t= Current Month Stock Index,

P_{t-1} = Previous Month's Stock Index.

The abnormal returns for all the stocks are calculated using the constant mean return model.

$AR_{it}= R_{it} - E(R_{it})$

and

Mean or Expected return, $E(R_{it}) = \alpha_i + \beta_i R_{mt}$

Where, AR_{it}= Current Month Abnormal Return,

R_{it}= Current Month Normal Return,

$E(R_{it})$ = Expected Return (mean return).

Therefore, $AR_{it}=\mu_{it}= R_{it} - \alpha_i - \beta_i R_{mt}$

After computation of abnormal returns of all securities, the average abnormal returns (AARs) will be computed during the event period (-12 to +6). AARs as below:

$AAR_t=1/N \sum_{t=k}^{t} ARit$

Where:

AAR_t=Average abnormal return for month t

N=Number of securities in the sample.

After this, cumulative average abnormal return (CAAR) is computed. The formula for CAARt

is

$CAAR_t=1/N \sum_{t-k}^{t+k} AARit$

Assuming that prices, indices and their respective returns in the event period are normally distributed, the t-statistic test will be used to test for the significance at 95% confidence interval, with the average cumulative abnormal return and its standard deviation being used to determine the appropriate empirical t-statistic.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter focuses on data analysis, presentation and interpretation. It presents, data analysis as per the study objectives, presentation of data by use of APA table format and data interpretation.

4.2 Regression

As discussed in the previous chapter, SPSS version 19.0 was used to generate the regression coefficients for the standard market model. The results were as displayed below.

Table 4. 1: Regression Coefficients

Coefficients	EABL	BAMB	SAF	Total	KCB	Mumias	NIC	Barclays	CMC	NBK
α	0.009	-0.162	-0.002	0.0036	0.22	0.007	0.0057	-0.001	0.003	0.267
β	1.162	1.129	0.465	0.493	1.043	1.143	1.23	1.146	0.624	0.57

Source: Research Findings

The regression coefficients for each of the selected companies were estimated from the share price and share index during the event period. These coefficient figures were then used to calculate the abnormal returns for each point in time in the event period. The following tables give a summary of the Abnormal Returns (ARs) generated from the earlier discussed formula.

Table 4. 2: Abnormal Returns for EABL

Abnormal returns for EABL					
	R	α	β	Rm	μ
Apr. 2009	0.03	0.009	1.162	0	0.03
May-09	0	0.009	1.162	0.02	-0.03
Jun.2009	0.26	0.009	1.162	0.15	0.07
Jul. 2009	-0.01	0.009	1.162	-0.01	-0.01
Aug-09	0	0.009	1.162	-0.05	0.05
Sep. 2009	-0.06	0.009	1.162	-0.03	-0.03
Oct. 2009	0.01	0.009	1.162	0.03	-0.03

Source: Research Findings

Table 4. 3: Abnormal Returns for Safaricom

Abnormal returns for Safaricom						
	Sep. 2010	-0.04	-0.162	1.129	0.04	0.08
	Oct. 2010	0.15	-0.162	1.129	0.01	0.3
	Nov. 2010	-0.16	-0.162	1.129	-0.06	0.07
	Dec. 2010	0.03	-0.162	1.129	0.01	0.18
	Jan-11	-0.04	-0.162	1.129	0.01	0.11
	Feb. 2011	-0.03	-0.162	1.129	-0.05	0.19
	Mar 2011	-0.09	-0.162	1.129	-0.08	0.17

Source: Research Findings

Table 4. 4: Abnormal Returns for Bamburi

Nov. 2008	-0.02	-0.002	0.465	-0.01	-0.01
Dec. 2008	-0.09	-0.002	0.465	0.05	-0.12
Jan-09	-0.09	-0.002	0.465	-0.09	-0.05
Feb. 2009	-0.2	-0.002	0.465	-0.23	-0.09
Mar. 2009	-0.01	-0.002	0.465	0.13	-0.07
Apr. 2009	-0.03	-0.002	0.465	0	-0.02
May 2009	0.03	-0.002	0.465	0.02	0.03

Source: Research Findings

Table 4.5: Abnormal Returns for Total

Abnormal returns for Total					
April 2013	0.12	0.0036	0.493	0.07	-0.269
May 2013	-0.07	0.0036	0.493	-0.03	-0.351
June 2013	0.01	0.0036	0.493	0.03	-0.331
July 2013	0.2	0.0036	0.493	0.04	-0.149
Aug 2013	-0.04	0.0036	0.493	0.01	-0.361
Sept. 2013	-0.06	0.0036	0.493	-0.04	-0.322
Oct 2013	0.01	0.0036	0.493	0.03	-0.331

Source: Research Findings

Table 4. 6: Abnormal Returns for NIC

Abnormal returns for NIC						
	May 2013	0.01	0.0057	1.23	0.01	-0.001
	June 2013	0	0.0057	1.23	0	-0.004
	July 2013	0.03	0.0057	1.23	0.05	-0.002
	Aug 2013	-0.03	0.0057	1.23	-0.03	-0.019
	Sept 2013	0.01	0.0057	1.23	0.01	-0.003
	Oct.2013	-0.01	0.0057	1.23	-0.02	-0.002

Source: Research Findings

Table 4.7: Abnormal Returns for Mumias

Abnormal Returns for	**Mumias**					
	April 2012	-0.03	0.007	1.143	0.09	0.03
	May 2012	-0.02	0.007	1.143	0.06	-0.05
	Jun.2012	-0.01	0.007	1.143	0.01	0.02
	Jul 2012	0	0.007	1.143	-0.07	0.02
	Aug 2012	0.02	0.007	1.143	0.02	-0.02
	Sept.2012	0	0.007	1.143	-0.07	0.02
	Oct. 2012	0.03	0.007	1.143	-0.11	0.03

Source: Research Findings

Table 4.8: Abnormal Returns for Barclays

Abnormal Returns for Barclays						
	Dec.2012	0	-0.001	1.146	0	-0.004
	Jan 2013	0.03	-0.001	1.146	0.05	-0.002
	Feb2013	0.01	-0.001	1.146	0.01	-0.001
	March 2013	-0.03	-0.001	1.146	-0.03	-0.019
	April 2013	0.01	-0.001	1.146	0.01	-0.003
	May 2013	-0.01	-0.001	1.146	-0.02	-0.002

Source: Research Findings

Table 4.9: Abnormal Returns for KCB

Abnormal Returns for KCB		**0.09**	**0.22**	**1.043**	**0.09**	**-0.314**
	Oct. 2012	0.09	0.22	1.043	0.09	-0.318
	Nov.2012	0.02	0.22	1.043	0.06	-0.348
	Dec.2012	0.12	0.22	1.043	0.01	-0.196
	Jan 2013	0.02	0.22	1.043	0.06	-0.348
	Feb 2013	0.02	0.22	1.043	0.06	-0.348
	Mar 2013	-0.04	0.22	1.043	0.02	-0.373
	Apr 2013	-0.11	0.22	1.043	-0.07	-0.347

Source: Research Findings

Table 4.10: Abnormal Returns for CMC

Abnormal returns for CMC		**-0.01**	**0.003**	**0.624**	**-0.02**	**-0.002**
	Jan. 2012	0.02	0.003	0.624	0.08	-0.024
	Feb.2012	0.05	0.003	0.624	-0.02	0.06
	Mar	-0.01	0.003	0.624	-0.02	-0.002
	April.2012	0.01	0.003	0.624	0.05	-0.019
	May 2012	0.03	0.003	0.624	0	0.022
	June 2012	0.01	0.003	0.624	0.05	-0.019
	July 2012	0.07	0.003	0.624	0.09	0.017

Source: Research Findings

Table 4.11: Abnormal Returns for NBK

Abnormal returns for NBK	**Mar. 2007**	**0.08**	**0.267**	**0.57**	**-0.11**	**-0.116**
	Apr. 2012	0.12	0.267	0.57	0.07	-0.269
	May.2012	-0.07	0.267	0.57	-0.03	-0.351
	June 2012	-0.04	0.267	0.57	0.01	-0.361
	Jul. 2012	0.01	0.267	0.57	0.03	-0.331
	Aug.2012	0.2	0.267	0.57	0.04	-0.149
	Sep.2012	-0.04	0.267	0.57	0.01	-0.361
	Oct. 2012	0.01	0.267	0.57	0.03	-0.331

Source: Research Findings

Table 4.12 below gives a summary of the Abnormal Returns (ARs) generated from the standard event study market model and the Average Abnormal Returns (AARs) derived from taking the ARs and weighting them against the 5 companies making up the sample of the study. These AARs have been cumulated over the event period to determine the Cumulative Abnormal Returns (CAARs).

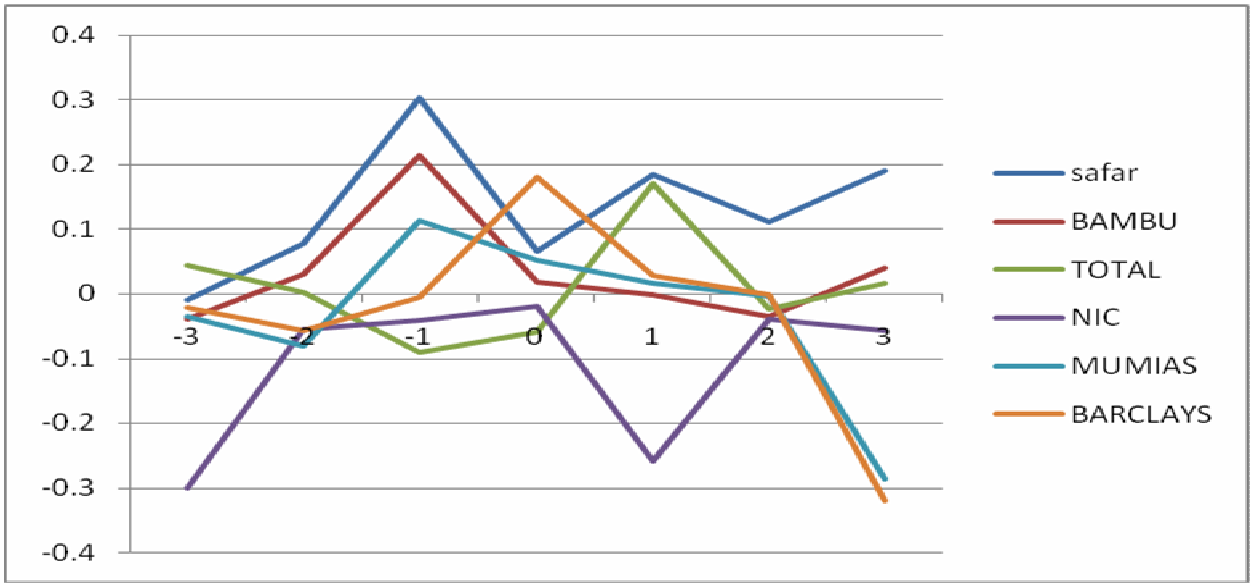
Table 4. 12: Company AR, AAR and CAAR in the Event Period

Saf	BAMBU	TOTAL	NIC	MUMIAS	BARCLAYS	KCB	CMC	NBK	AAR	CAAR
-0.009	-0.04	0.044	-0.2995	-0.0345	-0.022	-0.024	-0.014	-0.031	0.014	0.014
0.078	0.03	0.0031	-0.055	-0.08	-0.0563	-0.08	0.14	0.078	-0.063	-0.049
0.304	0.215	-0.09	-0.0413	0.113	-0.005	0.041	0.012	-0.008	0.014	-0.035
0.067	0.017	-0.058	-0.019	0.052	0.181	0.1	0.022	0.017	0.021	-0.014
0.185	-0.0025	0.17	-0.2577	0.016	0.028	0.005	-0.3476	-0.3725	-0.038	-0.052
0.112	-0.036	-0.024	-0.038	-0.003	-0.002	-0.024	-0.038	-0.063	-0.06	-0.112
0.192	0.04	0.016	-0.056	-0.2865	-0.3205	-0.3142	-0.1667	0.071	-0.042	-0.154

Source: Research Findings

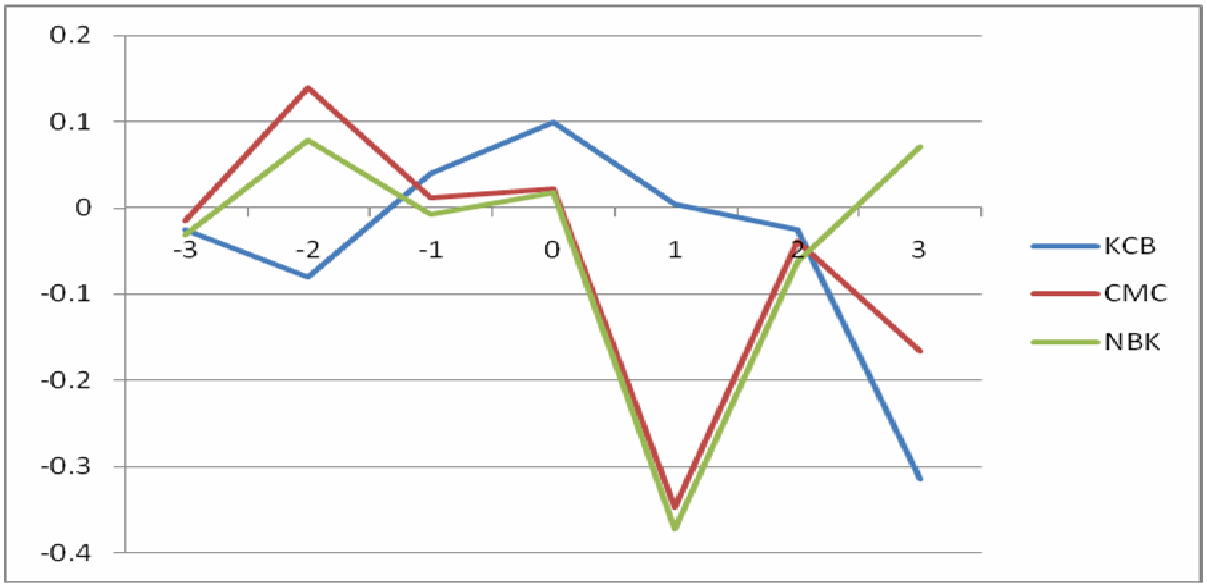
Figure 4.1 and 4.2 below show a graphic presentation of the Abnormal returns derived from the standard market model. It is evident from the chart that NBK contributed to a huge significant portion of the negative abnormal returns, while Safaricom contributed to much of the positive abnormal returns. Bamburi, Total, Barclays, Mumias, KCB and CMC's returns were mostly distributed around positive and negative abnormal returns. Also, Safaricom and Total experienced a hike in abnormal returns after the event date, while CMC, NBK and NIC experienced a trough immediately after the event date.

Figure 4. 1: Company Abnormal return (AR) in the event period



Source: Research Findings

Figure 4. 2: Company Abnormal Return (AR) in the event period



Source: Resource Findings

In table 4.13 below, a test of significance of the cumulative abnormal returns has been conducted. The test statistics used is the 2-tailed t-test. A calculated t-statistic larger than absolute value of 2 would have a 5% or smaller probability of occurring by chance if the true coefficient were zero. A low value for probability increases the confidence level of having a significant t-statistic and indicates that the coefficient is significantly different from zero, thus making the coefficient seem to contribute something to the model. The t-test assumes that CAARs are normally distributed. The null hypothesis that was being tested was that at a 95% confidence level, the CAARs in the event period were not different from zero, meaning no significant impact on the performance of NSE‘s listed companies that experienced a CEO change. The alternative hypothesis states that at 95% confidence level, CAARs in the event period were different from zero, implying, CEO turnover has a significant impact on the performance of NSE‘s listed companies that experienced a CEO change.

Table 4.13: CAARs and their significance in the Event

Period			
Month Relative To Announcement Date	CAAR	SD of CAAR	t calculated
-3	0.014	0.2243	-0.1
-2	-0.049	0.1689	-0.2
-1	-0.035	0.2133	2.4
0	-0.014	0.1756	2.3
1	-0.052	0.0809	2.1
2	-0.112	0.0434	2.7
3	-0.154	-0.0857	2.2

Source: Resource Findings

Table 13 above shows insignificant CAARs in the interval of months -3 to 0 and. However, it also depicts significant negative returns from -1 to -3, implying that, the market incorporated the CEO exit information and reacted negatively to the CEO exit. In the interval of months -3 through the event date to +3 months after the event the market

reacted positively, accepting the CEO exit information and also becoming optimistic about the incoming CEO.

4.3 Interpretation of the Findings

The effect of CEO turnover on listed company performance has been investigated by this study from two main angles; to establish the impact on share price performance at the date of announcement of a CEO change and; to determine the impact on share price performance for the three months prior to and three months subsequent to the change in CEO.

From the findings it was established that company CEO exit announcements have had an impact on a firm's share price in Kenya. The impact was however found to be varied, depending on the time period between the pre- and post-exit announcement date.

From the analysis, it was evident that there has been a significant negative reaction to such announcements one month before the exit date announcement, signaling the initial shock, panic and uncertainty that accompanies market roumours about such announcements all the way to three months after the appointment of the new CEO, the reaction was found to be positive and significant. This implied that by this period investors had aligned themselves and accepted the exit of the listed company‘s CEO, banking on the said companies‘ succession planning strategies and accepting that the change was inevitable and perhaps better for the listed companies‘ future. Standard deviation before CEO succession i-e 0.2243 is higher than that of standard deviation after succession i-e 0.0809.

This shows that returns before succession are more volatile than the returns after succession.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter looks at the summary of findings, makes conclusion and offers policy recommendations.

5.2 Summary

This study found out the impact of CEO succession on the share prices. For this purpose, ten CEO successions in Kenyan listed companies during the period 2008-2013 have been analyzed. Results show that there is impact of CEO change news/event, on stock returns, during the period before CEO succession

Studies have proved that CEO change is perceived to be good for company's performance in future (Farrell and Whidbee, 2002; Rhim et al, 2006) however this is not the case with Kenya. In Kenya, more uncertainty prevails regarding the future performance of the firm. This uncertainty leads to the negative returns after CEO change. Another reason could be the mentality of investors that any firm changing its CEO is considered to be in downturn phase and thus new CEO is also considered a risky decision to boost up the firm's performance. This risky situation leads the investors to reduce their demand for that company's shares.

Kenyan stock market is efficient i-e its stock prices are adjusted according to any news arriving in market .This can also be the reason that significant improvement or deterioration in stock returns prior to CEO succession is observed.

Another argument discussed in literature is that an unanticipated change of CEO is reflected into positive response of stock market (Denis and Denis, 1995; Rhim et al, 2006). In light of this argument we may justify our negative stock returns after CEO succession as a response of anticipated CEO change.

5.3 Conclusion

The objective of this study which was to determine the effect of CEO succession on share performance of listed companies in Kenya was tested and the results indicated that even in Kenya, CEO change impacts stock returns. The performance of the share price appears to be strongly linked to the CEO change. From this study, the performance of share prices of listed companies that experienced CEO change declined steadily from one month before and one month after CEO change. The performance improved steadily after the third month of CEO change. Through the event study methodology the study was able to establish that CEO change had an impact on actual share price performance in Kenya.

5.4 Recommendation for Policy

The volatility that follows a CEO change was found to have a significant impact on the performance of share prices, and listed companies' boards should plan a succession strategy taking these effects into account. This is just an academic study indicating that even in Kenya, CEO change impacts stock returns. To find out exact situation of how much and in which direction CEO change impacts stock returns in Kenya (prior to change and after CEO change) a detailed analysis at the technical level covering all aspects is required.

From the study, Kenya was found to be efficient stock market responding to any negative or positive news arriving in the market. Investors respond positively to the stocks of the firm's which are likely to flourish in future in order to get higher returns and vice versa. CEO succession serves as a critical event to assess the firm's performance. Arrival of new CEO can be perceived as a good or bad signal for future growth depending on circumstances and person taking charge as CEO. Thus any such news to market can cause an upturn or downturn in stock prices of the firm. This study therefore recommends for a policy formulation in institutions regarding CEO succession.

The study established that there is a relationship between CEO succession and performance of share prices of listed companies in the Nairobi Stock Exchange (NSE) in Kenya. Majority of the firms experienced share price fluctuations immediately and after the exit of its CEO.

5.5 Limitations of The Study

This study relied on data from a selected sample of listed companies, making it difficult for the findings to be generalized to non-listed organizations. The fluctuations observed and depicted in the stock prices may also have been due to changes in other factors than the change of CEO. The research was concerned only with the financial impact of a change in CEO .The study can therefore not be used to assess the likely effect of an incoming or outgoing CEO on financial performance, based on the CEO's individual characteristics. There was also the challenge of accessing secondary data from companies that do not update their websites often

5.5 Areas of Further Research

In order to find out exact situation of how much and in which direction CEO change impacts stock returns in Kenya (prior to change and after CEO change) a detailed analysis at the technical level covering all aspects is required

A comprehensive analysis of listed companies and their CEO succession and also the impact of anticipated and unanticipated CEO change can give us more reliable results. And last but not the least, extended data i-e maximum number of CEO change announcements/ events may be analyzed along with extended event window to find out the true picture regarding stock returns preceding and following CEO change, in Kenya.

It is prudent to have succession planning in a company. A further study should be conducted to establish the succession planning policy of listed firms in Kenya.

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APPENDIX I

Listed Firms in the NSE as at October 2013

1. Barclays Bank
2. CFC Bank of Kenya Holdings
3. Diamond Trust Bank
4. Equity bank
5. Housing Finance
6. I&M Holdings ltd
7. Kenya Commercial Bank
8. National Bank of Kenya
9. NIC Bank
10. Standard Chartered
11. Co-operative Bank of Kenya
12. Car And General Limited
13. CMC Holdings
14. Marshalls East Africa
15. Sameer Africa Ltd
16. Eaagads Limited
17. Kakuzi Limited
18. Kapchorua Tea Company Limited

19. The Limuru Tea Company Limited

20. Rea Vipingo Plantations Limited

21. Sasini Limited

22. Williamson Tea Kenya Limited

23. Centum Investment Company Limited

24. Olympia Capital Holdings Limited

25. Trans-Century Limited

26. Accesskenya Group Limited

27. Safaricom Limited

28. home Africa limited

29. British American Investments Company Limited

30. CIC Insurance Group Limited

31. Jubillee Holdings Limited

32. Kenya Re Insurance Corporation Limited

33. Liberty Kenya Holdings Limited

34. Pan Africa Insurance Holdings Limited

35. A. Baumann And Company Limited

36. B.O.C Kenya Limited

37. British American Tobacco Limited

38. Carbacid Investments Limited

39. East African Breweries Limited

40. Eveready East Africa Limited

41. Kenya Orchards Limited

42. Mumias Sugar Company Limited

43. Unga Group Limited

44. Kengen Company Limited

45. Kenol/Kobil Limited

46. Kenya Power And Lighting Limited

47. Total Kenya Limited

48. Umeme Limited

49. Express Kenya Limited

50. Hutchings Beimer Limited

51. Kenya Airways Limited

52. Longhorn Kenya Limited

53. Nation Media Group Limited

54. Scan Group Limited

55. Standard Group Limited

56. TPS Eastern Africa Limited Uchumi Supermarket Limited

57. ARM Cement Limited

58. Bamburi Cement Limited

59. Crown Paints Kenya Limited

60. E.A. Cables Limited

61. E.A. Portland Cement Company Limited

Source: NSE 2013

APPENDIX II

Share Prices of companies that experienced CEO change as at 9th Oct.2013

Company	Share Price	Shares
Saf	9.40	
EABL	344.00	193,800
BAMBU	210.00	154,600
TOTAL	23.50	58,900
NIC	58.00	58,300
MUMIAS	3.60	209,000
BARCLAYS	17.65	977,100
KCB	49.75	2,240,000
CMC	13.50	-
NBK	20.50	215,200

Source: NSE 2013