# IMPACT OF RESTRUCTURING ON PERFORMANCE OF DEVELOPMENT FINANCE INSTITUTIONS: A CASE STUDY ON INDUSTRIAL & COMMERCIAL DEVELOPMENT CORPORATION

BY:

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DECLARATION

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

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REG: D61/P/8823/2004

Signature

This research project has been submitted with my approval as a university supervisor

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# DEDICATION

This script is dedicated to my late parents Joyce and Washington Airo who made a lot of sacrifice in ensuring that I got the best education possible within their means; to my wife and to my three lovely children Joyce, Caroline and William for their endurance while I was pursuing the MBA degree. 1 greatly value the encouragement and support I received from you all which made it possible for me to complete the programme without any interruption.

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# ABSTRACT

The objective of the study was to establish the extent to which the various restructuring efforts executed at the ICDC have impacted on performance of the Corporation. A case study design was chosen for the study because it was found appropriate as it enabled an indepth study of how various restructuring efforts have impacted on performance of the Corporation. Interview was used to collect primary data from the chief of operations, who was the senior officer heading the technical operations of the company. Secondary data was obtained from published records which included annual reports and accounts, the Corporation's policies and operating procedures, reports on previous restructuring efforts carried out internally or by hired external consultants, business guides including fliers and the Act of Parliamant which created the Corporation. Descriptive statistical analysis was conducted on the collected data.

From the study, it was found that in each of the three restructuring effeorts, there was a decrease in the number of staff, and generally, there was an improvement in performance, although this improvement was not last long especially for the first and second restructuring. The third restructuring appears to be the only one where improvement in performance has been sustained, at least upto financial year 2006/07. Improvement in performance was meassured in terms of reduced operating costs, increased earnings and improvement in operating profits.These measures were established by graphical analysis of seconadary data obtained from annual reports and accounts of the corporation for the years 1987-to-2007 which covered the period before, during and after restructuring.

From the study, it can be concluded that restructuring generally had positive impacts in relation to sale/revenue, operating profits, interests earned, total assets and staff costs, but the reasons for non-sustainance of these positive impacts need to be investigated.

## LIST OF ACRONYMS

| | |
|---|---|
| AFC | Agricultural Finance Corporation (of Kenya) |
| CEO | Chief Executive Officer |
| DBKL | Development Bank of Kenya Limited |
| DF1 | Development Finance Institution |
| EBO | Employee Buyout |
| GoK | Government of Kenya |
| ICDC | Industrial & Commercial Development Corporation |
| IDB | Industrial Development Bank |
| IDC | Industrial Development Corporation (precursor to ICDC) |
| KIE | Kenya Industrial Estates |
| KTDC | Kenya Tourist Development Corporation |
| LBO | Leveraged Buyout |
| LMBO | Leveraged Management Buyout |
| MBO | Management Buyout |
| SBA | Strategic Business Unit |
| SME | Small and Medium Enterprise |

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CHAPTER ONE: INTRODUCTION

## 1.1 Background

Corporate restructuring is a key area in strategic management, finance, and organizational theory. Restructuring is concerned with changing structures in pursuit of a long-run strategy. Crum and Goldberg (1998) define restructuring of a company as "a set of discrete decisive measures taken in order to increase the competitiveness of the enterprise and thereby to enhance its value". The objective of restructuring is to transform the company into an enterprise that is of high value to its owners (Copeland, Roller & Murrin, 1990).

The process of corporate restructuring often occurs after buy-outs, corporate acquisitions, takeovers or bankruptcy or when an organization begins to show a steady decline from a previously robust business position. Copeland et al (1990) supports this view by suggesting that corporate restructuring becomes necessary when a company needs to improve its efficiency and profitability and it requires expert corporate management.

In Kenya, many corporate restructuring efforts have been applied to public sector institutions to check on their decline which otherwise, if left unattended, may easily have lead to their total collapse. Several organizations both state owned and in the private sector have gone through the process in an effort to make them become more responsive to the changing economic environment. Those in the public sector have undergone restructuring to make them become self reliant, thus avoiding to depend solely on regular government budgetary allocations to accomplish their mandates. In the private sector restructuring always becomes a necessary process when it is imperitive to reverse an organization's consistent loss making trend.

### 1.1.1 Concept of Corporate Restructuring

Corporate restructuring involves the dismantling and rebuilding of areas within an organization that need special attention from the management and the chief executive officer (CEO). Bowman,Singh,Useem and Bhadury (1999) distinguis three forms of corporate restructuring as (1) Financial restructuring (2) Portfolio restructuring and (3) Organizational restructuring.

Corporate restructuring becomes necessary when a company needs to improve its efficiency and profitability and when it requires expert corporate management. The reason why organizations opt for corporate restructuring is that businesses are today facing tougher competition on many more fronts than they have in the past.

### 1.1.2 Corporate Performance

According to Bowman et ai (1999), the consequences of restructuring can be conceptualized in terms of intermediate effects which may have positive or negative outcomes and these intermediate effects may have some impact on financial performance or economic wealth of the corporation. Bowman et al suggest that this ultimate effect may be perceptible in a few years or over a longer period. In the opinion of the authors, the mechanism of'when does restructuring work" is composed of many intermediate steps, but the total or derivative economic effect is captured by the operating profit changes and/or stock market changes

## 1.2 Development Finance Institutions

In both the economies of developed and developing nations, the State has always played a central role, although dominance has changed over time in response to globalisation, privatisation and the perceived efficiencies of the private sector . Development finance institutions (DFIs) supply loans and/or equity finance to private business, and individuals for purposes of funding investments for growth (Coetzee & Graham, 2002-06).DFIs expect to be repaid for such disbursements. DFIs are mostly funded by governments and reasons for their funding include (i) breaking monopolies (ii) safeguards against externalities (iii) imperfect information flow and (iv) contract enforcement problems. The government intervention is to correct the undersupply of finance.

The establishment of the Bretton Woods institutions (The World Bank and its affiliates) was a landmark in the reshaping of the international finance system and the development finance system in particular (Musasike, 2004). In subsequent years, regional economic and political groups established their own development institutions in the 1960s such as the African Development Bank, the Asian Development Bank and the Inter-American Development Bank. Sub-regional and national development financial institutions gained prominence with the support of the Bretton Woods institutions especially as more and more nations gained independence and nationhood from the western nations. A number of these institutions were created for political reasons, but served to address the developmental challenges related to provision of basic services: the creation of jobs: the promotion of foreign exchange earnings and building better infrastructure.

Nearly all development finance institutions (DFIs) are post world war two, and in the case of regional and country DFIs post colonial developments, designed to provide focused financial support to national and regional developmental efforts and bolster economic growth.

According to Levere, Schweke and Woo (2006), DFIs address market, political or bureaucratic imperfections and asymmetry arising from perceived or actual financial risk by delivering a structured package of support to their clients. The most classical role of DFIs is to fill the gaps in domestic fiscal and term-lending capabilities of under-developed and developing countries. They seek to address the capital market inefficiencies where private capital is unwilling or unable to bear the risk of providing capital to countries, projects or clients that are not considered creditworthy. They further seek to fill the fiscal gap between capital for pure pubic good provided by the state and commercial projects where there is cost recovery.

The most prominent of a DFIs package of services is thus the extension of loan finance on beneficial terms to revenue-generating enterprises and projects. This "development banking" ability of DFIs stems from their capitalisation, usually consisting of public sector equity and fiscal transfers, often augmented by loan or grant capital from private and donor sources. As governments face more budgetary constraints and development aid declines, DFIs have been forced to become less dependent on central governments, and have had to use their financial strength to intermediate between the providers of capital (financial markets and international funders) and users of capital who otherwise cannot access this capital directly. By intermediating. DFIs can substantially reduce the cost of capital to borrowers by the partial transfer of a subsidy through the interest rate or the tenor (maturity and grace periods), asset and liability matching or by stipulating less onerous collateral requirements. Further. DFIs have a better understanding of developmental risk, a higher risk appetite, and a stronger risk rating, all of which they can use to benefit poorer or unrated clients. The inclusion of more commercially orientated projects in their portfolios also allows them to cross-subsidise development projects in poor areas.

Recently. Public Private Partnerships (PPP's) have materialized as important financial instruments through which DFIs can structure their "development banking" portfolios by mobilising resources in partnerships with private sector players (Musasike,2004). These products and services include equity, quasi-equity instruments, senior debt, subordinated debt and guarantees, syndication underwriting, and arranging. Through their willingness to take political and general country risks that private sector investors have less appetite for, non-financial constraints to private sector investment in what is perceived to be economically depressed areas are mitigated and market comfort brought to fruition. This leveraging accelerates the pace at which development backlogs can be addressed.

A second, complementary function of DFIs is their "development assistance" role. This function is additional, and often non-recoverable, but complements "development banking" by improving information flow, enhancing borrower capacity and improving the prospects of debt servicing.

### 1.2.1 Development Finance Sector in Kenya

Kenya has six government funded development finance institutions (Namusonge,2004). These are the Kenya Industrial Estates Limited (K.I.E), Industrial and Commercial Development Corporation (I.C.D.C), Agricultural Finance Corporation (A.F.C), Kenya Tourist Development Corporation (K.T.D.C), IDB Capital Limited (formerly Industrial Development Bank Limited (I.D.B) and Development Bank of Kenya Limited (D.B.K.L.).

According to Namusonge (2004), DFIs represent the second set of financial institutions that have historically been the most active in financing smal and medium enterprises (SMEs) in Kenya, the first set being commercial banks. Namusonge gives as main reason for the setting up of the DFIs by the Government of Kenya (GoK) is to promote industrial development. In support of this argument he contends that DFIs provide long-term finance of up to 10 years with grace period of up to two years and that unlike commercial banks that insist on 100% security, DFIs lending is based on the viability of projects being funded and security is pegged to the fixed asset being financed. The other argument he gives in favour of DFIs is that they provide non-financial services, such as appraisal, implementation, monitoring of projects and training of entrepreneurs.

### 1.2.2 The Industrial & Commercial Development Corporation

The Industrial and Commercial Development Corporation (ICDC) was established in 1954 as a development finance institution (DFI) under the name. Industrial Development Corporation (IDC). Its main objective was to encourage local and foreign entrepreneurs to work together in promoting industrial development in the country (Namusonge,2004). After Kenya's independence in 1963, the introduction of commercial activities under its purview expanded the Corporation's scope, necessitating the change of name to ICDC. Its objective at the time was to accelerate industrial and commercial development in the country by assisting indigenous African entrepreneurs by providing credit facilities to purchase business premises and establish enterprises. This was in response to the Corporation's new task of assisting the people to participate actively in the economic development of their nation.

In line with this objective, ICDC has initiated several small-scale programmes that have enabled thousands of Kenyans to set up commercial and industrial enterprises across the country. ICDC has promoted over 60 medium and large-scale projects in all sectors of the economy in partnership with other investors or solely. This has formed a base upon which future development can be built.As a development finance institution, ICDC has remained effective over the years because of its ability to change and adapt to new economic conditions in the country. The need to operate on a more commercial footing, for instance, led to a major restructuring process from 1992 to 1994 aimed at enhancing its effectiveness and profitability in a liberalized economy. Following the said restructuring, the Corporation's mission was given a new focus. Today, ICDC is charged with the responsibility of facilitating the industrial and economic development of the country by providing venture capital finances in a minority capacity; secured long-term loan finance and expert financing and management advisory (consultancy) services.

Because of the importance of the subject of corporate resructuring and the enormous amount of resources the Government of Kenya decided to spend on the restructuring of Kenya's Development Finance Institutions, the researcher has found it opportune to establish the impact of these exercises especially in relation to the leading DFI in the country, the Industrial & Commercial Development Corporation. ICDC was in the 1970's and mid 1980*s a leading state corporation with a household name but it started experiencing a decline from late I980's, a trend from which it seems not to have recovered up to the present.The Government of Kenya decided that the corporation be restructured alongside other DFIs in 1992 and the corporation has undergone restructuring in several stages. The first restructuring, which was by far the most drastic, was carried out between 1992-1994 and entailed what the researcher considers as portfolio, financial and organizational restructuring. This was fully implementated by 1996. Since then, there have been further efforts to turnaround the corporation's performance by applying both organizational restructuring and retrenchment strategies and these were carried out in the periods 2000-2001 and 2004-2005.

## 1.3 Statement of the Problem

Practically all the DFIs in Kenya have gone through the process of restructuring (Namusonge 2004). The restructuring exercises started in the early to mid 1990s with the main objective of making the operations of the DFIs more profitable and to face new challenges following liberalization of the financial sector. The outcomes of these restructuring efforts is not documented. ICDC for example has gone through several restructuring exercises, the first and the major one having been carried out in the period 1992-1994.

This study seeks to establish the extent to which the various restructuring efforts have impacted on operations of the ICDC with regard to the corporation's performance, make meaningful observations and draw approriate recommendations based on the research findings

## 1.4 Research Objective

The objective of the study was to establish the extent to which the various restructuring efforts executed at the ICDC have impacted on performance of the Corporation.

## 1.5 Importance of the Study

This study wiil serve to narrow knowlege gap on impact of corporate restructuring on ecenomic performance of DFIs as there is currently very little published work on this important subject.

It will prove to be useful to practitioners in corporate restructuring as the literature review aims to present, in a comprehensive manner, most of the available literature on corporate restructuring.

The study will also prove useful to policy makers in government and development finance institutions in evaluating whether the various retructuring efforts that have been put in place in government sponsored DFIs have made any significant impact on economic performance of these institutions or if new approaches have to be instituted to achieve the anticipated results.

# CHAPTER TWO: LITERATURE REVIEW

## Corporate Restructuring

Corporate restructuring, turnaround and retrenchment are the most common grand strategies used in restoring poor performing diversified corporations back into sound financial footing. Conditions causing poor performance include large losses in one or more subsidiaries; disproportionate number of businesses in unattractive industries; bad economic conditions; excessive debt loads; or acquisitions that have performed worse than expected.

Restructuring is the corporate management term for the act of partially dismantling or otherwise reorganizing a company for the purpose of making it more efficient and therefore more profitable. According to Bowman and Singh (1993) restructuring refers to changes in the composition of a firm's set of businesses and/or financial structure.

Hitt Ireland and Hoskisson (1997), state that a significant wave of restructuring began in the late 1980s and increased in the 1990s and that these had the effect of changing the composition of many US and international firms. The authors add that much of restructuring has involved diverse activities such as divestiture of underperforming business, spin-offs, acquisitions, stock repurchases and debt swaps, which they refer to as one time transactions, coupled with structural changes introduced in day-to-day management of the business.

In contrast corporate turnaround strategies focus on efforts to restore a diversified company's money losing businesses back to profitability instead of say divesting them as in restructuring. For example, retrenchment is usually accomplished by selling businesses that are too small to make a sizeable contribution to the parent company's earnings or firms that have little or no strategic fit with the businesses that the management wants to concentrate on. Selling such businesses frees resources that can be used to reduce debts, or to fund new investments that strengthen the firm's competitive position.

Rappaport (1986) classified the above listed one time transactions as Phase I restructuring and those changes that bring continuous value improvement through day-to-day management of the business as Phase 11 restructuring. Rappaport then argues that companies need to move from Phase 1 restructuring to Phase II because in Phase II, the shareholder value approach is employed not only when buying and selling a business or changing the company's capital structure, but also in the planning and performance monitoring of all business strategies on an on-going basis. A successful implementation of Phase II restructuring not only ensures that management has met its responsibilities to develop corporate performance evaluation systems consistent with the parameters investors use to value the company, but also minimizes the Phase I concern of managers that a hostile take-over is imminent.

Copeland, Roller and Murrin (1990) also argue that managers should restructure companies to improve value, otherwise, external raiders will get an opportunity to take-over the company. Therefore, they claim that it is in the best interest of both managers and shareholders to keep the gap between potential and actual value as close as possible. Management can improve operations by increasing revenue or reducing cost, acquiring or disposing of assets and improving the financial structure of the company. The authors suggest that company executives often restructure their companies for enhancing productivity, reducing costs or increasing shareholder wealth. Bowman et al (1999] argue that since the dynamic environment within which companies operate is always changing, financial managers should be ever alert to new and better ways of structuring and financing their businesses.

### 2.1.1 Restructuring of Development Finance Institutions

According to Coetzee and Graham (2002-6), several issues are at stake in the restructuring process of development finance institutions. Firstly, the argument needs to be made whether a specific institution should continue to exist, thus the economic justification is needed for its existence, where the institution is highly successful. Where it is quite inefficient it can be argued that it is costing the State more than the benefits flowing from it. These will be the first points to consider and the first hurdle to cross on the way to restructuring of DFIs.

Coetzee and Graham (2002-6) consider the second issue of importance "'is the guidelines or framework of restructuring." This refers to the emphasis of the new approach to development finance where institutions should strive to be self-sustainable and have positive development impact and outreach. In this regard the issues concentrate on governance, ownership and autonomy. Of paramount importance are the governance rules and application of those rules in the selection of appropriate governors or directors and autonomy in the application of the governance rules. This emphasis echoes the international trends in the corporate sector where governance is being regarded as an important aspect of the organization and where board members of institutions have an increased responsibility. It is steeped with principal agency problems and the cost of enforcement of contracts and monitoring these contracts.

The third important component has to do with the management of transformation and restructuring. Even where a good argument has been put forth on the reason for the institution and all the governance and other rules have been adhered to, the process of transformation and the way this process is managed and supported will ensure the difference between success and failure. Kotter (1995) argues that most transformation efforts fail due to the inability to manage the process of transformation. It is important to ensure that the people responsible for change and being impacted on by change must accept all the benefits and the costs of change. People who perceive the changes and transformation to threaten their interests will do anything in their power to block and derail the change process. Once the above factors have been factored in the restructuring plan, then DFI restructuring can be done in the normal way through corporate restructuring, turnaround or retrenchment strategies.

## 2.2 Factors that Necessitate Restructructuring

The reasons which compell companies to restructure are many and varied. According to Thomson and Strickland (2003). restructuring can be prompted by any of several factors, namely:-

i) When the strategy review reveals that the firm's long term performance prospects have become untenable because the portfolio companies are too many, exhibiting slow growth . declining or are competitively weak business units;

ii) When one or more of the company's principal business falls prey to hard times;

iii) When a new chief executive officer (CEO) takes over and decides to redirect the company;

iv) When "wave-of-the-future" technologies or products emerge and a major shake up of the portfolio is needed to build a position in a potentially high industry .

v) When the firm has a unique opportunity to make an acquisition so big that it has to sell several existing businesses to finance the new acquisition.

vi) When major businesses in the portfolio have become more and more unattractive forcing a shake-up into the portfolio in order to produce satisfactory long-term corporate performance;

vii) When changes in markets and technologies of certain businesses proceed in such different directions that it is better to split the company into separate pieces rather than remain together under the same corporate umbrella;

Hills and Jones (2004) compliment the above arguments by suggesting that restructuring may become necessary when there are changes in the business environment or shifts in technology which may render the company's products obsolete. A company may also be compelled to restructure due to excess production capacity of goods or services which are no longer wanted by customers due to changing preferences or if these goods or services offer poor value for the money in the eyes of the customer. Hills and Jones further suggest that organizations may also downsize because they have grown too tall and inflexible or when bureaucratic costs have become too high, the organization may consider to restructure, claiming that organizations may decide to restructure even when they are in a strong position simply to build and improve their competitive advantage and stay on top.

On the other hand, Thomson (1994) advises that remedial action is required when a corporation experiences declining profits as a result of economic recession, production inefficiency, or competitor innovation. He suggests that in such circumstances, efforts should be concentrated on those activities and areas in which the company has a distinctive competence or a superior competitive position. The assumption would be that the firm can survive after restructuring.

Thomson (1994) further suggests that in order to improve efficiency, three aspects of restructuring must be involved, either individually or in combination. These are:-

i) Cost reduction through redundancies, leasing rather than buying assets, not replacing machinery or reducing expenditures on such things such as maintenance or training; however the danger lies in cutting spending in areas where competitive advantage may be generated.

ii) Asset reduction for example by selling anything which is not essential.

iii) Revenue generation by working on the debtors and stock turnover ratios.

Essentially, according to Thomson (1994) ,the aim is to reduce the scale of operations to a position where the company has a solid, consolidated and competitive base. The key concerns are how much reductions are needed, whether it is minor or drastic, and how quickly the company must act. Where any changes are regarded as tempo ran,', it is important to ensure that there is the necessary flexibility to allow for renewal for growth. Thomson concludes by saying that advances in strategic management thinking such as the development of new models of organizing work activities or advances in information technology often offer managers opportunity to implement the strategies in more efficient ways.

## Corporate Restructuring viz-a-viz Corporate Turnaround

Both corporate restructuring and turnaround strategies come into play when a diversified company's management has to restore an ailing business portfolio to good health (Thomson & Strickland. 2003). Diversified companies may find themselves struggling because of large losses in one or more business units that pull the corporation's overall financial performance down, a bad economy adversely affecting many of the company's business units, a disproportionate number in an unattractive industry, an excessive debt burden with interest costs that eat deeply into profitability, ill acquisitions that have not lived up to expectations or the appearance of new technologies that threaten the survival of one or more of the company's important businesses.

Corporate restructuring strategies involve down sizing and divesting some of the businesses so as to put a whole new face on the company's business make-up.

Corporate turnaround strategies in contrast concentrate exclusively on restoring a diversified company's money losing businesses back to profitability.

Different Forms of Restructuring

Companies often restructure in order to enhance productivity, reduce costs or increase shareholder wealth. Bowman,Singh,Useem and Bhadury (1999) summarized the findings of the corporate restructuring literature of the 1990s that examined the impact of restructuring on economic performance. They classified restructuring activities into three categories, portfolio restructuring, financial restructuring and organizational restructuring.

Bowman et al (1999) define portfolio restructuring as that which involves making significant changes in the mix of assets owned by a firm or the lines of business in which a firm operates, including liquidation, divestitures, asset sales and spin-offs. The authors expalin further that portfolio restructuring strategies entail making radical surgery on the mix and percentage mix-up of the types of businesses in the portfolio. Company management may restructure its business in order to sharpen focus by disposing of a unit that is peripheral to the core business and in order to raise capital or rid itself of a languishing operation by selling-off a division. Moreover, a company can embark on an aggressive combination of acquisitions and divestitures to restructure its portfolio. According to the findings of Bowman et al. spin-offs and sell-offs generate gains while acquisitions and divestments generate no improvements on average. Of course these results have differed over time and also possibly over countries.

Financial restructuring, Bowman et al (1999) explain, includes significant changes in the capital structure of a firm, including leveraged buyouts, leveraged recapitalizations and debt for equity swaps.Financial structure refers to the allocation of the corporate flow of funds-cash or credit-and to the strategic or contractual decision rules that direct the flow and determine the value-added and its distribution among the various corporate constituencies. The findings of Bowman et al revealed that financial restructuring generates economic value. A large part of the financial restructuring studies by Bowman et al covered leveraged buyouts (LBO) and management buyouts (MBO). The improvement observed on economic performance following the restructuring efforts in these situations is evidence that managers have much more information about the true value of the firm's assets than outsiders.

Bowman et al (1999] explain that organizational restructuring entails making significant changes in the organizational structure of the firm, including redrawing of divisional boundaries, flattening of hierarchic levels, spreading of the span of control, reducing product diversification, revising compensation, streamlining processes, reforming governance and downsizing employment. The findings of Bowman et al indicated that lay-offs, unaccompanied by other organisational changes, tend to have a negative impact on performance. Downsizing announcements combined with organisational restructuring are likely to have a positive, though small effect on performance.

## Restructuring Methodologies

Much of restructuring has entailed downsizing and divestiture of businesses. The primary impetus for restructuring is performance along with correction of over diversification.

While giving factors that necessitate restructuring. Hill and Jones (2004) also emphasize that restructuring and re-engineering are often adopted when it becomes necessary to improve corporate performance of single business companies. Restructuring then would involve two steps namely:-

- Streamlining the hierarchy of authority and reducing the number of levels in the hierarchy to a minimum, and;

- Downsizing the workforce by reducing the number of employees to reduce operating costs;

Candidates for divestiture typically include not only weak or underperformers or those unattractive industries but also those that no longer fit a company's revised diversification strategy (even though they may be profitable or in an attractive industry).Business units incompatible with the new related diversification criteria are divested, the remaining units are regrouped and aligned to capture more strategic fit benefits and new acquisitions made to strengthen the parent company's business position in the industries it has chosen to emphasize.

All too often however, companies are forced to downsize and lay off employees because they have not monitored the way they operate their basic business processes and have not made incremental changes to their strategies and structures that allow them to adjust to changing environment and keep bureaucratic costs under control.

The selling of portions of the company, such as a division or a subsidiary that is no longer profitable or which has distracted management from its core business, can greatly improve the company's balance sheet. Staff reductions are often accomplished partly through the selling or closing of unprofitable portions of the company and partly by consolidating or outsourcing parts of the company that perform redundant functions such as payroll, human resources, and training, cleaning or security services etc. Common characteristics of restructuring include changes in corporate management, sale of underutilized assets, outsourcing of operations such as cleaning and secutity services, moving of operations such as manufacturing to lower-cost locations, reorganization of functions such as sales, marketing, and distribution and refinancing of corporate debt to reduce interest payments

A company that has been restructured effectively will generally be leaner, more efficient, better organized, and better focused on its core business. If the restructured company was a leverage acquisition, the parent company will likely resell it at a profit when the restructuring has proven successful

Some common means of restructuring are downsizing, downscoping and leveraged buyouts.

### 2.5.1 Downsizing

One of the most common means of making changes in firm is that of downsizing. This is a reduction in the number of employees and sometimes the number of operating units, but it may or may not change the composition of businesses in the corporations portfolio (Hitt, Ireland & Hoskisson,1997). The intent of the downsizing is to become lean and mean. However, the results of a survey published in the Wall Street Journal (Hitt et al ) suggest that many of the firms that downsized did not meet their goals. According to Hitt et al, 89% of the firms surveyed suggested that the downsizing had a goal of reducing expenses, but only 46% achieved their goal. Another 71% suggested that their goal was to improve productivity but only 22% of the respondents said they met their goal for increasing productivity. Finally, 67% stated a goal of increasing competitive advantage but only 19% noted that this goal was achieved.

Thus although downsizing can be successful, it has not generally been as successful as intended. Furthermore, it has other unintended and potentially negative consequences. For instance, it is often problematic because firms do not have total control over which employees to stay and which seek new positions elsewhere. Often, the best employees take advantage of separation payments during layoffs because they have other employment options.

### 2.5.2 Downscoping

According to Hitt, Ireland and Hoskisson (1997), other firms have downscoped and met more success.Downscoping refers to divestiture, spinoffs or some other means of eliminating businesses that are unrelated to a firm's core business. This is often referred to as strategically refocusing on the firm's core business. A firm that downscopes often also downsizes. However, it does not eliminate key employees from its primary businesses, which could lead to loss of core competence. The firm reduces its size by reducing the diversity of businesses in its portfolio. When accomplished, the top management team can more effectively manage the firm. This is because the firm becomes less diversified and the top management then can better understand and manage the remaining businesses primarily the core businesses and other related businesses.

### 2.5.3 Leveraged Buyouts

Although downscoping is a prominent and generally successful restructuring strategy, another restructuring strategy, leveraged buyouts, has received significant attention, especially in the United States and other developed economies (Hitt et al,1997). A leveraged buyout (LBO) is a restructuring strategy whereby the managers of the firm and/or external parties buys all of the assets of the business, largely financed with debt and takes the firm private. The firm is bought by a few owners, usually in partnerships. Often, the new owners in the LBO also sell a significant number of the assets after the purchase, in so doing, also downsizing it.

The three types of LBOs are:-

i) Management buyouts (MBOs);
ii) Employee buyouts (EBOs);
iii) An LBO in which another firm or partnerships buy the whole firm as opposed to part of the firm and takes it private;

MBOs have been found to lead to downscoping, increased strategic focus and improved performance.

### 2.5.4 Divestment

Thomson (1994) suggests that where retrenchment fails, or is not regarded as feasible, a part of the business is likely to be sold. Basically, the organization is hoping to create a more effective and profitable portfolio of products and services. The likely problem is finding a buyer if the business in question is in difficulties and particularly a buyer who is willing to pay a premium price for the assets. This can happen where a prospective buyer feels that he or she has the appropriate skills to manage the business more effectively or where there is potential synergy with activities already managed by the acquirer. Management buyouts (MBOs) relate to the first of these issues. Existing managers often feel they could manage their business more profitably if they were freed from any constraints imposed by the parent organization and were completely free to try out their ideas for change.

Divestment then is most likely when a company needs to raise money quickly or when a business is seen as having a poor strategic fit with the rest of the portfolio and as a result is holding back the whole organization. Two special cases of divestment are:-

i) The successful entrepreneur whose business has grown to a size where he or she has obtained all the benefits he or she sought and is seeking to sellout.

ii) Divestment of parts of business following acquisition. This strategy is usually designed to maximize the value of the business for shareholders.

Where a business is not contributing strategically to a parent organization but there is no urgent need for cash, it may be floated as an independent company rather than being sold. Existing shareholders are simply given separate shares in the newly formed company which needs to be strong enough to survive on its own. Organizations adopting this strategy hope to see the market value of their shares improve as the more concentrated business is perceived to be stronger.

### 2.5.5 Liquidation

According to Thomson (1994) liquidation involves the sale of complete business, either as a single going concern or in piecemeal to different buyers or sometimes by auctioning the assets. It is an unpopular choice as it represents an admission of failure by the present management team, but it may well be in the best long-term interest of the shareholders as a whole.

### 2.5.6 Diversification

Although most restructuring efforts are aimed at reducing the level of diversification in a corporation with several business lines or SBUs, firms may also restructure through diversification. According to Ansoff (1965) diversification involves simultaneous departure from familiar products and familiar markets arguing that the decision by a firm on whether or not to diversify represents a major milestone in a firm's development.

Anssoff further suggests the following as reasons for diversification:-

i) Firms diversify when their objectives can no longer be met within their market-product scope defined by expansion;

ii) Even if current objectives are being met, a firm may diversify when diversification opportunities promise greater profitability than expansion opportunities;

The present trend is to narrow diversification around strong competitive position in a few, well selected industries as opposed to scattering corporate investment accross many industries. This view is supported by Markides (1995) who argues that corporate refocussing, which he defines as the form of resructuring carried out to reduce high level of diversification, has been shown empirically to lead to improved stock market values. According to Porter (1985), diversification can strengthen a firm's position against key competitors. It may also be adopted as strategy for matching competitors own diversification moves. Porter further argues that diversification will offer the greatest potential for enhancing overall firm position when several important value activities can be shared. Porter goes on to say that diversification provides a means to widen a firm's stock of assets and skills by expanding the perimeter of the value activities in which it participates. Each new industry may not only be related to the existing ones but also may bring value activities to the firm that are the sources of new interrelationships. The best diversification is that which does both- it reinforces the firm's existing strengths and creates a basis of new ones.

## 2.6 Turnaround Strategies

Corporate turnaround strategies focus on efforts to restore a diversified company's money losing businesses to profitability instead of divesting them. The intent is to get the whole company back in the black by curing the problems of those businesses in the portfolio that are most responsible for pulling overall performance down (Thomson & Strickland, 2003).Turnaround strategies are most appropriate in situations where the reasons for poor performance are short-term, the ailing businesses are in attractive industries and divesting the money losers does not make long-term strategic sense.

The specifics of the turnaround efforts in each poorly performing business necessarily need to vary according to the causes underlying each business weak performance and flow from a diagnosis of prevailing industry and competitive conditions and the business particular resource strengths, weaknesses, opportunities and threats. The strategic options to turnaround a poorly performing business can be summarized as follows:-

- Selling or closing down a portion of its operations (usually those where losses are greatest and or future prospects are poorest;
- Shifting to different and hopefully better business level strategy;
- Launching new initiatives to boost the business revenues;
- Pursuing cost reduction;
- Using a combination of these efforts;

However, turnaround of a diversified company as compared to a single business company has the advantage of being able to draw on the corporate parent for needed financial resources and managerial know-how and perhaps on related businesses for an infusion of competitively valuable skills and expertise.

## 2.7 Retrenchment Strategy

According to Jauch and Glueck (1988) retrenchment strategy is pursued by a firm when:-

i) It sees the desirability or necessity for reducing its product or service lines, markets or functions;

ii) It focuses its strategic decisions on functional improvement through the reduction of activities in units with negative cashflows.

A firm can redefine its business by divesting itself of a major product line or an SBU. It could abandon some market territories. A firm could also reduce its functions. As for retrenching in pace, a firm could also use layoffs, reduce research and development (R&D) or marketing, increase the collection of receivables. Jauch and Glueck (1988) argue that these efforts and those of defining the business through retrenchment can improve performance. The authors add that selling profitable assets to gain resources to be put to use elsewhere is not uncommon in combination with expansion.

According to Jauch and Glueck (1988), retrenchment alone is probably the least frequently used generic strategy, but they observe the mid 1980s witnessed huge write-offs because of over capacity, obsolescence, failed strategies and long-term structural change. Retrenchment is usually used during the declining stage of business when it is considered possible to restore profitability, but if prospects appear bleak, controlled disinvestment can be used.

## 2.8 Steps in Corporate Restructuring

According to Thomson and Strickland (2003), corporate turnaround, retrenchment and portfolio restructuring strategies come into play when a diversified company's management has to restore an ailing business portfolio into good health. The first step in corporate restructuring is to develop a clear understanding of the new direction the company wants to take (Rowe . Mason. Dickel & Snyder, 1989).The key strategic question to address is "where can the firm gain a long term competitive advantage?." In other words, in which strategic and market segments can the firm maintain or create a competitive cost advantage and thus generate new customer values. Once the strategic direction is clear, the company's management can proceed to the next stage i.e. identify where and how to restructure, divest or close under performers.

While implementing restructuring plans, there is need to organize seminars at the same time to teach staff on strategic planning concepts and techniques (Rowe et al, 1989). Each of these seminars should be attended by managers of approximately same level in the organization hierarchy to facilitate more effective participation among the managers.

## 2.9 Restructuring and Performance

Bowman et al (1999) distinguishes three types of restructuring as portfolio restructuring; financial restructuring and organizational restructuring and adds that the impact of restructuring is likely to vary across these major forms. The authors explain that in portfolio restructuring, significant changes are made in the mix of assets owned by the firm or in its strategic business units (SBUs).These changes may include liquidations, divestitures, asset sales and spin-offs. In financial restructuring, significant changes are made in the capital structure of the firm including leveraged buyouts, leveraged recapitalizations and debt for equity swaps while in organizational restructuring, significant changes are made in the organization changes of the firm including organizational redesign and employment downsizing.

According to Bowman et al (1999) the consequences of restructuring can be conceptualized in terms of a sequence of intermediate effects which may have positive or negative outcomes. For example, in the case of portfolio restructuring, these intermediate effects could be increased strategic focus, greater economies of scope and more cogent control of multiple business units while in the case of financial restructuring, these intermediate effects could be an emphasis on cash flows and changes in managerial incentives. In the case of organizational restructuring, these effects could be in greater employee satisfaction, reduced turnover, increased efficiencies and better communication. In the opinion of the authors, these intermediate effects may have some impact on financial performance or economic wealth of the corporation and the effect may be perceptible in a few years or over a longer period. They further suggest that the mechanism of'"when does restructuring work" is composed of many intermediate effects but the total or derivative economic performance is captured by the operating profit changes and/or stock market changes.

### 2.9.1 Measures for Corporate Performance

Bowman et al (1999) distinguish two measures of company performance in the wake of a restructuring as:-

i) Market performance as shown by abnormal movements in the firm's stock price, in the days after a restructuring announcement. Market performance is also measured by abnormal returns from changes in a company's share price which can be attributed to the restructuring event and;

ii) Accounting performance which relates to changes in financial measures of the company's performance including return on equity and return on investment.

Bowman et al (1999) emphasize that these measures are typically calculated over a several year window surrounding the restructuring event, allowing comparison of post-retructuring accounting performance with the pre-restructuring record.

For each of the three forms of restructuring, Bowman et al .(1999 have attempted to investigate the impact on market performance - i.e. whether there is any abnormal movement in the firm's stock price after the announcement of such a restructuring event - and on accounting performance, measuring changes in earnings before and after the restructuring over a period of years. The studies report a significant improvement in performance following a restructuring event, but they further caution that this is not always the case. In their findings, the authors report that the average change in performance tends to be positive for portfolio and and financial restructuring but is small and may sometimes be negative for organizational restructuring.

### 2.9.2 Portfolio Restructuring and Performance

A company may restructure its business portfolio for several reasons.To sharpen focus, it can dispose of a unit that is peripheral to the core business.lt can also sell a division to raise capital or to rid itself of a loss making line.Portfolio restructuring can also entail aggressive combinations of acquisitions and divestitures. Bowman et al (1999) in their studies of some 2000 firms in the United States found that spin-offs yielded the greatest performance reward, followed by sell-offs.The authors also found that more general portfolio changes like acquisitions and divestments generated no improvements on average.

In their conclusions, the authors suggest that where a choice can be made between spin-offs and sell-offs, the average performance differs by factor two in favour of spin-offs.They argue that results are best if firms initiate spin-offs than sell-offs and count on subsequent mergers.Their reserach also indicates that returns are highest when the proceeds of such sales are used to reduce debts or give special dividends to shareholders.

### 2.9.3 Financial Restructuring and Performance

In assessing the impact of financial restructuring on performance, Bowman et al (1999) examined the impact of leveraged buyouts (LBOs) and especially management buyouts. These types of transactions are rare here in Kenya but they are very common in Japan and the US. Buyouts are defined as transactions in which managers with the aid of outsiders replace public stockholding with closely held equity and high levels of debts. The advantage is that managers in a leveraged company usually have high equity stakes in the firm, disciplining their decisions, and the high debt also tends to absorb free cash flows, in effect mopping up much of the excess cash that might otherwise be wasted.

The research by Bowman et al (1999) finds that in LBOs firms tend to focus more on increasing net cash flow and they do this in part by reducing capital expenditure and refocusing their operations. Further findings show that firms after a buyout tend to reduce their scope of operations and increase their operating income.

In their conclusions, Bowman et al (1999) claim the type of restructuring which is most likely to result in an improvement in performance, and by the greatest margin, is financial restructuring. Much of the evidence for this contention is based on studies of leveraged buy-outs of companies, particularly management buy-outs. They believe that the evidence from these studies supports the argument that leveraged buy-outs result in increases in free cash flow, improved operational efficiency and a greater focus on the company's core business. The causes of the improvement following financial restructuring are reportedly benign and cannot be attributed to lay-offs of employees - rather the increased efficiency of operations coupled with improved control of capital expenditure seem to account for much of the difference. Further findings of the authors show that leveraged buy-outs which involve divisions of companies seem to display larger improvement gains than corporate leveraged buy-outs. On the other hand, the authors do enter a caution, as the risk of bankruptcy and financial disaster with leveraged buy-outs seems to be greater. Moreover, leveraged buy-outs would appear to under-invest in long-term assets where the risk is greater.

Bowman et al (1999) conclude that financial restructuring improves economic value. Many of the changes after restructuring tend to be operational in nature. Many of the benefits in the post-buyout firm result from greater focus on operations, reduction in the firm's scope and elimination of wasteful spending. Long-term operating performance improves after the LBO not only compared with a company's pre-buyout levels but also compared with other firms in the industry.

### 2.9.4 Organization Restructuring and Performance

According to Bowman et al (1999), organizational restructurings generally have favourable impact on shareholder wealth but interestingly their findings also revealed that impact on the company's accounting measures is not always favourable. Earnings performance is not improved in the years immediately after restructuring. They conclude that the result could be due to the high expenses that can accompany the process of organizational restructuring, with savings or other gains not realized in several years. This may suggest that companies which undergo organizational restructuring face short-term inverse relationship between their accounting and market measures of performance. Investors anticipate long-term improvements in earnings from organizational restructurings but the resulting changes may necessitate short-term expenses to achieve them.

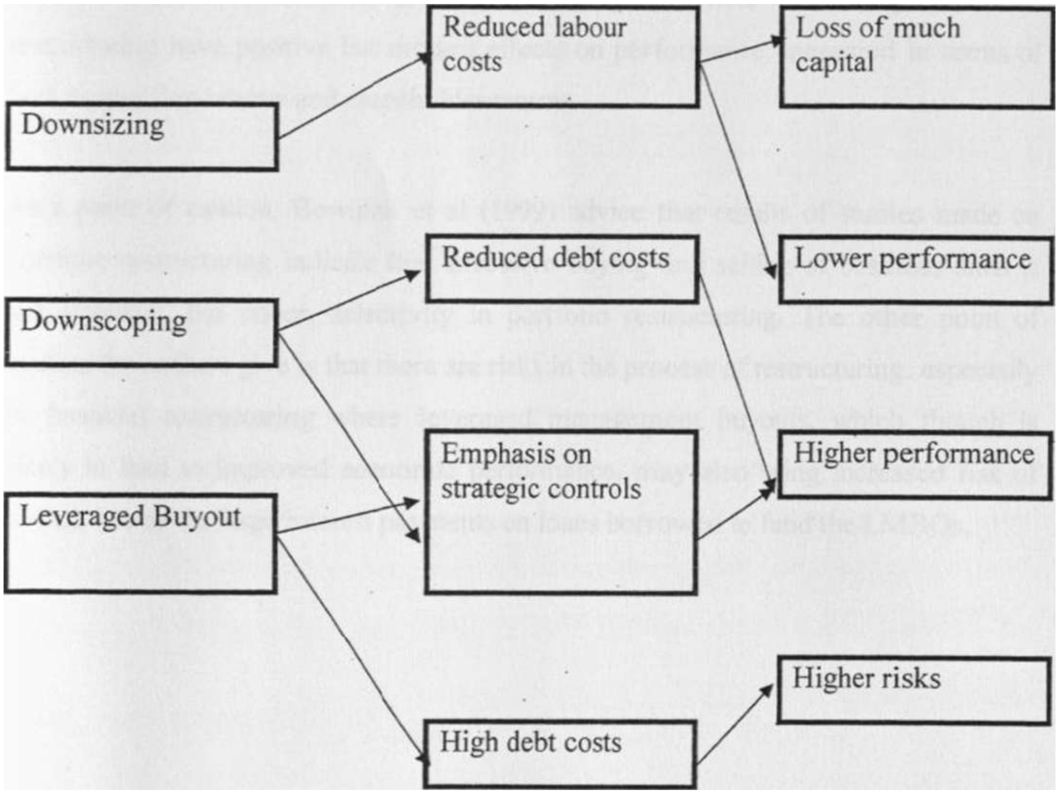
Concluding their findings. Bowman et al suggest that some forms of organizational restructuring do not bring the sought-after improvements in performance. This particularly applies to layoffs which if not accompanied by other organizational changes tend to have negative impact on performance. Downsizing announcements combined with organizational restructuring are likely to have a positive, though small effect, on performance. Changing the divisional structure of the firm has a positive, though modest, impact on performance.

## 2.10 Restructuring Outcomes

Hitt, Ireland and Hoskisson (1997) suggest restructuring processess typically have either short-term or long-term outcomes and reprsented these in a diagram which the researchers have reproduced herebelow. As the diagram shows, the most successful restructuring actions are those which help top management regain strategic control of the firm's operations. Thus downscoping has been the most successful because it refocuses the firm on its core businesses. Executives can control the strategic actions of the businesses because they are fewer, are less diverse and deal with operations with which top management is more knowledgeable.

Figure 2.1 Typical Retsructuring Outcomes.

Alternatives | Short-term outcomes | Long-term outcomes




Source: Hitt, Ireland and Hoskisson: (1997, p.235): Strategic Management, Competitiveness and Globalization, *Second Edition, West Publishing Company.*

2.11 Overall Conclusions

Bowman et al (1999) observe in their findings that of the three forms of restructuring they studied extensively, they found that financial restructuring improves economic performance the most. They argued that this could be because such restructuring is most explicitly focused on economic performance. However, the authors cautioned that not all forms of financial restructuring work well, but the best results are obtained from leveraged and management buyouts. Continuing with their conclusions, the authors add that good results on performance are also obtained from portfolio restructuring, with spin-offs giving the highest returns followed by sell-offs.

Concerning organization restructuring. Bowman et al contend that its impact on performance is contingent on the circumstances under which is initiated but they add that generally, it leads to the smallest impact on economic performance.

In their overall conclusions, Bowman et al (1999) note that many forms of restructuring have positive but modest effects on performance, measured in terms of both accounting returns and shareholder returns.

As a point of caution, Bowman et al (1999) advice that results of studies made on portfolio restructuring indicate that excessive buying and selling of business units is not effective, but rather, selectivity in portfolio restructuring. The other point of caution the authors give is that there are risks in the process of restructuring, especially in financial restructuring where leveraged management buyouts, which though is likely to lead to improved economic performance, may also bring increased risk of default due to the large interest payments on loans borrowed to fund the LMBOs.

# CHAPTER THREE: RESEARCH METHODOLOGY

## 3.1 Research Design

The research design was by case study. Reason for selection was that a case study is an ideal methodology when a holistic, in-depth investigation is needed (Feagin, Orum, & Sjoberg, 1991). Case studies have been used in varied investigations, particularly in managerail studies.ln the case of ICDC. the design is appropriate as it will enable an indepth study of how various restruturing efforts have impacted on performance of the corporation.

Yin (1993) has identified some specific types of case studies: Exploratory, Explanatory, and Descriptive. Exploratory cases are sometimes considered as a prelude to social research. Explanatory case studies may be used for doing causal investigations. Descriptive cases require a descriptive theory to be developed before starting the project.

Case study research is not sampling research; that is a fact asserted by all the major researchers in the field, including Yin (1994). However, selecting cases must be done so as to maximize what can be learned in the period of time available for the study.

The unit of analysis is a critical factor in the case study. It is typically a system of action rather than an individual or group of individuals. Case studies tend to be selective, focusing on one or two issues that are fundamental to understanding the system being examined.

The first stage in the case study methodology recomended by Yin (1994) is the development of the case study protocal. This stage is composed of (1) Determining the required skills and (2) Review of the protocal.

Yin (1994) sugests that the reseacher must possess or acquire the following skills (i) The ability to ask good quastions and to intrepret the responses (ii) Be a good listner (iii) Be adaptive so as to react to to various situations (iv) Have a firm grasp of issues being studied and (v) Be unbiased by preconceived notions. Feagin, Orum & Sjoberg (1991) suggest that the investigator must be able to function as a senior investigator during the interviews.

## 3.2 Data Collection Methods

To carryout an indepth analysis, the reseacher needed to gather both primary and secondary data on the ICDC. The data was be collected as follows.

### 3.2.1 Primary Data

Primary data was collected by means of personal interview and questionnaire. The interview was conducted by means of an interview guide to make it possible to get answers which will be useful in data analysis. However, in the initial stages, broad open-ended questions was asked and from these the researcher was further be able to draw approprate facts for recording and subsequent coding.

The interview guide was supplemented with a structured questionnaire, which has been designed with well defined questions and was administered through the "drop and pick later" technique to give the respondent ample time to address and respond to the various questions raised. Addtionally, when conducting the personal interview with the respondent, the latter was given the opportunity to address those issues raised in the questionnaire which could have not come out clearly so that these were clarified during the interview.

The questionnaire is divided into three (3) parts. Part One captured general information about the ICDC. Part Two attempts to capture the various restructuring efforts that have been made since the process started in 1992 and Part Three addressed the nature of competition the corporation was facing and strategic responses it has put in place in dealing with the challenges.

### 3.2.2 The Respondent

The respondent at ICDC was the Corporation's Chief of Operations. This was a very seniour officer of the ICDC who heads the technical operations and is well versed with matters relating to corporate strategy, investments and marketing.

### 3.2.3 Secondary Data

The secondary data was gathered from available published records. These included (i) Annual Reports and Accounts (ii) The Corporation's Policies and Operating Procedures (iii) Reports on previous restructuring efforts carried out internally or by hired external consultants (iv) Business guides including fliers and (v) The Act of Parliamant which created the Corporation.

As recommended by Bowman,Singh,Useem and Bhadury (1999), data on the Annual Reports and Accounts was analyzed for (i) Seven years before restructuring (ii) The restructuring periods and (iii) All years after restructuring for which audited accounts are available.

## 3.3 Data Analysis Technique

Data obtained in the study was analyzed using descriptive statistics. These included proportions/percentages; mean scores and standard deviations where appropriate. The analyzed data will be presented in tables and line graphs.

# CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

## 4.1 Introduction

This chapter contains analysis and findings from the study, the analysis and findings presented in this chapter are based on data collected from primary and secondary sources. The secondary data used in this study was obtained from the extracts of past audited accounts of the Industrial and Commercial Development Corporation (**I**.C.D.C). For the purpose of showing the relationship among various variables, quantitative analysis was done using percentages and ratios. Line graphs and tables were used to present the findings.

## 4.2 Respondent's Information

To begin with, the study sought to know the position held by the respondent. It was found that the respondent was the Principal Projects Officer of the organization of the study. When he was asked about his work experince with the organization, his response was that he had worked with the organization for a period of over 15 years. From this it was apparent to be noted that the information got was reliable; this was due to the fact that the respondent held a senior position in the organization and also had understanding of the organization even as far as the the restructuring issues were concernerd due to period for which he had worked with the organization.

## 4.3 Organization of the Study

The respondent was asked the name of the organization in which the study was carried out. It was found that the organization of the study was Industrial and Commercial Development Corporation (I.C.D.C). Asked on when the organization started its operations, it was found out that the organization started in 1953 according to the response given. The study also sought to know about the ownership of the organization of the study; regarding this, it was found out that the organization was wholly owned by the Government of Kenya. From this we can deduce that organization chosen for the study had operated for a long time and for this reason enough of the data required for the study could easily be found hence making the study successful. This is an implication that the reliability and the availability of data makes up the basis for a successful study.

### 4.3.1 Vision and Mission of the Organization

The researcher also sought to know whether the organization had Vision and Mission.The response given showed that the organization had both vision and mission. The Mission was: To effectively and efficiently offer quality service in the provision of venture capital, industrial and commercial loans, and management consultancy services to meet customer needs and realize returns to its stakeholders. The Vision was: To be a world class development finance institution (DFI) (in the provision of venture capital, industrial and commercial loans, and management consultancy services). In addition to this, it was found that the vision and mission statements were formulated internally as per the IS09000 series quality' management standards. When the respondent was asked on whether the vision and mission statements had been revised since their formulation, it was found tha they had both been revised and that the latest version was crafted in 2006.

### 4.3.2 Strategic Plan

In response to question on strategic plan, the reseacher sought to know whether the organization had a strategic plan and the period which their srategic plan covers. The responce given by the respondent showed that they had a strategic plan and that their plan covers a period of five years. In relation to this , the respondent was asked the frequency with which they reviewed the strategic plan. In response to this, the respondent mentioned that they reviewed their strategic plan yearly.

On the other hand the respondent was asked to to indicate the extent to which the following factors negatively impacted on the success of the corporation s strategies. The factors considerd were: Government policies. Government directives and Global Economic Environment. The results were that both government policies and directives affected to very great extent while global economic environment affected their success moderately.

### 4.3.3 The Corporation's Threats

The respondent was asked to indicate the extent of threats the Corporation got from other corporations and organizations in the industry. The organizations posed to be the main sources of threats were: investment banks, international development finance institutions (DFIs), regional DFIs, other Local DFIs, venture capital providers, commercial banks, microfmance organizations. The response given showed that the organizations which provided most threats were the regional DFIs, commercial banks and microfmance organizations. The others provided lesser threats..

## 4.3 Implementation of Restructuring Programme in the Organization.

### 4.3.1 The Objectives for the Restructuring Efforts

Accoding to the response given by the respondent, it was found out that the main objectives of the restructuring process were: (i) To create a defmate share capital for the government against which the Corporation's future performance was to be determined; (ii) To create a sound capital base to enable the Corporations raise funds; (iii) To remove the auditors qualification of the Corporation's accounts and; (iv) To make adjustments in respect of non-performing portfolios.

### 4.3.2 Strategies Used to Implement Restructuring in the Organization

The reseacher sought to know the strategies put in place by the Corporation in the implementation of restructuring programme.The response given by the respondent with regard to this question were as follows: (i) Evaluation of the performance of the organization by the external consultants; (ii) Identification of the required personnel; (iii) Drawing up of investment programmes and processes; (iv) Training the core business personnel; (v) Councelling of retrenched personnel.

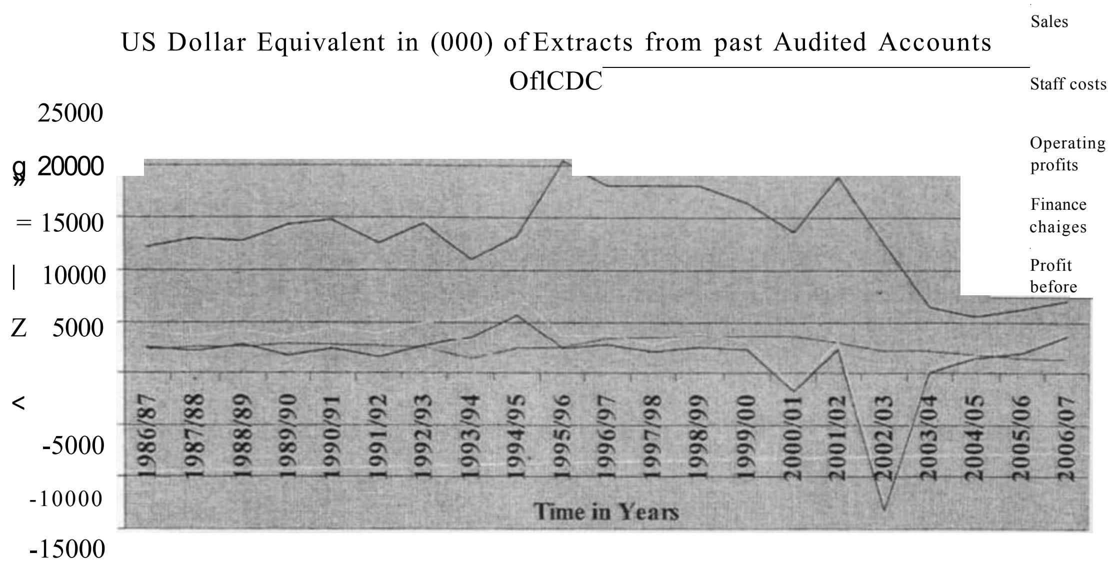
### 4.3.3 The Involvement of the Directors and Members of Staff in the Implementation of the Restructuring

To determine the level of involvement of different members in the implementation of restructuring, different people were considered. They included The CEO, Board of Directors, Heads of Departments, Line Managers, Ordinary Staff and the Consultants. It was noted that the CEO was involved by availing data and other resources which were to be used in the formulation and implementation of the restructuring process. The board of directors on the other hand were invoved in the formal endorsement of Government and World Bank directives. The heads of departments were involved in the identification of the personnel to be retrenched and those to be retained. The line managers were trained to implement new strategies. The ordinary staff were to submit the applications agreeing to participate in the retrenchment exercise. Finally, the World Bank appointed consultants were in charge of the exercise and also offered advice to both the Government and the Corporation. Asked on how the retained employees were empowerd to cope with the changes that were made, the respondent replied that they were trained with a view of improving their performance at work.

### 4.4 To Establish the Extent to Which the Various Restructuring Efforts Executed at the ICDC have impacted on the Performance of the Corporation

The research objective was to verify whether there existed a direct correlation between restructuring carried out in financial corporations and their performance after restructuring. The Industrial and Commercial Development Corporation (ICDC) was to be used as a test case. Secondary data obtained from the past audited accounts Corporation was used. The monetary values in Kenya shillings were converted to US dollar equivalents to using mean exchange rate for each particular year. This conversion was done to remove any distortion due to the depreciation of the Kenya shilling for that particular year. Audited accounts were analysed and the items for comparison included: These were the revenues, operating profits, the interest earned and the total assets. These items were compared on the basis of the accounts obtained for a period of twenty years (1987-2007. The general result was presented by the use of a line graph as shown in figure 4.2 below.

Figure 4.2 Effects of Restructuring in General




To achieve the objective of the study, individual items were analysed individually to get the trends on the changes from which interpretations and conclusions were made. The analysed data was presented using line graphs as shown below.

In the attempt to capture the various restructuring efforts that have been made since the process started in 1992, the study sought to determine the number of times the restructuring has been done in the organization and the specific years in which it was carried out. According to the results obtained , it was found that restructuring had been carried out atleased three times since restructuring was introduced in the organization in 1992. The first one was done between 1992-1994, the second one was done in 2002 and the third one was done in 2005 It was further found that the last restructuring strategies of 2005 were not fully implemented, save for retrenchment of employees.

## 4.5 Impact of Restructuring on Staff Costs

The respondent was then asked on the type/form of restructuring that was carried out on the \ears in which restructuring was done. Bowman et al (1999) claim the type of restructuring which is most likely to result in an improvement in performance, and by the greatest margin, is financial restructuring. The causes of the improvement following financial restructuring are reportedly favourable and cannot be attributed to lay-offs of employees. Jauch and Glueck (1988) argue that the efforts of defining the business through retrenchment can improve performance. The findings of the study was that downizing was used over the years. In this form lay- off/retrenchment was used to reduce labour costs. When asked to indicate changes in jobs occasioned by the restructuring efforts. Table 1 below shows these changes as shown by 2nd restructuring.

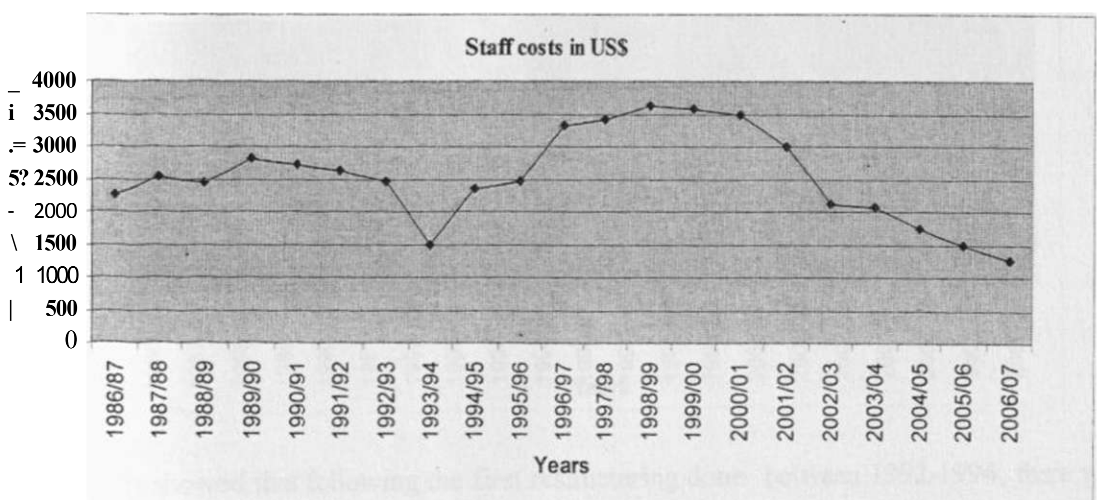
Table 4.1 Changes in Employment

| Restructuring effort | No. In employment before restructuring | No. in employment after restructuring | Changes in employment | % change in employment |
|---|---|---|---|---|
| 2nd | 145 | 70 | 75 | 52% |

From the results obtained it was found that the second restructuring caused a change of 52% in employment.

According to the analysis of the results of the past edited accounts, staff costs over the years were as represented in the figure 4.3 below.

Figure 4.3 Impact of Restructuring on Staff Costs

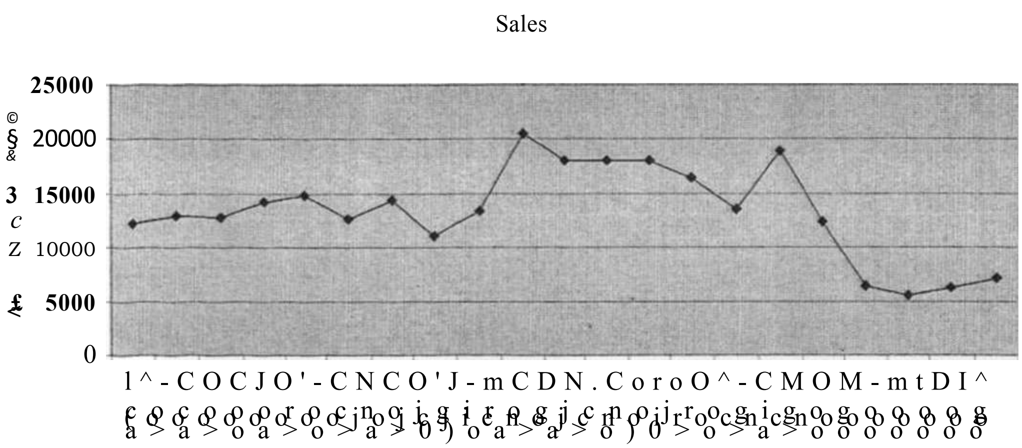



From the results, it shows that thre was a significant fall in staff costs immediately after the first restructuring of 1992/94 but then immediately thereafter, there was a steady increase in staff costs up to the year 1998/99 from when it started to reduce. The reduction was again significant after the second restrucuring of 2001/02 and the third restructuring of year 2004/05. Bowman et al (1999] explain that organizational restructuring entails making significant changes in the organizational structure of the firm, including redrawing of divisional boundaries, flattening of hierarchic levels, spreading of the span of control, reducing product diversification, revising compensation, streamlining processes, reforming governance and downsizing employment. From the results we can comclude that through downizing the staff costs were reduced, but then the reduced levels of staff costs were not maintained, the reasons of which need to be investigated.

## 4.6 Impact of Restructuring on the Volume of Sales/Revenue over the years

The respondent was asked to indicate the products for sale and show whether the restructuring done increased or reduced the sales. The analysis of the past results showed the results as shown in Figure 4.4 below.

Figure 4.4 Impact of Restructuring on Sales



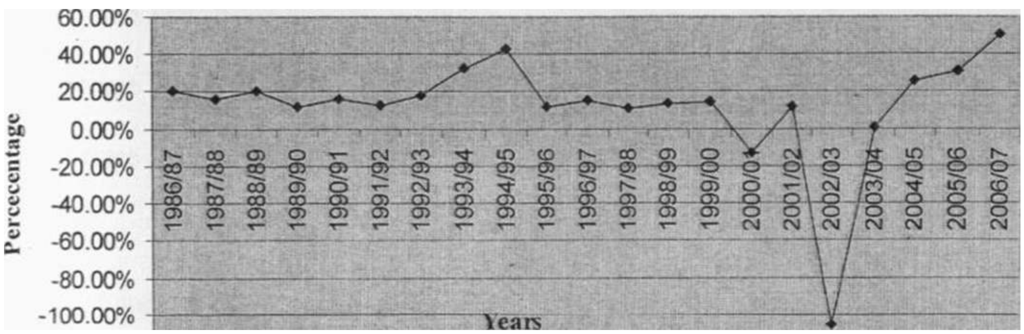

The results showed that following the first restructuring done between 1992-1994, there was increased sales, which continued an upward trend upto year 1995/96. This was folowed by cosequent decrease in sales until after the second restructuring done in 2001/02. when sales increased only during that year of restructuring, then sales continued on a downward trend until after the third restructuring of 2004/05.

### 4.7 Impact of Restructuring on the Returns on Sale

On the other hand the analysis revealed that there was a positive effect on the returns on sales. The analsis of the past records are presented in Figure 4.5 below.

Figure 4.5: Returns on Sales

Returns on Sales



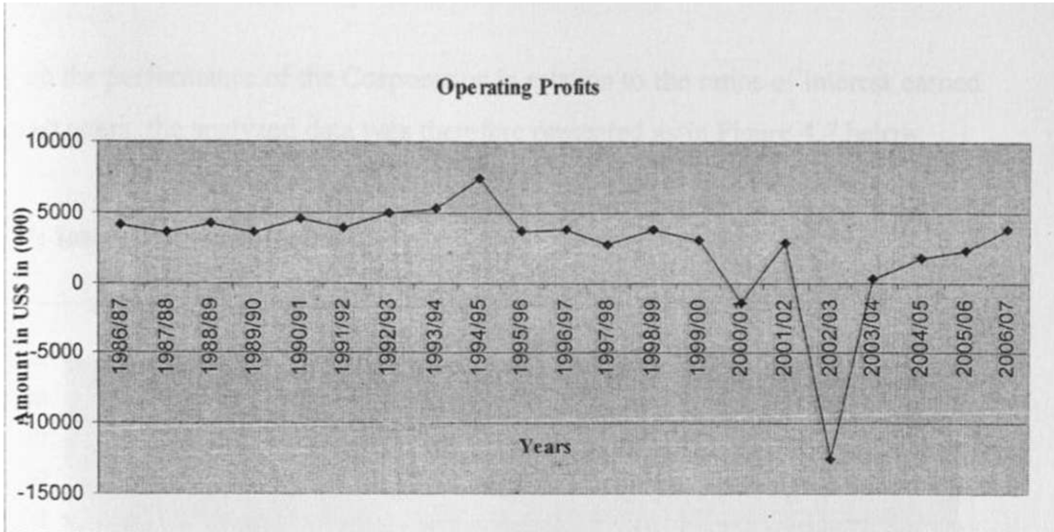

120.00%

Through the analysis, it was found out that there was an increased returns on sales between 1993/94 and 1994/95. ie two years after the first restructuring. Return on sales then dropped significantly but remained more or less steady, though at reduced levels for the years 1995/96-to-1999/00. Then there was a significant free fall during the year 2002/03. These were shown by the analysis of the past audited accounts during the period 1986/87-to-2006/07.

### 4.8 Impact of Restructuring on the Operating Profits over the years

To establish whether restructuring had an influence in the operating profit ratios. The analysis of the past records on operating profits was as shown in Figure 4.6 below

Figure 4.6 Operating Profits



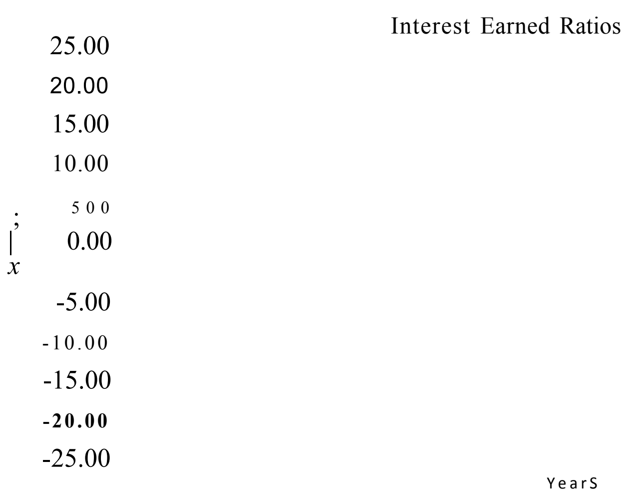

From the figure above, it was evident that with regard to operating profit, there were significant increases in operating profits for the years immediately following the restructuring of 1992-1994, and 2004/05 as the above analysis shows. This improvement in operating profit was not sustained for the first restructuring but improvements in operating profits have shown steady increase since the third restructuring of 2004/05.There was a significant dip in operating profit for the year 2002/03 after the second restructuring. Hitt, Ireland and Hoskisson (1997) suggest restructuring processess typically have either short-term or long-term outcomes. This characteristic may be attributed to the decrease in the operating profits ratio aafter the second restructuring and the increase after the third restructuring. Comparing the operating profits after the second restructuring, it was found that in 2002/03 the profits were -101.68% while in 2006/07 it was 53.47%.

4.9 Impact of Restructuring on the Interest Earned over the years

The respondent was asked to indicate the level of importance of different strategic responses used by the Corporation in dealing with the challenges that faced it. The choices of strategic responses given were: Agressive marketing, cost cutting, asset realization, operational efficiency, joint ventures, diversification, new product development, divestiture, government budgetery support, government incentives and image improvement. The responses given revealed that the most important strategies used were agressive marketing and new product development. Following in order of importance were operational efficiency and and divestiture.

Focusing on the performance of the Corporation in relation to the ratios of interest earned over the past years, the analyzed data was therefore presented as in Figure 4.7 below

Figure 4.7: Interest Earned Ratios

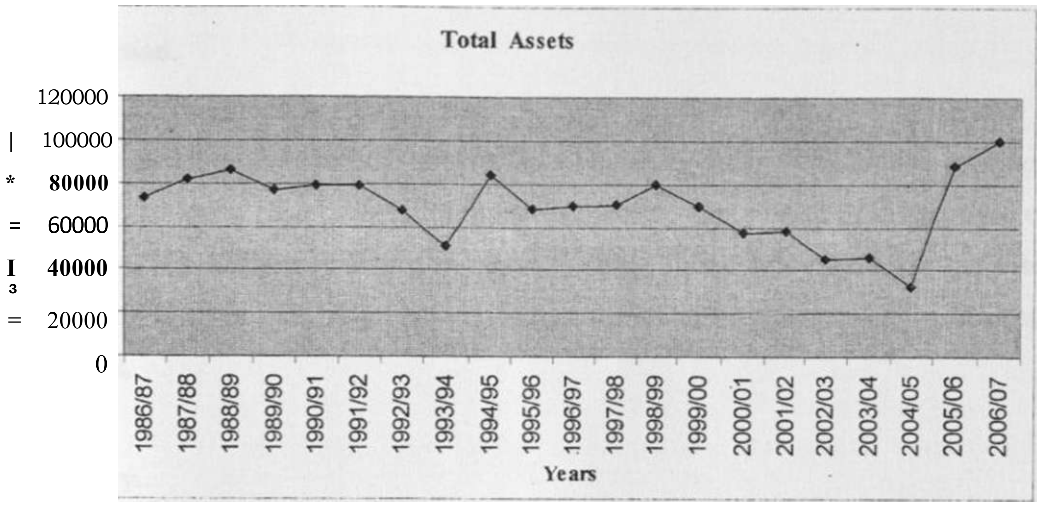



From the above analysis, the ratios remained fairly constant after the first restructuring, save for small improvement during 1994/95. There was a significant fall in year 2002/03 but thereafter, there has been a steady increase in the ratios of the interest earned. This can be attributed to the strategies set by restructuring which were cosidered to be the most important such agressive marketing and new product development as revealed from the responses given.

## 4.10 Impact of Restructuring on the Total Assets over the years

Another aim of the study was to establish the effect of restructuring on the net total assets of the corporation. Data was captured from the annual financial reports of the of the Corporation for the period 1987-2007. The findings have been presented in figure 4.8 below.

Figure 4.8:Total Assets




The results revaeled that there was an immediate drop in net total assets immediately the restructuring started in 1992, dropping substantially during 1993/94, but then picking up in the following year. The level of assets then were on a gentle decline , reaching an all time low during 2004/05. Finally there was a noticeable trend in the increase of the total assets from the latter period, recording the highest value ever in the vear2006/07. The respondent explained that during implementation of the restructuring, there was divestment of assets and this as can be seen from the above graph resulted in the lowering of value of assets between 1992-1994 and during the financial years 2001/02 and 2004/05 when the restructuring took place.

# CHAPTER FIVE: DISCUSSIONS, CONCLUSION AND RECOMMENDATIONS.

## 5.1 Introduction.

This chapter seeks to evaluate the project as a whole in order to determine whether the objectives of the study have been fulfilled. It commences with a recap of the purpose of the study followed by a discussion on the major findings of the study viz-a-viz the research questions. This chapter ends by giving major conclusions and recommendations on areas for future studies.

## 5.2 Summary.

The study sought to establish whether the extent to which the various restructuring efforts executed at the ICDC have impacted on performance of the Corporation. The specific objectives of the study were to determine how restructuring has affected performance of the Corporation interms of revenue, operating profits, interests earned, total assets and staff costs. The study established that restructuring generally affected the performance of organization. This resulted from the analysis of the the past audited accounts of the corporation from 1987/88 to 2006/07. This results were supported by the analysis of the response given by the respondent.

## 5.4 Discussions.

### 5.4.1 The Effects of Restructuring on Operating Cost.

On trying to find out whether restructuring affected the operating costs, the response obtained using structured questionnaires showed that the staff costs reduced. It was found that in the restructuring concluded in 1994,2002 and 2005, there was a decrease in the number and cost of staff by about 50%. The analysis of the past records as presented by the line-graph obtained showed that the staff costs reduced were at a peak of about US $ 2,800,000 in 1989/90 but these fell to US $ 1.500,000 in 1993/94 in the first restructuring when there was a major retrenchment of staff.Interestingly enough, the staff costs started increasing again, reaching a peak of US $ 3,600,000 in 1998/99, but started falling again.especially after the second restuctring of 2001/02. Since the latter, staff costs have maintained a downward trend. The respondent explained this trend on continual reduction in number of staff which has been going on since about 2003. It is therefore concluded that restructuring had an impact of reducing the staff costs and the general operational costs.

### 5.4.2 Impact of Restructuring on the Volume of Sales/Revenue over the Years

The results of the study showed that there was a relationship between restructuring and sales. There were increases in absolute value of sales in 1993/94-to-1995/96 and 2001/02 after the first and second restructuring respectively, when peak vavues were recorded.. However, these increases were not maintained as the graphical results show,but rather, there were decreases in after the initial increases following restructuring. It is recommended to investigate reasons for the lapse in sales after the initial increases following the restructuring. The graphical representation reveal sales started growing again, albeit by small volumes after restructuring of2004/05.

### 5.3.3 Impact of Restructuring on the Operating Profits

Regarding the impacts of restructuring on operating profits, it was found that there was an increase in operating profit with the implementation of each restructuring as is evidenced with results following restructurings of 1992/94, 2001/02 and 2004/05, but these improvements in performance were not sustained, except for the restructuring done during 2004/05. Operating profits since the latter financial year have cosistently been on the rise, though by small margins. It is recommended to investigate reasons for the inabilty of the Corporation to sustain improvements in operating profits despite the increases which followed immediately after each of the fist two restructurings carried out. Bowman et al (1999) suggest that changes in operating profit give a good measure of impact of restructuring on economic performance of an organization. These changes show clearly in the line graph of Figure 4.6.

### 5.3.4 Impact of Restructuring on the Interests Earned

From the analysis it was found that there was an increase in the interests earned immediately after implementation of each restructuring exercise, but again the increases did not last after the first and second restructuring. Interest earnings have maintained an upward trend since the third restructuring of 2004/05.These changes show clearly in the line graph of Figure 4.7.

### 5.3.5 The Impact of Restructuring on the Total Assets

The results revaeled that there was a fluctuation on the total assets of the corporation over the years, with significant dips in 1993/94 and 2004/05 after the first and second restructurings respectively. The dips in value of assets could be explained in terms of divestitures occassioned by the restructuring. Finally there was a noticeable trend in the increase of the total assets which was highest value ever after the third restructuring of 2004/05. From these results, we can conclude that restructuring had an impact on the value of the assets of the Corporation. The impact was negative for the first and seceond restructurings and positive for the third restructuring. These changes show clearly in the line graph of Figure 4.8.

## 5.4 Conclusion

From the study, it can be concluded that restructuring had both positive and negative impacts in relation to sale/revenue, operating profits, interests earned, total assets and staff costs. The study also reveals that there was a general improvement in the economic performance of the Corporation in the first two years following implementation of the first restructuring (1992-1994). but performance then started declining from the third year; similarly, there was a slight improvement in economic performance in the year of second restructuring (2001/02), but this improvement in performance was not sustained. In the case of the third restructuring of 2004/05. there was a sustainable improvement in economic performance after this restructuring (for period up to 2006/07). According Bowman et al (1999). many forms of restructuring have positive but modest effects on performance measured in terms of both accounting results and shareholder returns. The authors postulate that financial restructring give the best improvements in performance, adding that portfolio restructuring also works well, especially when it comes to spin-offs. As for organization restructuring, the authors adduce the outcome is more contingent on the circumstances in which it is initiated and often has the smallest impact on economic performance.

## 5.5 Recommendations

On the basis ofthe result ofthis study, it is evident that each restructuring effort had a positive impact on economic performance of the ICDC. although performance then went back into the decline, except for the third restructuring which was sustained. As for the case of the ICDC, the immediate impact of all the three restructuring efforts showed an improvement in performance so it is recommended that restructuring is a good method for improving the performance of organizations and for that matter, development financial institutions. This is attributed to the fact that it reduces unnecessary costs through retrenchent, divestment and other measures as described in the study. It is also recommended that for a successful restructuring to be carried out and impact sustained, certain strategies and safeguards have to be put in place as it is only through these that the benefits of the restructuring can be enjoyed over a longer period.

## 5.6 Limitations of the Study

This study did not exhaustively address all the factors that show the impact of the implementation of restructuring in development finance institutions. It was only carried out in one of the development finance institutions in Kenya, namely the ICDC. and this did not allow for the comparison on the effects of restructuring in other institutions.

Furthermore the study did not also carryout an analysis in any depth of the various types of restructurings (financial, portfolio or organizational) that were carried out at the ICDC during each of the three restructuring exercises undertaken in the years 1992-1994; 2001/2 and 20004/5 and how each of these may have impacted on the performance of the Corporation.

## 5.7 Suggestions for Future Research

This study was done only for one development finace institution. The reseacher therefore suggests that the same study should be carried out on other development finance instutuions (DFIs) in Kenya, to establish the extent to which various restructuring efforts impacted on their own economic performance.. It may also be useful to carryout a more in-depth study on the various forms of restructuring (financial, portfolio or organizational) that were carried out at the ICDC during cach of the three restructuring exercise undertaken in the years 1992-1994; 2001/2 and 20004/5 to establish how each of these impacted on economic performance of the Corporation. The other area requiring further study is the cause of breaks in improvements in economic performance following implementation of restructuring carried out in 1992-1994 and 2001/02.

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## Appendix 1

## Letter of Introduction

21* August, 2008

The Executive Director

Industrial & Commercial Development Corporation

P.O.Box 45519-00100

Nairobi

Dear Sir

RE: INTERVIEW GUIDE AND QUESTIONNAIRE FOR DATA COLLECTION FOR MANAGEMENT RESEARCH PROJECT FOR PART 2 OF MBA STUDY

This questionnaire is designed to gather information for a case study on "The Impact of Corporate Restructuring on Performance of the Industrial & Commercial Development Corporation (ICDC)."

The study is being carried out for a management research project for partial fulfillment for the degree of Master of Business Administration, School of Business, University of Nairobi

The information collected in this interview will be treated in utmost confidence. Also, the information will not be used for any other purpose, except for this research.

Your assistance in facilitating the same will be highly appreciated.

Thank you in advance.

Yours sincerely,

| | |
|---|---|
| Jakoyo Patrick O. Airo | Jeremiah Kagwe |
| MBA Student | Lecturer/Supcrv isor |

Appendix 2

Questionnaire

PART ONE

1. Name of the organization:
2. Year of establishment:
3. Position of the respondent in the organization
4. How long have you (the respondent) been with the organization?

5 years and below [ ]
5-10 years []
10-15 years []
over 15 years [j

5. Ownership (kindly tick one below):

Wholly owned by the government []
Owned partly by the government and partly privately []
Partly owned by the government and partly by other state corporations []
Partly owned by the government, partly by other state corporations and partlv privately owned []

Other (Specify)________________________________________[]

PART TWO

6. Please indicate the periods when the corporation carried out the restructuring.

| Restructuring Effort | Period of Execution (Year/s) |
|---|---|
| 1a | |
| 2nd | |
| J^rd | |
| 4* | |

7. Please indicate the type/form of restructuring carried out in each particu period

| Restructuring Effort | Restructuring Type/Form |
|---|---|
| I s | |
| 2кd | |
| 3rd | |
| 4* | |

Note: Restructuring Type/Form:: Portfolio, Financial or Organizational Restructuring

8. Please indicate the restructuring strategies used .

| Restructuring Effort | Restructuring Strategies |
|---|---|
| I s | |
| "jnd | |
| jrd | |
| 4th | |

Notel): Restructuring strategies-downsizing, downscoping, spin-off and divestment.

Note2): Distinguish if turnaround strategies were employed rather than restructuring. Turnaround strategies involve efforts to restore the corporation back to profitability instead of divesting.

(Turnaround strategy involves selling or closing down a portion of operations where losses are greatest or future prospects low; launching new initiatives to boost the business revenues; pursuing cost reduction; or using a combination of these efforts).

\ote3): Distinguish if retrenchment strategies were employed rather than restructuring or turnaround. Retrenchment efforts are similar to those of turnaround but the emphasis is more on cost reduction.

9. Please indicate changes in jobs occasioned by the restructuring efforts.

| Restructuring Effort | No. in employment before restructuring | No. in employment after restructuring | Changes in employment |
|---|---|---|---|
| I^s | | | |
| 2"^l | | | |
| | | | |
| 4^b | | | |

PART THREE

10. Please list your products and indicate if sales have increased/decreased for each product over the years.

| Product | Approximate contribution to total annual sales % | Sales generally increased over the years | Sales generally fluctuated over the years | Sales generally decreased over the years |
|---|---|---|---|---|
| | | Mark with an x or a tick as appropriate | | |
| PI | | | | |
| P2 | | | | |
| P3 | | | | |
| P4 | | | | |
| 1 PS | | | | |
| P6 | | | | |

11. Please indicate the level of competition the corporation is facing for each product.

| Product | Level of Competition | | | |
|---|---|---|---|---|
| | High | Moderate | Low | None |
| [PI | | | | |
| 112 _ | | | | |
| [P3 | | | | |
| LELI | | | | |
| rps | | | | |
| [P6 | | | | |

12. To what extent do you consider the following organizations a threat to your organization? (Kindly tick the relevant box for each).

1= to no extent, 2= to a less extent 3= to a moderate extent, 4=to a great extent, 5= to a very great extent

| Organization | 5 | 4 | 3 | 2 | I |
|---|---|---|---|---|---|
| Investment Banks | | | | | |
| I International DFIs | | | | | |
| Regional DFIs | | | | | |
| Other Local DFIs | | | | | |
| Venture Capital Providers | | | | | |
| Commercial Banks | | | | | |
| Microfinance Organizations | | | | | |
| Other Organization please specify | | | | | |

13. Please indicate the extent to which the following factors are important to your organization. 1= to no extent, 2= to a less extent 3= to a moderate extent, 4=to a great extent, 5= to a very great extent

| Factors | 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|---|
| Survival | | | | | |
| Staff training | | | | | |
| Customer satisfaction | | | | | |
| Market share | | | | | |
| Competitive position | | | | | |
| Technological advancement | | | | | |
| Profitability | | | | | |
| Increasing share holder value | | | | | |
| Raising capital | | | | | |
| Geographical spread of investments | | | | | |

14. To what extent have the following negatively impacted on the success of your corporate strategies?

1= to no extent, 2= to a less extent 3= to a moderate extent, 4=to a great extent, 5= to a very great extent

| Factors | 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|---|
| Government policies | | | | | |
| ' Government directives | | | | | |
| Global economic environment | | | | | |
| Other specify' | | | | | |

15. Following the liberalization of the market, to what extent has your organization been affected in the following parameters?

1= to no extent. 2= to a less extent 3= to a moderate extent, 4=to a great extent, 5= to a very great extent

| Parameters | 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|---|
| Decline in Profits | | | | | |
| Decline in Portfolio | | | | | |
| : Increase in None performing Assets | | | | | |
| Loss of Market share | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Loss of Customers | | | | | |
| Any other effects (please specify) | | | | | |

16. Does your organization have a strategic plan? (Please tick one below):
Yes • No •

17. What period does the strategic plan cover?
One year [ ]
Two years [ ]
Three years [ ]
Five years [ ]
Other (please specify)

And review of the strategic plan

18. What is the Corporation's Mission?

What is the Corporation's Vision?

19. How important has each of the following strategic responses been to your firm in dealing with challenges facing the firm (Please rank them in order of importance: 5 being the most important and 1 being the least important)

| Strategic responses | 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|---|
| Aggressive marketing | | | | | |
| Cost cutting | | | | | |
| Asset realization | | | | | |
| Operational efficiency | | | | | |
| Joint ventures | | | | | |
| Diversification | | | | | |
| New product Development | | | | | |
| Divestiture | | | | | |
| Government budgetary support | | | | | |
| Government incentives | | | | | |
| Image change/improvement | | | | | |

20. To what extent has your organization used each of the following as strategic responses to challenges you are facing from other competitors (Please rank them in order of importance: 5 being the most important and 1 being the least important).

| Strategic responses | 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|---|
| Product differentiation | | | | | |
| Improve customer service | | | | | |
| Community involvement | | | | | |
| Staff training | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Outsourcing of non core services | | | | | |
| Use of technology | | | | | |
| Branding | | | | | |
| 1 Interest rates that are attractive | | | | | |
| ' Efficient management of funds | | | | | |
| Reliability from credible workers | | | | | |
| Government lobbying | | | | | |
| Cost cutting | | | | | |
| Spin-offs | | | | | |
| Non traditional fimdraising initiatives | | | | | |

# Appendix 3

## Interview Guide

Section A

Who initiated the restructuring?

i)........................................-

")

"0

iv)

How many different restructuring efforts have been made to date by the Corporation, and in what periods were these carried out?

i)...........................................................................................,

ii)

iii)

iv)

What forces necessitated the various restructuring efforts?

0

ii)

iv)

What were the strategic objectives for the various restructuring efforts?

i)

u)

Hi)

iv)

Were the following preparations made before commencing the restructuring?

Assessment of the environment?

Assessment of the resources to carryout and implement he restructuring?

Forming the restructuring committee and what criteria were used in selecting the members of the committee?

Communicating to all stakeholders before commencing the restructuring.

Were any steps made to prepare the Corporation's employees on the consequences of the proposed restructuring?

Section B

Vision

Does the Corporation have a Vision?.

What is the Corporation's Vision

Mission

Does the Corporation have a Mission?

What is the Corporation's Mission?

Were the Vision and Mission Statements formulated internally or by external consultants?.

If external, give the name of the consultants.

Have the Vision and Mission Statements ever been revised since they were first introduced ?

Please itemize the various strategies put in place to implement the restructuring programme.

0....................:

ii)

Hi)

iv)

How were the following involved in implementation of the restructuring?

The CEO

Board Directors

Heads of Department

Line Managers

Ordinary Staff

Consultants

Who were the consultants for the restructuring exercises and how were they selected?

How were the remaining employees empowered to cope with the change following the restructuring?

i)..............................................................................................i r

ii).

iii)

iv)

What steps have been taken to ensure that restructuring goals are achieved?

ii).

iii)

iv).

Have attempts been made to evaluate the impact of restructuring on economic performance of the Corporation?

n

")

iii).

Appendix 4

Table 1 Ratio Analysis of Extracts of Past Audited Accounts

| Table 1- Ratio Analysis of Extracts from Past Audited Accounts | | | | |
|---|---|---|---|---|
| | | | | |
| | | | | |
| Year | Return on Sales | Return on Assets | Operating Profit Ratio | Times Interest |
| | | | | Earned Ratio |
| | Net profit/Sales xlOO | Net profit/Total Assets xlOO | Operating Profit/Sales xlOO | |
| | % | % | % | No. of times |
| | | | | |
| 2006/07 | 50.78% | 3.59% | 53.47% | 19.93 |
| 2005/06 | 30.72% | 2.15% | 37.05% | 5.86 |
| 2004/05 | 25.54% | 4.37% | 31.69% | 5.15 |
| 2003/04 | 0.74% | 0.10% | 5.07% | 1.17 |
| 2002/03 | -106.60% | -29.03% | -101.68% | -20.67 |
| 2001/02 | 11.97% | 3.88% | 15.25% | 4.65 |
| 2000/01 | -13.23% | -3.11% | -10.62% | -4.06 |
| 1999/00 | 13.93% | 3.28% | 18.56% | 4.01 |
| 1998/99 | 13.87% | 3.12% | 21.32% | 2.86 |
| 1997/98 | 10.91% | 2.80% | 15.03% | 3.65 |
| 1996/97 | 15.18% | 3.95% | 20.90% | 3.65 |
| 1995/96 | 11.65% | 3.50% | 18.09% | 2.81 |
| 1994/95 | 42.40% | 6.71% | 56.05% | 4.11 |
| Q993/94__ | 32.34% | 7.06% | 47.88% | 3.08 |
| 1992/93 | 17.66% | 3.77% | 34.20% | 2.07 |
| 1991/92 | 12.50% | 1.99% | 30.93% | 1.68 |
| 1990/91 | 16.32% | 3.04% | 30.64% | 2.14 |
| 1989/90 | 11.84% | 2.20% | 25.13% | 1.89 |
| 1988/89 | 20.71% | 3.07% | 32.93% | 2.70 |
| 1987/88 | 16.08% | 2.56% | 27.65% | 2.39 |
| 1 1986/87 | 20.63% | 3.43% | 33.87% | 2.56 |

Table 2- Extracts from Past Audited Accounts- (In US Dollar Equivalents)

| j Year | Sales | Staff Costs | Operating Pro fit/( Loss) | Finance Charges | Profit Before Tax/(Loss) | Mean Exch Rate |
|---|---|---|---|---|---|---|
| | US$ | USS | USS | USS | USS | Kshs: US S |
| | | | | | | |
| 2006/07 | 7,051,730 | 1,255,345 | 3,770,273 | 189,166 | 3,581,107 | 6941 |
| 2005/06 | 6.190,536 | 1,479,996 | 2,293,345 | 391,561 | 1,901,783 | 72.37 |
| 2004/05 | 5,475.748 | 1,738,744 | 1,735,505 | 336,736 | 1,398,768 | 77.34 |
| 2003/04 | 6.426,225 | 2.075,376 | 325,974 | 278,670 | 47,303 | 75.14 |
| 2002/03 | 12,371.710 | 2,107,534 | (12,579,466) | 608,575 | (13,188.040) | 77.07 |
| 2001/02 | 18,950.824 | 2,994,214 | 2.890,458 | 621,213 | 2,269,245 | 78.60 |
| 2000/01 | 13,570.693 | 3.484,352 | (1.440.909) | 355,080 | (1.795.989) | 78.04 |
| 1999/00 | 16.438.463 | 3,591,604 | 3,051,367 | 761,800 | 2,289,567 | 72.93 |
| 1 1998/99 | 18.042,780 | 3,628,674 | 3.847,307 | 1.344,249 | 2,503,058 | 61.91 |
| 1997/98 | 18.065,037 | 3,430,456 | 2,715,193 | 744,481 | 1,970,713 | 62.68 |
| 1996/97 | 18.071,011 | 3,317,636 | 3,777,464 | 1,034,211 | 2,743,253 | 55.02 |
| 1995/96 | 20,432,103 | 2,468,350 | 3,695,707 | 1,315,653 | 2,380,054 | 55.94 |
| 1994/95 | 13,320,455 | 2,340,288 | 7,466,230 | 1.818,534 | 5,647,696 | 44.84 |
| 1993/94 | 11.087,581 | 1,480,397 | 5,309,160 | 1,723,135 | 3,586,025 | 68.16 |
| 1992'93 | 14,451,181 | 2,475,795 | 4,943,024 | 2,391,549 | 2,551,475 | 36.22 |
| 1991/92 | 12,620.709 | 2,626,162 | 3.904.093 | 2.326,421 | 1,577,672 | 28.07 |
| 1990/91 | 14,769,184 | 2,719,664 | 4,525,018 | 2,114,162 | 2,410.856 | 24.08 |
| 1989/90 | 14,274.644 | 2,822,531 | 3.586,944 | 1.897,094 | 1,689,850 | 21.60 |
| 1988/89 | 12,822,373 | 2.436,909 | 4.222,201 | 1 1,566,309 | 2.655,892 | 18.60 |
| 1987/88 | 12,994.396 | 2,532,105 | 3.592,792 | 1,502,879 | 2,089,913 | 16.52 |
| 1 986/87 | 12,253,133 | 2,261,736 | 4.149,634 | 1,622,310 | 2,527,324 | 16.04 |

Table 3 Extract of Past Audited Accounts-(In Kenya Shillings)

| Year | Sales | Staff Costs | Operating Profit | Financc Charges | Profit Befoe Tax | Total Assets | Mean Exclt Rate |
|---|---|---|---|---|---|---|---|
| | Kshs | Kshs | Kshs | Kshs | Kshs | Kshs | Kshs: US $ |
| | | | | | | | |
| 2006/07 | 489,460,562 | 87,133,480 | 261,694,655 | 13,130,030 | 248,564,625 | 6,927,096,991 | 69.41 |
| 2005/06 | 448,009.090 | 107,107,340 | 165,969,370 | 28,337,300 | 137,632,070 | 6,404,371,550 | 72.37 |
| 2004/05 | 423,494,320 | 134,474,480 | 134.223.920 | 26,043,180 | 108,180,740 | 2,475,589,500 | 77.34 |
| 2003/04 | 482,866,560 | 155.943,790 | 24,493,660 | 20,939,280 | 3,554,380 | 3,465,769,520 | 75.14 |
| 2002/03 | 953,487,700 | 162,427,640 | (969,499,410) | 46,902,840 | (1.016.402,250) | 3,500,663,300 | 77.07 |
| 2001/02 | 1,489,534,800 | 235,345,220 | 227,190,030 | 48,827,380 | 178,362,650 | 4,599,412,140 | 78.60 |
| 2000/01 | 1,059,056,888 | 271,918,840 | (112,448.550) | 27,710,470 | (140,159,020) | 4,502,940,940 | 78.04 |
| 1999/00 | 1,198,857,110 | 261,935,680 | 222,536,190 | 55,558,070 | 166,978,120 | 5,095,815,610 | 72.93 |
| 1998/99 | 1,117,028,530 | 224,651,200 | 238,186,760 | 83,222,450 | 154,964,310 | 4,959,519,770 | 61.91 |
| 1997/98 | 1,132,316,500 | 215,020,960 | 170,188,320 | 46,664,050 | 123,524,270 | 4.404,169,990 | 62.68 |
| 1996/97 | 994,267,000 | 182,536,350 | 207,836.060 | 56,902,300 | 150,933,760 | 3,825,773,670 | 55.02 |
| 1995/96 | 1,142,971,850 | 138,079,520 | 206,737,840 | 73,597,620 | 133,140,220 | 3,803,508,300 | 55.94 |
| 1994/95 | 597,289,210 | 104,938,500 | 334,785,760 | 81,543,070 | 253,242,690 | 3,774,236,840 | 44.84 |
| 1993/94 | 755,729,500 | 100,903,870 | 361,872,370 | 117.448,910 | 244,423,460 | 3,460,277,340 | 68.16 |
| 1992/93 | 523,421,780 | 89,673,300 | 179,036,320 | 86,621,910 | 92,414,410 | 2,451,613,900 | 36.22 |
| 1991/92 | 354,263,290 | 73,716,370 | 109,587,900 | 65,302,640 | 44,285,260 | 2,227,768,040 | 28.07 |
| 1990/91 | 355,641,960 | 65,489,510 | 108,962,430 | 50,909,020 | 58,053,410 | 1,908,237,150 | 24.08 |
| 1989/90 | 308,332,320 | 60,966,670 | 77,477,990 | 40,977,230 | 36,500,760 | 1,658,973,370 | 21.60 |
| 1988/89 | 238,496,140 | 45,326,500 | 78,532,930 | 29,133,340 | 49,399,590 | 1,610,082,030 | 18.60 |
| 1987/88 | 214,667.420 | 41,830,380 | 59,352,920 | 24,827,560 | 34,525,360 | 1,348,943,860 | 16.52 |
| 1986/87 | 196,540,260 | 36,278,250 | 66,560,130 | 26,021,860 | 40,538,270 | 1,180,518,980 | 16.04 |