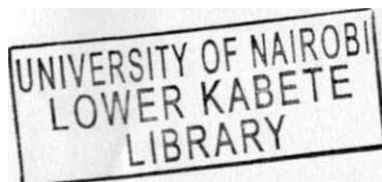# THE IMPACT OF CHIEF EXECUTIVE OFFICER CHANGE ON COMPANY VALUE: EVIDENCE FROM THE NAIROBI SECURITIES EXCHANGE

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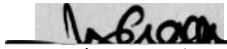Moses K Lessonet.
D61/P/8522/2001

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF
THE REQUIREMENTS FOR THE
DEGREE OF MASTER IN BUSINESS ADMINISTRATION. SCHOOL OF
BUSINESS. UNIVERSITY OF NAIROBI
MARCH 2012

Declaration

This research project is my original work and has not been submitted in any other university.

Signature:-

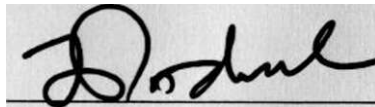Name: *   A   Lessonet   Moses   K

Date:-   31st March 2012

This research project has been submitted for examination with my approval as the university supervisor:-

DR. ADUDA JOSIAH O
Supervisor,

07/06/2012
Date

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This research report was completed out of the unequivocal and invaluable support and assistance of a number of people.

I wish to thank my wife, children, supervisor, moderator, the Nairobi securities exchange, colleagues and all who contributed in one way or another towards the completion of this Research Paper.

Acronyms and Abbreviations

AAR	Average Abnormal Returns
BAMB	Bamburi Cement
BOC	British Oxygen Company
CAR	Cumulative Abnormal Returns
CENT	Centum
CEO	Chief Executive Officer
CMC	Cooper Motors Corporation
EABL	East African Breweries Limited
EAC	East African Cables
EAPC	East African Portland Cement
EVE	Eveready
KCB	Kenya Commercial Bank
KENRE	Kenya Reinsurance Corporation
NMG	Nation Media Group
NSE	Nairobi Securities Exchange
OLY	Olympia Capital
PAN	Pan-African Insurance Company
SAF	Safaricom
SAM	Sameer Africa
SAS	Sasini
SCHRT	Standard Chartered Bank
TRANS	TransCentury
UCM	Uchumi

Abstract

Past international studies on the effect of CEO turnover on a firm's share price performance have yielded inconsistent results. To establish the nature and magnitude of the relationship between the two variables in Kenya, this research was conducted, with a particular emphasis on NSE listed companies. The study used the Event Study methodology by looking at whether or not, Cumulative Abnormal Returns (CAR) around the date of the announcement of CEO change in Kenya were significant. Using the standard event study methodology, the study found that CEO turnover has indeed had an impact on actual stock performance in Kenya.

From the study findings it became apparent that company CEO exit announcements have 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. From the analysis, it was established that there has been a significant negative reaction to such announcements three (3) to four (4) months before the exit date announcement. By the time it is two (2) months to the announcement date of CEO exit, all the way to five (5) months after the appointment of the new CEO. the reaction was found to be positive and sinificant. 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.

Using the standard event study methodology, the stud}' found that CEO turnover has had an impact on actual stock performance in Kenya. This study which addressed shareholder-wealth changes around the announcement of a CEO turnover in Kenya and found that a significant change in the volatility of the stock-price process around a change in firm leadership exists in the country . The volatility changes that follow a CEO turnover were therefore found to have a significant impact on the firm, and listed companies" boards should plan a succession strategy taking these effects into account.

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CHAPTER ONE: INTRODUCTION

1.1 Background

1.1.1 Conceptual Discussion

A typical response to a question on what a chief executive does will most likely lead to an answer that a CEO "plans." "organizes." "coordinates." and "controls." Over the years however, a number of researches have been undertaken to establish the work of managers, by having them fill out diaries or by actually observing them while they worked. From an analysis of this research, a picture of the top executive's job emerges that is entirely different from the classical view of managerial work. From the researches, ten basic roles that describe their jobs have emerged. The ten roles fall into three groupings. The "interpersonal" roles, of which there are three, describe aspects of the manager's work that involve interpersonal contact for its own sake. The information processing roles again three in number, describe the activities the manager performs primarily to process information, while the decision-making roles which are four in number, describe the decision-making activities of the manager.

In the first three roles, the manager is the figurehead, the leader and the liaison person. As a figurehead - the simplest of roles, the manager as a symbol, is required by the status of the office, to carry out a variety of social, legal, and ceremonial duties. The CEO must preside at formal dinners, greet visiting dignitaries, sign various forms and contracts, and make himself available to the important clients who believe that they merit the chief executive's attention. The leader role describes the manager's interpersonal relationship with his/her own subordinates, the need to hire, train, and motivate them. As leader, the manager must essentially bring their needs in accord with those of the organization. The liaison role focuses on the manager's interpersonal dealings with people outside of his/her own organization. He spends a considerable amount of time developing a network of high-status contacts in which information and favors are traded for mutual benefit. The CEO joins boards of directors, attends trade shows and performs public service work - all as part of the liaison role.

The second set of roles, three in number, describe the activities the manager performs primarily to process information. These are as a monitor, disseminator and spokesperson. In the monitor role, the CEO continually seeks and receives information about the organization to understand the structure thoroughly. Much of this information is privileged: the CEO alone receives it because of the contacts developed in the liaison role and because of the status in the leader role. In the disseminator role the manager shares some of this privileged

information with subordinates, and. in the spokesman role, informs outsiders about the firm's progress.

The last four roles describe the decision-making activities of the manager. As an entrepreneur, a disturbance handler, resource allocator and as a negotiator. As entrepreneur, the manager takes responsibility for bringing about change in the organization. The CEO looks for problems and opportunities, and initiates projects to deal with them. As disturbance handler, the manager must take charge when the organization faces a major disturbance or crisis—the loss of a key executive, a lawsuit, the destruction of a facility. As resource allocator, the manager decides who will get what in the firm. The CEO schedules his own time according to his own priorities; designs the organization, in effect deciding who will do what; and authorizes all its important decisions. No major action can be taken without the CEO's approval, for the CEO must take responsibility for it. Finally, as negotiator the manager takes charge whenever the firm must enter into crucial negotiations with other parties. His presence is required because he has the information and the authority to make the "real-time'" decisions that difficult negotiations require.

Given the important roles that a CEO plays in propelling an organization towards a given path. CEO turnover and its relationship with company performance has elicited a lot of research interest. Although most studies have been conducted in the US. their findings are interesting and relevant for our study as they provide insights into how CEO turnover and company performance might be related as well as suggesting relevant variables to use. different methods of analysis, reasons for changing CEO, and when the CEO turnover should be considered high.

1.2 Research Problem

As stated in the introduction above, a change in executive leadership is a significant event in the life of a firm. A chief executive officer's ability, preferences, and ultimate decisions affect the firm through the projects the firm selects, its financial policy, and the corporate culture. To the extent that these characteristics and the resulting decisions differ across individuals. CEO changes can alter the course of the firm and its performance.

This study intends to investigate CEO turnover and the relationship to a change in performance. The frequent turnover of CEO's in their endeavor to enhance the performance and to grow shareholder wealth has baffled many observers. The performance consequences

of a turnover are important because a change in stock-price volatility can have a meaningful impact on the firm, its management and its stakeholders. Increased volatility could alter the firm's investment policy going forward via an increased cost of capital, or by a reduction in the attractiveness of the firm's equity as a medium for acquisitions or compensation.

Increased volatility could also affect the various agency relationships in the firm - exacerbating conflicts between stockholders and bondholders, and hindering resolution of stockholder-management problems. Internal decisions that rely on gleaning information from price changes could also be altered. For example, high volatility costs might lead the board to choose a lower performance threshold as a trigger for replacing management (Hallman and Hartzell, 2003). To the extent that these effects are costly, the expected volatility impact should be a factor for the board in planning a CEO succession strategy.

In light of inconsistent international findings, limited research in emerging markets and the growing attention on CEOs, this research set out to investigate the impact of CEO turnover on NSE listed companies. The study is aimed at shedding light on the level of influence of Kenya's CEOs. If the CEO of a listed company is effective, this influence would be reflected in improved organizational share price performance. International studies have examined the effect of CEO turnover on share price performance in, among others, the United States of America, the United Kingdom. Japan. German), China and Australia (Suchard. Singh and Barr. 2001; Kato and Long. 2006). These studies have examined stock market reaction to CEO turnover events, as well as subsequent firm performance. 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). This study found no other research done to examine the effect of CEO turnover in the Kenyan context.

Examining samples of American companies, Warner et al. (1988) Weisbach (1988). Jensen and Murphy (1990), Murphy and Zimmerman (1993), Denis and Denis (1995) conclude 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' turnover on companies quoted at the Nairobi stock exchange.

The effect of CEO turnover on company performance as measured by the share price performance of listed companies in Kenya to the best knowledge of this study has not been established. The purpose of this study will therefore be to fill this research gap by examining the effect of CEO turnover in the Kenyan context using a sample of NSE listed companies. This study therefore attempts to address the following research question:-

1.3 Research Question

- What is the impact of a CEO change on the value of companies listed on the NSE?

1.4 Objectives of Study

- To establish the impact of a CEO change on the value of companies listed on the NSE.

1.5 Significance of the Study

Given the mixed findings throughout the world, findings on the situation in Kenya will be very important to a number of stakeholders.

Top management of the organization will benefit from the study as they will focus on effects of CEO turnover on performance. Organizations that offer retention consultancy strategy services to other organizations will benefit as they learn employee retention strategies.

Researchers and scholars who may use it as authority to future research, scholarly material and as referral material. The employees will also use it to deal with turnover from one organization to another organization.

Government will check the turnover tendencies of companies who contribute to the government in terms of taxes. This study will add knowledge to students who will use it to understand the effects of CEO turnover on organizational performance by making references. Lecturers will use it also as reference manual. The researcher's members of the family will use it to do papers touching on CEO turnover on organizational performance.

The study will provide pertinent information to listed companies on effects of CEO turnover on organizational performance and what needs to be done to augment its impact in improving the company's image. The study may benefit the Human resource and finance consultants who provide brand consultancy services to the financial institutions.

1.6 Expected Relationships - Existing theories

This study will be based on the analysis of the theoretical framework, with the aim of understanding if and to what extent a change in CEO can affect company performance. This theoretical framework consists of existing theories on what affects company performance.

a) **Strategic Leadership & Strategic Choice Perspectives**

Within the existing body of theories, there are two which argue in favor of the CEO having a large effect on company performance. These are the *Strategic Leadership perspective* and the Strategic Choice perspective, both of which emerged from contingency theory. The Strategic Leadership perspective is more psychological and less situationally deterministic compared to pure contingency theory. This perspective holds that the company is a reflection of the management and their perceptions because the Strategic Choices they make will to a large extent consist of the cognitive perceptions they have as individuals. The decision maker brings a cognitive base and values to decisions, which create a screen between the situation and his or her final perception. According to this perspective, changing CEO should have an impact on firm performance since a new CEO will have new cognitive perceptions and make different decisions. Thus the firm will change to be to some extent as a reflection of the new CEO and his or her new cognitive perceptions.

The *Strategic Choice perspective* states that the top management can determine the structure of the organization by selecting from a range of possible structural configurations to fit with the business environment. Since the top management can affect the company's fit with the business environment they can enhance or deteriorate performance. The conclusion is that these two perspectives argue that the top management has an important and influencing role in organizational performance, and that change in the top management, in which the CEO plays the most important role, should affect company performance.

According to these perspectives the CEO has the power to change the internal factors of a company. Since different CEOs can vary in their strategic decisions and are willing to pursue different strategic paths, changing CEO should have an impact on company performance. An example could be that a new CEO, due to his or her cognitive perceptions, might be more willing compared to the old CEO to make the strategic decision to enter or exit a specific market, or making the company focus on a particular product. Since such decisions can have a significant effect on company performance, a change of CEO can have a large impact.

b) Population Ecology Perspective

The *Population Ecology perspective* argues that CEOs cannot affect company performance in a significant way. This perspective was proposed as an alternative to the dominant adaptation perspectives like contingency theory. It claims that there are a number of limitations on an organization's ability to adapt to the environment, and that there are a number of processes that generate structural inertia. Inertial pressure arises from both internal structural arrangements and environmental constraints. Examples of constraints from internal structure arrangements include: Investments in fixed assets such as factories, equipment and specialized personnel that cannot easily be transferred to other functions or tasks. Informational constraints as top managers cannot have all the information concerning all activities in the organization and the environment, including internal political constraints that prevent re-organizations that could alter the structure of an organization. Also, constraints generated by the organization's history such as standards of procedure, allocation of tasks, and authority have become subject to normative agreement changes are difficult to implement and the cost of change has increased. Examples of external pressures toward inertia include: Numerous legal and fiscal barriers to entry and exit from markets that limit the breadth of adaptation possibilities.

Information constraints since acquisition of information about relevant environments are costly particularly in situations when the environment is turbulent and the information is most valuable. To the extent that adaptation violates the foundations on which organizational legitimacy is built it will constrain adaptation since it would be very costly to rebuild the legitimacy. Rationality can also be a constraint in that it is not necessarily the case that a strategy that is rational for a single decision maker will be rational if adopted by a large number of decision makers in an organizational set up

According to this perspective, organizations in a given business environment function like individuals where only the strongest survives and your strength is decided by your characteristics at birth. This means that only the organizations which at birth have the right characteristics to meet the requirements of the environment survive. Since adaptation is not a viable process due to inertia pressure, managers have no possibility to affect performance within this perspective.

c) Scapegoating Perspective

According to this perspective, a company's CEO appears to be a "scapegoat," since all managers have the same ability and exert the same effort, the characteristics of the firm (including firm volatility) do not change after a CEO change.

d) **Managers' perspectives'**

In addition to the predictions offered by the two competing theoretical perspectives, some non-theoretical but empirically grounded views from industry experts in regard to the performance implications of CEO changes indicate that there is some skepticism about how one person, the CEO. can have such a large impact on an organization that changing CEO will affect its performance. Is it really possible that performance can be affected by changing one man or woman? As this is a valid question, changing CEO does often not only mean changing only one person. Sometimes, a CEO change is often followed by other changes in the management team. The new CEO replaces part of the top management team which in turn replaces middle and lower management. The CEO's purpose is to get people in the management with whom he or she is comfortable working with, and to get a structure which he or she believes is more efficient. It therefore may be argued that the effect of changing CEO on company performance might be limited because organizational culture and established behavior are difficult for a CEO to change.

Another perspective has it that changing CEO can have a positive effect when the company enters a new phase, such as transitioning from being a national company to become a multinational company when a new CEO with experience from leading multinational companies might be needed.

In conclusion, some of previous research indicates that bad performance is positively correlated with a high CEO turnover[2]. Justification for this could be that there is a belief that changing CEO is a remedy for poor performance. Such beliefs are based on the assumption that the CEO has a significant impact on organizational performance.
Theories such as the Strategic Leadership Perspective? and the Strategic Choice perspective suggest that this is true, while other theories such as the Population Ecology perspective state the opposite. These theories will guide our findings and statistical analysis.

Perspectives	Expectation	Relationship

According to a study by Sebastian Fried] & Patrik Resebo in 2010
2 Kaplan, S. N., & Minton. B. A. (2008)

Strategic Leadership & Strategic Choice Perspectives	+ (Positive)	CEO changes have a significant positive effect on company performance.
Population Ecology Perspective	- (Negative)	CEO changes have a significant negative effect on company performance.
Scapegoating perspective	No Effect	CEO changes have no significant effect on company performance.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This section addresses the research objectives highlighted in chapter one. The chapter will discuss the role of change in chief executive officers on company value.

The departure of a firm's Chief Executive Officer is arguably the most significant event in the history of an organization. The following review of related literature examines the information content of this event. Specifically the study analyses the extent to which the impact of this event has been studied, the findings of previous studies, literature regarding CEO change, as well as the effect of CEO change on value of listed company's share price performance.

2.2 Theoretical Review

2.2.1 The Efficient Markets Hypothesis

a) The Concept and Definition of Market Efficiency

An issue that has been and still remains is the subject of intense debate among academics and financial professionals is the Efficient Market Hypothesis (EMH). EMH is one of the most hotly contested propositions in all the social sciences. It is disarming!}' simple to state, has far-reaching consequences for academic theories and business practice, and yet is surprisingly resilient to empirical proof or refutation. Even after several decades of research and literally thousands of published studies, economists have not yet reached a consensus about whether markets - particularly financial markets - are. in fact, efficient.

The origins of the EMH can be traced back to the work of two individuals in the 1960s: Eugene F. Fama and Paul A. Samuelson. Remarkably, they independently developed the same basic notion of market efficiency from two rather different research agendas. These differences would propel them along two distinct trajectories leading to several other breakthroughs and milestones, all originating from their point of intersection, the EMH. Like so **many** ideas of modern economics, the EMH was first given form by Paul Samuelson (1965), whose contribution is summarized by the title of his article: 'Proof that Properly Anticipated Prices Fluctuate Randomly'. In an informationally 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.

Having developed 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.

In contrast to Samuelson's path to the EMH. Fama's (1963; 1965a; 1965b. 1970) seminal papers were based on his interest in measuring the statistical properties of stock prices, and in resolving the debate between technical analysis (the use of geometric patterns in price and volume charts to forecast future price movements of a security) and fundamental analysis (the use of accounting and economic data to determine a security's fair value). Among the first to employ modern digital computers to conduct empirical research in finance, and the first to use the term 'efficient markets" (Fama. 1965b), Fama operationalized the EMH hypothesis - summarized compactly in the epigram 'prices fully reflect all available information' - by placing structure on various information sets available to market participants.

Fama's fascination with empirical analysis led him and his students down a very different path from Samuelson's, yielding significant methodological and empirical contributions such as the event study, numerous econometric tests of single- and multi-factor linear asset-pricing models, and a host of empirical regularities and anomalies in stock, bond, currency and commodity markets.

The EMH's concept of informational efficiency essentially postulates that the more efficient the market the more random the sequence of price changes generated by such a market, and the most efficient market of all is one in which price changes are completely random and unpredictable. This is not an accident of nature, but is in fact the direct result of many active market participants attempting to profit from their information. Driven by profit opportunities, an army of investors pounce on even the smallest informational advantages at their disposal, and in doing so they incorporate their information into market prices and quickly eliminate the profit opportunities that first motivated their trades. If this

occurs instantaneously, which it must in an idealized world of 'frictionless' markets and costless trading, then prices must always fully reflect all available information.

Therefore, no profits can be garnered from information-based trading because such profits must have already been captured. In mathematical terms, prices follow martingales. Such compelling motivation for randomness is unique among the social sciences

A decade after Samuelson's (1965) and Fama's (1965a: 1965b: 1970) landmark papers, 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 (see. 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.

b) The Random Walk Hypothesis (RWH)

Early in the past century, statisticians noticed that changes in stock prices seem to follow a fair game pattern. This led to *the random walk hypothesis,* first espoused by French mathematician Louis Bachelier in 1900. which states that stock prices are random, like the steps taken by a drunk, and therefore are unpredictable. A few studies appeared in the 1930's. but the random walk hypothesis was studied—and debated—intensively in the 1960"s. The current consensus is that the random walk is explained by the efficient market hypothesis.

c) Postulations of EMH

The efficient market hypothesis (EMH) states that financial markets are efficient and that prices already reflect all known information concerning a stock or other security and that prices rapidly adjust to any new information. Information includes not only what is currently known about a stock, but also any future expectations, such as earnings or dividend payments. It seeks to explain the random walk hypothesis by positing that only new information will move stock prices significantly   Information presently

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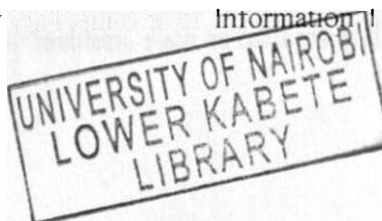
unknown and occurs at random, future movements in stock prices are also unknown and. thus, move randomly. Hence, it is not possible to outperform the market by picking undervalued stocks, since the efficient market hypothesis posits that there are no undervalued or even overvalued stocks (otherwise, one could earn abnormal profits by selling short).

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.

To summarize, the efficient market hypothesis rests on the following predicates:

i.   that information is widely available to all investors;
ii.   that investors use this information to analyze the economy, the markets, and individual securities to make trading decisions:
iii. that most events that have a major impact on stock prices, such as labor strikes, major lawsuits, and accidents, are random, generally unpredictable events and when they do happen, they are quickly broadcast to investors;
iv.   that investors will react quickly to any new information.

There are 3 forms or levels of the efficient market hypothesis that differ in what information is considered.

In the weak form, only past market trading information, such as stock prices, trading volume, and short interest are considered. Hence, even the weak form of the EMH implies that technical analysis can't work, since technical analysis relies exclusively on past trading data to forecast future price movements.

The semi-strong form extends the information to public information other than market data, such as news, accounting reports, company management, patents, products of the company, and analysts' recommendations.

The strong form extends the information further to include not only public information, but also private information, typically held by corporate insiders, such as officers and executives

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of the corporation. Obviously, corporate insiders can make abnormal profits by trading their company's stock before a major corporate change is communicated to the public, which is why such insider trading is banned by the capital markets regulators. Corporate insiders can trade their stock, but only if the trade is not based on a major development that only a few people know, such as a merger, a new product line, or significant key appointments within the company.

d) Challenges to EMH
i) Overreaction and under-reaction

A common explanation for departures from the EMH is that investors do not always react in proper proportion to new information. For example, in some cases investors may overreact to performance, selling stocks that have experienced recent losses or buying stocks that have enjoyed recent gains. Such overreaction tends to push prices beyond their 'fair" or "rational' market value, only to have rational investors take the other side of the trades and bring prices back in line eventually.

An implication of this phenomenon is price reversals: what goes up must come down, and vice versa. Another implication is that contrarian investment strategies - strategies in which 'losers' are purchased and 'winners' are sold - will earn superior returns. Both of these implications were tested and confirmed using recent US stock market data. For example, using monthly returns of New York Stock Exchange (NYSE) stocks from 1926 to 1982. DeBondt and Thaler (1985) document the fact that the winners and losers in one 36-month period tend to reverse their performance over the next 36-month period. However. Chan (1988) argues that the profitability of contrarian investment strategies cannot be taken as conclusive evidence against the EMH because there is typically no accounting for risk in these profitability calculations (although Chopra Lakonishok and Ritter. 1992 do provide risk adjustments, their focus was not on specific trading strategies). By risk-adjusting the returns of a contrarian trading strategy according to the capital asset pricing model, Chan (1988) shows that the expected returns are consistent with the EMH.

Moreover. Lo and MacKinlay (1990c) show that at least half of the profits reported by Lehmann (1990) are not due to overreaction but rather the result of positive cross autocorrelations between stocks. The existence of several economic rationales for positive cross-autocorrelation that are consistent with EMH suggests that the profitability of

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contrarian trading strategies is not sufficient evidence to conclude that investors overreact. The reaction of market participants to information contained in earnings announcements also has implications for the EMH.

In one of the earliest studies of the information content of earnings. Ball and Brown (1968) show that up to 80 per cent of the information contained in the earnings 'surprises' is anticipated by market prices. However, the more recent article by Bernard and Thomas (1990) argues that investors sometimes under-react to information about future earnings contained in current earnings. This is related to the "post-earnings announcement drift' puzzle first documented by Ball and Brown (1968). in which the information contained in earnings announcement takes several days to become fully impounded into market prices. Although such effects are indeed troubling for the EMH. their economic significance is often questionable - while they may violate the EMH in frictionless markets, very often even the smallest frictions - for example, positive trading costs, taxes - can eliminate the profits from trading strategies designed to exploit them.

ii) Anomalies

Perhaps the most common challenge to the EMH is the anomaly, a regular pattern in an asset's returns which is reliable, widely known, and inexplicable. The fact that the pattern is regular and reliable implies a degree of predictability, and the fact that the regularity is widely known implies that many investors can take can advantage of it. For example, one of the most enduring anomalies is the 'size effect', the apparent excess expected returns that accrue to stocks of small-capitalization companies - in excess of their risks - which was first discovered by Banz (1981). Keim (1983). Roll (1983), and Rozeff and Kinney (1976) document a related anomaly: small capitalization stocks tend to outperform large capitalization stocks by a wide margin over the turn of the calendar year. This so-called •January effect" seems robust to sample period, and is difficult to reconcile with the EMH because of its regularity and publicity. Other well-known anomalies include the Value Line enigma (Copeland and Mayers, 1982). the profitability of short-term return-reversal strategies in US equities   (Rosenberg.   Reid   and   Lanstein,1985;   Chan. 1988; Lehmann.1990; and Lo and MacKinlay, 1990c),   the   profitability   of   medium-term momentum strategies in US equities (Jegadeesh, 1990; Chan, Jegadeesh and Lakonishok. 1996; and Jegadeesh and Titman, 2001), the relation between price/earnings ratios and expected returns (Basu, 1977), the volatility of orange juice futures prices (Roll, 1984), and

calendar effects such as holiday, weekend, and tum-of-the-month seasonalities (Lakonishok and Smidt, 1988).

The implication of the existence of anomalies is that on the one hand, their persistence in the face of public scrutiny seems to be a clear violation of the EMH. After all, most of these anomalies can be exploited by relatively simple trading strategies, and, while the resulting profits may not be riskless, they seem unusually profitable relative to their risks (Lehmann. 1990). On the other hand. EMH supporters argue that such persistence is in fact evidence in favour of EMH or. more to the point, that these anomalies cannot be exploited to any significant degree because of factors such as risk or transactions costs. Moreover, although some anomalies are currently inexplicable, this may be due to a lack of imagination on the part of academics, not necessarily a violation of the EMH.

iii) Behavioural critiques

The most enduring critiques of the EMH revolve around the preferences and behavior of market participants. The standard approach to modeling preferences is to assert that investors optimize additive time-separable expected utility functions from certain parametric families - for example, constant relative risk aversion. However, psychologists and experimental economists have documented a number of departures from this paradigm, in the form of specific behavioral biases that are ubiquitous to human decision-making under uncertainty, several of which lead to undesirable outcomes for an individual's economic welfare - for example, overconfidence (Fischoff and Slovic, 1980; Barber and Odean, 2001; Gervais and Odean. 2001), overreaction (DeBondt and Thaler, 1985), loss aversion (Kahneman and Tversky. 1979; Shefrin and Statman, 1985; Odean. 1998), herding (Huberman and Regev, 2001), psychological accounting (Tversky and Kahneman, 1981), miscalibration of probabilities (Lichtenstein, Fischoff and Phillips, 1982), hyperbolic discounting (Laibson, 1997). and regret (Bell. 1982). These critics of the EMH argue that investors are often - if not always - irrational, exhibiting predictable and financially ruinous behavior.

iv) Impossibility of efficient markets

Grossman and Stiglitz (1980) go even further - they argue that perfectly informational efficient markets are impossibility for, if markets are perfectly efficient, there is no profit to gathering information, in which case there would be little reason to trade and markets would eventually collapse. Alternatively, the degree of market inefficiency determines the effort

investors are willing to expend to gather and trade on information; hence non-degenerate market equilibrium will arise only when there are sufficient profit opportunities, that is, inefficiencies, to compensate investors for the costs of trading and information gathering. The profits earned by these attentive investors may be viewed as "economic rents" that accrue to those willing to engage in such activities.

According to Black (1986), the providers of these rents are the 'noise traders', individuals who trade on what they consider to be information but which is, in fact merely noise. The supporters of the EMH have responded to these challenges by arguing that, while behavioural biases and corresponding inefficiencies do exist from time to time, there is a limit to their prevalence and impact because of opposing forces dedicated to exploiting such opportunities.

e) The Current State of The EMH

Given all of the theoretical and empirical evidence for and against the EMH. there is still no consensus among economists. Despite the many advances in the statistical analysis, databases, and theoretical models surrounding the EMH, the main result of all of these studies is to harden the resolve of the proponents of each side of the debate. One of the reasons for this state of affairs is the fact that the EMH. by itself, is not a well-defined and empirically refutable hypothesis. To make it operational, one must specify additional structure, for example, investors' preferences or information structure.

Often times, tests of the EMH may not be the most informative means of gauging the efficiency of a given market. What is often of more consequence is the efficiency of an articular market relative to other markets -   for example, futures vs. spot markets, auction vs. dealer markets. Therefore, from a practical point of view, and in light of Grossman and Stiglitz (1980), the EMH is an idealization that is economically unrealizable, but which serves as a useful benchmark for measuring relative efficiency. The desire to build financial theories based on more realistic assumptions has led to several new strands of literature, including psychological approaches to risk-taking behaviour (Kahneman and Tversky, 1979; Thaler, 1993; Lo, 1999), evolutionary game theory (Friedman, 1991), agent-based modelling of financial markets (Arthur et al.. 1997; Chan et aL 1998), and direct applications of the principles of evolutionary psychology to economics and finance (Lo, 1999; 2002; 2004; 2005; Lo and Repin, 2002). Although substantially different in methods and style, these emerging sub-fields are all directed at new interpretations of the EMH. In

particular, psychological models of financial markets focus on the manner in which human psychology' influences the economic decision-making process as an explanation of apparent departures from rationality.

2.3 The Event Study Methodology

The event-study methodology is based on the efficient markets hypothesis (Fama et al., 1969). This hypothesis generally states that as new information becomes available (perhaps as the result of some significant unexpected event), it is fully taken into consideration by investors assessing its current and future impact. 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.

$To-k$ $T0-2$ $To-1$ $_To$ $To-1$ $T0+2$ $To+k$

Source: Author

Legend:

- The interval $To-1$ to $To-k$ is the pre-event window (-12,-11,....,-1.)
- k is the number of months before or after the event
- Time To is the event date in calendar time
- The interval $To+1$ to $To+k$ is the post-event window (+1,+2,....,+6)
- The interval $To-k$ to $To+k$ is the event period (-12,-11,——0, +1, +2,..., +6.)

The strength of the event-study method lies in its ability to identify 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). In this study, this methodology allowed for the statistical testing of the significance of the economic impact the CEO turnover event on capital markets as measured by the deviation of stock and index returns from their average.

The concept behind event study methodology is the argument that since index returns are random variables, they will deviate from their means over any given event window. Also, when these deviations are examined against past average returns and taking into account historical variability important conclusions can be drawn, regarding the statistical significance (the depth and breadth) of an event. If the return deviation (abnormal return) is small and statistically insignificant on trading days that coincide with an event, then the conclusion is that the market saw the event as inconsequential. However, if the return deviation is large and statistically significant (falling outside the range of returns normally expected), then the conclusion would be that the market saw the event as important and one that moved it significantly.

2.3.1 Rationale for the use of event study method

Event study has in the past been used to determine if the actual share price returns of companies which experienced a change - for instance change in earnings, strike action or change in CEO - are significantly different from the expected returns over the period of the event. In practice, this methodology has been used with the assumption that markets are efficient and that all the information that is publicly available is incorporated in the stock price. The methodology allows for the determination and statistical analysis of *abnormal share price returns* arising from the event being analyzed (Binder. 1998).

Some past studies have analyzed firm performance following CEO change using a three-year period of returns (Dalton and Kesner (1983, 1985), Denis and Denis (1995) and Daily and Dalton (1995). In this study however, company share price performance twelve (12) months preceding the event date and six (6) post event date have been taken as the event window. This window was felt to be more appropriate given the fact that a too long period would have seen other corporate actions interfering with stock price and affecting the analysis, whilst too short a period would not have enabled a wholly inclusive and comprehensive analysis of the CEO change effect. All this was with the aim of ensuring that the findings there-from would not only be current but also relevant.

2.4 Empirical Review

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.

Past studies have determined that poor firm performance is positively correlated with high CEO turnover. For instance, (Wagner et al. 1984) found out that the chances of poorly performing firms recording higher turnover are higher. Huson et al (2004) found that the likelihood of turnover is higher in poor performing firms, while Bonnier and Bruner (1988), found that excess returns are significantly positive at the announcement of a change in senior management in a poorly performing firm. This finding is consistent with the view that a change in management in a poorly performing firm is likely to improve gains to equity holders.

Additionally, some studies have shown that chances of a distressed firm going through executive turnover are relatively high. In their research. Daily and Dalton (1995) found 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. These results tally with the findings of Furtado and Karan (1990) who found that CEOs are more likely to be removed after poor firm performance or in the case of firms close to filing for bankruptcy.

In contrast. Khanna and Poulsen (1995) compared the stock market's reaction to announcements of managerial turnover in failing firms to that of turnover in firms that were stable. The results did not find any significant difference. The market reaction to managerial turnover was found to be significant and negative for both the financially distressed group of firms studied and the control group of firms, thus adding to the inconsistency of the results of previous studies.

Hotchkiss (1995) conducted a study of US companies filing for Chapter 11 bankruptcy between October 1979 and September 1988. The study found that 55% of firms had replaced their CEO 2 years prior to filing, while 70% of firms had replaced the CEO by the time the film's re-organization plan was being implemented after filing for bankruptcy. Khanna and Poulsen (1995) observe that the legislative environment in the United States provides for

existing management to remain in office after the firm has declared bankruptcy. This suggests that the failure of the firm is outside of the manager's control, and blaming the manager is scape-goating. Much is argued against this view. Furtado and Karan (1990) assert that further research is needed to establish whether turnover in situations where the company is on the brink is scape-goating' or whether senior managers are the ones truly responsible for poor performance leading to bankruptcy filings.

In his stud)', Hotchkiss (1995) finds that the continued involvement of the pre-bankruptcy management after the company has filed for bankruptcy protection strongly contributes to poor post-bankruptcy performance. This suggests that a change in management in the firms that were sampled for the study improved firm performance. The reasons as to why the CEO of a poorly performing organization is replaced vary. Per Denis and Denis (1995) opine that 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. Huson et al (2004) find that 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.

Another interesting finding is that by Farrell and Whidbee (2002) who observe that Boards of Directors in firms with poor performance are more likely to act on the firms' senior management in firms which have a Board dominated by outside directors. Specifically, the researchers found out that firms with a forced CEO turnover had been the subject of 76% more news articles by the financial press in the Wall Street Journal than those with turnover that was not forced. This suggests that the monitoring of the financial press of poorly performing companies increases the likelihood of CEO turnover. The scrutiny by the financial press increases the pressure on the company's Board of Directors to effect a change in CEO. The other reason given for replacement of a CEO is a perceived lack of ability to perform.

Swartz and Menon (1985) postulate that when a firm fails, the managers of that firm are considered to be less competent than their counterparts in better performing firms. The same view is held by Khanna and Poulsen (1995). Swartz and Menon (1985) add that CEO replacement is also used as a signal to stakeholders of the affected firm. CEOs are oftentimes used as scapegoats for the organization, whether or not, the organization is doing well. These

managers are rewarded when the organization is doing well and hastily removed from their positions when the firm slides and is no longer doing well. The change in a CEO may result in both internal and external stakeholders altering their perceptions of the organization's image and its future outlook.

Khanna and Poulsen (1995) are of the view that in addition to the failure of firms being blamed on senior managers' incompetence, the said managers may be partially to blame because of their self-serving actions that lead to financial deterioration. These could include inaction in the face of vicious competition, use of failed strategies, misallocation of resources, subjectivity in decision making and resistance to change even in a dynamic environment among others. These actions have the potential to harm the firm as a whole, or a section of its stakeholders. This postulation is presented more aptly by Daily and Dalton (1995) who refer to the 'vicious cycle' of top management teams where deterioration of this team negatively affects company performance, and in turn, this poor company performance then leads to the deterioration of the top management team.

According to a number of studies, there is a correlation between poor firm performance and CEO turnover. However, there are significant differences as to the nature and experience of this correlation phenomenon. Studies conducted by Suchard et al (2001) in the United Kingdom, the United States, Japan and Germany show differences in the time lag between poor performance and the removal of the CEO as well as the sensitivity of CEO turnover to performance. Wagner et al (1984) observe that in high performing firms. CEO turnover is experienced for different reasons and could signal high quality senior management. In a market competing for rare managerial talent, good firm performance may increase the likelihood that a CEO will be pursued by other potential employers. This may result in higher turnover of CEO's in firms with good performance. This argument and those relating to poor firm performance and its impact on CEO turnover can be combined into the suggestion that either exceptionally poor or exceptionally good performance will lead to CEO turnover (Wagner et al. 1984).

The firing of a CEO is an extremely traumatic event, and the recruitment of a CEO from another firm brings with it many risks. As a result stakeholders react to these events with a degree of uncertainty. Therefore, high CEO turnover usually occurs only in cases of strong evidence of either exceptionally good or exceptionally poor performance. It also follows that

senior managers in average performing firms tend to be less likely to experience high turnover than senior managers in firms with more extreme performance whether very good or very bad.

Much has been written about measurement of firm performance and there appears to be no consensus on the best measure among the different approaches. According to Venkatraman and Ramanujam (1986). researchers do however, concur that it is in order to use different measures of organizational performance to arrive at a decision, depending on the research subject. Venkatraman and Ramanujam (1986) define firm performance as a subset of organizational effectiveness. The narrowest measurement of business performance is financial performance which uses financial measures, including sales growth, asset size, profitability and return on equity. However, there is a view that 'market' or 'value-based' measures are more appropriate measures than accounting-based measures as measured by stock market returns.

Previous research into the effect of CEO changes have been conducted using both accounting measures and stock market measures - as reflected in the stock or share price (Rhim (2006), Shen and Canella (2002), Daily and Dalton (1995), Friedman and Singh (1989) and Dalton and Kesner (1985). Share price is used in the studies conducted by Huson et al (2004). Worrell. Davidson and Glassock (1993) and Davidson, Worrell and Dutia (1993).

It is worth noting that there are studies that have discounted stock price as a measure of firm performance. Friedman and Singh (1989) argue that stock prices can be misleading as a measure of firm performance because they sometimes are influenced by changes in the firm that take place from time to time. A counter argument to this is that, in most cases, the CEO of a company is involved, and possibly deeply responsible for a significant amount of organizational changes (Rhim et al. 2006). This study is concerned with CEO impact on an organization's performance, including on its organizational changes, meaning that the argument by Friedman and Singh (1989) does not stand. Additionally, some researchers have noted that external market factors and market performance outside of the CEO's control can be significant (Rhim et al. 2006). Such factors' influence in this study have been controlled.

An argument for the use of stock price as a measure of firm performance has been advanced by Schellenger. Wood and Tashakori (1989) who opine that the market concept of

shareholder wealth represents an appropriate measure of financial performance. They add that 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. They further postulate that proxy 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.

One of the main primary limitations of using accounting measures is that differences in accounting policies limit the usefulness of results Venkatraman and Ramanujam (1986). Stock market indicators do not have this limitation.

Venkatraman and Ramanujam (1986) opine that there should be a broader definition of organizational performance in measuring business performance that would include measures of a non-financial nature. These would include measures such as market share, product quality, new product introduction and measures of technological efficiency.

In this study, the domain of financial performance is being considered, and within this, share price will be used as a measure of firm performance, in line with Fama (1970) who advocates for the theory that share prices reflect all available market information, and Daily and Dalton (1995) who assert that share price reflects the market's perception of the firm's future performance. Additionally, Worrell et al (1993) postulate that the price of a company's stock is the present value of the expected future cash flows of the company, and thus reflects the fair value of the firm at any point in time.

Past studies have come up with conflicting findings about stock market reaction to an announcement at the date of announcement of CEO exit. Bonnier and Bruner (1988) opine that the conflicting results of previous studies concerning the effect of CEO turnover on firm performance reflect the information effect and the real effect of the announcement of senior management change.

It is instructive that CEOs are privy to information not publicly available and a turnover in these ranks may send a message about the firm's current or future status. Furtado and Karan (1990) put it clearer by stating that the market may respond positively, negatively or not at all to the signals received. Different explanations have been given as reasons for the stock

market effect on the day of the announcement of the change in a firm's CEO (Suchard et al, 2001). The negative reaction could be as a result of the adverse short-term effect of a new CEO. This adverse effect is caused by the distraction to the core business of the firm, the new CEO's period of adjustment and possible restructuring of the management team (Suchard et al. 2001).

There are a number of studies that have investigated the impact of CEO turnover on stock price performance. 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 impact 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.

Huson et al (2004) find that prior to the replacement of a CEO. a 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.

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. 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).

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. In conclusion, 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).

In this section, the study discusses three models of CEO succession and their implications for volatility changes. These models are based on three motivating factors for the CEO change and choice of replacement: (1) the board's desire to continue the firm's strategy or find a successor with a different strategy, (2) the board's estimate of the management skill of the current CEO compared to potential successors, and (3) the board's use of the threat of termination to motivate the CEO to exert effort.

If there is investor sensitivity to information changes following a turnover, the expectation is for equity volatility to change. For example, after a turnover event, there may be increased uncertainty about the future prospects of the firm because the skill and strategy of the successor CEO are not known with precision. Initially, the impact of new information may be greater as investors update their prior beliefs. As time passes during the tenure of a CEO. investors may become less likely to revise their beliefs and reaction to news will diminish. Weaker (stronger) priors about the characteristics of the firm after a turnover event would be associated with larger (smaller) volatility changes.

2.5 Conclusion

Past research on the effect of senior management succession on firm performance has been mixed, and as per Davidson et al (1990) there exist three main contradictory views that have emerged. The first is the 'common sense' viewpoint which stipulates that managerial succession improves operational performance and hence organizational performance. The second view is the 'vicious cycle' postulation which provides that replacement of senior management causes tension and disruption, and reduces firm performance which leads to further deterioration of firm performance. The third viewpoint is the 'ritual scapegoating' argument which postulates that a change in leadership does not affect firm performance, suggesting that the leader is relatively insignificant.

Given these conflicting findings, this study will focus on the Kenyan environment by examining the effect on the market of a change in CEO in the Kenyan context. The study is aimed at providing more insight into CEO succession, focusing on its affect on the share price of listed companies on the Nairobi Securities Exchange.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The research methodology included the research design, data collection, data collection methods and research procedures and data analysis.

3.2 Research Design

K.alav. A., & Loewenstein U. (1985) argue 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. Following in the steps of these researchers, this research will be conducted using event study methodology. 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).

Ronald J. G., & Bernard S. B. (1995) defined Event study as a statistical method to assess the impact 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 (or major sector indices), abnormal returns provide a means of assessing the capital market's response to specific events.

3.3 Population

The unit of analysis in the corporate action event of analysis will be the CEO turnover during the period 2004 to 2011. The population universe will be all the 29 companies listed on the Nairobi Securities Exchange that had announced CEO change during the calendar years 2004 to 2011. This population will be derived from the NSE information regarding listed companies. To address the research problem, the study will rely 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 include NSE announcements and company financial statements and articles in the financial press. Share price and the NSE 20-Share index data for the relevant period will be 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 will be the monthly price and 20-share index figures on the dates analyzed.

Adjustments will be made to the data to ensure that only relevant dates before and after the announcement date (excluding holidays and weekends) are used in the analysis.

3.4 Sample

The sample was selected from the population universe of all listed companies that had announced CEO turnover events during the calendar years from 2004 to 2011. To narrow down to the appropriate sample, the following criterion will be used:

- The company had a market capitalization of at least Kshs. 50 billion;
- All stated reasons for turnover will be included in the sample.

Table 1: The population of companies that announced CEO changes (2004 - 2011)

Company	Code	Current Status	Market Cap (Kshs. B)	Rank
Sasini	SAS	ACTIVE	3.12	12
Kenya Commercial Bank	KCB	ACTIVE	50.61	5
CMC	CMC	SUSPENDED	7.87	9
Sameer Africa	SAM	ACTIVE	1.18	16
East Africam Portland Cement	EAPC	ACTIVE	5.13	10
EA Cables	EAC	ACTIVE	2.86	13
Standard Chartered Bank	SCHRT	ACTIVE	51.67	4
Nation Media	NMG	ACTIVE	22.94	6
Uchumi	UCM	ACTIVE	2.12	15
Bamburi	BAMB	ACTIVE	54.81	3
Kenya Reinsurance	KENRE	ACTIVE	4.7	11
Centum	CENT	ACTIVE	10.35	7
Pan-African Insurance	PAN	ACTIVE	2.35	14
Olympia Capital	OLY	ACTIVE	0.16	19
Trans-Century	TRANS	ACTIVE	8.20	8
BOC	BOC	ACTIVE	1.95	18
East African Breweries	EABL	ACTIVE	130.47	1
Evereadv	EVE	ACTIVE	0.35	17
Safaricom	SAF	ACTIVE	116.00	2

Source: Author; Nairobi Securities Exchange

- In analyzing the share price performance of the selected listed companies for the 12 months pre and 6 months post the CEO turnover event, the appropriate sample was derived, taking into account the additional criteria of the fact that the successor CEO remained in office for a period of at least six months after the exit on the event date CEO.
- A final categorization was done, resulting in five (5) companies qualifying to be analysed as the selected sample. These companies were East African Breweries

(EABL). Safaricom (SAF), Bamburi (BAMB) Standard Chartered Bank (SCHRT) and Kenya Commercial Bank (KCB).

Table 2: The selected sample of companies that announced CEO changes (2004 - 2011)

Company	Code	Market Cap	Reason	Date
East African Breweries	EABL	130.47	Unexpected transfer to another posting	July 1st 2009
Safaricom	SAF	116.00	Expected Retirement	November I^{st} 2010
Bamburi	BAMB	54.81	Unexpected resignation	January 20^{111} 2009
Standard Chartered Bank	SCHRT	51.67	Unexpected transfer to another posting	November 1st 2006
Kenya Commercial Bank	KCB	50.61	Expected departure	March $24^{.n}$ 2007

Source: Author

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. 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. Adjustments were made to the data to ensure that only relevant dates before and after the announcement date (excluding holidays and weekends) were used in the analysis.

Table 3: The partitioning of the event windows

COMPANY	EVENT DATE	PRE-EVENT WINDOW	POST EVENT WINDOW
East African Breweries	July 2009	July 2008 - June 2009	August 2009 - January 2010
Safaricom	November 2010	November 2009 - October 2010	December 2010 — May 2011
Bamburi	January 2009	January 2008 - December 2008	February 2009 - July 2009
Standard Chartered Bank	November 2006	November 2005 - October 2006	December 2006 - May 2007
Kenya Commercial Bank	March 2007	March 2006 - February 2007	April 2007 - September 2007

3.5 Data Analysis

The Event Study Standard Market 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):

$$Rit = ai + Pi\,Rmt + JUit$$

Where:

Rit = rate of return on security i in period t

Rmt = rate of return on the market index in period t

ai = constant in regression equation (called alpha)

Pi = slope of regression equation (i.e., beta value of security)

$/lit$ = disturbance term (abnormal return).

The normal (expected) returns *(Rit)* of all the sample stocks are calculated as:

$$Rit = (Pt - Pt\text{-}lJ/Pt\text{-}1$$

Where. *Rit* = Current Month Normal Return.

Pt = Current Month Stock Price,

$Pt\text{-}1$ = Previous Month's Stock Price.

Factors which affect the whole market are captured by Rmt using the market index which is calculated as follows;

$$Rmt = (It - It\text{-}1)/It\text{-}1$$

Where. *Rmt* = Current Month Market Index Return,

It = Current Month Stock Index,

$Pt\text{-}1$ = Previous Month's Stock Index.

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

$$ARit = Rit - E(Rit)$$

and

Mean or Expected return, $E\,(Rit) = ai + Pi\,Rmt$

where, *ARit* = Current Month Abnormal Return.

Rit = Current Month Normal Return,

$E\,(Rit)$ = Expected Return (mean return).

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Therefore, *ARit=fiit= Rit - ai - fii Rmt*

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:

AARt=l/N%=kAR_{it}

Where:

.•L4Rr=Average abnormal return for month t

A^Number of securities in the sample.

After this, cumulative average abnormal return *(CA4R)* is computed. The formula for *CAARl* is

*CUR,   =   y_Ar£';_*AAR,*

Where:

t-k= Number of days before the event date t

t+k= Number of event days after the event date t

3.5.1 Testing Hypothesis

The test involved estimating and examining abnormal returns for each of the sampled companies for 12 months before the event and for 6 months after the event. At each point in event time, the company abnormal returns and the average abnormal returns across companies are calculated. The average abnormal returns are cumulatively summed up over the event time. Values will be calculated comprehensively for the total event window of 18 months to study the impact on stock returns for sample companies. The null hypothesis for the study is that CEO change does not contain any price-sensitive information i.e. CEO change does not have any significant impact on stock price of the selected companies while the alternative hypothesis is that CEO change significantly affects the stock price of the selected group of listed companies. Assuming that prices, indices and their respective returns in the event period are normally distributed, the traditional t-statistic test is used to test for the significance, with the average cumulative abnormal return and its standard deviation being used to determine the appropriate empirical t-statistic.

$$t_{CAR} = \overline{CAR_{it}} / \left(\hat{\sigma} \left(\overline{CAR_{it}} \right) \right)$$

CHAPTER FOUR: DATA ANALYSIS AND PRESENTATION OF FINDINGS

Table 3 below gives a summary of the stock prices of the selected sample companies, the \SE 20-Share index figures during the event period and their respective returns. The price and index returns were generated from formulas (2) and (3) shown in the model specification section of the methodological approach.

4.1 Regression Results

Using the STATA regression software the study generated the standard market model regression results with the regression coefficients as indicated below:

Table **4: The regression coefficients**

Coefficient	**EABL**	**BAMB**	**SAF**	**SCHRT**	**KCB**
a	0.009	-0.162	-0.002	0.004	0.311
P	1.162	1.129	0.465	0.513	1.066

The regression coefficients for each of the selected companies were estimated as shown in the appendix. These coefficient figures were then used to calculate the abnormal returns for each point in time in the event period. Tables 4 to 8 give a summary of the Abnormal Returns (ARs) generated from formula (4) of the methodological approach.

Table 4. Abnormal Returns for the sampled companies - EABL

Month	*R*	*a*	*P*	*Rm*	
Jul. 2008	-0.05	0.009	1.162	-0.06	0.02
Aug. 2008	-0.05	0.009	1.162	-0.05	0.00
Sep. 2008	-0.08	0.009	1.162	-0.10	0.03
Oct. 2008	-0.27	0.009	1.162	-0.19	-0.06
Nov. 2008	0.11	0.009	1.162	-0.01	0.11
Dec. 2008	0.07	0.009	1.162	0.05	0.00
Jan 2009	-0.06	0.009	1.162	-0.09	0.04
Feb. 2009	-0.26	0.009	1.162	-0.23	-0.01
Mar. 2009	0.15	0.009	1.162	0.13	-0.01
Apr. 2009	0.03	0.009	1.162	0.00	0.03
Mav 2009	0.00	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
Aue 2009	0.00	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
Nov. 2009	-0.02	0.009	1.162	0.03	-0.07
Dec. 2009	0.04	0.009	1.162	0.02	0.01
Jan. 2010	0.03	0.009	1.162	0.10	-0.09

Source: Author

Table 5. Abnormal Returns for the sampled companies - SAF

Month	R	a.	P	Rm	M
Nov. 2009	0.21	-0.162	1.129	0.03	0.34
Dec. 2009	-0.06	-0.162	1.129	0.02	0.08
Jan 2010	0.15	-0.162	1.129	0.10	0.21
Feb. 2010	0.03	-0.162	1.129	0.02	0.17
Mar. 2010	0.03	-0.162	1.129	0.12	0.05
Apr. 2010	0.06	-0.162	1.129	0.04	0.18
May 2010	-0.06	-0.162	1.129	0.00	0.10
Jun.2010	0.05	-0.162	1.129	0.02	0.18
Jul. 2010	0.00	-0.162	1.129	0.02	0.14
Aue 2010	-0.17	-0.162	1.129	0.00	-0.01
Sep. 2010	-0.04	-0.162	1.129	0.04	0.08
Oct. 2010	0.15	-0.162	1.129	0.01	0.30
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 2011	-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
Apr. 2011	0.00	-0.162	1.129	0.04	0.12
May 2011	-0.03	-0.162	1.129	0.01	0.12

Source: Author

Table 6. Abnormal Returns for the sampled companies - BAMB

Month	R	a	P	Rm	
Jan. 2008	-0.03	-0.002	0.465	-0.13	0.03
Feb. 2008	-0.02	-0.002	0.465	0.08	-0.05
Mar. 2008	-0.01	-0.002	0.465	-0.05	0.02
Apr. 2008	0.02	-0.002	0.465	0.10	-0.02
Mav 2008	0.00	-0.002	0.465	-0.03	0.02
Jun. 2008	0.03	-0.002	0.465	0.00	0.03
Jul. 2008	-0.03	-0.002	0.465	-0.06	0.00
Aug. 2008	0.01	-0.002	0.465	-0.05	0.03

Month					
Sep. 2008	-0.04	-0.002	0.465	-0.10	0.01
Oct. 2008	0.00	-0.002	0.465	-0.19	0.09
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 2009	-0.09	-0.002	0.465	-0.09	-0.05
Feb. 2009	-0.20	-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	0.00	-0.02
May 2009	0.03	-0.002	0.465	0.02	0.03
Jun.2009	0.21	-0.002	0.465	0.15	0.14
Jul. 2009	0.03	-0.002	0.465	-0.01	0.04

Source: Author

Table 7. **Abnormal Returns for the sampled companies - SCHRT**

Month	R	a	P	Rm	
Nov. 2005	0.01	0.004	0.513	0.01	-0.001
Dec. 2005	0.00	0.004	0.513	0.00	-0.004
Jan. 2006	0.03	0.004	0.513	0.05	-0.002
Feb. 2006	-0.03	0.004	0.513	-0.03	-0.019
Mar. 2006	0.01	0.004	0.513	0.01	-0.003
Apr. 2006	-0.01	0.004	0.513	-0.02	-0.002
May. 2006	0.02	0.004	0.513	0.08	-0.024
Jun. 2006	0.05	0.004	0.513	-0.02	0.060
Jul. 2006	0.03	0.004	0.513	0.00	0.022
Aue. 2006	0.01	0.004	0.513	0.05	-0.019
Sep. 2006	0.07	0.004	0.513	0.09	0.017
Oct. 2006	0.19	0.004	0.513	0.09	0.136
Nov. 2006	0.02	0.004	0.513	0.06	-0.014
Dec. 2006	-0.02	0.004	0.513	0.01	-0.026
Jan 2007	0.06	0.004	0.513	0.02	0.040
Feb. 2007	-0.21	0.004	0.513	-0.07	-0.175
Mar. 2007	0.08	0.004	0.513	-0.11	0.130
Apr. 2007	-0.08	0.004	0.513	0.07	-0.126
May 2007	-0.01	0.004	0.513	-0.03	0.005

Source: Author

Table 8. Abnormal Returns for the sampled companies - KCB

Month	R	a	P	Rm	
Mar. 2006	0.01	0.311	1.066	0.01	-0.314
Apr. 2006	-0.01	0.311	1.066	-0.02	-0.299
May. 2006	0.37	0.311	1.066	0.08	-0.030
Jun. 2006	0.03	0.311	1.066	-0.02	-0.258
Jul. 2006	0.02	0.311	1.066	0.00	-0.287
Aug. 2006	0.05	0.311	1.066	0.05	-0.320

Sep. 2006	0.09	0.311	1.066	0.09	-0.314
Oct. 2006	0.09	0.311	1.066	0.09	-0.318
Nov. 2006	0.02	0.311	1.066	0.06	-0.348
Dec. 2006	0.12	0.311	1.066	0.01	-0.196
Jan 2007	-0.04	0.311	1.066	0.02	-0.373
Feb. 2007	-0.11	0.311	1.066	-0.07	-0.347
Mar. 2007	0.08	0.311	1.066	-0.11	-0.116
Apr. 2007	0.12	0.311	1.066	0.07	-0.269
May 2007	-0.07	0.311	1.066	-0.03	-0.351
Jun. 2007	0.01	0.311	1.066	0.03	-0.331
Jul. 2007	0.20	0.311	1.066	0.04	-0.149
Aue. 2007	-0.04	0.311	1.066	0.01	-0.361
Sep. 2007	-0.06	0.311	1.066	-0.04	-0.322

Source: Author

Table 9 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 9. **Company AR, AAR and CAAR in the Event Period**

Month Relative To Announcement Date	EABL	SAF	BAMB	SCHRT	KCB	AAR	CAAR
-12	0.017	0.336	0.034	-0.001	-0.3143	0.014	0.014
-11	-0.004	0.080	-0.049	-0.004	-0.2995	-0.055	-0.0413
-10	0.030	0.205	0.018	-0.002	-0.0296	0.044	0.0031
-9	-0.058	0.170	-0.024	-0.019	-0.2577	-0.038	-0.0345
-8	0.113	0.052	0.016	-0.003	-0.2865	-0.022	-0.0563
n	-0.005	0.181	0.028	-0.002	-0.3205	-0.024	-0.0800
-6	0.041	0.100	0.005	-0.024	-0.3142	-0.038	-0.1184
	-0.011	0.181	0.034	0.060	-0.3177	-0.011	-0.1292
-4	-0.014	0.140	0.012	0.022	-0.3476	-0.038	-0.1667
-J	0.028	-0.009	0.090	-0.019	-0.1960	-0.021	-0.1878
	-0.031	0.078	-0.008	0.017	-0.3725	-0.063	-0.2513
-i	0.071	0.304	-0.116	0.136	-0.3473	0.009	-0.2419
0	-0.008	0.067	-0.046	-0.014	-0.1158	-0.023	-0.2654
	0.051	0.185	-0.093	-0.026	-0.2694	-0.031	-0.2959
	-0.033	0.112	-0.068	0.040	-0.3506	-0.060	-0.3560
+3	-0.026	0.192	-0.022	-0.175	-0.3312	-0.072	-0.4285
-4	-0.070	0.165	0.028	0.130	-0.1491	0.021	-04077
-5	0.013	0.124	0.138	-0.126	-0.3614	-0.042	-0.4502
-6	-0.089	0.123	0.040	0.005	-0.3219	-0.049	-0.4987

Source: Author

Chart 2 below shows a graphic presentation of the Abnormal returns derived from the standard market model. From the chart, it can be discerned that KCB contributed to a significant portion of the negative abnormal returns, while Safaricom contributed to much of the positive abnormal returns. EABL, SCHRT and BAMB's returns were mostly distributed around positive and negative abnormal returns in equal measure. Also, SCHRT and BAMB experienced a hike in abnormal returns after the event date, while KCB, EABL and SAF experienced a trough immediately after the event date.

Chart 2. Company Abnormal Return (AR) in the Even! Period

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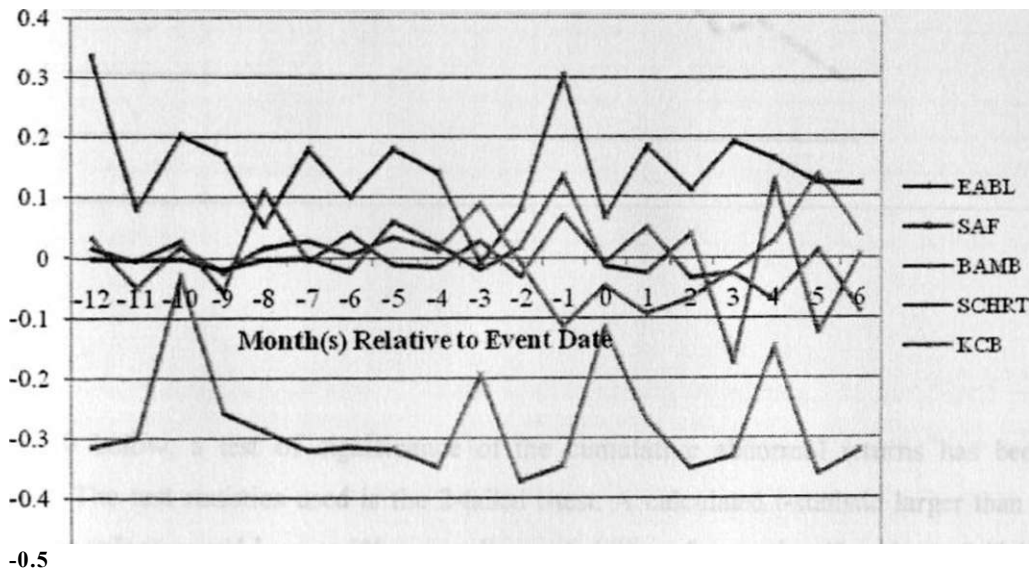
**Chart 3. Graphical Presentation of AAR and and CAAR for
the Selected Sample of Companies**
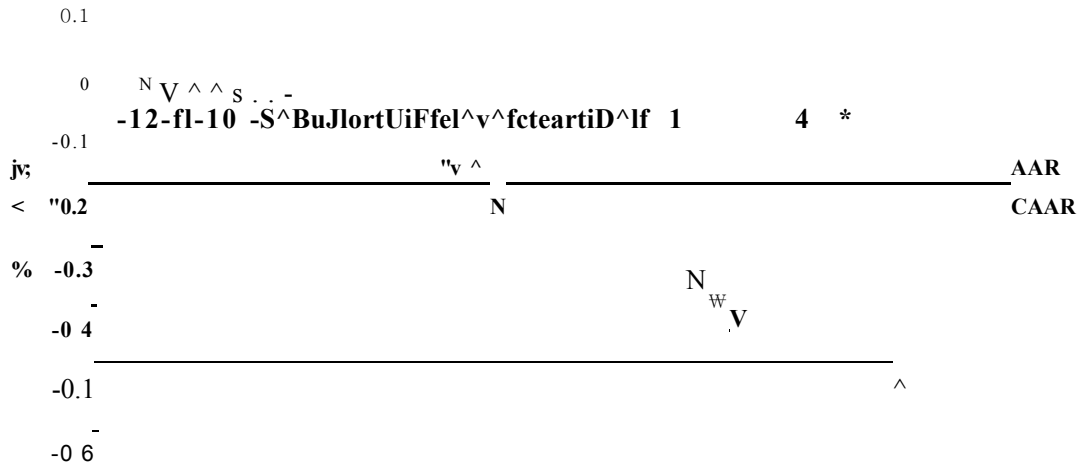
In table 10 below, a test of significance of the cumulative abnormal returns has been conducted. The test statistics used is the 2-tailed t-test. A calculated t-statistic larger than 2 (in absolute value) would have a 5% or smaller probability of occurring "by chance'" if the true coefficient were zero. 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. CEO turnover has 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 10. CAARs and their significance in the invent Period

Month Relative To Announcement Date	Cumulative Average AR	SD of CAAR	t calculated
-12	0.014	0.2243	0.1

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Month Relative To Announcement Date	Cumulative Average AR	SD of CAAR	t calculated
-11	-0.0413	0.1689	-0.2
-10	0.0031	0.2133	0.0
-9	-0.0345	0.1756	-0.2
-8	-0.0563	0.1539	-0.4
-1	-0.0800	0.1301	-0.6
-6	-0.1184	0.0917	-1.3
-5	-0.1292	0.0809	-1.6
-4	-0.1667	0.0434	-3.8*
-3	-0.1878	0.0223	-8.4*
	-0.2513	-0.0412	6.1*
-1	-0.2419	-0.0318	7.6*
	-0.2654	-0.0552	윤
	-0.2959	-0.0857	3.5*
	-0.3560	-0.1459	2.4*
+3	-0.4285	-0.2183	2.0*
-4	-0.4077	-0.1976	2.1*
+5	-0.4502	-0.2400	1.9*
-6	-0.4987	-0.2886	1.7

Note: SD - Standard Deviation (or Standard Error); * denotes statistical significance at 5% level.

Source: Author

Table 10 above shows insignificant CAARs in the interval of months -12 to -5 and +6. However, it also depicts significant negative returns from -4 to -3. implying that, the market incorporated the CEO exit information and reacted negatively to the CEO exit. In the interval of months -2 through the event date to +5 months after the event the market reacted positively, accepting the CEO exit information and also becoming optimistic about the incoming CEO.

4.2 Discussion of the Results

Stock price performance surrounding CEO turnover announcements

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 twelve months prior to and six months subsequent to the change in CEO. To meet these two objectives stock price and resultant stock price returns behavior of 5 listed companies with the highest market capitalization levels as at November 2011 was analyzed.

From the study findings it became apparent that company CEO exit announcements have 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. From the analysis, it was established that there has been a significant negative reaction to such announcements three (3) to four (4) months before the exit date announcement, signaling the initial shock, panic and uncertainty that accompanies market roumours about such announcements. By the time it is two (2) months to the announcement date of CEO exit all the way to five (5) months after the appointment of the new CEO. the reaction was found to be positive and sinificant. 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.

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.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

From the study findings it became apparent that company CEO exit announcements have 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. From the analysis, it was established that there has been a significant negative reaction to such announcements three (3) to four (4) months before the exit date announcement, signaling the initial shock, panic and uncertainty that accompanies market roumours about such announcements. By the time it is two (2) months to the announcement date of CEO exit, all the way to five (5) months after the appointment of the new CEO. the reaction was found to be positive and sinificant. 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.

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.

5.2 Conclusion

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 twelve months prior to and six months subsequent to the change in CEO. This paper examined the impact of CEO turnover on firms' equity value. Data analyzed in the study consisted of a sample selected from the population universe of all NSE listed companies that had a market capitalization of at least Kshs. 50 billion and had announced CEO turnover events during the calendar years from 2004 to 2011. Using the standard event study

methodology, the study found that CEO turnover has had an impact on actual stock performance in Kenya.

5.3 Policy Recommendations

The uncertain nature and prospects of a new strategy and a CEO's ability to mobilize resources to improve company performance may lead to increased uncertainty about the firm's future cash flows. As the market evaluates the characteristics of the new CEO's strategy and ability, market expectations about firm value may sometimes get revised suddenly or dramatically than in the past. This study established that stock-price volatility increases following a CEO turnover, with firm performance declining some months prior to CEO turnover and recovering just before a CEO's exit. The magnitudes of these performance changes are more pronounced in the period surrounding the exit of the incumbent top officer. These findings are economically significant and consistent with both the strategy^ and ability[4] hypotheses, but inconsistent with the scapegoat"[1] hypothesis. Our tests provide new evidence on the importance of CEOs. This study which addressed shareholder-wealth changes around the announcement of a CEO turnover in Kenya and found that a significant change in the volatility of the stock-price process around a change in firm leadership exists in the country. The volatility changes that follow a CEO turnover were therefore found to have a significant impact on the firm, and listed companies' boards should plan a succession strategy taking these effects into account.

5.4 Limitations of the study

1. The swings as observed and depicted in the stock prices may also have been due to changes in other factors than the CEO turnover. It was however assumed that any of those changes were captured by the index changes.

2. The research was conducted using a single measure of financial performance, being performance as reflected in a company's share price. This provided a limited assessment of organizational performance as expressed by Venkatraman and

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[3] The decision to retain or fire a CEO, coupled with the choice of replacement if the CEO is fired, gives the board an opportunity to partially adjust the firm's course.

* The dismissal of an existing CEO occurs when the expected ability of the current manager based on past performance drops below the expected ability of a replacement CEO.

Because firing occurs due to random factors that result in poor firm performance, rather than the ability or effort of the CEO, the CEO appears to be a "scapegoat."

Ramanujam (1985). The results of the study cannot be generalized to accounting or other organisational measures of performance.

3. Only a selected sample of listed companies was used in the study, making it difficult for the findings to be generalized to non-listed organizations or performance of the economy or sector on a whole.

4. The research was concerned only with the financial impact of a change in CEO. It examined only the effect of a single historical event, and did not examine the personal characteristics of a CEO that may bring about a positive or negative change in financial performance. 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.

5.5 **Suggestions for further study**

1. A research using measures other than financial performance or a company's share price is recommended.

2. A study should that would capture all other companies with changes in chief executive officer, that is to include those with capitalization less than Ksh 50b is recommended.

3. A study that examines the personal characteristics of a CEO that may bring about a positive or negative change in financial performance is recommended. Such study can therefore be used to assess the likely effect of an incoming or outgoing CEO on financial performance, based on the CEO's individual characteristics.

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Monthly Stock and Market returns for sampled listed companies

EABL				
Vlontb	**Price**	**Index**	**Price Return**	**Index Return**
Jul-08	190.00	4.868	-0.05	-0.06
Aug-08	181.00	4.648	-0.05	-0.05
Sep-08	167.00	4.180	-0.08	-0.10
0ct-08	122.00	3387	-0.27	-0.19
Nov-08	135.00	3.342	0.11	-0.01
Dec-08	144.00	3.521	0.07	0.05
Jan-09	136.00	3.199	-0.06	-0.09
Feb-09	100.00	2,475	-0.26	-0.23
Mar-09	115.00	2.805	0.15	0.13
Apr-09	119.00	2.800	0.03	0.00
May-09	119.00	2.853	0.00	0.02
Jun-09	150.00	3,295	0.26	0.15
Jul-09	149.00	3.273	-0.01	-0.01
Aug-09	149.00	3.102	0.00	-0.05
Sep-09	140.00	3.005	-0.06	-0.03
0ct-09	142.00	3.084	0.01	0.03
Nov-09	139.00	3,189	-0.02	0.03
Dec-09	145.00	3.247	0.04	0.02
Jan-10	150.00	3.565	0.03	0.10
SAF				
Nov-09	4.85	3,189	0.21	0.03
Dec-09	4.55	3.247	-0.06	0.02
Jan-10	5.25	3.565	0.15	0.10
Feb-10	5.40	3,629	0.03	0.02
Mar-10	5.55	4,073	0.03	0.12
Apr-10	5.90	4,233	0.06	0.04
May-10	5.55	4,242	-0.06	0.00
Jun-10	5.80	4,339	0.05	0.02
Jul-10	5.82	4,438	0.00	0.02
Aug-10	4.85	4.454	-0.17	0.00
Sep-10	4.66	4.630	-0.04	0.04
Oct-10	5.35	4.660	0.15	0.01
Nov-10	4.50	4.395	-0.16	-0.06
Dec-10	4.64	4,433	0.03	0.01

Jan-11	4.45	4,465	-0.04	0.01
Feb-11	4.33	4,240	-0.03	-0.05
Mar-11	3.94	3.887	-0.09	-0.08
Apr-11	3.95	4.029	0.00	0.04
May-11	3.85	4,078	-0.03	0.01
BAMB				
Jan-08	190.00	4.713	-0.03	-0.13
Feb-08	187.00	5,072	-0.02	0.08
Mar-08	186.00	4.843	-0.01	-0.05
Apr-08	190.00	5.336	0.02	0.10
May-08	190.00	5.176	0.00	-0.03
Jun-08	195.00	5.185	0.03	0.00
Jul-08	190.00	4.868	-0.03	-0.06
Aug-08	192.00	4.648	0.01	-0.05
Sep-08	185.00	4.180	-0.04	-0.10
0ci-08	185.00	3.387	0.00	-0.19
Nov-08	182.00	3.342	-0.02	-0.01
Dec-08	165.00	3.521	-0.09	0.05
Jan-09	150.00	3.199	-0.09	-0.09
Feb-09	120.00	2.475	-0.20	-0.23
Mar-09	119.00	2.805	-0.01	0.13
Apr-09	116.00	2.800	-0.03	0.00
Mav-09	120.00	2.853	0.03	0.02
Jun-09	145.00	3,295	0.21	0.15
Jul-09	150.00	3.273	0.03	-0.01
SCHRT				
Nov-05	139.00	3.974	0.01	0.01
Dec-05	139.00	3,973	0.00	0.00
Jan-06	143.00	4.172	0.03	0.05
Feb-06	139.00	4.057	-0.03	-0.03
Mar-06	140.00	4.102	0.01	0.01
Apr-06	139.00	4,025	-0.01	-0.02
May-06	142.00	4.350	0.02	0.08
Jun-06	150.00	4,260	0.05	-0.02
Jul-06	154.00	4.259	0.03	0.00
Aug-06	156.00	4.486	0.01	0.05
Sep-06	167.00	4.880	0.07	0.09
0ct-06	205.00	5.314	0.19	0.09

Month				
Nov-06	209.00	5,615	0.02	0.06
Dec-06	205.00	5,646	-0.02	0.01
Jan-07	217.00	5.774	0.06	0.02
Feb-07	180.00	5,387	-0.21	-0.07
Mar-07	195.00	4.791	0.08	-0.11
Apr-07	180.00	5.148	-0.08	0.07
May-07	179.00	5,001	-0.01	-0.03
K C B				
Mar-06	11.80	4.102	0.01	0.01
Apr-06	11.70	4,025	-0.01	-0.02
May-06	16.00	4.350	0.37	0.08
Jun-06	16.50	4,260	0.03	-0.02
Jul-06	16.90	4,259	0.02	0.00
Aug-06	17.70	4,486	0.05	0.05
Sep-06	19.30	4.880	0.09	0.09
0ct-06	21.00	5,314	0.09	0.09
Nov-06	21.50	5,615	0.02	0.06
Dec-06	24.10	5.646	0.12	0.01
Jan-07	23.20	5,774	-0.04	0.02
Feb-07	20.70	5.387	-0.11	-0.07
Mar-07	22.30	4.791	0.08	-0.11
Apr-07	25.00	5.148	0.12	0.07
May-07	23.25	5.001	-0.07	-0.03
Jun-07	23.50	5.146	0.01	0.03
Jul-07	28.25	5.340	0.20	0.04
Aug-07	27.00	5,371	-0.04	0.01
Sep-07	25.50	5.146	-0.06	-0.04

Source: Author

EABL Regression Results

Variable	Obs	Mean	Std. Dev.		Min	Max	
pricereturn	19	-.0084211	.122214		-.27	.26	
• indexreturn	19	-.0152632	.0962848		-.23	.15	
• reg pricereturn indexreturn							
Source	SS	df	MS		Number of obs =		19

Source	SS	df	MS		
				F(1, 17)= 87.71	
Model	.225205569	1	.225205569	Prob > F = 0.0000	
Residual	.04364706	17	.002567474	R-squared = 0.8377	
				Adj R-squared = 0.8281	
Total	.268852628	18	.014936257	Root MSE = .05067	

ipricereturn	Coef.	Std. Err.	t	P>t	[95% Conf. Interval]	
i						
lindexreturn	1.161704	.1240392	9.37	0.000	.9000045	1.423404
_cons	.0093102	.0117777	0.79	0.440	-.0155386	.034159

Bamburi Regression Results

Variable	Obs	Mean	Std. Dev.	Min	Max
pricereturn	19	.0015789	.0979378	-.17	.21
indexreturn	19	.0157895	.0470597	-.08	.12

. reg pricereturn indexreturn

Source	SS	df	MS		
				Number of obs = 19	
				F(1, 17)= 7.10	
Model	.050858217	1	.050858217	Prob > F =0.0163	
Residual	.121794414	17	.007164377	R-squared = 0.2946	
				Adj R-squared = 0.2531	
Total	.172652632	18	.009591813	Root MSE = .08464	

pricereturn	Coef.	Std. Err.	t	P>t	[95% Conf. Interval]	
indexreturn	1.129522	.423939	2.66	0.016	.2350889	2.023955
_cons	-.0162556	.0205397	-0.79	0.440	-.0595906	.0270794

Safaricom regression results

Variable	Obs	Mean	Std. Dev.	Min	Max
pricereturn	19	-.0126316	.0766552	-.2	.21
indexreturn	19	-.0221053	.1008618	-.23	.15

reg pricereturn indexreturn

Source	SS	df	MS		Number of obs =	19
					F(1, 17)= 10.15	
Model	.039543911	1	.039543911		Prob > F = 0.0054	
Residual	.066224509	17	.003895559		R-squared = 0.3739	
					Adj R-squared = 0.3370	
Total	.10576842	18	.005876023		Root MSE = .06241	

pricereturn	Coef.	Std. Err.	t	P>t		[95% Conf. Interval]	
I indexreturn	.4647045	.1458552	3.19	0.005		.1569769	.7724322
cons	-.0023592	.0146774	-0.16	0.874		-.0333257	.0286073

Standard Chartered Bank regression results

Variable	Obs	Mean	Std. Dev.		Min	Max
pricereturn	19	.0115789	.0766857		-.21	.19
indexreturn	19	.0136842	.0541818		-.11	.09

. reg pricereturn indexreturn

Source	SS	df	MS		Number of obs =	19
					F(1, 17)= 2.57	
Model	.013887403	1	.013887403		Prob > F = 0.1275	
Residual	.091965224	17	.005409719		R-squared = 0.1312	
					Adj R-squared = 0.0801	
Total	.105852627	18	.005880702		Root MSE = .07355	

pricereturn	Coef.	Std. Err.	t	P>t		[95% Conf. Interval]	
indexreturn	.5126494	.3199612	1.60	0.128		-.1624097	1.187708
'cons	.0045637	.0174325	0.26	0.797		-.0322156	.0413431

Kenya Commercial Bank regression results

Variable	Obs	Mean	Std. Dev.		Min	Max
pricereturn	19	.0463158	.1095045		-.11	.37
indexreturn	19	.0142105	.0543973		-.11	.09

l . reg pricereturn indexreturn	
Source SS df MS	Number of obs = 19
	F(1, 17)= 6.63
Model .060560475 1 .060560475	Prob > F =0.0197
Residual .155281633 17 .009134214	R-squared = 0.2806
	Adj R-squared = 0.2383
Total .215842108 18 .011991228	Root MSE = .09557
1 pricereturn Coef. Std. Err. t P>t	[95% Conf. Interval]
r	
indexreturn 1.066304 .4141161 2.57 0.020	.1925957 1.940013
cons .031163 .022702 1.37 0.188	-.0167339 .07906