

**EFFECT OF CORPORATE RESTRUCTURING ON FINANCIAL
PERFORMANCE OF LISTED COMMERCIAL AND SERVICE
FIRMS IN KENYA**

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DECLARATION

This project is my original work and has not been presented for a degree in any other university.

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DEDICATION

I dedicate this project to God, my parents Mr. and Mrs. Mutua, my husband Thinji Miano, my daughter Silantoi and my sister Anne Kahuko for their encouragement and support throughout the study period and in this project.

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LIST OF ABBREVIATION

ANOVA: Analysis of Variances

CMA: Capital Market Authority

EBIT: Earnings before Interest and Taxes

MM: Modigliani and Miller

NASI: NSE All Share Index

NSE: Nairobi Securities Exchange

ROA: Return on Assets

ROE: Return on Equity

R²: Coefficient of Determination

ABSTRACT

The objective of this study was to examine the effect of corporate restructuring on the financial performance of financial institutions in Kenya, considering that over the years. It has become a common practice for companies around the world to restructure, as the expectation is that when management of a firm employs different restructuring techniques, some effect on the performance of the firm will be felt. Data from 10 listed Commercial and service firms in Kenya was analysed, during the seven-year period of the study from 2011 to 2017. Data was collected from financial statements of the companies studied. Computation of the various ratios that make the variables under consideration namely Return on Equity, Financial restructuring, portfolio restructuring, operational restructuring, firm size and liquidity. Data was analysed using descriptive and inferential statistics. The data was analysed with the help of STATA version 14. Descriptive statics included mean, standard deviation, minimum and maximum while inferential statistics involved diagnostic tests and panel data regression analysis in a bid to establish if there is any effect of Corporate restructuring on the financial based performance of listed commercial and service firms in Kenya. The findings indicated that the model explains 82.4% of the total variation in financial performance of the listed commercial and service firms in Kenya. It was further noted operational restructuring and firm size had a statistically significant positive impact on financial performance of the listed commercial and service firms in Kenya. Additionally, financial restructuring and portfolio restructuring had negative impact on financial performance of listed commercial and service firms in Kenya. Overall, the results indicate that corporate restructuring had a positive impact on financial performance of the listed commercial and service firms in Kenya. The study recommends that management of the listed commercial and service firms in Kenya should focus on financial restructuring and operational restructuring to improve financial performance.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Restructuring is broadly used in the developed and developing countries in turning around of their corporations and the economy as a whole. Individual Firms and economies as a whole are carrying out restructuring to gain a competitive edge and improve their performance or risk losing out to competitors in the dynamic business environment. Restructuring takes effect at three main stages. At the economic system level, it is for a long-time period reaction to marketplace changes dynamisms, technological advancement and macroeconomic regulations. At the sector level, restructuring causes changes inside the manufacturing and production sector and causing new adjustments throughout the entire organisations. At the organizational level, restructuring involves companies' internal reorganization so as adapt to new market changes and conditions (Osoro, 2014).

The relationship between Corporate restructuring and financial performance has theoretical bases that under pins the relationship. The current examination was founded on three theories including Modigliani and Miller hypothesis, agency theory and lifecycle hypothesis. Modigliani and Miller hypothesis holds that a levered firm was dependably have a higher value than that of unlevered firm by a sum amount equivalent to interest on tax shield (Mwangi, Makau & Kosimbei, 2014). The second theory is agency theory that places emphasis that Companies have the principal –agent relationship leading to agency problem and that agency problem may be reduced through compensation strategies that make agents act in the interest of the stockholders. Lastly, the study was founded on

Lifecycle Theory that stage a firm in its lifecycle determines the choices a firm makes concerning sources of funding for its activities especially during period of financial distress and when in danger of insolvency (Koh, Durand, Dai & Chang,2015).

Other diverse explanations have been advanced behind restructuring including ownership change demerger, as reaction to a business catastrophe or major internal business change that may involve repositioning, bankruptcy or buyout. Norley, Swanson & Marshall (2012) argued that a corporation that has adequately structured would be more efficient, prepared and in adequately position to concentrate on its financial planning and core businesses to improve its future endeavours and undertakings. Restructuring has been embraced some organizations to streamline their value offerings, improve their productiveness and incomes, enhance employees, welfare, improve stockholder's wellbeing, improve effectiveness and enhance generally performance among other rationale for restructuring. Developing competition and globalization alongside inflexible financial policies are increasingly influencing both public and private business organizations to endeavour for improved efficiency and better performance (Rogovsky, Ozoux, Esser & Broughton, 2015).

1.1.1 Corporate Restructuring

Scholars have advanced a number of definitions of corporate restructuring. Norley, Swanson and Marshall (2012), defines restructuring as the act of reorganizing the legal, ownership, operational or other structures of a company for the purpose of making it more profitable and better organized for its present needs. Corporate restructuring is a demonstration of revamping the legal system, proprietorship structure, operational

exercises and related financial structure or other aspects of a firm to enhance its profit-making ability and meeting its present needs (Hoeing & Morris, 2013). Corporate restructuring is one of the procedures that can enable a firm to overcome poor financial performance, develop new strengths and achieve operational efficiency in the capital market. It can likewise massively influence a firm's capital worth and consistency to the tune of billions of dollars (Kalaiganam & Bahadir, 2013).

Kalaiganam & Bahadir (2013) expressed their opinion that corporate restructuring can take place through three modes including; Financial, operational and portfolio restructuring. Financial restructuring is a procedure meant at maintaining a strategic distance from the liquidation of the organization. Typically, it includes contracts entered into by the firm and third-party outsiders to fulfil obligations to creditors as well as their demands under agreed specific terms and conditions (Lal, Pitt & Beloucif, 2013). Financial related restructuring may also involve the firm getting into new agreements with financial suppliers and creditors including the terms and conditions under which lenders were paid their sum due based on new conditions and terms different from initial terms when the loan was extended to the firm (Norley, Swanson & Marshall, 2012).

Organizational restructuring relates to the modifications made to HR function of the organization (Kalaiganam & Bahadir, 2013). The present HR plans of the company may need to be reorganised and changed according to the developing circumstance. The HR office needs to engage change organization. There are a number of HR symptoms that may warrant the organization to vouch for various organizational restructuring touching on the firm's Human resources (Hane, Bell & Howell, 2012). Such signs that may

warrant organizational restructuring may include: Parts of the organization being over or under staffed; clashing roles and communication breakdown, technological progression and rolling out improvements in work process, decreased or increased workforce numbers as well as reduced employee morale etc. (Hane, Bell & Howell, 2012). Portfolio restructuring involves changing the design of a firm's portfolio by offloading some assets (Sánchez-Riofrío, Guerras-Martín & Forcadell, 2015). Portfolio restructuring may additionally involve offer to dispose of assets never required anymore and the purchase of different ones that are needed. It could also involve restructuring of a firm's asset portfolio's mix by selling undesired assets or particular securities inside that class, while at the same time purchasing wanted assets or securities (Wu & Delios, 2009).

1.1.2 Financial Performance

Organizational overall financial performance is about efficiencies and effectiveness in the usage of the assets of the corporation and the success of the achievement of the objectives of various groups in a firm. In line with study by Cooperman, Mills & Gardner (2013). Overall performance can both be monetary or non-monetary and it essentially affects the ability of the firm to efficiently and gainfully coexist in the internal and external business surroundings that is highly dynamic. Kaplan & Norton (2016) noted that financially related performance metric is the final determinant of overall performance. The authors hold that the balanced scorecard method employed in evaluating performance of a venture uses non-financial information in measuring overall performance using the financial records obtained from official resources. According to Roberts (2011), measures of overall performance of a firm can be segregated into market-based measures, accounting measures, Firms value measures and the non-accounting measures.

Market based measures depend on marketplace data emanating from money and capital market by ensuring information used is prepared in adherence to policies and regulations. Non-accounting determinants are within the class of employee efficiency, satisfaction of consumers, business expansion and growth, rationalization of branches, information communication technology and services export including export of human capital to different international destinations (Dziobek & Pazarbasioglu, 2015). Accounting performance metrics are essentially financial metrics of overall performance that are based on statements of financial position and comprehensive income statement information. financially related performance measures rely on information that is financial in nature and that may be quantitative or qualitative in nature including return on Assets, Return on Equity and return on sales (Ho & Mckay, 2002).

1.1.3 Corporate Restructuring and Financial Performance

A Review of Empirical literature has settled on a close association between financial performance and corporate restructuring. Corporate restructuring has ended up being beneficial in different ways that are not confined to cutting down on operational costs and supporting better utilization of a firm's resources (Hamed, Bowra, Aleem & Hussain, 2013). According to Cascio (2012), corporate restructuring grants a private or government business organization the ability to pay expenses and other financial obligations, minimise and renegotiate its debt obligations and commitments with the intent of restoring liquidity and continuing with its core business assignments.

Cascio (2012) noticed that investment endeavour of a firm that relates to the capability of said organizations to recognize distinctive opportunities in the environment that would

promise higher returns is a sub set of the restructuring framework to be undertaken by a business firm. Financial related restructuring includes the procedure of redesign of liquidity, reduced risk, avoiding loss of control, cut down on the cost of capital, and improved stock holder wealth, among various diverse reasons of restructuring (Karmanova, Podsevalova, Mityurnikova, Silaeva and Atamanova, 2016). The way toward restructuring portrayed by Pike & Neale (2016) includes a survey of the corporate financial structure from the perspective of the shareholders considering whether proposed changes in the capital structure, business blend of assets would improve a firms credit worthiness, expand efficiency and lessening the cost of capital through reasonable utilization borrowed capital, enhancing working capital flows through concentrating on wealth improvement for the benefit of stockholders of the company.

1.1.4 Listed Commercial and Service Firms in Kenya

The commercial and services firms are part of the classes of companies registered at Nairobi Securities exchange. Other sectors encompass investment, financial services, and manufacturing and allied, telecommunication, real property funding trust, traded fund, agricultural, vehicles and accessories, banking, production and allied, electricity and petroleum and insurance. Corporations listed under commercial and services firms' segment of Nairobi securities exchange consist of Nairobi commercial enterprise Ventures Ltd, Uchumi Supermarkets Ltd, express Kenya Ltd, Kenya Airways, Longhorn Publishers Ltd, Nation Media Group, standard group, Scangroup Ltd, TPS Africa (Serena), Deacons (East Africa) and Atlas development and aid offerings (NSE,2018)

Companies indexed under commercial and services sector offer essential offerings in Kenya. The services offered by these firms include retail services, publishing services, air shipping, communication services, resort and lodging, fuel and oil products. Such services are key to a growing economy such Kenya. Due to those diverse services they provide, they attract attention of buyers, monetary consultants and researchers (Kinkel et al., 2005). Commercial and service industry is a crucial driving force of the Kenyan economic system because it fuels financial boom, creates employment and increases the gross domestic product (UNCTAD, 2008). Poutziouris and Michaelas (2008) stated that the success of commercial and service firms in Kenya is largely due to unique competencies of finance employees. This involves ensuring there is a better-grounded stability between current liabilities and non-fixed assets.

In the previous decades, firms in Kenya generally and publicly listed organizations commercial and service firms have been confronting challenges in environment that have influenced them to react by embracing different procedures. Publicly listed commercial and service firms have experienced acquisitions and mergers adapted towards expanding the limit of the organizations to offer their administrations, cutting back to decrease expenses and mergers of directorship employed to drive advancement and lift operational efficiencies that is expected to improve long term expansion. A portion of the publicly listed commercial and service firms have achieved noteworthy turnaround accomplishments subsequent to rebuilding though others no huge contrast has been acknowledged as far as operational and financial performance is concerned. As firms in Kenya are, ending up more aggressive in expanding their operations, it is more probable

that organizations will look to extend and cut expenses by method for corporate restructuring (Ngige, 2012).

The current study is justifiable to be carried in the listed commercial and service firm's context because of a number of reasons including the following. First, Due to the contribution of listed commercial and service firms in the general economic growth of the economy, they have become indispensable units of the economy hence a study is warranted that examines how corporate restructured determines financial performance. The current study was therefore be carried out to examine how corporate restructuring influences financial performance of listed commercial and service firms.

1.2 Research Problem

Organization restructuring has proved to be gainful in various ways that are not limited to diminishing operational costs and aiding in formulating and implementing business strategies (Eby & Buch 2013). In the recent decades, firms in Kenya have been confronting financially demanding circumstances, which have influenced them to react by means of embracing organization restructuring. A number of companies listed at the securities exchange market of Kenya have taken to mergers to improve their chance of expanding their capability to offer their services, cutting back on costs and mergers of directorship hired to improve technological progression and improve operational efficiencies required to improve long term financial performance (Njau, 2012). For instance, Kenya Airways is under corporate restructuring after suffering huge losses for some time and the firm forecast to return to profitability in 2020 (Kariuki, 2018).

A couple of research exist internationally, which have examined the relationship between organizational financial performance and restructuring of organizations. Gupta (2017) noted that a firms' debt proportion has inverse association with the general performance of the organizations. Chang, Cianci, Hsiao & Huang (2015) argued that firms future performance was based on the decrease of toxic loans rather than the boosting of capital adequacy in the restructuring plan. Saeedi & Mahmoodi (2011) noted that the link between general financial performance and capital restructuring of firms listed at the Tehran stock change establishing that capital structure has no significant outcomes on the performance of organizations.

Locally, studies exist on corporate restructuring and financial performance. Riany, Musa, Odera & Okaka (2012) Findings recommend that a firm's decision to restructure is triggered by factors internal to the firms and external factors including political/legal, innovative, financial related and socio-economic. Ngige (2012) established that for the most part corporate restructuring came about to advance financial performance of firms after a financial distress. Siro (2013) noted that there was a link between financial performance and capital structure of corporations listed at the NSE. Munene (2013) established that restructuring has an impact on performance of firms. Finally, Ochieng (2018) concentrated on the impact of corporate restructuring on the costs of organizations listed at the NSE finding a statistically significant relationship.

Largely, most of the empirical investigations in corporate restructuring have been situated in the financial sector with not very many researches existing outside the financial firms. In addition, most empirical examinations have a tendency to be based on primary data

rather than secondary data. Finally, scanty literature exists on the relationship between corporate restructuring and financial performance of listed commercial and service firms in Kenya. The present empirical investigation expects to generate new knowledge by considering the effect of corporate restructuring in listed commercial and service firms in Kenya and how the restructuring influences the financial performance of the organizations. The current investigation seeks answers to the question; what is the influence of corporate restructuring on financial performance of listed commercial and service firms at the Nairobi Securities Exchange?

1.3 Objective of the Study

To investigate the relationship between corporate restructuring and financial performance of listed commercial and service firms in Kenya.

1.4 Value of the Study

The findings of the study will contribute to the existing body of knowledge on corporate restructuring and financial performance listed firms. The research output will be a source of invaluable literature among the study variables on theories and policies that inform them. Theories such as the agency theory and institutional theory will receive additional incite on the role of corporate restructuring on the stewardship function. This study will contribute to managerial practice on corporate restructuring in listed firms to enhance aspects and managerial practices. Essentially all managerial practice should get to above average and lead to establishment of a proper link between corporate restructuring to ensure better performance.

The Capital market authority will find the study useful as the regulatory agency might need to formulate regulations relating to corporate restructuring and determining when a country should consider restructuring its listed firms as an option. The findings of the study will also likely add to the existing policy tools that may guide on corporate restructuring by listed commercial and service firms in Kenya. Currently, there are no policy guidelines on firm restructuring in Kenya. The study findings will inform policy on when corporate restructuring is necessary or when alternative intervention to improve financial performance is necessary.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The chapter has considered the theoretical review, determinants of financial performance, empirical review and conceptual framework.

2.2 Theoretical Review

The relationship among corporate restructuring and corporate performance has basis in theoretical foundations. The study was based on three theories including Modigliani and Miller, Agency theory and lifecycle concept theory.

2.2.1 Modigliani and Miller Theorem

In 1958, the two monetary scientists Modigliani and Miller contributed broadly to capital structure through Proposition theorem I. The theorem demonstrated that beneath certain limited conditions, of the firm's value is not affected or explained by level of debt obligations. Later the scholars formed Proposition theorem II that relaxed some of the restrictive assumptions of Proposition I and introduced corporate tax in firm valuation. Modigliani and Miller (1958) held that firms whether levered or unlevered are exposed to same cost of capital hence should have same value (Welch, 2009). Researches done later confirmed that the assumptions of MM theorem do not hold and that capital structure affects firm's value.

Watson and Head (2007) infer that the MM theory as stated in theorem I had misleading and very restrictive assumptions. As a matter of first importance, the conviction by the theory that individuals and organizations can acquire credit at same at similar cost of capital is contestable as individuals are riskier compared to corporations hence, they

should pay high interest compared to corporations. In addition, the assumption of no transaction cost is misleading too since there exist transactions cost when borrowing funds, thirdly, borrowers of funds have varied investment expectations and risk appetite. Later MM theorem was developed that reconciled the restrictive assumptions of the previous theorem and noted that corporate tax exists, tax shield connected to debt finance, and leverage exist. They reasoned that as a firm takes on additional debt obligation, they benefit from tax exemptions as tax is calculated on operating profits after interest and depreciation. They additionally concluded that a levered firm has a higher value compared to an unlevered firm by a sum equivalent to the profits expected from tax due to interest on loans (Pandey, 2010 & Welch, 2009).

Later on, in 1977, Merton Miller extended proposition theorems I and II and introduced personal taxes in the examination of the value of the firm. Miller expanded the theory to include level of leverage, corporation tax, private tax in valuation of firms and determining returns to debt and equity as well as debt and equity made available to prospective stockholders. The theory holds prospective investors makes investment decisions while considering the personal tax preferences and level of gearing of the firm. He contended that dealers select interest in partnerships that can be in venture with their non-open tax assessment decision, considering organization's capital shape that is obligation and decency levels. The theory holds that investors who pay income tax will tend to take to equity while shying away from debts to take advantage of capital gain tax exemption by the government (Welch, 2009).

The Modigliani and Miller theory is relevant for the current study on the relationship between corporate restructuring financial performance of listed commercial and service firms in Kenya. The theory explains that alteration of capital structure of a firm achieved through leverage has an impact on the firm's value and performance. The theory holds that firms that are leveraged enjoys exemption from tax to the value of interest of debts hence improved profitability and firm's value. A firm can restructure its capital by accepting more debts. Such firms enjoy the benefit of tax shield where the profits are exempted from taxation thereby leading to increased financial performance of firms that have restructured through taking on more debts finance.

2.2.2 Agency Theory

This theory pertains to the relationship that exists among the shareholders as the principal and organization managers as the agent. An agency relationship comes into existence when a legal person called principals; appoint another person or people otherwise referred to as dealers, to carry out some business activity and then give the agent express authority to make decision on his or her behalf. Jensen & Meckling (1976) suggests that, to attain optimal capital structure, A firm must minimize agency costs that emanates from the conflicts between managerial interests with those of shareholders and debt holders. They argue that managerial stock ownership ought to be improved to align managerial interest with those of stockholders or take to more debts to limit managers' opportunistic behaviour by way of decreasing idle cashflows in the hands of the managers. Jensen (1986) established the organization agency problem resulting from free-cash flows can be minimised by increasing managerial stock ownership or by financing most of the operations of the corporation through debts that tends to lower the discretion of the

managers over free cash flows and tends to transform the company's creditors into principals that regulate the activities of managers hence improved corporate governance.

Debt finance forces corporate managers to be controlled with the aid of the general public capital. If investors have negative opinion approximately the competence of management, they required excessive payment of interests on the quantity lend to the company or they may put on restrictive debt covenants to limit control degree of freedom. Debt finance first rate restricts management's capacity to lower the value of employer through incompetence dealings. They argue similarly that agencies with high debt ranges can provide advantages inside the vibrant sense that companies with debt levels can reply very quickly to development of detrimental performance than firms with minimal debt level. Debt capital lifestyles in economic shape can therefore assist to shield the price of employer going challenge (Jensen, 1986).

Agency theory underpins the current study on the relationship between corporate restructuring and financial performance of listed commercial and service firms. The theory holds that optimal capital structure may be attained by minimizing agency costs that emanates from the conflicts between managerial interests with those of shareholders and debt holders. They argue that managerial stock ownership ought to be improved to align managerial interest with those of stockholders or take to more debts to limit managers' opportunistic behaviour by way of decreasing idle cash flows in the hands of the managers. The process of taking on more debts to control agency problem leads to financial restructuring through taking on more debts as a ratio of the total assets of the company.

2.2.3 Lifecycle Theory

As a firm grows and matures while going through various phases of the corporate lifecycle (Miller & Friesen, 1984). Every one of the stages varies from the other regarding qualities and firm structure. Lifecycle hypothesis expound on the interesting firm lifecycle attributes at birth, growth, maturity and decline and how these qualities influence the choices a firm makes particularly in circumstances financial distress and the liquidation risk (Koh, Dai & Chang, 2012). During firm birth stage, a firm is in the underlying phase of beginning up business activities. The firm is subsequently more outfitted towards growth and expansion is tends to be activity oriented. As the firm advances into growth stage, the firm is more or less successful as far as cash money streams is concerned. As the firm enters maturity stage, the corporation at that point is financially stable and cash rich, hence focus much on low risk investments. In the end, at decline stage of life cycle, a firm has constrained venture openings and largely are unequipped for creating adequate assets. Given that at various lifecycle, stages a firm is faced with changed difficulties depending on stage in business life cycle. Managers are more likely than not to balance their choices that takes into consideration the stage of the firm in its life cycle.

As indicated by Koh, Dai, & Chang, (2012), Lifecycle attributes present restricted choices for restructuring to executives, this particularly when firms are faced with trouble. Contingent upon the phase in the Lifecycle in which the firm is, the particular lifecycle qualities may influence the restructuring process that the firm may utilize if in financial distress. Corporate finance theory again contends that conditions of finance related problems, as default, distress and bankruptcy present a fundamental stage in the lifecycle

of firms (Wruck, 1990). The survival of a firm is in this manner not just subject to its capacity to stay productive, to amplify investor wealth and to maintain a strategic distance from insolvency yet additionally on its capacity to settle on financial choices takes into consideration its lifecycle phase (Koh, Dai & Chang 2012).

How successfully a firm reacts when it is in financial distress is essential with regards to recovery. Restructuring techniques available to a firm when in financial trouble is constrained by the lifecycle the firm is in. For example, it is more probable for mature firms in financial trouble replace non-performing managers. Firms during birth while open to this choice of replacing non-performing managers may not do as such. Financially distressed firms at decline are additionally more prone to utilize operational and portfolio-restructuring procedures when contrasted with firms at birth stage in the lifecycle. Growth, mature and decline firms may probably lower profit sharing in form of dividends to protect investments and resources during prolonged period pressure from creditors. Financially trouble firms may raise outer capital through the issuance of ordinary shares.

Finally, the life cycle theory is relevant in explaining the relationship between corporate restructuring and financial performance of listed commercial and service firms in Kenya. The theory explains the order in which finance are acquired by financial institutions in relation to the stage of the firm in its lifecycle. The theory elaborates on how the firm acquires funding depending on its life cycle stage where the financial source is dependent on the firm's life cycle. Restructuring firms must consider the life cycle before it can restructure the finances. A New firm that is in its introduction stage, may not restructure

its finances by taking on debts but may rely much on internally generated finances. On the other hand, a firm that is in growth and is highly expansion requires additional source of funding. Such firms can restructure finances through accepting more debts and issuing shares to generate additional finances.

2.3 Determinants of Financial Performance

The determinants of firm financial performances may be grouped into firm particular or interior factors and macroeconomic or outer factors (Al-Tamimi, 2010). Firm particular factors are singular firm qualities while macroeconomic factors have nationwide influence on the profitability of firms and are outside the ability of executives to control them.

2.3.1 Size of the Company

Expansive Firm's size determines the level benefits of large scale of operation by the firm. As a firm expands through amassing assets, it starts enjoying economies of scale that are associated with falling average cost of operation. Usually, bigger firms generate more profits from a given set of resources. Nevertheless, bigger firms can also be less productive if the management lose their command over vital and operational activities inside the firm (Chandrapala & Knápková, 2013). Large-scale firms are additionally more diversified compared to small scale firms and tend to have more prominent market control especially amid economic booms. The size of the firm determines the availability of cash flows available for investment purposes (Salman & Yazdanfar, 2012).

2.3.2 Liquidity

Liquidity refers to the availability of funds that may be used for investment and or expenditure purposes. It is also a trademark of the potential of the firm to settle its debt

obligations when they become due (Alkhatib, 2012). Liquidity is a firm's capacity to satisfy each expected and surprising demands of cash on an ongoing project. In order for a company to sustain its activities and stay in its lifestyle for a long term, it must be liquid and be capable of meet its obligations at any time (Kumar & Agarwal, 2012). Working capital management is important to any successful enterprise. With poor management of working capital, the firm's funds are probably being tied up in idle property that is not gainful (Bashar & Islam, 2014). Liquidity can be measured using proxies such ratio of cash and cash equivalents total assets of the firm (Karimzadeh, Akhtar, & Karimzadeh, 2013).

2.3.3 Solvency

Solvency margin of a firm is a further determinant of economic performance as it permits a company to lessen its exposure to the dangers of undertaking commercial enterprise. The capital is measured by offsetting obligations from the assets of a company (Adams & Buckle, 2003). A higher solvency margin suggests the financial soundness of an organization. An Organizations performance might also improve as Shiu (2004) determined that investors are attracted to companies with a high solvency margin.

2.3.4 Firm's Capital Structure

Capital structure portrays how an association raises the funds to finance their business. It includes the blend of debt and equity and the choice to pick either depends on gauging the resultant expense related with them. Utilization of exorbitant debt opens a firm to liquidation hazards and decreases the value of the firm. The suitable utilization of the ideal capital structure in the financing securing of advantages is critical in augmentation of the arrival to all partners and improves the capacity of the firm to contend by limiting

the expense of the capital (Zhi, 2010). Capital structure of the firm is an imperative administrative choice since it influences the investors risks and returns (Mwangi et al, 2014). Money related administrators ought to dependably endeavour to develop an ideal capital structure that would be beneficial to the equity investors in particular and furthermore to different partners, for example, banks, workers, clients and the general public on the loose. Partnerships subsequently, have an opportunity to modify their expense of capital and the make it an incentive by changing the association's capital structure (Abor, 2007).

2.4 Empirical Review

A battery of studies exists on the link between financial performance and corporate restructuring of firms both globally and locally. Adekunle & Asaolu (2013) did a research looking at the causal effect relationship between profitability and capital structure in Nigeria for the period 2001-2007. He sampled 30 non-economic organizations quoted in Nigerian stock market and gathered secondary data from employer's economic statements. The study used debt ratios as the explanatory variables and ROA and ROE as the explained variable. The study employed ordinary least square estimation technique and noted that debt ratio has an inverse relationship with financial performance of the firms.

Onaolapo and Kajola (2010) completed an exploration on the causal effect relationship between financial performance and capital structure of firms that are quoted in Nigeria stock market. The empirical examination utilized an example of thirty non-finance related firms for the period 2001-2007. The study demonstrated a negative relationship between

financial performance and capital structure. The investigation utilized (ROE and ROA) of these organizations.

Riany, Musa, Odera & Okaka (2012) while examining impacts of restructuring on a firm's performance of mobile based firms in Kenya particularly asking the recurrence with which a firm completes portfolio, financially and organizational restructuring, presumed that the three techniques for restructuring favourably affect the company's market development. Their outcomes showed that the relationship between organizational market share and financial restructuring were very strong. It is unmistakable that hierarchical restructuring had the best effect on a firm's market development. The Findings demonstrate that a company's choice to restructure is influence by an adjustment in the company's goals.

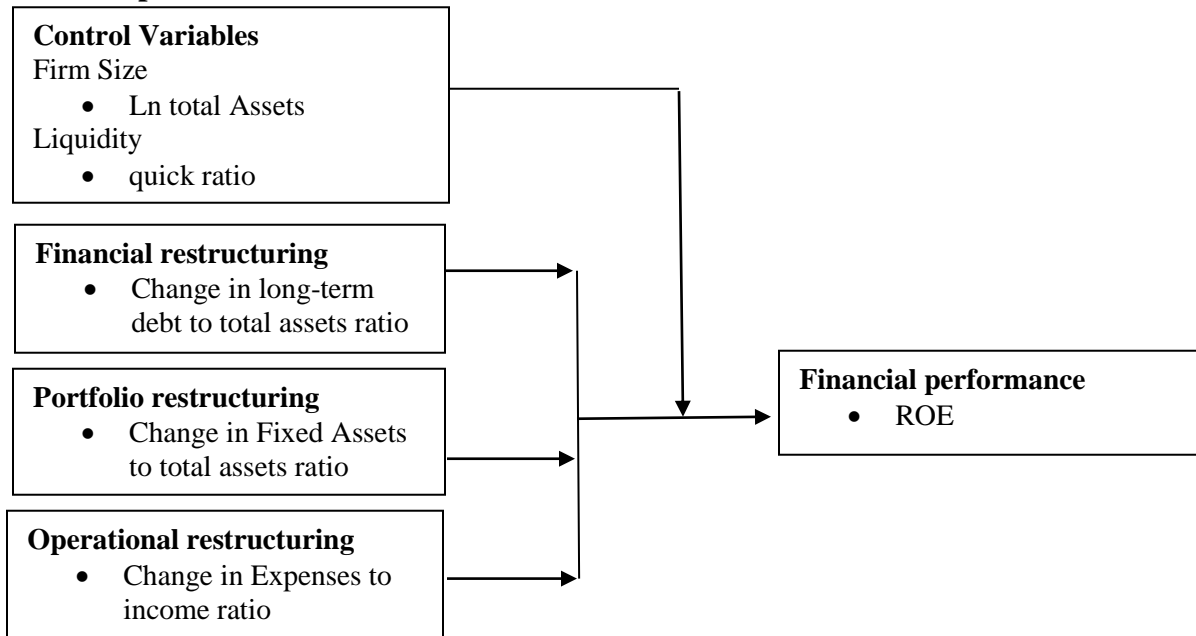
Ngige (2012) studied the association between company financial performance and corporate restructuring in the Kenya's banking sector. Findings showed that restructuring lead to overall performance improvement in terms of geographical spread, competitiveness, boom in best of products, market proportion growth and client retention. In addition, study results showed that banks used exceptional techniques of restructuring which had distinct motives in influencing overall performance. Regarding the position of the exclusive modes used in influencing overall performance, the study established inconclusive outcomes on effect of restructuring on financial performance since the results were mixed. Siro (2013) in his study on association between financial performance and listed firm's capital structure showed that the link was inverse implying that with increased financial restructuring, financial performance declined as a result. The

results of the study reveal that the better the debt ratio, the considerably less the insolvency of the firm.

Ithiri (2013) in his investigation of corporate restructuring and its impacts on Kenya business bank's performance found out that the fundamental factors leading to restructuring were rivalry, budgetary cuts, change in government arrangement and policies, new organization procedure and public pressures. The investigation uncovered that expansion in rivalry in the business, government approach, increment in client requests constrained the firm's ability to restructure itself so as to stay focused in the market. The study likewise established that the firm's structure had changed two times which was because of rivalry in the market, control by the management and changes in the company's strategies.

The investigation noted that restructuring in banks prompts enhanced performance by the banks. The investigation had a few limitations, for example, a few respondents not giving data considered as secret in this way prompting the respondents giving questionable data. The investigation suggests there is a connection between restructuring and performance of banks. For restructuring to be a success, management needs to take representative needs and worries in arranging and usage of procedures.

2.5 Conceptual Model



Independent Variable

Dependent Variable

Figure 2.1: Conceptual Model

The framework presents the variables of the study. Corporate restructuring is the Independent variable while financial performance is the dependent variable. Three aspects of corporate restructuring have been considered including financial restructuring, portfolio restructuring and operational restructuring. The firm size and liquidity were used as control variables to moderate relationship between corporate restructuring and financial performance of listed commercial and service firms in Kenya.

2.6 Summary of Literature

The theoretical review has taken into consideration three theories which includes Franco Modigliani and Merton Miller Theorem, agency theory and lifecycle model. The MM theory proposition II holds that capital structure is applicable for cost of the firm and that a levered firm has a higher fee than unlevered firm. Agency theory holds that an

organization faces agency problems due to principal agent relationship and that agent tends to be biased to self-seeking behaviour and that agency problem may be reduced executive compensation. Finally, the lifecycle theory holds that the stage of a business in its lifecycle determines the type of finance it's going to searching for. The chapter has taken into consideration four determinants of financial overall performance that includes size, liquidity, solvency and capital structure. Finally, the chapter has analysed a number of empirical literatures. Generally, most of the research were based banking institutions with only few researches done outside the banking establishments. Secondly, most studies tend to be based on primary data. The current study examined the association between effect of corporate restructuring on financial related performance of listed commercial and service firms in Kenya.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The chapter expounds on the methodology of the study in terms of research design, study population, data collection and data analysis.

3.2 Research Design

The study adopted descriptive Research design. Descriptive technique is the most preferred because it tries to analyse what impact company restructuring on monetary performance of listed business and provider companies in Kenya. Descriptive research studies are those studies which are concerned with describing the characteristics of a selected subjects, or of a set, while explaining the frequency with which something happens or its association with something else (Kothari, 2004)

3.3 Population

As indicated by Kothari (2004), study population is depicted as all individuals from a genuine or theoretical arrangement of subjects/individuals/occasions to which a researcher wishes to generalise to after the study. The targeted population was 10 listed commercial and service organizations in Nairobi Securities Exchange. Since the investigation considered all the 10 listed commercial and service organizations at the Nairobi Securities Exchange (Appendix ii), sampling was not be done, as the empirical examination was a census that involves an enumeration of all the listed firms.

3.4 Data Collection

The study used secondary data for the purpose of examining the objectives. The data on corporate resturucring was sourced form audited financial statements of respective listed

commercial and service firms. The data was extracted and recorded on data collection sheets. The data collection covered a period of seven years from 2011 to 2017.

3.5 Diagnostic Tests

The data was subjected to diagnostic exams to assess conformity with more than one regression version assumptions. This made sure validity of the outcomes. The study tested normality, heteroscedasticity, multicollinearity, serial correlation, random or fixed outcomes and panel unit root diagnostic exams. Normality test is directed to test whether information displays a normal distribution. On the off chance that the information is not normally distributed, it may not show the right connection between factors examined. The examination utilized Shapiro-Wilk test to normality. The test is most proper for an example size of 50 or less. Information is normal in Shapiro-Wilk tests if calculated significance is more than P-Value at 0.05 level of significance ensures that the regression results are not spurious thereby guaranteeing robust regression results.

3.6 Data Analysis

First, data accumulated were sorted, classified and collated. Descriptive statistics for each variable was calculated. The STATA version 14 software program will be used in statistical evaluation. The data will be entered into the STATA and analysed. The study adopted descriptive and regression analysis. The degree of the effect of company corporate restructuring on financial overall performance of listed commercial and service firms established using regression analysis. The hypotheses were tested at 95% confidence level.

3.7 Analytical Model

The examination embraced a multivariate regression model to decide on the causal effect relationship between corporate restructuring and financial performance of listed commercial and services firms at the NSE, the investigation examined the three aspects corporate restructuring against the dependent variable financial performance. The general type of regression model is as given underneath:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \epsilon \dots \dots \dots (1)$$

Where:

Y= Financial performance: Measured using ROE calculated as ratio of Operating income as a ratio of total equity of the firm.

X₁, X₂, X₃ = Represents Independent Variables used as types of corporate restructuring

X₄ and X₅ = Are the control variables which are firm specific factors that also affects financial performance of listed commercial and service firms in Kenya.

X₁= Financial restructuring: Measured as a change in total debt to equity ratio

X₂= Portfolio restructuring: Measured as a change in fixed assets to total assets ratio

X₃= Operational restructuring: Measured as a change in operating expenses to income ratio.

X₄ = Firm size: captures the control variable firm size measured as a Ln total asset of the firm.

X₅= Represents the liquidity measured using quick ratio.

β₀: Intercept term measuring level of financial performance when corporate restructuring is held constant.

β_i: Coefficients of independents variables measuring the responsiveness of financial performance due to a percentage change in corporate restructuring ratios proxies.

ε: Stochastic Term that captures other variables that also affects financial performance which are not part of the model.

CHAPTER FOUR: RESULTS AND DISCUSSION

4.1 Introduction

This chapter presented findings and their interpretation regarding data collected and analyzed in accordance with study objectives. The study employed a panel data approach to examine the causal effect relationship between corporate restructuring and financial performance of listed commercial and service firms at the Nairobi Securities Exchange during in the period beginning 2011 and ending 2017. The data analysis was for ten listed commercial and service firms in Kenya that had all needed data for the covering a period of seven years hence there were 70 observations for each variable.

4.2 Descriptive Results

Results in table 4.1 below indicate the summary of descriptive statistics on independent variable corporate restructuring dimensions and dependent variable financial performance of listed commercial and service firms in Kenya.

Table 4. 1: Summary Statistics.

Variable	Obs	Mean	Std. Dev.	Min	Max
FinancialR~g	70	.0226048	2.370691	-18.00872	2.007581
PortfolioR~g	70	.5262018	.201197	.2640471	.8239532
Operationa~g	70	-1.060856	16.80207	-32.78238	57.83844
FirmSize	70	9.291099	1.452757	6.390945	12.11211
Liquidity	70	.1691251	.2592299	0	1.003024
ROE	70	.1340841	.5548582	-.4643106	4.317122

Independent variables: Financial Restructuring, Portfolio restructuring, operational restructuring, **Control variables:** firm size, liquidity, and **Dependent variable:** Financial performance (ROE)

4.2.1 Financial Restructuring

Financial restructuring was measured as a change in total debt to equity ratio. From the analysis in table 4.1, the mean financial restructuring was .0226048 meaning that on

average there was a positive change in financial restructuring by about 2% where the firm were most likely accepting less debts and issuing more shares to the general public relative to early years. The standard deviation for financial restructuring was 2.370691 implying that financial restructuring was spread around the mean with about 237% which shows a very high spread in financial restructuring among the listed commercial and service firms in Kenya. Additionally, financial restructuring had a minimum of -18.00872 implying that the firm with the lowest financial restructuring was -180% hence negative financial restructuring where the firm most likely took more debts relative to equity financing. Finally, financial restructuring had maximum of 2.007581 implying that the firm with the highest restructuring was about 200% hence a positive financial restructuring by doubled level equity financing relative to debts.

4.2.2 Portfolio Restructuring

Portfolio restructuring was measured as a change in fixed assets to total assets ratio. From analysis in table 4.1, Portfolio restructuring posted a mean of 0.5262018 meaning that on average, portfolio was restructured by about 5% where the firms accepted more less fixed assets and less current assets and verse versa. Portfolio restructuring had a standard deviation of 0.201197 meaning that there was a massive variation of portfolio restructuring around the mean with about 20 units hence some firm restructured portfolio by purchasing more fixed assets while others disposed of some fixed assets in favor of current assets. In addition, portfolio restructuring had a minimum of .2640471 implying that on the firm with the least level of portfolio restructuring had restructured by about positive 26% hence the firm had purchased more fixed assets compared to currents assets. Finally, portfolio restructuring posted a maximum of .8239532 meaning the firm with the

highest level of portfolio restructuring was restructured by about 82% hence had almost doubled the magnitude of fixed assets in its possession.

4.2.3 Operational Restructuring

Operational restructuring was measured by change in operating expenses to income ratio. From table 4.1, Operational restructuring had a mean of -1.060856 implying that on average the firms had restructured by about 100% over the period under the study by improving their level of efficiency hence were realizing more income given a level of operating expenses. Standard deviation for operational restructuring was 16.80207 implying that the firms' level of operational restructuring had spread around the mean by about 168% over the study period. Operational restructuring had a minimum of -32.7823 hence the firm with the lowest level of restructuring had improved its efficiency greatly by about 32 units hence incomes had improved relative to operational expenses. Results also indicated that the firm with the maximum operational restructuring had a maximum 57.83844 units implying that the firm that had become least efficient by incurring more operational expenses relative to incomes had lost about 57 units in operational efficiency.

4.2.4 Firm size

Firm size was measured by natural logarithm of total assets of the listed commercial and service firms in Kenya. Table 4.1 shows that mean firm size was 9.291099 implying that the average firm size was about 9.2. The standard deviation for firm size was 1.452757 meaning the firm size was spread around the mean by about 1.4 units which is a relatively high variation. Additionally, firm size had a minimum of 6.390945 implying that the firm with the least size was 6.3 units while the firm with the highest-level firm size in terms of assets was 12.11211 units.

4.2.5 Liquidity

Liquidity was measured as a ratio of liquid assets to current liability. Table 4.1 shows that mean liquidity was .1691251 implying that on average, the level of liquidity was about 0.17 hence the firm had accumulated more current liability relative to current assets over the study period hence most firms were not liquid and could be exposed to liquidity risk and financial distress. Standard deviation for liquidity was .2592299 meaning that liquidity levels of the firms were spread around the mean with about .25 which is relatively small variation around the mean. The minimum liquidity was 0 meaning the firm with lowest level of liquidity had matched liquid current assets to current liability while maximum for liquidity was 1.003024 implying that the firm with the highest liquidity level had used doubled level of liquid assets compared to current liability.

4.2.6 Financial performance

Financial performance was measured by ROE and is presented in table 4.1. The mean for financial performance was .1340841 implying that the average level of financial performance over the study period was about 13%. The Std. Dev. for Financial Performance was .5548582 implying that financial performance was spread around the mean with about .55 units, which is relatively high variation from the mean. Financial performance posted minimum of -.4643106, implying that the firm with lowest financial performance posted ROE of - 0.46 which is negative hence it was running at a loss of about 46 The maximum for financial performance was 4.317122.

4.3 Panel Data Diagnostic Tests

To establish the appropriateness of the regression model for statistical manipulation and estimation of coefficients of study variables. Diagnostic included: normality test, panel

unit root test, multicollinearity test, panel-level heteroscedasticity test, hausman test as well as serial correlation test.

4.3.1 Multicollinearity Test

As stated by Field (2009) for data to be free from multicolliniarity, VIF values should be less than 10. The results about multicollinearity test are presented in table 4.2.

Table 4. 2: Variance Inflation Factor

```
. estat vif
```

Variable	VIF	1/VIF
FirmSize	3.47	0.288293
Operationa~g	2.40	0.415982
PortfolioR~g	2.37	0.422780
Liquidity	1.72	0.580420
FinancialR~g	1.27	0.784863
Mean VIF	2.25	

Independent variables: Financial Restructuring, Portfolio restructuring, operational restructuring. **Control variables:** firm size and liquidity. **Dependent variable:** Financial performance (ROE)

The results in Table 4.2 shows that all the variables had a VIF less than 10 and average VIF was 2.25 which is lower than the threshold of 10 and hence the results indicates that Multicollinearity is not a problem with the study variables and data collected for this study.

4.4.2 Heteroskedasticity Test

Gujarati (2003) described heteroscedasticity as lack constant error variance. The study used Wald test to test for heteroscedasticity by using the regression residual value of the independent variables. There is no heteroscedasticity if the significance values are greater than the P-value statistics test of 0.05. The null hypothesis tested is that the error terms are Homoscedastic and the alternative hypothesis is that error terms are heteroscedastic.

The results in the Table 4.3 below indicate that the error terms are not homoscedastic, given that the p-value is less than the 5% (0.000) implying that the study rejected homoscedastic hypothesis.

Table 4. 3: Heteroscedasticity Test

```

=====
* Ordinary Least Squares (OLS) Regression
=====
ROE = FinancialRestructuring + PortfolioRestructuring + OperationalRestructuring + FirmSize + Liquidity
=====
Sample Size      =          70 | Cross Sections Number =          10
Wald Test        =    410.8987 | P-Value > Chi2(5)    =          0.0000
F-Test           =     82.1797 | P-Value > F(5 , 64)  =          0.0000
(Buse 1973) R2   =     0.8652 | Raw Moments R2         =          0.8728
(Buse 1973) R2 Adj =    0.8547 | Raw Moments R2 Adj     =          0.8628
Root MSE (Sigma) =     0.2115 | Log Likelihood Function =    12.5586
-----
- R2h= 0.8652   R2h Adj= 0.8547   F-Test =   82.18 P-Value > F(5 , 64)  0.0000
- R2v= 0.8652   R2v Adj= 0.8547   F-Test =   82.18 P-Value > F(5 , 64)  0.0000
=====

```

ROE	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
FinancialRestructuring	-.2077569	.012123	-17.14	0.000	-.2319754	-.1835385
PortfolioRestructuring	-.0719465	.1946268	-0.37	0.713	-.4607582	.3168653
OperationalRestructuring	.0023334	.0023495	0.99	0.324	-.0023603	.0070271
FirmSize	.0780139	.0326416	2.39	0.020	.0128047	.143223
Liquidity	.0067775	.1289215	0.05	0.958	-.2507727	.2643278
_cons	-.5468666	.2538126	-2.15	0.035	-1.053916	-.0398176

```

=====
*** Panel Data Heteroscedasticity Wald Test
=====
Ho: Panel Homoscedasticity - Ha: Panel Heteroscedasticity

- Wald Test:      LogE2 = X          = 55.0300   P-Value > Chi2(1)  0.0000
-----

```

4.4.4 Normality Tests

The study employed Shapiro-Wilk test to test normality. Fifty or less sample size are not suitable for the test. The choice of this test is informed by the small number of samples to be studied. The hypothesis for the test is that **H₀**: No significant variance of population

and sample and **H_a**: significant variance of population and sample. Normal data have p-value greater than the Shapiro Wilk significance value in the statistical test (0.05). On the other hand, data with significance value less than 0.05 are not normally distributed. The results are as presented in table 4.4.

Table 4. 4: Shapiro-Wilk test for normal data

Shapiro-Wilk W test for normal data

Variable	Obs	W	V	z	Prob>z
FinancialR~g	70	0.23629	47.008	8.373	0.00000
PortfolioR~g	70	0.82092	11.023	5.219	0.00000
Operationa~g	70	0.82691	10.654	5.145	0.00000
FirmSize	70	0.90617	5.775	3.813	0.00007
Liquidity	70	0.70113	18.396	6.333	0.00000
ROE	70	0.43069	35.042	7.734	0.00000

Independent variables: Financial Restructuring, Portfolio restructuring, operational restructuring. **Control variables:** firm size and liquidity. **Dependent variable:** Financial performance (ROE)

Shapiro Wilk W test helps in determining the normality of error terms in the coefficient estimates. The test is based on the null hypothesis the error terms are normally distributed. If the value of the probability (p-value) is less than 0.05 then the error terms estimated are not normal. Given that all p-value calculated were less than 5%, H_0 is not rejected thus the conclusion that the errors terms are not normally distributed. However, since the study used a population and not a sample even if the normality condition is not met the estimated coefficients will still be useful.

4.4.5 Autocorrelation

Gujarati (2003) posits that serial correlation exists if an error term of one period is correlated with that of subsequent periods. The study used Wooldridge Drukker test-to-

test existence of autocorrelation. Data has no major problem of autocorrelation if the value of Probability (p-value) is greater than the rejection region at 5% level of significance. The H_0 is no first order serial correlation amongst study variables. The results were presented in Table 4.6 and that the study fails to reject H_0 of no autocorrelation hence the residuals are not auto correlated (p-value=0.0941).

Table 4. 5: Autocorrelation Tests

```
. xtserial ROE FinancialRestructuring PortfolioRestructuring OperationalRestructuring FirmSize Liquidity

Wooldridge test for autocorrelation in panel data
H0: no first order autocorrelation
      F( 1,      9) =      3.501
      Prob > F =      0.0941
```

4.4.6 The Hausman Test for Model Effect Estimation

The Hausman test was employed to choose between fixed effect and random effect models. The H_0 is that the fixed effect model is appropriate when tested at 5% significance level. The Chi-square test statistic is 4.13 with an insignificant probability of 0.3882 which means that the null hypothesis is rejected in favor of the Random effects model. Therefore, we accept the random effects model as suitable for this study. The Hausman test result was presented in table 4.6.

Table 4. 6: Hausman Test

	Coefficients		(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.
	(b) FEM	(B) REM		
FinancialR~g	-.2143175	-.2147892	.0004717	.0013712
PortfolioR~g	-.2172083	-.2253853	.008177	.5410444
Operationa~g	.0059516	.0053797	.0005719	.0007388
FirmSize	.3094255	.1885226	.1209029	.0777709
Liquidity	-.5945381	-.4458106	-.1487275	.0771572

b = consistent under Ho and Ha; obtained from xtreg
 B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test: Ho: difference in coefficients not systematic

chi2(4) = (b-B)' [(V_b-V_B)^(-1)] (b-B)
 = 4.13
 Prob>chi2 = 0.3882
 (V_b-V_B is not positive definite)

Independent variables: Financial Restructuring, Portfolio restructuring, operational restructuring. **Control variables:** firm size and liquidity. **Dependent variable:** Financial performance (ROE).

4.4.7 Unit root test

Test was conducted to examine the stationarity of variables. Gujarati (2003) posit that a data has no unit roots if the variance, autocorrelation and mean of the data structure do not vary with different periods. Wooldridge (2012) asserted that stationarity ensures that the regression results are not spurious thereby guaranteeing robust regression results. The study employed Augmented Dickey Fuller (ADF) unit root test to evaluate the availability of unit roots in the data. If P-Value is greater than 5% level of significance, it implies the data is not stationary i.e. availability of unit roots. Significance. Results in Table 4.7 indicated that all variables with exception of operational restructuring were

non-stationary at 5% level of significance meaning that variance, autocorrelation and mean of the data structure do not vary with different periods.

Table 4. 7: Unit Root Test

Variable Name	Statistic(Adjusted)	P-Value	Comment
Financial Restructuring	1.2499	0.8943	Not Stationary
Portfolio Restructuring	4.8900	1.0000	Not Stationary
Operational Restructuring	-13.1789	0.000	Stationary
Firm Size	1.7743	0.9620	Not Stationary
Liquidity	2.9138	0.9982	Not Stationary
Financial Performance	-1.5074	0.0659	Not Stationarity

4.5 Panel Regression Analysis

Based on the diagnostic tests carried out the study adopted a random effect model to estimate the coefficient of determination, ANOVA and coefficients of the independent and control variables. The findings are presented in table 4.8

Table 4. 8: Random Effect Model (Without Control Variables)

Random-effects GLS regression	Number of obs	=	70
Group variable: id	Number of groups	=	10
R-sq:	Obs per group:		
within = 0.9592	min =		7
between = 0.4714	avg =		7.0
overall = 0.8421	max =		7
corr(u_i, X) = 0 (assumed)	Wald chi2(3)	=	1378.42
	Prob > chi2	=	0.0000

Tables 4.8 indicate that the corporate restructuring explains 84.21% of the total variations in financial performance of listed commercial and service firms in Kenya as shown by the coefficient of determination (R^2) value of 0.8421. The remaining 15.79% Variations financial performance is captured by variables not used in the model building. The overall significance of the model was .000 with an F value of 1378.42. The level of significance was less than 0.05 and this means that corporate restructuring has statistically significant effect on financial performance of listed commercial and service firms in Kenya.

Table 4. 9: Random Effect Model (With Control Variable)

```

Random-effects GLS regression              Number of obs   =          70
Group variable: id                        Number of groups =          10

R-sq:                                     Obs per group:
  within = 0.9689                          min =          7
  between = 0.4585                          avg =          7.0
  overall = 0.8240                          max =          7

Wald chi2(5) = 1757.73
corr(u_i, X) = 0 (assumed)                 Prob > chi2     = 0.0000

```

ROE	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
FinancialRestructuring	-.2147892	.005858	-36.67	0.000	-.2262706	-.2033078
PortfolioRestructuring	-.2253853	.38324	-0.59	0.556	-.9765219	.5257514
OperationalRestructuring	.0053797	.0013783	3.90	0.000	.0026782	.0080812
FirmSize	.1885226	.0624219	3.02	0.003	.066178	.3108673
Liquidity	-.4458106	.1134869	-3.93	0.000	-.6682408	-.2233804
_cons	-1.41294	.5033247	-2.81	0.005	-2.399438	-.4264417

4.5.1 Model Summary and ANOVA

Tables 4.9 indicate that the model explains 82.40% of the total variations in financial performance of listed commercial and service firms in Kenya as shown by the coefficient of determination (R^2) value of 0.8240. The remaining 17.60% Variations financial performance is determined by other variables not used in building the current model. The overall significance of the model was 0.000 with an F value of 1757.73. The level of significance was less than 0.000 and this means that corporate restructuring and control variables have statistically significant effect on financial performance of listed commercial and service firms in Kenya.

4.5.2 Coefficients of the Independent and Control Variables

From Table 4.9, Financial restructuring had a statistically significant effect on financial performance ($\beta_1 = -.2147892$, $p = .000$ and $\alpha = 0.05$). Portfolio restructuring had a statistically insignificant effect on financial performance of listed commercial and service firms in Kenya ($\beta_2 = -.2253853$, $p = 0.556$ and $\alpha = 0.05$). Operational restructuring had a statistically significant effect on financial performance of listed commercial and service firms in Kenya ($\beta_3 = .0053797$, $p = 0.000$ and $\alpha = 0.05$). Study established that firm size had a statistically significant effect on financial performance ($\beta_4 = .1885226$, $p = 0.003$ and $\alpha = 0.05$) and finally, liquidity had statistically significant effect on financial performance of listed commercial and service firms in Kenya ($\beta_5 = -.4458106$, $p = 0.000$ and $\alpha = 0.05$). The model was thus estimated in equation (2)

$$Y = -1.41294 - .2147892 x_1 + .0053797 x_3 + .1885226 - .4458106 \dots\dots\dots(2)$$

4.6 Discussion of Findings

The study findings are elaborated in this sub section. The findings are discussed based on panel data regression results and are organized according to the study independent and control variables.

4.6.1 Financial Restructuring and Financial Performance

Using random effect model. It was established that financial restructuring had a statistically significant effect on financial performance ($\beta_1 = -.2147892$, $p = .000$ and $\alpha = 0.05$). The value of β_1 measures the elasticity of financial performance to changes in financial restructuring and that for every one-unit change in financial restructuring, financial performance changes by .2147892 units in the opposite direction. The negative effect of financial restructuring on financial performance could be explained by the fact that when debt to equity ratio improves meaning the firm is relying on more debts, the financial performance fall since debts finance is very expensive and risky to the firm.

The finding is in agreement with study by Riany, Musa, Odera & Okaka (2012) that showed that financial restructuring had a strong effect on an organization's market share compared to organizational and portfolio restructuring. It is unmistakable that financial based restructuring had the strongest effect on a firm's market development. The Findings demonstrate that a company's choice to restructure is influence by an adjustment in the company's goals

4.6.2 Portfolio Restructuring and Financial Performance

Results show that portfolio restructuring had a statistically insignificant effect on financial performance of listed commercial and service firms in Kenya ($\beta_2 = -.2253853$, $p = 0.556$ and $\alpha = 0.05$). The value of β_2 measures the elasticity of financial performance

to changes in portfolio restructuring and that for every one-unit change in portfolio restructuring, financial performance changes by .2253853 units in the opposite direction. The negative effect could be attributed to that fact that improved fixed assets to total assets ratio means the firm is spending most resources on fixed assets that may not result to improved revenues immediately hence falling financial performance in the short run period

The finding is in congruence with empirical literature. Ngige (2012) revealed that usually Portfolio restructuring resulted to development in overall performance. In addition, findings found banking institutions employed exceptional techniques of restructuring portfolio with the sole purpose of influencing financial based performance. However, Siro (2013) in his study on association between financial performance and portfolio structure publicly listed banks realised an inverse link between capital structure and financial performance of listed firms in securities exchange market of Kenya.

4.6.3 Operational Restructuring and Financial Performance

The findings also show that operational restructuring had a statistically significant effect on financial performance of listed commercial and service firms in Kenya ($\beta_3 = .0053797$, $p = 0.000$ and $\alpha = 0.05$). The value of β_3 measures the elasticity of financial performance to changes in operational restructuring and that for every one-unit change in operational restructuring, financial performance changes by .0053797 units in the same direction. The possible explanation for this significant positive effect is that improved operational restructuring in leads to reduced efficiencies that results to falling costs and improved financial performance.

Previous studies on operational restructuring have supported the findings on the relationship between operational restructuring and financial performance of listed commercial and service firms in Kenya. Riany, Musa, Odera & Okaka (2012) showed that operational restructuring had an effect on an organization's market share than portfolio and organization restructuring. It is unmistakable that hierarchical restructuring had the best effect on a firm's market development.

4.6.4 Firm Size and Financial Performance

Using panel regression analysis, it was established that firm size had a statistically significant effect on financial performance ($\beta_4 = .1885226$, $p = 0.003$ and $\alpha = 0.05$). The value of β_4 measures the elasticity of financial performance to changes in firm size and that for every one-unit change in firm size, financial performance changes by .1885226 units in the same direction. The effect can be attributed to the fact that when the firms firm size increases, the firm's resources in terms of assets also improves. The resources can be invested to lead to increased financial performance. The finding is in congruence with Chandrapala & Knápková, 2013) who established that bigger firms generate more profits from a given set of resources. The size of the firm determines the availability of cash flows available for investment purposes (Salman & Yazdanfar, 2012).

4.6.5 Liquidity and Financial Performance

The study established that liquidity had statistically significant effect on financial performance of listed commercial and service firms in Kenya ($\beta_5 = -.4458106$, $p = 0.000$ and $\alpha = 0.05$). The effect was negative meaning that any increase in liquidity results to falling financial performance. The value of β_5 measures the elasticity of financial performance to changes in firm liquidity and that for every one-unit change in liquidity,

financial performance changes by .4458106 units in the opposite direction. The study finding implies that strengthening liquidity could result to falling financial performance especially if the liquid current assets like debtors have built up, the chance of bad debts also increases greatly which might result to falling financial performance.

The finding is supported by empirical literature for instance in order for a company to sustain its activities and stay in its lifestyle for a long term, it must be liquid and be capable of meet its obligations at any time (Kumar & Agarwal, 2012). Working capital management is important to any successful enterprise. With poor management of working capital, the firm's funds are probably being tied up in idle property that is not gainful (Bashar & Islam, 2014).

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary, conclusion, recommendations, areas of further research and limitations of the study. This was done in line with the objectives of the study.

5.2 Summary of Findings

The study established that financial restructuring had a statistically significant effect on financial performance. The value of β_1 that measures the elasticity of financial performance to changes in financial restructuring showed that every one-unit change in financial restructuring, financial performance changes less proportionately units in the opposite direction. Results also show that portfolio restructuring had a statistically insignificant effect on financial performance of listed commercial and service firms in Kenya. The value of β_2 measures the elasticity of financial performance to changes in portfolio restructuring showed that for every one-unit change in portfolio restructuring, financial performance changes by less than proportionate units in the opposite direction.

In addition, the findings also revealed that operational restructuring had a statistically significant effect on financial performance of listed commercial and service firms in Kenya. The value of β_3 that measured the elasticity of financial performance to changes in operational restructuring revealed that every one-unit change in operational restructuring, financial performance changes by less than proportionate units in the same direction. The effect was a minor one however with every improvement in firm

efficiency, financial performance improved since the firm was in a position to improve profitability with a given expenditure on operational activities.

The study also established that firm size had a statistically significant effect on financial performance. The value of β_4 measures the elasticity of financial performance to changes in firm size and that for every one-unit change in firm size, financial performance changes by less than proportionate units in the same direction. The effect can be attributed to the fact that when the firm's size increases, the firm's resources in terms of assets also improves. The resources can be invested to lead to increased financial performance.

Finally, the study established that liquidity had statistically significant effect on financial performance of listed commercial and service firms in Kenya. The effect was negative meaning that any increase in liquidity results to falling financial performance. The value of β_5 measures the elasticity of financial performance to changes in firm liquidity and that for every one-unit change in liquidity, financial performance changes by less than proportionate units in the opposite direction. The study finding implies that strengthening liquidity could result to falling financial performance especially if the liquid current assets like debtors have built up, the chance of bad debts also increases greatly which might result to falling financial performance.

5.3 Conclusion of the Study

The study sought to establish the effect of corporate restructuring on financial performance of listed commercial and service firms in Kenya. Based on findings, a number of conclusions are made. First study concluded that financial restructuring had a statistically significant effect on financial performance. The negative effect of financial restructuring on financial performance means that when debt to equity ratio improves, the firm is relying on more debts, the financial performance fall since debts finance is very expensive and risky to the firm. Secondly, the study concludes that portfolio restructuring had a statistically insignificant effect on financial performance of listed commercial and service firms in. The negative effect could be attributed to that fact that improved fixed assets to total assets ratio means the firm is spending most resources on fixed assets that may not result to improved revenues immediately hence falling financial performance in the short run period.

Thirdly, the study concludes that operational restructuring had a statistically significant effect on financial performance of listed commercial and service firms in Kenya. The possible explanation for this significant positive effect is that improved operational restructuring in leads to reduced efficiencies that results to falling costs and improved financial performance. The study also concludes that firm size had a statistically significant effect on financial performance. The effect can be attributed to the fact that when the firms firm size increases, the firm's resources in terms of assets also improves. The resources can be invested to lead to increased financial performance.

Fourthly, study concludes that firm size had a statistically significant effect on financial performance. The effect can be attributed to the fact that when the firms firm size increases, the firm's resources in terms of assets also improves. The resources can be invested to lead to increased financial performance. Finally, the study concludes that liquidity had statistically significant effect on financial performance of listed commercial and service firms in Kenya. The study finding implies that strengthening liquidity could result to falling financial performance especially if the liquid current assets like debtors have built up, the chance of bad debts also increases greatly which might result to falling financial performance.

5.4 Recommendations

Based on the conclusions, a number of recommendations are made. This study shows that corporate restructuring has a major effect on the performance of listed commercial and service firms in Kenya. Key stakeholders in this industry should endeavor in research into other variables in order to identify any major factors significantly affecting the financial performance of this industry. Such studies and findings will enable the stakeholders to maximize profitability and achieve sustainability in the industry.

Management of listed commercial and service firms should consider operational restructuring and lowering the use of debts as well as not to tie so much resources in fixed assets that may not translate to improved financial performance. There is need however for the management to ensure that they do so as per the statutory requirements of the regulator in this case the capital market authority and Nairobi securities exchange. Therefore, the managers of commercial and service firms should ensure that they meet the requirements of the regulator in terms of corporate restructuring in Kenya.

The also suggest that the policy makers especially the capital market authority should come up with additional policy that ensures that firms get approval before they participate in major corporate restructuring. The requirement for listed firms to get approval before carrying out major corporate restructuring is necessary to protect the shareholders since corporate restructuring leads to major changes in the financial performance of an entity. The study further suggests to Nairobi security exchange to inform the investing public of any firm carrying out major restructuring such that they are aware before making any decision since the value of the firm may change greatly during and after major corporate restructuring.

The study also makes useful recommendation for theory purposes. The study suggests to future researchers to expand the scope of firms considered in their studies by incorporating more firms in their studies so as to enable cross sector comparison. Additionally, the study recommends that model for estimating the effect of corporate restructuring should include lagged value of dependent and independent variables to extinguish the problem of autocorrelation and non-stationarity of variables used in the study .The study further recommends that in-depth studies ought to be carried out by utilizing both primary and secondary data in the analysis to improve the measurements of the corporate restructuring variables.

5.5 Areas of Further Research

The current study sought to establish the effect of corporate restructuring on financial performance of listed commercial and service firms in Kenya. The study was successfully

carried out; however, a number of gaps were identified that should form gap for future studies. First, a similar study should be done with improved model covering all aspects of corporate restructuring. Additionally, another study should be carried that considers all listed firms in Kenya. Lastly, the same study could also be carried out in the deposit taking Sacco's to observe if the results are holding.

The study also suggests to future researchers to expand the scope of firms considered in their studies by incorporating non listed firms in their studies so as to enable cross sector comparison. Additionally, the study recommends that model for estimating the effect of corporate restructuring should include lagged value of dependent and independent variables to extinguish the problem of autocorrelation and non-stationarity of variables used the study.

The study further recommends that in-depth studies ought to be carried out by utilizing both primary and secondary data in the analysis to improve the measurements of the corporate restructuring variables. There are aspects of corporate restructuring than cannot be captured well if study relies on secondary or primary data alone hence a hybrid data would be very useful in future studies such that the findings have wide application across different entities.

5.6 Limitations of the Study

The research was limited to the period of the study. The research was based on a seven-year period from 2011 to 2017. Most of the commercial and service firms have undergone transformation and reorganization many years before and given the nature of

competition in the various industries and the growth that has been evident in the industry in Kenya over the years, it is possible that a research focused on a longer period would yield different findings. The study also relied on secondary data that may not adequately capture aspects of corporate restructuring in the firm. Secondly, the study relied solely on secondary data and as such, some aspects of corporate restructuring could not be measured adequately. Secondary data are also general and tends to be historical. The study used the most current information on executive compensation to minimise the problem of information being out dated.

The study also found out that listed commercial and service firms do not apply similar accounting policies hence the corporate restructuring figures may be exposed to variances across entities is expected based on the accounting policy including accrual policy of a firm. The study only relied on published data and made use of notes to the accountant to get additional information not presented exclusively in the financial statements. In addition, Performance of a firm is affected by numerous factors that were not part of this study. Although the study examined the effect of corporate restructuring on financial performance of listed commercial and service firms, other factors also affect financial performance. To capture the effect of other variables apart from corporate restructuring, the study introduced two control variables to capture the effect of the other variables in the name of firm size and liquidity that might also affect financial performance.

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APPENDICES

Appendix I: Data Collection Form

	Total debts	Equity	Fixed assets	Total assets	Operating expenses	EBIT
2017						
2016						
2015						
2014						
2013						
2012						
2011						

Appendix II: Listed Commercial and Service Firms in Kenya as at 30/09/2018

1. Express Ltd
2. Sameer Africa PLC
3. Kenya Airways Ltd
4. Nation Media Group
5. Standard Group Ltd
6. TPS Eastern Africa (Serena) Ltd
7. Scangroup Ltd
8. Uchumi Supermarket Ltd
9. Longhorn Publishers Ltd
10. Atlas Development and Support Services
11. Deacons (East Africa) Plc
12. Nairobi Business Ventures Ltd

Source: NSE Website

Appendix III: Raw Data

id	year	X1($\Delta D/E$)	X2 ($\Delta FA/TA$)	x3($\Delta \text{Exp}/PAT$)	x4(Ln TA)	x5(CA/C.L)	Y(ROE)
1	2,017	-2.66633	0.816981881	-10.91991766	11.89235	1.00302353	0.22714
1	2,016	-3.31988	0.809165944	-5.28844017	11.95559	0.9399484	0.731741
1	2,015	-18.0087	0.774517612	-5.433438216	12.11211	0.76154343	4.317122
1	2,014	2.007581	0.800641746	-32.78237729	11.9094	0.47615127	-0.11981
1	2,013	2.007581	0.800641746	-32.78237729	11.80404	0.47615127	-0.11981
1	2,012	2.007581	0.800641746	-32.78237729	11.69868	0.47615127	-0.11981
1	2,011	2.007581	0.800641746	-32.78237729	11.59332	0.47615127	-0.11981
2	2,017	0.003172	0.442497107	5.116417455	9.334353	0.00517049	0.160513
2	2,016	0.001747	0.411595108	4.064657469	9.407066	0.00303345	0.194062
2	2,015	0.016965	0.407334189	3.178476628	9.449097	0.02937082	0.248244
2	2,014	0.006603	0.382550673	2.921601301	9.388009	0.01267153	0.28062
2	2,013	0.006603	0.382550673	2.921601301	9.282649	0.01267153	0.28062
2	2,012	0.006603	0.382550673	2.921601301	9.177288	0.01267153	0.28062
2	2,011	0.006603	0.382550673	2.921601301	9.071928	0.01267153	0.28062
3	2,017	0.000656	0.793959217	7.169170801	9.529442	0.00053826	0.053311
3	2,016	0.000529	0.823953216	8.925557148	9.509437	0.00041954	0.052265
3	2,015	0.021589	0.813002452	8.975839406	9.430959	0.01832473	0.055632
3	2,014	0.035289	0.822272921	6.794650794	9.494323	0.02759861	0.073218
3	2,013	0.044101	0.820737171	3.520437806	9.452862	0.03426239	0.102299
3	2,012	0.044101	0.820737171	3.520437806	9.347501	0.03426239	0.102299
3	2,011	0.044101	0.820737171	3.520437806	9.242141	0.03426239	0.102299
4	2,017	0.35338	0.327028504	4.261062476	7.527651	0.54978868	0.141562
4	2,016	0.503107	0.26725815	5.920961341	7.532058	0.95545098	0.109821
4	2,015	0.109567	0.32763303	5.266319047	6.535706	0.18453889	0.188565
4	2,014	0	0.264047071	5.604447347	6.623479	0	0.218578
4	2,013	0	0.292977275	3.404608275	6.529447	0	0.243395
4	2,012	0.036283	0.328405934	13.89870536	6.496306	0.04411136	0.084661
4	2,011	0.036283	0.328405934	13.89870536	6.390945	0.04411136	0.084661
5	2,017	0.204824	0.579682831	-23.44385524	8.402823	0.14778458	-0.11303
5	2,016	0.297161	0.545579488	22.89859511	8.39048	0.25670928	0.095622
5	2,015	0.36792	0.608678363	-16.86532804	8.379221	0.26056289	-0.15424
5	2,014	0.303783	0.636491897	20.20990051	8.319169	0.25692622	0.099869
5	2,013	0.338551	0.602689978	23.84324487	8.327669	0.27543724	0.09342
5	2,012	0.295798	0.643508528	18.28872874	8.16096	0.24140096	0.099683
5	2,011	0.295798	0.643508528	18.28872874	8.0556	0.24140096	0.099683
6	2,017	0.019131	0.428092427	57.83843733	7.996273	0.02765503	0.007089
6	2,016	0.003586	0.304049055	-1.700974064	8.098906	0.00657715	-0.46431
6	2,015	0.003586	0.304049055	-1.700974064	8.078704	0.00657715	-0.46431
6	2,014	0.003586	0.304049055	-1.700974064	8.058501	0.00657715	-0.46431
6	2,013	0.003586	0.304049055	-1.700974064	8.038298	0.00657715	-0.46431

6	2,012	0.003586	0.304049055	-1.700974064	8.018096	0.00657715	-0.46431
6	2,011	0.003586	0.304049055	-1.700974064	7.997893	0.00657715	-0.46431
7	2,017	0.003172	0.442497107	5.116417455	9.334353	0.00517049	0.160513
7	2,016	0.001747	0.411595108	4.064657469	9.407066	0.00303345	0.194062
7	2,015	0.001747	0.411595108	4.064657469	9.397016	0.00303345	0.194062
7	2,014	0.001747	0.411595108	4.064657469	9.386965	0.00303345	0.194062
7	2,013	0.001747	0.411595108	4.064657469	9.376915	0.00303345	0.194062
7	2,012	0.001747	0.411595108	4.064657469	9.366865	0.00303345	0.194062
7	2,011	0.001747	0.411595108	4.064657469	9.356814	0.00303345	0.194062
8	2,017	2.007581	0.800641746	-32.78237729	11.69868	0.47615127	-0.11981
8	2,016	2.007581	0.800641746	-32.78237729	11.59332	0.47615127	-0.11981
8	2,015	2.007581	0.800641746	-32.78237729	11.56286	0.47615127	-0.11981
8	2,014	2.007581	0.800641746	-32.78237729	11.5324	0.47615127	-0.11981
8	2,013	2.007581	0.800641746	-32.78237729	11.50194	0.47615127	-0.11981
8	2,012	2.007581	0.800641746	-32.78237729	11.47148	0.47615127	-0.11981
8	2,011	2.007581	0.800641746	-32.78237729	11.44102	0.47615127	-0.11981
9	2,017	0.001747	0.411595108	4.064657469	9.386965	0.00303345	0.194062
9	2,016	0.001747	0.411595108	4.064657469	9.356506	0.00303345	0.194062
9	2,015	0.001747	0.411595108	4.064657469	9.326047	0.00303345	0.194062
9	2,014	0.001747	0.411595108	4.064657469	9.295588	0.00303345	0.194062
9	2,013	0.001747	0.411595108	4.064657469	9.265129	0.00303345	0.194062
9	2,012	0.001747	0.411595108	4.064657469	9.234669	0.00303345	0.194062
9	2,011	0.001747	0.411595108	4.064657469	9.20421	0.00303345	0.194062
10	2,017	0.006603	0.382550673	2.921601301	9.177288	0.01267153	0.28062
10	2,016	0.006603	0.382550673	2.921601301	9.071928	0.01267153	0.28062
10	2,015	0.006603	0.382550673	2.921601301	9.020635	0.01267153	0.28062
10	2,014	0.006603	0.382550673	2.921601301	8.969341	0.01267153	0.28062
10	2,013	0.006603	0.382550673	2.921601301	8.918048	0.01267153	0.28062
10	2,012	0.006603	0.382550673	2.921601301	8.866755	0.01267153	0.28062
10	2,011	0.006603	0.382550673	2.921601301	8.815461	0.01267153	0.28062