THE IMPACT OF CORPORATE RESTRUCTURING ON THE FINANCIAL PERFORMANCE OF AIRLINES IN KENYA

BY

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DECLARATION

I, the undersigned, declare that this is my novice work and has not been submitted to any institution of learning save from the University of Nairobi to be examined.

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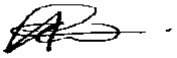

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DEDICATION

I dedicate this work to my family, friends and my supervisor who provided their knowledge and all kind of support towards this research project.

May God bless you all.

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LIST OF ABBREVIATIONS

EPS	Earnings per Share
M &M	Modigliani & Miller
NSM	Nigeria Stock Market
NSE	Nairobi Securities Exchange
RPK	Revenue per Kilometer
FTK	Freight per Kilometer
IPO	Initial Public Offerings
SEO	Seasoned Equity Offerings
SBLC	Small Business Lending Companies
KQ	Kenya Airways
KCAA	Kenya Civil Aviation Authority
KPLC	Kenya Power and Lighting Company
VSE	Vietnam Stock Exchange

ABSTRACT

The purpose of this paper was to investigate the impact of corporate restructuring on financial performance of airlines in Kenya. The research involved portfolio restructuring, operational restructuring and financial restructuring as the measures of corporate restructuring. Financial performance measurement was in regards to return on assets. This research was based on M & M, agency and lifestyle theory. Descriptive research guided the study. The research targeted a total of 30 airlines licensed and operating in Kenya by the Kenya Civil Aviation Authority. This study depended heavily on secondary data collection approaches; published financial statements, audit reports and financial reports. Secondary data was quantitatively analyzed for purposes of the paper spanned a time span of 10 years, from 2011 through 2020. The researcher made use of Statistical Package for the Social Sciences tools. Data collected was subjected to multiple regressions models to ascertain the correlation between corporate restructuring and financial performance across the airlines in Kenya using the sample size of two airlines. The test for multicollinearity, normality and heteroscedasticity was employed in this study as diagnostic tests. The study determined that corporate restructuring generally has an effect on financial performance of airlines. The corporate restructuring variables negatively affected financial performance. Financial restructuring was noted to have a negative but insignificant influence on financial performance of airlines. This research found operational and portfolio restructuring to have a substantially negative impact on financial performance of airlines. The finding of the study showed that corporate restructuring has negatively affected financial performance of these firms. Hence, it is recommended that airlines operating in Kenya should review their restructuring options and processes to ensure that the airlines accrue the benefits of a well-crafted and implemented corporate restructuring. This would reduce the negative effects of the current restructurings adopted by these firms.it is suggested that the same study can be done in all the 30 Airlines operating in Kenya to see if the same outcome will be established.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Various entities adopt various strategies with an effort to ensure success in today's competitive business market (Maqbool & Zameer, 2018). One of the more significant measures adopted by many, if not all, is corporate restructuring. Indeed, corporate restructuring is fast becoming a pervasive practice in the corporate world. Technological advancement is also contributing to fierce competition within the business environment, ultimately promoting efficiency. Companies compete effectively by incorporating relevant corporate strategies (Yilmaz, 2018). Failure to do so would predicate losses in profit margins and in share markets. Such losses would in turn prompt firms to reorganize in order to maximize shareholders' wealth and maximize profits. As a result, airlines should have adequate resources pertaining finances and use them in an efficient way to enhance critical infrastructure investment as observed by Reeves (2014). It is for this reason that some airlines in Kenya saw the need to re-align their corporate structure to optimize their resources. Worldwide, businesses ensure they achieve efficiency by adopting corporate restructuring strategies that allow them to reshape themselves with the main objectives of achieving their goals and coping with changes in their environment (Limam & Mohammed, 2018). These rapid changes are often brought about by technological advancements that breed unpredictability in the market environment. Corporate restructuring therefore significantly impacts survival of organizations (Okoye et al., 2020).

Various theories exist to explain the correlation between financial structure and performance of aviation industry, including Modgiliani and Miller's (1963) trade-off theory, Jensen and Meckling's (1976) agency theory, and Myers and Majluf's stakeholder theory (1984). The trade-off theory posits that a corporation must find an equilibrium between debt and equity financing for them to benefit from lower bankruptcy costs and tax paybacks that boost profits (Modgiliani & Miller, 1963). As a result, the stakeholder theory asserts that, in order to avoid conflicts, a company's organizational goals should be aligned with the interests of its stakeholders. The agency thesis, on the other hand, focuses on the interaction between shareholders and managers (Maqbool & Zameer, 2018). For purposes of this study, Lifestyle Theory was used to explore how the Kenyan domestic Airlines sources for alternative funding to avoid financial distress and ensure

that corporate restructuring improves both firms' financial performance in the highly competitive and volatile airline industry.

1.1.1 Corporate Restructuring

In general, corporate restructuring is defined as the process by which organizations take steadfast action to implement changes likely to alter their organizational structures and general operations while at the same time avoiding incurring losses. Abdin Shereen (2019) defines corporate restructuring as the alteration of fundamental corporate elements in an organization, an important step towards ensuring business relevance. Corporate restructuring may also describe a situation where an organization strengthens its operations and business activities through such comprehensive processes as the re-imagination of production and enterprising practices so as to meet both long-term and short-term objectives. Kratochvilova (2001) points out that whenever organizations face noteworthy challenges that pose capital and operational risks – such as turbulence occasioned by market volatility, political strife and economic crises, they have to reorganize through corporate restructuring in order to remain relevant and enhance their financial performance.

Companies restructure for various reasons, chief among them being due to financial distress. Financial distress sets in when a company's costs skyrocket relative to its revenues, and when it consistently registers high and increasing debts that precipitate capital and asset losses. Without restructuring, such companies would experience difficulties in paying their suppliers and creditors (Limam & Mohammed, 2018). Another reason for restructuring is the need for expansion, either through mergers or acquisitions of other companies offering similar commodities (Yilmaz, 2018). Lastly, corporate restructuring is often associated with management's intent to maintain the competitiveness of their organization in the market, avoid dissolution, or adjusting to legal requirements (Okoye et al., 2020). Corporate restructuring is relevant because it facilitates profit generation and maximization and promotes growth and expansion. In addition, where a company finds itself in financial distress, corporate restructuring may help salvage it (Limam & Mohammed, 2018).

1.1.2 Financial Performance

The revenue generating and expenditure patterns of a business are referred to as financial performance (Yilmaz, 2018). It is, in simple terms, a measure of an entity's entire worth over a certain length time. It's the extent to which an organization's financial goals are met using best practices, policies, and processes. Ghildyal and Chang (2017) defines financial performance as a company's ability to attain financial stability through its investment and operational activities, as measured by crucial financial pointers. Particularly, the main and definitive goal of a firm is performance (Galant & Cadez, 2017). Gearing and control ratios like Return on Assets, Equity and Return are employed to measure performance (Myskova & Hajek, 2017). The most often used methods are return on assets and profit margins (Limam & Mohammed, 2018).

Airline's, profitability, revenue per kilometer (RPK), freight per kilometer (FTK) and quality of service are all used to evaluate airline performance (Malighetti et al., 2016). The aviation sector has been tumultuous all over the world due to universal financial predicament, and now, with the proclamation of global lockdowns owing to the COVID-19 epidemic, it has been even more so. For most organizations, success is normally a function of financial performance, and so it is important that firms monitor market trends if they are to remain profitable over time in today's competitive business market (Limam & Mohammed, 2018). This reality calls for sound management across the organizational spectrum, as well as an understanding of market behavior and economic trends (Yilmaz, 2018).

Liquidity, efficiency, profitability, leverage and capital adequacy, to mention but a few, are some of the parameters often adopted to objectively estimate the financial performance of an entity (Okoye et al., 2020). Financial indicators assess the efficiency with which a corporation invests the capital it has obtained in assets, as well as the assets' potential to generate profit. As a result, investors utilize financial indicators to evaluate the return on their investment (Cole & Sokolyk, 2018). Financial indicators are used by businesses to assess, report, and improve performance. Profitability, for example, refers to a company's capacity to turn funds collected through equity or debt into returns. Liquidity is an entity's ability to achieve short- and long-term financial commitments. Bessler et al. (2011) opines that Equity financing entails Seasoned Equity Offerings (SEOs) as well as Initial Public Offerings (IPOs) traded by an airline so as to come up with capital

of funding massive projects, whereas debt financing entails asking for funds from financier organizations to be paid with interest.

Debt financing is defined by Bollaert and Delanghe (2015) as the ratio of outside funding from financial institutions as a percentage of a company's assets. It makes use of borrowed funds that must be returned either without or with interest. Some of the many sources of debt financing for businesses include welfare organizations, commercial finance entities, hire purchases, credit union funding, and family funded firms (Nyanamba et al., 2013), vendor credit and lease engagements (Tariq, 2013). Stock financier houses, securities exchange credit, government bonds, hardware providers insurance agencies, Resources-based banks and Small Business Lending Companies are among the other sources (SBLCs) (Yilmaz, 2018). As far as profitability is concerned, a successful organization is often seen as one with sufficient working capital and sound management. As such, a firm's run-on investment, return on assets ratio, earnings per share, and asset base can be a good measure of its financial performance (Okoye et al., 2020).

1.1.3 Corporate Restructuring and Financial Performance

This section sought to determine the correlation between financial performance and corporate restructuring. According to Duong et al. (2020), the efficiency of most airlines across the globe is a measure of their ability to operate profitably in an often-turbulent market. Such airlines' productivity is often a function of management, and companies that embrace corporate restructuring almost always end up shoring up their revenues on the back of operating efficiency (Limam & Mohammed, 2018). As a consequence, they are able to capitalize on their shareholders' prosperity. This is proof of a positive correlation between corporate restructuring and performance (Kumaraswamy, Ebrahim & Nasser, 2019). In order for a player to subsist and thrive in the current competitive business world, it needs to put in place strategies with the potential to allow for the consolidation of income gains and expenditure portfolios (Limam & Mohammed, 2018). According to Eby and Buch (1998), any company that seeks to operate at low expenditure levels must ensure it has solid financial formulation and implementation strategies in place. In other words, such a firm, whether private or public, must embrace corporate restructuring to the fullest. Failing to do this would precipitate meagre financial performance in the face of market volatility, financial distress and cash flow problems.

Cascio (2002) argues that corporate restructuring makes it possible for firms to earn higher returns on investments. This is because financial restructuring ensures firms remain liquid even as they operate at low capital costs, maximize shareholder wealth and reduce operation risks (Duong et al., 2020). Firms must adopt appropriate financial structures to achieve and maintain consistent performance. The level of utilizing resources that reduces the company's financial cost and enhances the firm's performance is referred to as an optimal financial structure (Vătavu, 2015). Financial structure changes may negatively or positively negative affect a firm's value by lowering or raising predicted earnings, cost of capital, or both as recognized by Erasmus (2008). As a result, the traditional perspectives suggest that a sensible mix of stock and debt allows for a fall in a firm's value as well as an increase in capital cost (Kumaraswamy, Ebrahim & Nasser, 2019).

By assessing cash flows and financing modalities, a financial structure design permits business to carry out key capital decisions (Limam & Mohammed, 2018). Furthermore, a financial structure depicts the various levels of risk that various indicators carry, as well as their impact on performance of an entity. Based on previous research, having the best financial structure improves managerial efficiency (Ivanova & Bikeeva, 2016; Lin & Ovis, 2016). It is for this very reason that firms find themselves in situations that require corporate restructuring to achieve competitive edge and increase its commercial performance (Okoye et al., 2020). The positive correlation amongst financial performance and operational restructuring by the airline sector means airlines need to continue adopting corporate restructuring strategies best placed to gain a positive bearing on their financial performance (Duong et al., 2020).

1.1.4 The Airline Industry in Kenya

Kenya’s airline Sector has accelerated in the past three years. According to OAG Schedules Analyser data, overall departure seat capacity (both domestic and international) has increased 75 percent since 2010 (Kiiru, Kirori & Omurwa, 2019). Domestic capacity rose from 1.95 million departure seats in 2010 to 5.18 million in 2019, whereas global volume grew from 3.88 million to 5.1 million during a similar time frame (Mungai & Bula, 2018). The data further indicates that domestic capacity alone grew 38 percent between 2016 and 2017, and by a further 30.4 percent between 2017 and 2018. This expansion in domestic capacity is partly explained by the launch of Jambojet in 2014, a subsidiary of Kenya Airways specifically introduced to shore up the national carrier’s fortunes in the domestic market (Kiiru, Kirori & Omurwa, 2019). Kenya has taken

tremendous measures in the past few years to upgrade the aviation industry's infrastructure and meet the growing demand for air travel (Mungai & Bula, 2018). Since Kenya and the rest of the globe have become a global village, air travel demand has skyrocketed in the last ten years.

Tourism, Agriculture, horticulture and a swifter and more dependable method of travel to carry people from a region to the other are all contributing to Kenya's airline industry's expansion. Irandu (2010) opines that the size of an effective national air carrier network in the Sub-Saharan region is an alternative to the region's limited ground transportation system. A total of at least thirty-three airlines, led by KQ (the country's main carrier), presently offering global airline services from the Country. KQ alone accounts for 48.7 percent of Global departure capacity. Ethiopian Airlines, (7.4 percent share of international departure), Qatar Airways (4.98 percent), Fly Emirates (4.85 percent), and Precision Air Services (2.79 percent) concludes the list of the top five Global carriers by capacity flying into and out of Kenya (Kiiru, Kirori & Omurwa, 2019). Domestically, 12 airlines ply their trade within Kenya's airspace. KQ has amassed an 18.8 percent share of domestic seat capacity with Jambojet (her subsidiary) commanding 16.5 percent. AirKenya Express, on its part, has doubled its domestic capacity from 286,160 seats in 2014 to 591,040 in 2019 (Mungai & Bula, 2020).

The airline industry in Kenya is majorly controlled by the government through its Ministry of Transport. All the airlines operate under the supervision of the Kenya Civil Aviation Authority (KCAA) (Kiiru, Kirori & Omurwa, 2019). The KCAA assumes a largely oversight role, and works to ensure policies, regulations and best practices are enforced. The body was established through an act of parliamentary in the year 2002 (Mungai & Bula, 2018). Financial restructuring and performance of Airline industry in Kenya has been faced with several challenges. For example, in late 2016, the government had to bail out KQ to ensure stability of their financial health. In addition, the share financing and debt financing has been utilized by domestic airlines have used it to cut their funding costs (Mungai & Bula, 2018).

The bulk of the country's airlines are embracing capital restructuring in order to inject investment in parts that they see potential of maximizing profit with minimal resources and improve their financial performance. Furthermore, the airline Sector has been faced with a great deal of volatility in its operations including; volatile price of fuel to increased airline rivalry as a result of overseas airlines entering the country as a result of globalization and a turbulent business environment, all

of which has a harmful influence on their operations and financial performance (Juergensmeyer, 2014). As a result, airlines strive to enhance their financial performance and achieve a competitive edge by controlling aspects such as establishing a financial structure that maximizes profits while minimizing expenditures, resulting in improved financial performance. (Munga, 2018).

In terms of profitability and market share, Kenya Airways (KQ) is Kenya's largest airline, but its market share is now threatened by a number of foreign competitors. This competition has made it necessary for KQ to reinvent itself from time to time in order to ensure its survival. Over the past 5 years, KQ has consistently found itself in financial distress, as has its subsidiary Jambo-Jet. One of the options the firm has been exploring in a quest to rescue itself is corporate restructuring. Kenya Airways' corporate restructuring is evidence that schemes of arrangement can have significant potential on a firm's bottom line and promote the firm financial performance. In late 2020, KQ financial performance in terms of revenue was KSh52, 800 million while it experiences a negative Profit at −KSh36, 200 million. However, the KQ has a total of 3,986 employees with total assets of Ksh158, 415 million by the end of 2020. It is projected that adopting effective capital restructuring may improve the airline industry financial performance in the county (Mungai & Bula, 2018). This is because where KQ could previously have gone into bankruptcy under its debt obligations, schemes of arrangement under restructuring have enabled the firm and its subsidiary obtains relief from their creditors and gains some much-needed breathing space and improved financial performance (Kiiru, Kirori & Omurwa, 2019).

1.1.5 The Financial Performance of Kenya Airways

Some of the significant trends for KQ over the period 2014 – 2019 are subsequently highlighted (to 31 March until 2017; periods ending 31 December).

Table 1. 1 Key trends for KQ Financial Performance between 2014 and 2019

	2014	2015	2016	2017 (Mar)	2017 (Dec)	2018	2019
Turnover (KES millions)	106,009	110,161	116,158	106,277	80,799	114,185	128,317
Profit before tax (EBT) (KES millions)	−4,861	−29,712	−26,099	-10,202	-6,306	-7,588	-12,975
Net profit (KES millions)			−29,704	-9,956	-6,418	-7,558	-12,985
Employees in numbers	3,989	4,002	3,870	3,582	3,548	3,905	3,816
Passengers in numbers (millions)	3.7	4.2	4.2	4.5	3.4	4.8	5.1
Passenger load factor (%)	65.6	63.6	68.3	72.3	76.2	77.6	77
Aircraft in numbers (at year end)	47	52	47	46	47	45	42

Source: KQ Annual Reports (2014-2019)

Between 2014 and 2017, a combination of inadequate corporate leadership and governance, high operating costs and inefficient fuel hedging strategies presented challenges to KQ's growth. It is on the back of these challenges that KQ decided to embrace corporate restructuring in the year 2017, even as the firm sought to improve its bottom line and expand its footprint in the global airline industry. The fruits of corporate restructuring are clearly visible, at least according to the table above: turnover, number of employees, number of passengers, and passenger load factor all increased between 2017 and 2019.

1.1.6 The Financial Performance of Jambojet

Kenya Airways (KQ) formed Jambojet in 2014 as a wholly owned subsidiary to enable KQ consolidate its access to the domestic airline industry. As a result, it's worth noting that financial numbers and performance of Jambojet are completely integrated into the Kenya Airways Group

report and accounting. Until March 2017. Accounting period ranges from fiscal year concluding March 31; however, in 2017, this was changed to the year ending December 31 to match with the parent company's accounting dates. Available figures for Jambojet's performance are shown in the table below.

Table 1. 2 Key trends for Jambojet's Financial Performance between 2014 and 2018

	2014	2015	2016	Mar 2017 (12m)	Dec 2017 (9m)	2018
Turnover (KES billions)	0	2.61	3.44	3.75	2.64	4.99
Profit (EBT) (KES millions)	−118	−287	126	−25	−101	77
Number of employees	n/a	29	35	54	85	
Number of passengers (millions)	0	0.48	0.57	0.59	0.43	
Passenger load factor (%)	0	92				
Number of aircraft (at year end)	2	4	4	4	5	5

Source: KQ's Annual Reports (2014-2018)

As a result of KQ's corporate restructuring, Jambojet's turnover almost doubled between 2017 and 2018, and the subsidiary's profits rose significantly over the same period (from KES-101M to KES77).

1.2 Research Problem

The market environment in which an entity operates greatly influences its chances of survival and success (Kiiru, Kirori & Omurwa, 2019). The business environment is often characterized by competition, complexity and volatility. Concerning financial performance, it is vital that companies strategize by making appropriate decisions and putting in place robust organizational structures if they are to achieve their desired outcomes in the face of volatility and complexity in the market (May et al., 2000). Success in the airline industry is always a function of sound decision

making, especially because the industry is as volatile as the skies in which it operates. To ensure survival and profitability, there is therefore a need for airlines to embrace robust corporate strategies (Kiiru, Kirori & Omurwa, 2019). Management ought to have measures in place which guided by sound policies, processes and best practice. These measures not only help ensure efficiency, but also make it possible for firms to operate without making losses or infringing on the rights and welfare of other players in the market (Mungai & Bula, 2018).

Financial mismanagement explains the downfall of many a Kenyan airline, in terms of performance (Kiiru, Kirori & Omurwa, 2019). As this study seeks to explore the need for restructuring among firms looking to minimize chances of financial distress over the long run, a snapshot of some of the key trends for Kenya Airways and Jambo Jet over the period 2014 – 2018 are highlighted below, to show the factors that might have necessitated corporate restructuring in the airline industry in the recent years (Mungai & Bula, 2018).

Numerous empirical work have been executed previously to figure out the correlation amongst corporate structure and the financial performance. Omondi (2005) studied the effect of management decision making during the restructuring process on workers perceptions at KPLC. His study, however, did not clearly outline the influence of restructuring on financial performance.

Namatsi (2010) focused on the implementation of Kenya Airways' corporate restructuring strategy with a view to establishing its effect on organizational performance. His study, however, failed to explain how organizational performance may be measured in terms of financial parameters used in profit maximization. Kahuko (2018) on Commercial banks registered by NSE explored corporate restructuring and financial performance. Her focus on financial institutions that are already profitable in the market failed to establish any significant correlation between corporate restructuring and financial performance. Hassan (2018) also focused on capital restructuring and performance of Kenyan airlines. His study focused on a single segment of corporate restructuring – capital restructuring, ignoring the role of financial strategy in maximizing profits and shareholder wealth (Okoye et al., 2020).

The empirical studies discussed above speak to a significant knowledge gap in the correlation amongst corporate restructuring and financial performance hence the need for further investigation and research. This study will greatly benefit the entire airline industry in Kenya because it seeks

to investigate at length the effect of corporate restructuring on financial performance across the sector.

1.3 Objective of the Study

The objective was to investigate the influence of corporate restructuring on financial performance of airlines in Kenya

The precise objectives were;

i. To ascertain the influence of portfolio restructuring on the financial performance of airlines in Kenya.
ii. To evaluate the influence of operational restructuring on the financial performance of airlines in Kenya.
iii. To investigate the impact of financial restructuring on the financial performance of airlines in Kenya

1.4 Value of the Study

The outcome will benefit a number of interested party, as discussed hereafter.

First, it will pave way for further research and provide points of reference to other academicians and researchers. It will broaden the scope of idea exploration as far as corporate governance in Kenya is concerned as well as add on to empirical literature by clarifying the impacts of the financial structure on Kenyan airlines' financial performance.

The boards of directors and shareholders of major airlines in Kenya will undoubtedly benefit immensely from this study, especially because it will be an eye-opener in terms of highlighting a number of key aspects of the policymaking and decision-making processes necessary to ensure firm profitability presently and in future.

To the investors in the airline industry and the airline industry management, the outcome will be beneficial to investors in terms of enhancing their decision-making capacity, particularly because it will enrich them with requisite organizational knowledge and widen their analysis choices as far as restructuring and financial performance are concerned, as the management takes vital deductions on corporate restructuring approaches that could secure their firms survival and profitability in the otherwise competitive airline industry.

The government will also benefit from the study in the sense that it could use the findings of this research to define its anti-trust policies and come up with measures to control restructuring processes involving government ministries, and private entities. The government will benefit by creating policies and regulations that are critical in attracting both foreign and domestic investment to the aviation sector. The government could also gain insight into current financial management practices and develop solutions that are consistent with these policies. As a result, they may be able to use this research to help them develop appropriate solutions that include financial management methods that are specific to particular airlines.

Scholars will gain greatly from the findings in future research. It will also provide scholars with a theoretical overview of business reorganization and Corporate Restructuring.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The study explored a number of previous but applicable studies, focusing mainly on available information on corporate restructuring and the determinants of corporate financial performance.

2.2 Theoretical Review

The section's aim was to scrutinize a corpus of relevant theories and concepts. The section is informed by the problem statement. The Modigliani and Miller (M & M) Theory, the Agency Theory and the Lifecycle Theory have all been tapped to help understand the correlation between corporate restructuring and financial performance.

2.2.1 Modigliani and Miller (M & M) Theory

The M & M Theory was first developed in 1958 by two economists, Franco Modigliani and Merto Miller. It states that in most cases, an entity's market value is measured as a function of the current value of its upcoming earnings, its capital structure, and its underlying assets. The theory assumes that a company finances its growth in three ways: borrowing, reinvesting its profit margins, and issuing stock shares in the market. According to this theory, the combination of options a company chooses to finance its growth has no major impact on its real market share value. The M & M Theory further contends that it is the existence of various external factors such as individual bankruptcy costs, systematic information, taxes, and market scope that makes the value of a company not to be affected by the scale of capital injection. According to the theory, whether or not injected business capital involves equities or credited debts, or even a combination of the two, or how dividend insurance plans might be, are all insignificant.

The M &M Theory, however, has a number of critics who especially bash the inconsistencies and dissimilarities it engenders in its advocacy of standard borrowing and lending rates. It hypothesizes that an individual or company can lend and repay at the similar interest charges, a practice not applicable in most of the business world today. In most cases, businesses which tend to hold a substantial amount of fixed assets have a high credit rating, which enables them to borrow at lower interest rates compared to individual borrowers. Watson and Head (2007) argue that an individual is always perceived to be riskier compared to an organization when it comes to borrowing. They

argue that in the light of this reality, individuals ought to pay higher interest rates compared to organizations. It is also important to note that borrowing bears costs. The no-substitutability between corporate and individual leverage concept in the M &M Theory has also been consistently criticized. Many researchers argue that it is incorrect to argue that commercial leverage and personal leverage are perfects swaps, because firms often assume limited responsibility, while individuals assume unrestricted liability.

The M & M Theory is relevant to the research because it elaborates how the capital structure of a firm can be altered using leverage, ultimately impacting its core values and financial performance. The theory assumes that a company is a well-leveraged entity, one that enjoys a number of benefits that make it possible for it to maximize profits. A company may also restructure its capital by accepting more debt, hence making it possible for it to enjoy the benefits associated with tax shielding.

2.2.2 Agency Theory

Stephen Ross and Barry Mitnick established Agency Theory in 1973. It largely explores the relationship between principals and their agents. Principal, shareholders and company management executives constitute the matrix of this theory. An agency relationship always exists whenever there is a legal person called a principal who appoints another person referred to as a dealer and authorizes them to carry out business activities on their behalf. Relationship inefficiencies, disruptions and dissatisfactions often bring about contradictory interests among executive management and investors.

Jensen and Meckline (1976) opine that the ideal capital structure can be obtained through maximizing a firm's agency costs associated with conflicts between shareholder and managerial interests. They argued that the stock ownership of managers needs to be improved so as to synchronize the shareholders' and Managers' interests, and that managers could take on more debt so as to limit managerial opportunistic behavior.

The Agency Theory is vital to this paper as it clearly spells out the correlation amongst principals and their agents. However, the assumption that agents are needed to represent the best concern of their principals in the face of self-interest often leads to a principal-agent problem. The theory is also important because it outlines how an optimal capital structure may be attained by maximizing agency costs.

2.2.3 Lifestyle Theory

The Lifestyle Theory was first instituted by Hindelang, Garofalo and Gottfredson in 1986. It is also known as the Lifestyle Exposure Theory. It states that in most cases, crime is a process that is developmental and is steered by constant interactions between three main variables: choice, incentives and opportunities. The theory seeks to expound on how growth, birth, decline and maturity cycles influence firms' choices, especially whenever they experience financial distress and face risks pertaining to liquidation.

Birth represents the first stage of a firm's lifestyle cycle. The second stage in the lifestyle cycle of a firm is the growth stage, a stage that normally sees the firm become more activity-oriented as it seeks to grow and expand. As the firm proceeds to the growth stage, the assumption is that it becomes more or less successful on the basis of its cash flow streams. At the maturity stage, the firm is presumed to be a cash cow that is financially stable, focusing mainly on making low-risk investments. Decline represents the final stage, where the firm finds itself engaged in a lot of ventures that are more or less constrained, and with lots of unequipped assets.

Various lifestyle stages present various challenges to firms, hence the need for restructuring in order to maximize profits. The Lifestyle Theory is applicable to the research due to the understanding that for a firm to successfully navigate all lifestyle stages, it often has to strategize by restructuring its operations.

2.3 Financial Performance Determinants

There are numerous aspects that determine the success of a company. The most important among these are discussed herein.

2.3.1 Liquidity

Liquidity refers to an organization's capacity to satisfy its commitments when they become due. In most cases, liquidity is determined by comparing cash and cash equivalents to a company's aggregate assets. When measuring financial performance of a firm, liquidity is often one of the most important indicators to be evaluated. A firm's number one priority is to optimize its revenue and working capital figures.

2.3.2 Solvency

The amount to which an entity's or individual's current assets surpass its current liabilities is known as solvency. In other words, it is an entity's ability to satisfy long-term fixed expenses while also developing a long-term growth and expansion strategy. Whenever the solvency ratio is high, high financial performance is implied, and the reverse is true.

2.3.3 Size of Company

A company's size is often described in terms of the assets it holds. Size is a profitability measure, while financial performance is measured in terms of Return on Equity (ROE), Earnings per Share (EPS), and Return on Assets (ROA) ratios. Assets have a positive correlation with a firm's growth and expansion since they point to cash flows necessary to stoke investment.

KQ (which also happens to be Jambojet's mother company) had a rather tumultuous experience between the years 2015 and 2019, with its asset base fluctuating a great deal in that time. What is particularly interesting is that KQ's asset base first dipped consistently between 2015 and 2018 before growing significantly the next year.

Table 2.1: KQ's Total Assets

KQ Total Assets 2015 – 2019 (KES Millions)				
2015	2016	2017	2018	2019
182,063	155,685	146,144	136,634	195,673

Source: The Wall Street Journal (2020)

The table above clearly indicates that corporate restructuring helped KQ grow its asset base from KES146, 144M in 2017 (the year when the airline last restructured) to KES195, 673M in the year 2019.

2.3.4 Capital Structure

An entity's capital structure refers to its sources of funds, such as retained earnings, payable long-term notes and common stock all of which help finance the operations of the firm as it chases its growth and expansion ambitions. It is worth noting that a firm's financial performance can be

negatively or positively correlated with capital structure. Where a firm maintains a high level of debt, its capital structure may negatively affect its financial performance if the debt is not properly invested.

2.4 Empirical Review

This study's empirical review explores phenomena investigated and observations made by researchers past in their quest to address research problems and establishing relationships between and among variables at the heart of this particular study. This section assesses both international and native empirical studies.

2.4.1 International Studies

Several global of studies that bear some relation with the substance of this study have been conducted by various academicians and researchers. Between 2007 and 2011, Le and Phung (2014) conducted research into the correlation amongst company's capital structure and its financial performance. They employed ROE, Tobin's Q metrics and ROA to analyze the financial performance of enterprises in their analysis, which focused on enterprises listed on the Vancouver Stock Exchange (VSE). They employed overall debt ratios, as well as interim and long-term debts, to assess capital structure. Their research discovered a negative link amongst financial performance and capital structure. Kumaraswamy, Ebrahim and Nasser (2019) in gulf cooperation's entities on financial performance and corporate restructuring established that corporate restructuring improved financial performance ratios like ROA, ROE and return on invested capital. However, the effect was insignificant.

Duong, Phan, Hoang and Vo (2020) investigation on financial restructuring and overall financial performance using a survey information obtained from audited financial reports of 28 Vietnam's commercial banks from 2008 to 2018. An econometric regression model was created with financial results assessed by ROA and ROE as the dependent variables. Pooled Ordinary Least Squares Model (POLS), Generalized Methods of Moments (GMM)), Random Effects Model (REM) and Fixed Effects Model (FEM) were employed in the research. The outcome revealed that account payables restructuring and owner equity restructuring are both urgently needed. Maximizing the owners' equity and minimizing account payables would increase overall financial performance; restructuring bad debts to reduce bad debts would also boost financial performance. However,

financial restructuring in the years 2012-2015 and 2016-2018 did, in fact, negatively affect financial performance throughout those periods.

Alias, Yaacob and Jaffar (2017) looked at governance structure, corporate restructuring and performance. They found that operational and portfolio restructuring improved financial measures like return on assets. Adekunle and Asaolu (2013) focused on the influence of capital restructuring on profit maximization for periods between 2001 and 2007. They investigated a total of 30 nongovernmental organizations and non-economic companies using secondary data in the form of financial statements. Using ordinary least squares estimates, they found debt ratios and financial performance are negatively correlated. Mumtaz (2005) focused on how ta firm's capital structure may influence its financial performance. To this end, he chose to focus on a number of large private limited companies in Pakistan. For purposes of his study, he evaluated companies' capital structures on the basis of a number of debt-to-equity ratios – EPS, ROA, ROE and ROA. His study established that capital structure and market value greatly influence the financial performance of a firm.

2.5.2 Local Studies

This segment focuses on various studies conducted locally, but which might findings from previous studies. Ngige (2012) concentrated his work on the association amongst business reorganization and financial performance. In his research, which was limited to Kenya's banking sector, he found that restructuring invariably improves financial performance, owing to enhanced competitiveness, greater market shares, product market booms, geographical spread, and client orientation.

Siro (2013) discovered that listed organizational capital structure negatively impacted financial performance. According to his study, increased financial restructuring has deleterious effects on financial performance, and that a better debt ratio might well precipitate the insolvency of a company.

Ithiri (2013) scrutinized corporate restructuring and financial performance of Kenyan commercial banks. He noted that rivalry in the market, budget cuts, and policies and procedures that induce public pressure on businesses are some of the major factors that often necessitate corporate structuring a competitive business world. He also established that businesses often choose to expand because of market rivalry and regulatory changes that make it necessary for them

(businesses) to restructure to maintain competitiveness in the market. Musa et al. (2012) on establishing the role of restructuring on the financial performance of Kenya's telecommunications firms posited that the impact of organizational restructuring on financial restructuring is undoubtedly strong, and concluded that an organization's decision to restructure often portends rewards in the form of improved financial performance.

2.6 Conceptual Framework

The diagrammatic illustration adopted for purposes of this study analyzes a number of variables within a contextual framework with the view to making the research ideas explored herein distinct. The model that follows illustrates the independent and dependent variables used.

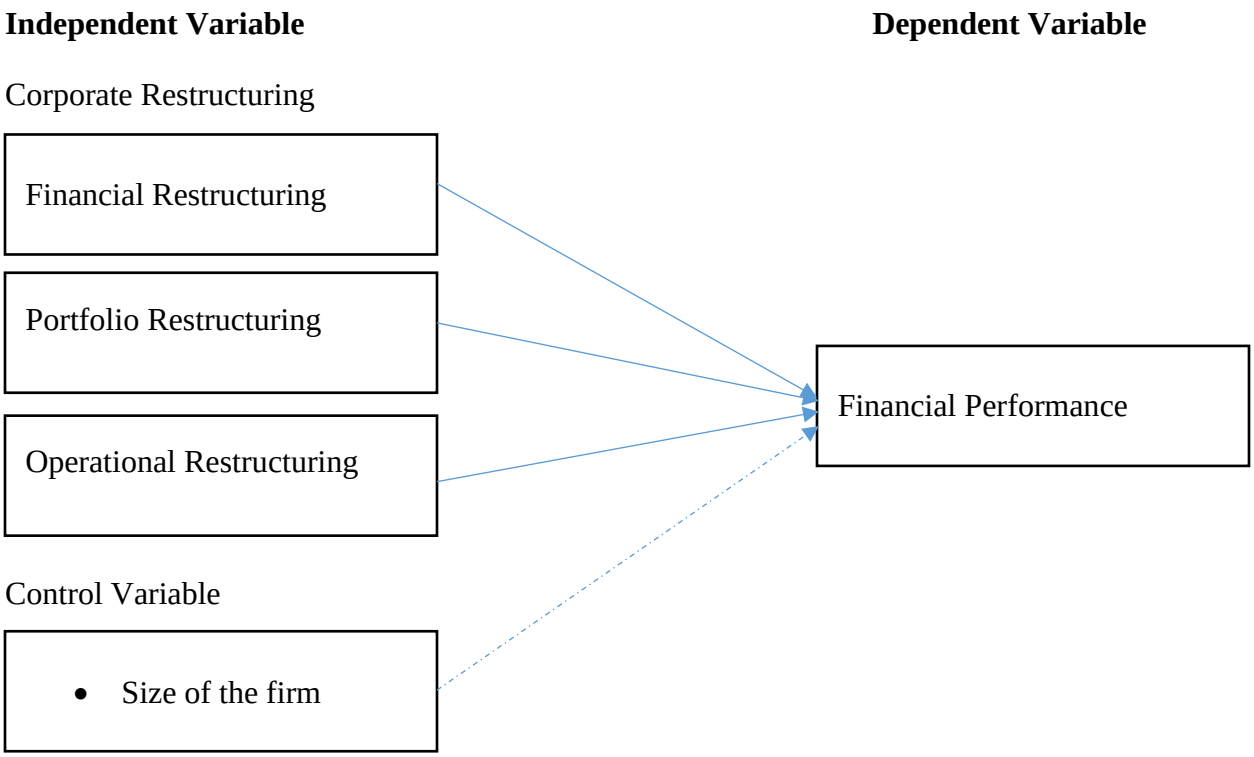

Figure 2.2*:* Conceptual framework

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This segment entailed methods that were adopted in determining the association amongst corporate restructuring and airline's financial performance in Kenya. The design, population and sample, data gathering and analysis methodologies employed, are all important variables to consider and thus are discussed.

3.2 Research Design

This outlines the procedural strategies the paper adopted in an effort to address the research queries. For purposes of the research, a descriptive design was adopted. This helped expound on findings obtained secondary sources, ultimately enabling him to adequately address the research problem. This descriptive approach to design therefore helped the researcher to adequately describe the effect of corporate restructuring on Kenya airlines' financial performance.

3.3 Population and Sample

In research, the term population is understood to mean a collection of objects or entities with the same characteristics or traits. The target of this study was a total of 30 airlines licensed to operate in Kenya as per the Kenya Civil Aviation Authority (2021) and are listed in Appendix I. A census survey was conducted to shed light on the extent to which airlines in Kenya have adopted financial, portfolio, and operational restructuring measures relatives to their sizes, as well as the impact these dimensions have had on their financial performance.

A sample, on the other hand, is simply defined as a representative group of items drawn from a large population for the purpose of measuring some desired outcome. This study used a sample of two airlines in Kenya which are KQ and Qatar airways to discover the influence of corporate restructuring on their financial performance. This is due to the accessibility of financial reports online with other airlines having fragmented data.

3.4 Data Collection

The process of collecting data so as to measure provided variables and achieve desired research objectives is known as collection of data. The study depended heavily on secondary data collection approaches. Published financial statements, audit reports and financial reports were instrumental

in ascertaining the impacts of corporate restructuring on financial performance of the two airlines under investigation. Only relevant information was collected to ensure the researcher's objectives are met. The researcher adopted secondary and which was collected from the websites and other online data bases associated with corporate restructuring on the financial performance of airlines in Kenya. Secondary data included information such as different corporate restructuring models such as operational and portfolio restructuring and their impact on financial performance of airlines in Kenya.

3.5 Data Analysis

Data analysis involves interpreting information gathered during the process of data collection. Data collected is analyzed using various mechanisms, chief among them being analytical and logical reasoning, in order to establish a trend, pattern or relationship between/among variables. Secondary data quantitatively analyzed for purposes of this study spanned over a period of ten years, from 2011 through 2020.

3.5.1 Analytical Model

The analytical technique adopted for purposes of this research allowed for the quantitative analysis of secondary data by application of descriptive statistics. Data was tabulated and coded, and on the basis of descriptive statistics, frequency distributions, means, modes, percentages and data variances was worked out. To this end, the researcher made use of SPSS tools. The data amassed was also subjected to multiple regressions models to ascertain the correlation amongst corporate restructuring and financial performance across the airline industry in Kenya using the sample size of two airlines.

The analytical multiple regression model was:

$\hat{Y} = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \varepsilon$

In the above model:

Y= financial performance;

$\mathbf{X_1}$ **=** financial restructuring;

$\mathbf{X_2}$ **=** portfolio restructuring;

$\mathbf{X_3}$=Operational Restructuring

$\mathbf{X_4}$=Firm size

β0= is the constant;

$\boldsymbol{B_3}$=Error Factors

β1, β2, β3 and β4 represent the respective slopes

ε represents the error term.

Accordingly, linear regression model that was adopted in this study is indicated above and it showed the different corporate restructuring models and their correlation with financial performance of airlines in Kenya

3.5.2 Diagnostic Tests

The test for multicollinearity, normality and heteroscedasticity were all employed in this study as diagnostic tests. The study employed three analytical models to authenticate the data being considered and to evade blind spots by making the approaches cross-check one another. The multicollinearity test determines whether there is existence of a linear association amongst the variables or not. The Shapiro Wilk test determines whether or not residuals behaved normally while testing for normalcy. Heteroscedasticity is a term used to describe regression disturbances with non-continuous observational variances as explained by Greene (2008). The Shapiro Wilk test evaluates if residuals acted normally while analyzing for normalcy.

3.5.3 Test Significance Level

For the most part, the researcher used a significance level of 95%, implying his study has a 95% chance of being true or valid. Using the T-test means the researcher is in a position to highlight the possibility of differences being recorded between the means of the two variables under investigation (corporate restructuring and financial performance) using the SPSS statistical application. P-values were also utilized to determine the correlation amongst financial performance and corporate restructuring. A p-value of 0.05 or 0.5% was pervasively adopted, given it would point to the pre-existing correlation amongst the two variables under investigation – corporate restructuring and financial performance.

3.5.4 Measurement of Variables

Table 3. 1 Measures of the study variables

	Meaning	Type of variable	Measurements	References
Y	Financial Performance	Dependent	This was measured in terms of profitability ratios ROA= Net Income / Total Assets	Singh & Das (2018).
X_1	Financial Restructuring	Independent	This was determined based on the firm equity funding and long-term debt capital structure =Changes in long term debt to total assets ratio	Kumaraswamy, Ebrahim & Nasser (2019).
X_2	Portfolio Restructuring	Independent	This was determined by the asset structure and new acquisitions =Changes in fixed assets to total assets ratio	Varma, Singh & Munjal (2018).
X_3	Operational Restructuring	Independent	This was determined by the cost structures, and new technologies used =Changes in expenses to income ratio	Yilmaz (2018).
X_4	Size of the firm	Control	This was measured in terms of total assets=logarithm of total assets	Irandu (2010)

Source: Research Data (2021)

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND INTERPRETATIONS

4.1 Introduction

The section analyses the data and interprets the outcome. It also shows the outcome based on the variables of the study.

4.2 Descriptive Statistics

Table 4.1: Descriptive Statistics

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
financial performance	20	-19.2952	20.1715	-2.616834	8.5534559
Financial Restructuring	20	9.7004	77.3668	37.266878	23.4163006
Portfolio Restructuring	20	41.8242	89.3211	74.374300	11.8017685
Operational Restructuring	20	73.0286	134.3274	99.764728	13.4728456
Size of the firm	20	10.6805	12.1842	11.523330	.4673705
Valid N (listwise)	20				

Source: Research Data (2021)

From the descriptive statistics, financial performance showed an average return on assets of -2.6168% with a standard deviation of 8.5534%. The airlines exhibited a maximum ROA of 20.1715% with a minimum of -19.2952. This demonstrates that financial performance of airlines in Kenya is poor as shown by the negative return on assets. Financial restructuring as equated by lengthy term debt to total assets averages at 37.2669% with a standard deviation of 23.4163%. The airlines showed a maximum long-term debt to total assets ratio of 77.3668% with a minimum of 9.7004%. This is an indication that the long-term debt to assets ratio is good as it is within the recommended level of less than 40%. Portfolio restructuring showed a mean fixed assets to total assets ratio of 74.3743%. This shows that the airlines have a high number of their assets tied up in fixed assets as it exceeds 50%. The airlines showed a standard deviation of 11.8018% on the

portfolio restructuring. The maximum fixed assets to total assets ratio was 89.3211% and a minimum of 41.8242%. Further, operational restructuring as measured by expenses to income ratio showed a mean of 99.7647% and a standard deviation of 13.4728%. Airlines showed a maximum ratio of 134.3274% with a minimum of 73.0286%. This shows that airlines have a high level of operating and other expenses which indicates that airlines operating in Kenya are running unprofitable businesses. Firm's size showed an average log of 11.5233 and S.D of 0.4674.

4.3 Diagnostic Tests

Diagnostic tests was undertaken to authenticate the data being considered and to check on the assumptions of the regression model. They involved multicollinearity, normality and heteroscedasticity.

Table 4.2: Multicollinearity

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Financial Restructuring	.789	1.268
	Portfolio Restructuring	.966	1.035
	Operational Restructuring	.850	1.176
	Size of the firm	.746	1.341

Source: Research Data (2021)

The data utilized in the study was evaluated for multicollinearity. This was accomplished through the use of the variance inflation factor, which measures how much the variance is inflated. The outcome indicate that the variance inflation factor values did not exceed 2 and the tolerance statistics were less than 1 and near to 0.95. This indicates that the variable's variation was increased at very minimal levels. As a result, there are no problems with multicollinearity in the model data.

Table 4.3: Normality Test

Tests of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	Df	Sig.
financial performance	.163	20	.171	.920	20	.099
Financial Restructuring	.180	20	.090	.866	20	.010
Portfolio Restructuring	.256	20	.001	.844	20	.004
Operational Restructuring	.330	20	.000	.617	20	.000
Size of the firm	.111	20	.200*	.940	20	.239

a. Lilliefors Significance Correction

*. This is a lower bound of the true significance.

Source: Research Data (2021)

Normality was tested by the Shapiro Wilk test. The Shapiro Wilk test assesses if residuals behaved normally while testing for normality. The null hypothesis is that data are normally spread. From the findings, financial performance and size of the firm portrayed Shapiro-Wilk statistics with p-values more than 0.05. Thus, we fail to reject the null hypothesis and suppose that the values of the data for the financial performance and size of the firm were normally distributed. However, for financial restructuring, portfolio restructuring and operational restructuring, the variables indicated Shapiro-Wilk statistics with p-values of less than 0.05. Thus, we reject the null hypothesis and assume that the values of the data for the variables of the paper were not normally spread.

Table 4.4: Heteroskedasticity Test

```
------- Breusch-Pagan and Koenker test statistics and sig-values
--------
                LM        Sig
BP           7.002       .136
Koenker      6.486       .166

Null hypothesis: heteroskedasticity not present
(homoskedasticity)
```

Source: Research Data (2021)

The test assumes that where the p-value does not exceed 0.05, null hypothesis is refuted. Where the p-value exceeds 0.05, null hypothesis is accepted. From the findings, the statistics show significance values of more than 0.05. Hence, the null hypothesis cannot be disallowed that heteroskedasticity is not present in the data. The researcher assumes that heteroskedasticity is not present in the data used in the study.

4.4 Regression Analysis

Table 4.5: Model Summary

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.885[a]	.783	.725	4.4880451

a. Predictors: (Constant), Size of the firm, Operational Restructuring, Portfolio Restructuring, Financial Restructuring

Source: Research Data (2021)

From the model summary, the predictor variables in the model (financial restructuring, portfolio restructuring, operational restructuring and size of the firm) had a strong correlation with financial performance of airlines. This is shown by R value of 0.885. Further, the predictor variables showed an R squared value of 0.783 indicating that they contributed 78.3% change in financial performance of airlines operating in Kenya. The remaining change in financial performance of airlines operating in Kenya is caused by other variables other than the ones considered in this research.

Table 4.6: Analysis of Variance

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1087.932	4	3.056	13.503	.000[a]
	Residual	302.138	15	20.143		
	Total	1390.071	19			

a. Predictors: (Constant), Size of the firm, Operational Restructuring, Portfolio Restructuring, Financial Restructuring

b. Dependent Variable: financial performance

Source: Research Data (2021)

ANOVA was done to check the fitness of the model to the data. From the statics, the model had a sig value of 0.000 signifying that the data was ideal and significant for the data used in the analysis. The calculated f-value exceeded the critical value (13.503>3.056). This is an indication that the model fits the data.

Table 4.7: Regression Coefficients

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	117.435	28.157		4.171	.001
	Financial Restructuring	-.072	.050	-.198	-1.458	.165
	Portfolio Restructuring	-.233	.097	-.321	-2.404	.030
	Operational Restructuring	-.083	.038	-.287	-2.201	.044
	Size of the firm	-7.908	2.706	-.432	-2.923	.010

a. Dependent Variable: financial performance

Source: Research Data (2021)

From the regression analysis, the regression equation;

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$

was fitted to

$Y = 117.435 - 0.072X_1 - 0.233X_2 - 0.083X_3 - 7.908X_4$

From the fitted regression model, holding all factors constant, the level of financial performance of airlines operating in Kenya would be at 117.435. The equation shows that a unit increment in financial restructuring while holding other predictor variables constant, would reduce the financial performance of airlines by 0.072. The effect showed a significance value (0.165) of greater than 0.05 showing an insignificant effect. This shows that financial restructuring negatively and insignificantly affect financial performance of airlines operating in Kenya. Further, a unit increase in portfolio restructuring among airlines operating in Kenya would reduce their financial performance by 0.233. It shows a significant value of 0.03 which is lower than 0.05. This indicates that a portfolio restructuring has a substantial negative impact on financial performance of airlines operating in Kenya. A unit increment in operational restructuring would reduce the financial performance of airlines by 0.083 with a significance value of $0.044<p<0.05$. This is an indication that operational restructuring has a negative impact on financial performance of airlines operating in Kenya significant at the 5% significance level. Firm size, the control variable, showed that a unit increment would lead to a decline in financial performance of airlines by 7.908 with a significance value of 0.010. This affirms that firm size has a negative and significant controlling impact on the correlation amongst corporate restructuring and financial performance of airlines operating in Kenya.

4.5 Discussion of findings

Basing on the outcome, corporate restructuring affects financial performance of airlines. The findings correspond with that of Ngige (2012) who found that corporate restructuring influenced financial performance. The corporate restructuring variables negatively affected financial performance. This differs with the conclusion of Kumaraswamy, Ebrahim and Nasser (2019) who found that corporate restructuring positively influenced financial performance.

Financial restructuring has a negative but insignificantly affected financial performance of airlines. The findings concur with the results of Le and Phung (2014) who ascertained a negative correlation amongst long-term debts and financial performance. They are also similar to those of Adekunle and Asaolu (2013) who found long term debt ratio and financial performance were negatively correlated. Duong, Phan, Hoang and Vo (2020) had different results where they established a positive influence on financial performance.

This research found that operational restructuring has a significant negative impact on financial performance of airlines. The outcome contradicts that of Alias, Yaacob and Jaffar (2017) who discovered that operational restructuring positively affected financial performance. Portfolio restructuring was found to have a substantial negative effect on financial performance of airlines. They differ with the conclusion of Alias, Yaacob and Jaffar (2017) who found that portfolio restructuring improved financial measures like return on assets.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

Summary of the study's outcome which were centered on the objectives are discussed. The concluding remarks and recommendations for the study are also given. The limitations and suggestions of prospect studies is also indicated in this chapter.

5.2 Summary of the Findings

Through the analysis, financial performance exhibited an average return on assets of -2.6168%. Financial restructuring as quantified by long term debt to total assets averages at 37.2669%. Portfolio restructuring showed a mean fixed assets to total assets ratio of 74.3743%. This shows that the airlines have a high number of their assets tied up in fixed assets as it exceeds 50%. Further, operational restructuring as measured by expenses to income ratio showed a mean of 106.9877%. This shows that airlines have a high level of operating and other expenses which indicates that airlines operating in Kenya are running unprofitable businesses. Firm size showed an average log of 11.5233. From the model summary, the predictor variables in the model (financial restructuring, portfolio restructuring, operational restructuring and size of the firm) had a strong association with financial performance of airlines (R=0.885). Further, the predictor variables showed an R squared value of 0.783 indicating that they contributed 78.3% change in financial performance of airlines operating in Kenya. The remaining change in financial performance of airlines operating in Kenya is caused by other variables other than the ones considered in this research.

From the fitted regression model, holding all factors constant, the level of financial performance of airlines operating in Kenya would be at 117.435. The equation shows that a unit surge in financial restructuring while maintaining other predictor variables constant, would reduce the financial performance of airlines by 0.072. The effect showed a significance value (0.165) of greater than 0.05 showing an insignificant effect. This shows that financial restructuring has a negative but insignificant effect on financial performance of airlines operating in Kenya. Further, a unit increase in portfolio restructuring among airlines operating in Kenya would reduce their financial performance by 0.233. It shows a significant value of 0.03 that does not exceed 0.05. This shows that a portfolio restructuring holds a substantial negative effect on financial performance of airlines operating in Kenya.

A unit increment in operational restructuring would reduce the financial performance of airlines by 0.083 with a significance value of $0.044<p<0.05$. This is an indication that operational restructuring negatively impacts financial performance of airlines operating in Kenya significant at the 5% significance level. Firm size, the control variable, showed that a unit upsurge would translate to a decrease in financial performance of airlines by 7.908 with a significance value of 0.010. This indicates that size of the firm has a negative and important controlling effect on the correlation amongst corporate restructuring and financial performance of airlines operating in Kenya.

5.3 Conclusions

As per the descriptive analysis, the outcome showed that the firms showed negative return on assets. This leads to the conclusion that airlines operating in Kenya are performing poorly financially. From the regression analysis, it is concluded that corporate restructuring impacts the financial performance of airlines operating in Kenya. Financial restructuring done by airlines operating in Kenya is good as they showed an average long-term debt to assets ratio of less than 40%. The study further recaps that financial restructuring has a negative but insignificant impact on financial performance of airlines operating in Kenya. This shows that financial restructuring done by airlines operating in Kenya does not cause any significant change in their financial performance. Hence, the airlines should consider other forms of corporate restructuring in their urge to improve their performance.

On operational restructuring, the firms are performing poorly. This is shown by a high expense to income ratio. This leads to the conclusion that airlines have a high level of operating and other expenses which indicates that airlines operating in Kenya are running unprofitable businesses. From the regression analysis, the research concludes that operational restructuring has a substantial negative impact on financial performance of airlines operating in Kenya.

On portfolio restructuring, it is concluded that it is high among the airline firms operating in Kenya. This is shown by a high number of their assets tied up in fixed assets as the fixed assets to total assets ratio exceeds 50%. This shows that the airlines operating in Kenya have a large number of their assets tied up in fixed assets which may influence financial performance. From the regression analysis, portfolio restructuring has a significant negative influence on financial performance of airlines operating in Kenya as concluded from findings. The paper also recaps that firm size has a

negative controlling influence on the correlation between corporate restructuring and financial performance of airlines operating in the country.

5.4 Recommendations

The findings showed that corporate restructuring has a major effect on financial performance of the airline firms. Portfolio restructuring showed a mean fixed assets to total assets ratio of 74.3743%. This shows that the airlines have a high number of their assets tied up in fixed assets as it exceeds 50%. The management of the airlines firms should consider lowering the use of debts as well as not to tie so much resources in fixed assets that may not translate to improved financial performance. It is imperative that the management ensure, they meet the requirements of the market regulators in terms of corporate restructuring in Kenya.

Further, operational restructuring as measured by expenses to income ratio showed a mean of 99.76% showing that airlines have a high level of operating and other expenses which indicates that airlines operating in Kenya are running unprofitable businesses. It is for this reason that the study recommends that the airlines come up with effective strategies such as outsourcing, leasing, adoption of manageable debt as opposed to expensive equity, as well as means of increasing their incomes by venturing into more productive and busy routes, mergers to consolidate the markets, as well as prudent financial management to cushion the airlines against the massive forex losses experienced in the last few years.

Operational restructuring has been seen to have a negative effect on the financial performance of airlines. It is therefore recommended that airlines operating in Kenya should review their restructuring options, and how the restructuring is implemented. This would reduce the negative effects of the current restructurings adopted by these firms. Any restructuring is done to enhance performance but, in this case, it tends to reduce the financial performance. The review would ensure that the restructurings are well implemented for improved financial performance and in such a way that there is reduced asset losses during restructuring process. This ensures that return on assets does not reduce with restructuring.

5.5 Limitations of the Study

The researcher had difficulties in accessing the needed information from the airlines for the accomplishment of the study. The airline data required was scattered due to the fact that only Kenya Airways and Jambojet had publically published financial statements. Additionally, most airlines operating in Kenya are foreign owned, making it difficult to get access to the required data.

Secondly, the researcher was limited by the variables adopted, hence did not exhaustively address all the factors that show the impact of corporate restructuring on the financial performance on the airlines. The study mainly focused on operational, portfolio and financial restructuring to evaluate the part played by corporate restructuring on the performance of the airlines.

The nature of the variables coupled with the historical nature of secondary data which may not have given the current situation of the variables, especially due to the ripple effects of the Covid - 19 pandemic that has greatly affected the airline industry, proved to be a bottleneck on the study, but was overcome by using the most current data on the airlines for this research.

This study was limited by the period of study. The period was 10 years from 2011 to 2020 and this could have narrowed confidence in the outcome and this might hinder generalizations to other situations or generalization of the situation of all the airlines. Most of the organizations globally have undergone reorganization and transformation in the recent past, and therefore, it is likely that a study focusing on a longer period might yield a different outcome.

5.6 Suggestions for Further Research

The study makes a useful recommendation for theory purposes. The study suggests to future researchers to expand the scope of firms considered in their studies by incorporating more firms in their studies so as to enable cross sector comparison. From the findings, this research suggests that a paper based on a larger sample be done to ascertain how corporate restructuring relates to financial performance.

A study based on diverse factors influencing financial performance of airlines in Kenya that contributed to the 22.7% change in financial performance of airlines operating in Kenya would be a great contribution to this discourse. The study recommends that the model for estimating the impact of corporate restructuring on the financial performance may include lagged value of both dependent and independent variables to remove the challenge of non-stationarity and

autocorrelation of variables adopted. To capture the effects of other variables, the paper introduced one control variable, namely the firm size, which could have an effect on the financial performance.

A similar research needs to be carried in other sectors other than airlines for comparison of outcome. The study could focus more on listed firms in a cross sector study such as commercial banks and listed government parastatals to enable a cross sector comparison. The researcher also suggests a study based on a different period of research like 5 or 20 years to compare results.

The study further recommends that a study utilizing both secondary and primary data in the analysis ought to be done comprehensively to help improve the measurements of the corporate restructuring variables. Some of the aspects of corporate restructuring such as employee performance may not be well captured by reliance on secondary data, and hence the need for a hybrid source of data would be very useful in the subsequent studies.

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APPENDICES

APPENDIX 1: AIRLINE COMPANIES OPERATING IN KENYA

1. African Express Airways 2. Air Arabia 3. Air France 4. Air Mauritius 5. Air Mozambique 6. Astral Aviation 7. British Airways 8. Brussels Airline 9. China Southern 10. Condor Airline 11. East African Safari Air 12. Egypt Air 13. Emirates 14. Ethiopian Airlines 15. Etihad Airways	16. Fast Jet 17. Fly 540 18. Fly Sax 19. Jambo Jet 20. Jubba Airways 21. Kenya Airways 22. Lufthansa Cargo 23. Martin Air 24. Precision Air 25. Qatar Airways 26. Rwanda Air 27. Saudi Arabian Airline 28. South African airways 29. Swiss International Airlines 30. Turkish Airlines

Source; Kenya Civil Aviation Authority (2021)

APPENDIX II: RAW DATA

FIRM	YEAR	total assets	Fixed assets	Longterm debt	Profits	Income	Expenses	ROA	FR	PR	OR	FS
		Kshs. M	Kshs. M	Kshs. M	Kshs. M	Kshs. M	Kshs. M					
KQ	2011	78,743.00	55,121.00	21,750.00	3,538.00	85,836.00	81,416.00	4.49	27.62	70.00	94.85	11.27
	2012	77,432.00	55,599.00	55,461.00	1,660.00	107,897.00	108,456.00	2.14	71.63	71.80	100.52	11.26
	2013	122,670.00	94,062.00	93,869.00	(7,864.00)	98,860.00	110,288.00	(6.41)	76.52	76.68	111.56	11.72
	2014	152,675.00	118,705.00	50,120.00	(3,382.00)	106,009.00	101,148.00	(2.22)	32.83	77.75	95.41	11.94
	2015	187,654.00	140,658.00	104,175.00	(25,743.00)	110,161.00	80,449.00	(13.72)	55.51	74.96	73.03	12.14
	2016	155,685.00	125,975.00	111,020.00	(26,565.00)	106,134.00	142,567.00	(17.06)	71.31	80.92	134.33	11.96
	2017	146,144.00	119,397.00	113,067.00	(10,072.00)	100,222.00	110,325.00	(6.89)	77.37	81.70	110.08	11.89
	2018	136,634.00	117,013.00	82,548.00	(7,588.00)	114,185.00	121,773.00	(5.55)	60.42	85.64	106.65	11.83
	2019	195,673.00	108,658.00	76,093.00	(13,017.00)	128,317.00	141,292.00	(6.65)	38.89	55.53	110.11	12.18
	2020	171,462.00	144,289.00	81,901.00	(33,084.00)	52,805.00	116,562.00	(19.30)	47.77	84.15	220.74	12.05
othe	2011	43,499.00	23,400.00	13,791.00	854.00	35,115.00	33,140.00	1.96	31.70	53.79	94.38	10.68
	2012	44,550.00	36,278.00	11,082.00	1,009.00	36,670.00	33,140.00	2.26	24.88	81.43	90.37	10.70
	2013	52,252.00	21,854.00	9,795.00	10,540.00	37,773.00	34,495.00	20.17	18.75	41.82	91.32	10.86
	2014	73,900.00	54,005.00	9,661.00	99.00	30,641.00	34,373.00	0.18	17.89	73.08	112.18	10.90
	2015	86,550.00	67,394.49	13,173.00	373.00	34,187.00	33,085.07	0.43	15.22	77.87	96.78	11.37
	2016	93,768.00	66,209.62	15,911.43	1,621.00	35,640.00	32,591.84	1.73	16.97	70.61	91.45	11.45
	2017	99,685.93	74,820.76	17,512.24	2,795.28	39,080.16	36,737.15	2.80	17.57	75.06	94.00	11.51
	2018	102,315.25	82,753.71	9,924.96	(251.59)	41,981.10	42,249.17	(0.25)	9.70	80.88	100.64	11.54
	2019	95,472.21	80,667.96	18,337.65	(4,751.52)	47,927.11	52,154.33	(4.98)	19.21	84.49	108.82	11.47
	2020	127,482.41	113,868.65	17,339.18	(7,007.75)	50,957.44	52,250.85	(5.50)	13.60	89.32	102.54	11.76