EFFECT OF RESTRUCTURING ON PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN ICT SECTOR IN KENYA

By

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14TH

NOVEMBER, 2013

DECLARATION

I declare that this dissertation is my original work and has not been previously published or submitted elsewhere for award of a degree. I also declare that this contains no material written or published by other people except where due reference is made and author duly acknowledged.

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I do hereby confirm that I have examined the master's dissertation of

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And have certified that all revisions that the dissertation panel and examiners recommended have been adequately addressed.

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ABSTRACT

The main objective of this study was to establish the effect of restructuring on performance of SMEs in ICT sector in Kenya. Specifically, the study examined the three modes of restructuring; Financial restructuring, portfolio restructuring and operational restructuring and the effect of each mode of restructuring to SMEs' performance using ten key performances namely Sales, Profit margins, cash flow, revenue, Liquidity, overall business profitability, Business Image, efficiency, productivity and staff morale. The study also sought to establish the relationship between restructuring and SMEs' performance using overall profitability weighted through regression analysis model. In addition, it sought to establish the most common mode restructuring among SMEs. The primary data was collected through self administrated questionnaire to the staff in management of the SMEs in ICT sector. Purposeful sampling was used to target specific staff with the required information; mostly owners and shareholders. Both descriptive and inferential statistics were used. Data reliability was done using Cronbach's Alpha. Data was analysed using descriptive methods and multiple regression model. The study found that a strong relationship exist between restructuring and performance. Positive performance was observed as a result of restructuring. Portfolio restructuring was found to have greatest and quick effect on performance while operational restructuring had significant effect on performance on long term basis. Financial restructuring was observed as link between the other two modes of restructuring for better performance results. Financial restructuring was found to be the most preferred mode of restructuring. The study also observed that all the three modes of restructuring interacted with each other as indicated.

Keywords: Financial Restructuring, Portfolio Restructuring, Operational Restructuring, SME, Performance

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DEDICATION

Dedicating this research project to most high God, the might in war and the great in wonders; for he is the King of Kings. The almighty God of Abraham, Isaac and Israel; he who reigns from everlasting to everlasting, his name is Yahweh. May the glory, honour and praise be unto him. Amen.

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ACRONYM AND ABBREVIATIONS

1. **KIPPRA**: - Kenya Institute for Public Policy Research and Analysis
2. **ICT**:- Information Communication and Technology
3. **SME**:- Small & Medium Enterprises
4. **MSME**:- Micro, Small & Medium Enterprises
5. **MFI:-** Micro Finance Institution
6. **NGO:-** Non-Governmental Institutions
7. **SWOT**:- Strengths, Weakness, Opportunities, Threats
8. **SPSS (v20):-** Statistical Package for Social Sciences (Version 20)
9. **IBM:-** The International Business Machines Corporation
10. **ANOVA:**- Analysis of Variance

DEFINITION OF TERMS

1. **Restructuring: -** Is partial or wholesome manoeuvre of business to realise increased profitability, higher productivity, reduction in overheads, increase on competitiveness or in preparation for future competitive position. "It's an action that alters the structure, composition or orientation of a firm in response to changing external environments or altered internal organizational conditions," (Wu & Delios, p314, 2009).
2. **Operational/Organizational Restructuring: -** Any major reorganization of internal structures of business that is deliberately initiated by management change program Mckinley and Scherer (2000).
3. **Portfolio Restructuring: -** This is actually reconstruction of firm's business portfolio either by increasing or decreasing through diversification or divestment (Liu & Jiang, 2004).
4. **Financial Restructuring:** Is explained by Liu and Jiang (2004) as any asset variation and reconstitution of business reserve.
5. **Small and Medium Enterprises**: - An enterprises with ten to hundred employees (European Foundation, 2012). Kenya ICT authority classifies SME as a start up business that is at least five years in operation with One to fifty employees and a minimum of Kes. 3.0million turnover.
6. **IBM**: The International Business Machines Corporation is an American multinational technology and consulting corporation, with headquarters in Armonk, New York, United States.
7. **ICT Firms/SME: -** ICT Authority qualifies it as a company that demonstrate use of ICT in having impact on community or economy.

CHAPTER ONE

INTRODUCTION

1.1 Background

The ICT sector in Kenya is very crucial in this error of digitization. All levels of governance and economical aspirations are increasingly signalling the need of going digital for effective governance and growth of Kenyan economy to the next level. This has seen the government of Kenya take deliberate initiatives to directly influence the growth of ICT sector both in human capital as well as expertise. The government has thus taken deliberate steps to establish and drive technology innovation such as Konza Technology City, Centres of excellence, digital economy development, etc. The result of this is establishment of a very ambitious project to infuse ICT knowledge into vision 2030 by coming up with grand plan on how to use ICT to achieve knowledge based economy as envisaged in national ICT master plan (Republic of Kenya, 2012).

This grand plan; "National ICT Master Plan" as is referred has a vision to position Kenya as Africa knowledge economy by 2017. It seeks to drive adoption of ICT policies and initiatives in achieving vision 2030. ICT is infused into vision 2030 by plugging into main economic intervention areas based on three strategic pillars; Enhanced public value through incorporation of ICT into service delivery and governance; Development of ICT business to help world understand emerging market needs, Strengthen ICT as a driver of industry in enhancing individual business output, competitiveness and expansion (Republic of Kenya, 2012). In accordance with pillar number three above, the researcher is interested in looking how restructuring affect performance of the very businesses that this pillar seeks strengthen.

Such initiatives by Kenyan government as demonstrated above shows the importance of ICT sector in Kenya. The point is further strengthened by recent political plans to have solar powered laptops provided to pupils joining class one. In addition, public-private partnership has seen multinational, IBM (International Business Machines Corporation) signing partnership agreement with government to establish research lab in Kenya. Dunn and Yamashita (2003) reported success in use of program dubbed "living lab" in Kuppam – India under HP (Hewlett Packard) corporate social responsibility internally referred to as "i-communities" whose goals was to speed economic gains through application of technology in partnership with India government and community. Similarly, IBM expects to achieve such results using ICT drive in Kenya.

Accordingly, ICT in Kenya is a critical sector that cannot be ignored in the economic prospects. With such significance of ICT sector and the focus that is renewed by government, the question that comes in mind is how restructuring impact or affect business performance of various SMEs within this sector. Even so the researcher observes that ICT sector in Kenya is relatively new besides being dominated by young professionals and a majority of new entrants in business arena. This exposes the sector to dynamisms usually associated with embracing of diversity such as inclusion of youngsters and other traditionally marginalised groups of people in the corporate world (Ongore, 2001). The result of this association is incorporation of the adventurous aspect of youths into new business thus making the business to evolve from one aspect to another in resonance with owners' ambitions, shifting priorities, changing passion and change in mindset. Therefore, researcher observes that restructuring may be more rampant in ICT firms and SMEs as compared to other matured sectors such as agriculture, health and manufacturing. This is due to the said diversity and dynamism characteristics of the main sector players who are youthful and ambitious.

In regard to Small and medium enterprises (SMEs), their role in an economy cannot be downplayed. Okatch, Mukulu and Oyugi (2011) underscore the importance of Small and medium enterprises (SMEs) where such benefits like job creation and poverty reduction are realised. Their numbers contributes largely in growing of an economy, domestic regions stability and absorption of both skilled and less-skilled workers (Thitapha, 2002). These small business and family business are vital not just in developing world but also in developed world (Okatch et al., 2011). Chen, (2006) reported that Small and medium enterprises (SMEs) in China accounted for 99% of all registered corporations with contribution amounting to 40% in tax revenues coming this segment. In Kenya Government has been keen in developing Small and medium enterprises segment with aim to encourage self employment, creation of opportunities and reduction of poverty. This is according to Sessional Paper No. 2 (Republic of Kenya, 2005). Various actions and deliberations have been undertaken to develop this segment of the economy such as making of shades and issuance of small loans to encourage micro and small businesses as pillars of Vision 2030 (Republic of Kenya, 2005). This therefore forms the foundation that confirms the importance of Small and medium enterprises (SMEs).

This brings us to the question; why restructuring? Indeed, restructuring has been used as a tool for resolving crisis in company performance by management (Bowman, Singh, Useem & Bhadury, 1999). Whether the tool works or not; that is another question that has attracted both the researchers as well as managers seeking to examine the impact and effect of restructuring. According to Bowman et al. (1999) the question whether restructuring works or not has both yes and no answer. However he points out that restructuring tool is frequently used by management in reference to other places where it has been successful and the management would want to replicate the success elsewhere to fit their distressed organisation.

Restructuring has been implemented by different organisations in different means and variations. Different aspects of restructuring includes introduction of new business lines, new product, elimination of part of the existing business, selling out some business units, downsizing of human resources, outsourcing none core businesses, rebranding, repackaging of products and services (Bowman et al., 1999). This list continues to be longer and longer as businesses seek to become slim, effective, efficient and bigger in maximising shareholders wealth which is the very reason given by managers to justify restructuring. Proctor (2001) brings another dimension of restructuring where some companies which he refers to as "*restructuring companies*" buy other firms for the purpose of restructuring them and selling them for a profit. This according to Proctor (2001) reduces such restructuring as a mere gambling which seeks to buy transform and sell the transformed organisation at a profit. But since the organisation being restructured may become complex or fail to respond to transformation leading to losses in selling such a company, the whole transaction is thus regarded as a gamble.

Mckinley and Scherer (2000, p.736) defines restructuring as "any major reconfiguration of internal administration that is associated with intentional management change program". The definition is related to organisational restructuring. Going further, Bowman et al. (1999) and Gibbs (1993) literature distinctively defines the three types of restructuring as follows: - Financial restructuring which Liu and Jiang (2004) explains it as any asset variation and reconstitution of business reserve, portfolio restructuring which leads to selling or outsourcing the less vital business lines. Portfolio restructuring is actually reconstruction of firm's business lines either by increasing or decreasing through diversification or divestment. Finally there is organisational restructuring which touches on downsizing human resource, changing the organization structure to be in tandem with new business strategies (Liu & Jiang, 2004).

Restructuring is also observed as an act of reorganizing the legal, ownership, operational, or other structures of a company for the purpose of making it more profitable, or better organized for its present needs. Basically, it is a partial or wholesome manoeuvre of business to realise increased profitability, higher productivity, reduction in overheads, increase on competitiveness or in preparation for merger, demerger or buyout. Indeed restructuring is a turnaround of business to realization of better returns with nominal inputs and investment.

In Kenyan, the business environment is not different from the rest of the world and a number of multinationals have gone through restructuring in various measures and categories as defined in the definitions above. The researcher has witnessed restructuring in all the companies he has worked for in his ten years career. This restructuring has been implemented with mixed results; the supposition is always that the process will yield better firm’s performance (Bowman et al., 1999). Unfortunately, it’s not possible to offer a “fit all” restructuring model since there are many parameters that affect any created construct that try to define ways and modes of restructuring.

Most of small business that are in SME category in Kenya were started similarly to what (Robinson, 2001) explains as family business, businesses started as a result of unemployment, retrenchment and retirement. A majority of these businesses end up lacking finances or facing stiff competition from similar business started on the same basis. Due to economic circumstances, these businesses keeping on evolving changing from one type of business to another while others can’t survive rather ends up closing.

It's observed that significant number of SMEs could be undergoing restructuring due to advice from their financiers such as banks, Non-governmental organisations (NGOs) and lending micro-finance institutions (MFIs) at the point of seeking for financing. Majority of them having been started by one to five people, they may find themselves having limited avenues to seek for financiers. With fewer options in accessing credit to expand and grow, they could find themselves in the doors of MFIs and banks (Eurofound, 2012). It's at the stage of loan qualification that financiers appraise the business and recommend some changes to business so as to be in a position to repay the loan. At this stage SMEs end up adjusting their business so as to qualify for the specified loan. The restructuring they undertake falls within Bowman et al. (1999) categories introduced earlier i.e. financial, organisational and portfolio. In some cases, banks become part of the business partners until the business repays full loan. This in essence falls under financial restructuring. Basically, financing or funding becomes a factor in prompting restructuring actions among other triggers in SME level.

But, what impact does this restructuring have on the growth of these SMEs? Bowman, et al (1999) advices all the company managers considering the topic of restructuring to ask themselves if the process works. He proposes that a deeper analysis into the restructuring processes to be done before any action is taken since the answer to question on whether it works or not is ambiguous. This is the question that the MFIs and NGOs who often push for changes in SME ahead of financing should seek to answer before proceeding with their aggressive recommendations.

1.2 Problem Statement

Influence of performance by restructuring is a key topic of interest by both business fraternity as well as scholars. The fact that all businesses will in one way or the other undergo changes on business or reorganisation of business that could amount to restructuring (Gibbs, 1993) shows the inevitability of the topic. Basically restructuring for the purpose of performance achievement is an inevitable element of any business including SMEs in ICT sector. Unfortunately, restructuring and performance in big firms is given more attention by both media as well as researchers than it happens in SMEs. But this notwithstanding restructuring for performance can also be traced in small and medium businesses environment even though the process does not hit headlines due to the size of the firm or the firm is privately owned. Liu and Jiang (2004) gives evidence of restructuring and the associated results in a Small firm but focuses on why small firms restructure and not effect of restructuring on SME performance.

The frequency of restructuring at SME level is expected to be higher than that of large firms and multinationals due to owners' motivation to turn around businesses performance. European Foundation or Eurofound investigated the drivers, means and procedures of restructuring in SMEs and the effect of that on performance, employment and competitiveness in Netherlands.

Unlike SMEs, a lot has been studied on large firms restructuring and it effect on performance. Jin, Dehuan, and Zhigang (2004) while examining the effect of restructuring on business performance noted better performance following restructuring on such parameters as revenue, profit margin, and return on assets in big companies. Sulaiman (2012) noted that restructuring has considerable and positive influence on firm's performance especially on three key indicators which included profitability, liquidity and solvency situation. He focused on big firms in Nigerian Oil industry. Dong, Putterman and Unel (2004) also reported similar trend of positive performance on big private enterprises that had restructured. In concluding from this trend, it is justifiable to point out that little is known about SMEs' effect of restructuring on performance.

The gap exist whereby it's even challenging to find documented knowledge that shows evidence of restructuring and it effect to performance in SMEs in Kenyan ICT sector. Even when this economic level of investment combined with positioning of ICT sector in Kenya both are critical to the economic prospects, no studies have been directed on this line. While no published studies on effect of restructuring on performance of SMEs in Kenyan ICT sector were found, majorly, the unpublished studies in business reports form and seminar materials focused on challenges of SMEs. Relatively no empirical evidence is documented about effect of restructuring on performance of SMEs in Kenyan ICT sector. The topic therefore draws researcher's attention owing to the fact that some studies ought to have been conducted to establish the effect of restructuring on SMEs performance in ICT sector in Kenya in consideration of Bowman et al. (1999) three categories of restructuring namely financial, organisation and portfolio.

1.3 Objectives

The main objective of the study is to establish the effect of restructuring on performance of SMEs in ICT sector in Kenya. The specific objectives of this study are:-

1. To establish the effect of financial restructuring on Small and Medium Enterprises' performance.
2. To determine the effect of portfolio restructuring on Small and Medium Enterprises' performance.
3. To evaluate the effect of operational restructuring on Small and Medium Enterprises' performance.
4. To determine the relationship between restructuring and performance in Small and Medium Enterprises.
5. To establish the preference mode of restructuring in Small and Medium Enterprises Level.

1.4 Research Questions

The above key areas of study formed the basis for research questions. The research questions were:-

1. What is the effect of financial restructuring on Small and Medium Enterprises' performance?
2. What is the effect of operational restructuring on Small and Medium Enterprises' performance?
3. What is the effect of portfolio restructuring on Small and Medium Enterprises' performance?
4. What is the relationship between restructuring and performance on Small and Medium Enterprises' performance?

5. What is the most common mode of restructuring among the Small and Medium Enterprises?

1.5 Significance of the Study

The results of research could be of use to Banks and MFIs which are frequented with requests to finance SMEs. Using the study findings, these financial institutions will be able to evaluate each SME and decide if proposing restructuring ahead of financing is the best solution. On another side, the government which keep pushing for empowerment of SMEs will be able to draw conclusion on how to approach the empowerment. Bearing in mind those proposals to restructure SMEs have specific effect on performance revealed in this study. Small business owners and business founders can use this study to draw wisdom on the effect of restructuring to their businesses as they aspire to grow and expand their businesses and especially on the mode of restructuring which brings quick and greater effect.

1.6 Scope of the Study

In vision 2030 report (Republic of Kenya, 2005); Nairobi is identified as the main economic hub for Kenya and east Africa in general. Also according to Kenya national ICT survey report of 2011 (Republic of Kenya, 2011); Nairobi is indicated as having the highest population of ICT infrastructure and equipments. This would therefore point out to Nairobi as a location with the highest number of SMEs in ICT sector. Accordingly, Nairobi County was picked as the location for this study. The definition of SMEs under this study is as per ICT Authority's definition which categorised SMEs as any start up business that is at least five year old, annual turnover of Kes, 3 million, One to fifty employees and demonstrate use of ICT to provide solutions to community.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews literature on statement of problem both general restructuring literature and that which touches on SME restructuring. Section one puts to perspective the general view of researchers on restructuring and especially restructuring in SMEs. It further confirms the problem statement whereby less has been researched on SMEs restructuring topic. Section two tackles objective one by giving an overview of what other researchers view on financial restructuring. Section three deals with objective two on portfolio restructuring and its effect on business performance as argued out by various researchers. Objective three on operational restructuring is dealt with in section four while section five present the theoretical frame work which is based on both agent and resource based theories. Finally, conceptual frame work of the study is presented in section six of this chapter.

2.2 SMEs and Restructuring

Small and medium enterprises are a key component of many economies. In china for example SMEs represented over 90% of all registered corporation by 2001 (Chen, 2006). In U.S.A. 80% of incorporated businesses are small businesses (Kirchhoff & Kirchhoff as cited in Chu, 2009). According to report by Eurofound a country report on Netherlands SME investigation found that 99% of registered enterprises fall in the category of SME and only 1% can be classified as large scale businesses. In Asia and Europe more than 30% of business started as family owned SMEs (Faccio, Lang & Young, 2001). Even though the classification of SMEs may vary with different economies, the importance of this business segment cannot be over emphasized. As derived from (Faccio et al., 2001) studies, these same SMEs are the ones which grew through expansion programs to become big firms. A close observation of these expansion programs could amount to restructuring. This shows how restructuring process is part of all businesses irrespective of the magnitude and size. Fu, Chang and Wu (2001) observed that SMEs will encounter similar problems which call for implementation of restructuring to achieve perpetual operation. In the same study (Fu et el., 2001) further realised that though SMEs are small businesses, the benefits created by restructuring are as pronounced as in a large firms.

As earlier discussed owners of small businesses have ambitions to grow their businesses either to provide employment to family members in the case of family business or to be self sustaining business. Chu (2009) when discussing family based SME and performance identified key influencing factors. Key among them is ownership and control. While Chu (2009) identifies ownership and control as a factor that influence positive performance among SMEs, it makes sense to analyse how restructuring influence performance. Ongore (2001) acknowledges the unique influence that firms owner have on decision making. This ownership influence will cause investment in a particular manner depending on the characteristic of the firm owner and his preferences. If he is risk averse the business takes similar path and vice-visa. But since SMEs ownership is highly concentrated, where concentration is based on Ongore (2001) definition, there is more controls from the owner hence influencing the flexibility of an SME. With many SMEs being run by the owners (Chu, 2009) it therefore becomes apparent that the owner using his control will restructure the business to be in line with personal ambitions and desires. This is unlike big corporate firms where ownership structure is complex rendering it rigid to quick fixes such as restructuring that would bring better performance. This leaves no doubt that SMEs could be undergoing restructuring cycles more often than large scale firms.

Sulaiman (2012) defines restructuring as “changes in ownership, business mix, assets, mix and alliance with a view to maximize shareholders wealth and improve firm value.” In corporate world restructuring is often carried out for the purpose of making an organisation competitive in the market. According to Wu and Delios (2009), the aim of restructuring is to improve returns from the exploitation of the company’s resources. However, this notwithstanding, many organisations restructure themselves in preparation for privatisation, mergers or takeover. Though restructuring may take place in preparation for privatisation, merger or takeover; in some cases it has also been observed to take place post privatisation, merger or takeover to prepare the company for better competitive position in the market. In other cases, restructuring happens when a company is in performance distress. This indicates firms’ poor performance as the key driver for restructuring, (Jain, 1985 as cited in Liu & Jiang, 2004). In this regard, the ultimate goal is to reverse the negative situation. Positive performance is therefore viewed as the target product of restructuring. Wu and Delios (2009) have indicated restructuring as main strategy among corporate firms in the last three decades as a reaction to various changes in business conditions. When the target results are not achieved, the restructurer examines the possibility that the restructuring was implemented wrongly. Bowman et al., (1999) indicates that companies’ efficiencies vary in implementing of their initiatives. Oblivious of this, company leadership still moves ahead to try different approach of restructuring that can provide positive result. In essence this ends up being like gambling and since restructuring is risky (Bolman & Deal, 1997 as cited in cited in Liu & Jiang, 2004) the risks associated with restructuring becomes inevitable.

When restructuring is implemented, it takes different forms in different organisations. Eurofound report on Netherlands SME restructuring reported following aspects of restructuring as common in SMEs segment, Business relocation, Outsourcing, Off-shoring, Bankrupt/closure, Merger & Acquisition, Business expansion by hiring workforce. Gibbs, 1993 summarised all aspects of restructuring into three forms:- Financial, portfolio & operational. Bowman et al. (1999) concluded that two out of the three have more impact on performance. He singled out financial restructuring as having the most impact on performance while operational restructuring as having the minimal effect on firms performance post restructuring. While Gibbs (1993) referred to one of the forms of restructuring as operational restructuring, McKinley and Scherer. (2000); Bowman et al. (1999); Sulaiman (2012) refer to it as organisational restructuring. Organisational restructuring as a mode of restructuring may be confused when referring to the overall restructuring in an organisation. This study will therefore refer to it as operational restructuring in accordance to Gibbs (1993) naming.

2.3 Financial Restructuring

Financial restructuring is any substantial change in a company's financial structure, or ownership or control, designed to increase the value of the firm. Jin et al. (2004) refers to this kind of restructuring as to include recapitalization, changes in capital structure and repurchase of stock. According to Sulaiman (2012), financial restructuring revolves around capital changes which also include debt equity swap and leveraged buyout. Most common are leveraged buyout and especially managed buyout.

Bethel and Liebeskind (1993) argue that financial restructuring takes cash out of manager hands and take it back to shareholder. The consequence of taking money back to shareholder means that manager has no free cash to waste in over expansion and over diversification. The manager is therefore left with operational efficiency and selling of non-performing business lines. This point is supported by Bowman et al. (1999) where he gives three arguments as to why financial restructuring become famous. Argument one supports (Bethel & Liebeskind, 1993) that managers have incentives to make use of free cash; defined as extra cash remaining after all projects are funded, then use it in new expansions that do not generate wealth to shareholders. In this regard, financial restructuring is performed to return cash back to shareholder. Argument two by Bowman is that managers have insider information of the true value of the firm and therefore acquire it from external shareholders and that which he cannot afford to acquire is swapped with debt from financial sponsor. In this argument the manager acquire the firm at an undervalued price and it's only a matter of time that he capitalises on the full value of the firm. Finally, Bowman gives third argument which causes financial restructuring be more famous since it's just a transfer of wealth. He points out that there may be not much value addition other than redistribution of wealth from bondholders to stockholders. Both Bethel and Bowman tends to suggest that financial restructuring may be of importance even when the company is not in poor performance.

Financial restructuring is said to have significant statistic improvement on performance following a restructuring event (Bowman et al., 1999). He specifically points out to improvement in operating performance in long term as compared to both pre-restructuring performance as well as industry scale, increased shareholder wealth and that no significant layoffs are associated with financial restructuring. According to Sulaiman (2012), literature on acquisition and mergers, financial restructuring have great significance in increasing firms value. In conclusion, financial restructuring is a preferred mode of restructuring with almost assured benefits.

2.4 Portfolio Restructuring

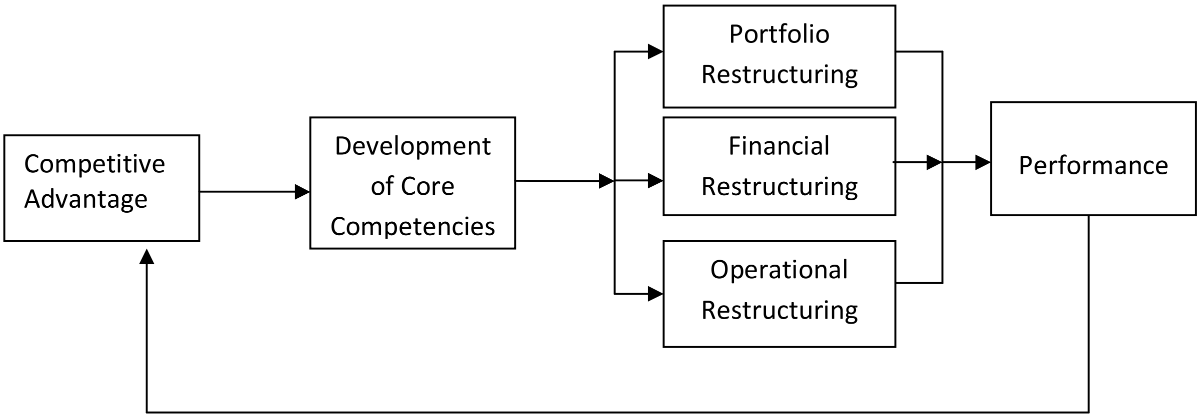
This form of restructuring revolves around reduction or increment of business lines and business units. Unlike financial restructuring which looks into ownership structure of the company, portfolio restructuring looks into various business lines, business units and revenue streams and seeks to streamline them for better output that will consequently contribute to overall performance of the organisation. According to Bowman et al. (1999), portfolio restructuring is meant to whet firm’s focal point by either selling business unit that is none performing or its none core to the wholesome company focus. The intention of this exercise is to enable the firm to concentrate on its core competences and hence increase shareholders value (Prahalad & Hamel, 2003). Looking at this mode of restructuring a great relationship to strategic management can be drawn in that strategic management seeks to align business activities with its vision and mission statement. In this alignment, a SWOT analysis is performed and strategies laid down on how to use both internal market and external market in gaining competitive advantage. The exercise therefore leads to development of core competence in an organisation. The developed core competence consequently declares some business lines and business units none core to the organisation.

Youndt, Snell, Dean Jr. and Lepak (1996) underscore the importance of developing core competences that are in line with business strategies and present both empirical and theoretical evidence that shows improved performance as a result of core competence development exercise in line with business strategies. It's therefore observed that organisations will find themselves resolving to perform a restructuring following core competence development to either do away with resultant peripheral business units or resultant redundant workforce. As regards peripheral business lines, portfolio restructuring is evoked, (Bowman et al., 1999) while resultant redundant workforce leads to operational restructuring. The redundancy of workforce is due to recruitment of employees with specific core competences in line with new business competences (Youndt et, al 1996). Both portfolio restructuring and operational restructuring have a direct relationship. According to Bergh and Lawless (1998), portfolio restructuring is blamed for layoffs yet Layoffs are classified as part of operational restructuring. In this regard, Wu and Delios, (2009) acknowledge that different modes of restructuring interact with each other. This is no wonder that one mode of restructuring may trigger the other or may happen in consonance with each other.

In line with conceptual framework of this study, it's evident that performance being the trigger that prompts an organisation to seek for competitive advantage, core competences are developed in the process which in turn triggers one or two of the restructuring modes; in this case portfolio and operational modes of restructuring. The diagram in figure_1 illustrates the flow of triggers.

FIGURE 1

Flow of Triggers to Portfolio Restructuring (Researcher)



Portfolio restructuring is prevalent especially with mergers and acquisition. The main driver for this kind of restructuring is the desire by firm to refocus strategies. Other drivers are similar to the other two modes of restructuring which include enhanced control, and generally improve performance. At times it is also prompted by some uncertainties on business environment (Bergh et al, 1998) especially on future business competitive status and performance. This mode of restructuring just like any other restructuring can have far reaching effects even on corporate reputation especially in the case of failed acquisition attempt. Bergh et al. (1998) describes portfolio restructuring as an exercise that is risky, costly and hard in implementation. Among other restructuring actions that are considered to fall under portfolio include: spin offs, selloff, acquisition, closure of business lines and opening of new business line (Bowman, et al., 1999; Bergh et al., 1998).

Though performance is usually the main driver for portfolio restructuring, (Gibbs 1993) shows that threats are the main contributing factor. Uncertainties on business environment can lead to divesture or acquisition. Bergh et al. (1998) pointed out that acquisition will continue as long as new business posses some benefits and that those benefits are greater than marginal cost of running the new business line. Usually, the acquisition benefits are calculated based on various economies of scale post acquisition. These economies arises from such actions as sharing of resources hence reduced costs, low governance costs, reallocation of resources from non performing areas to an area that has relatively better performance. Daley et al. (as cited in Wu and Delios, 2009) indicates that a firm can increase its value through spinning–off peripheral business units. Wu and Delios (2009) is basically advising firms to consider portfolio restructuring since spinoffs are part of this mode of restructuring. He furthers indicate that gains of portfolio restructuring are gotten through removal of unconstructive synergies, market inefficiencies and agency costs.

2.5 Operational Restructuring

This mode of restructuring is very famous both to professionals and layman due to the fact that it involves job losses thus affecting the professionals as well as their social circles in which they mainly operate. Almost everybody understands restructuring in the form of retrenchment on workers and layoffs. If any organisation speaks of restructuring, the next expected thing is retrenchment on personnel. But has there been any restructuring without retrenchment, layoffs and job losses? Gibbs (1993) says that the three types or modes of restructuring are not mutually exclusive rather they usually occur together. This means that in every restructuring in an organisation, more often than not employment downsizing will tend to happen in whichever magnitude. It may be less or in big magnitude but it in one way or the other results in job losses. Some firms refer to it as change of management which means that the top management is either sent on early retirement or their contracts terminated. (Bowman et al., 1999) summarizes this mode of restructuring as one that has significant change in organisational structure of the firm through divisional redesign and scale down of employees.

At times, this mode of restructuring may results into more media coverage both negative and positive. Negative image especially when dealing with unionized workers resulting into demonstrations and strikes. Positive image may occur due to expected positive impact on shareholders wealth following reduced wage bill, operationalization of slimed departments and the expected operational efficiencies. Bowman (1993) suggests that this mode of restructuring is disruptive and may have detrimental consequence of corporate failure. It's understood as comparatively riskier since it can destroy some of the existing good practices and may result in loss of competencies. Same like other mode of restructuring, this mode can result in destroyed relations and image. Even so, Amburgey (as cited in Bowman, 1993) acknowledges the risks but raises a positive condition that, if the risks are survived, the future promises health to the organisation. This is the point where the performance of the organisation post layoffs is judged as positive or negative using the various performance indicators such as profitability & revenue.

Fu, Chang and Wu (2001) trace operational restructuring in a Taiwanese SMEs. Their case study not only revealed similarities of restructuring between large firms and SMEs but also revealed that triggers for restructuring in both SMEs and large firms are the same. The trigger according to them was fall in profits resulting from stiff competition.

The success of operational restructuring is dependent on agency theory. Some managers use it as means to prolong their stay in an organisation well aware that things will not improve even after the layoff. No wonder that some organisations do layoff but start staffing after a couple of months post restructuring. In other situations managers use retrenchment to score points or remove the juniors who pose threat to managers position either because the junior is more qualified or challenges managers decision. All these actions may result to poor implementation of restructuring decisions and the targeted results are jeopardised even when the original plan was brilliant. Bethel and Liebeskind (1993) underscores the importance of subjecting managers' strategic decision to shareholder oversight to minimize some of the above ill-motive in using operational restructuring as a scape-goat or as a chance of revenge, scheming for position or scoring points with peers or juniors and at times seniors. This will ensure successful implementation of restructuring and thus realise positive results. Fu et al. (2001) shows how a well implemented operational restructuring in an SME resulted into recovering SME's vitality and doubling of profits which clearly demonstrate positive performance.

Fu et al. (2001) clearly demonstrate that the success of operational restructuring is fully dependent on how managers implement it and how other agents are invited to participate in the implementation. According to (Wu & Delios, 2009) managers would implement strategies that serve finest interest of shareholders only if there is existence of good agency relationship. Fu et al. (2001) case study revealed that successes in the restructuring were due to SME's founders approach and involvement of employee. Apparently, this operational restructuring which largely carries more impact to employees' careers, the same is dependent on how the agents will implement it down to the least of the sections or departments. This is unlike other modes of restructuring which revolves around business lines (Portfolio restructuring) and ownership structure (Financial restructuring). Operational restructuring may have brought out the issue of agency theory but close evaluation of all the three modes of restructuring reveals that agency theory plays a big role in making the implementation of restructuring strategies successful. But how can agency interference during implementation of operational restructuring be avoided?

Bethel and Liebeskind (1993) proposes structured governance systems to ensure that the right decisions are made by both senior and junior managers when implementing strategies. Wu and Delios (2009) add that properly defined agency relationship would greatly reduce agency interference.

2.6 Theoretical Framework

This study is based on two theories. Agency theory and Resource based theory. Agency theory occurs where principal hires and delegates decision making authority to the agent. The agent should execute the authority with the best interest of the principal (Ongore, 2011). From a negative perspective, when a firm finds itself in performance crisis, the agent evaluates the best restructuring actions that can return the company back on track. When firm has more funds, the agent again decides best restructuring actions to propel it to the next level. For example in financial restructuring, managers must evaluate the reconsolidation of debt and how it can be swapped with equity to lower the interest rate repayment that could be straining the liquidity of the company thus impacting on company financial performance. In the case of portfolio restructuring, the same manager must re-evaluate business lines performance and key competence of internal customer (employees) to make a decision which business line or business unit should be done away with.

In regard to operational restructuring; the manager must evaluate wisely which employee to be retrenched and which ones to be left based on skills, wage bill and in line with new strategy being implemented. In this case, when agent has best interest of the principal or shareholder at heart, he will execute actions that are strategic and have impact to firm’s performance hence multiplying shareholders wealth. In return, the shareholder should reward the agent to motivate him to be more strategic in the business (Bethel & Liebeskind, 1993). Unfortunately the shareholder only focuses on how to multiply his wealth without considering the contribution received from agent while agent execute business strategies with keen interest to benefit himself and not the shareholder. The latter forgets that he is a steward. This is the reason Wu and Delios (2009) looks into the corporate organisations and laments that more impact would have been realised with restructuring were it not for poor agency relationship.

A tug of war exists between shareholder who is looking for maximization of his wealth and an agent who want to maximize his benefits from shareholder's wealth. While the agent must look at the interest of the shareholder, his personal interest will most probably come first. For example, even when a company is financially struggling, no agent would propose a slash to the salary. In contrary, an agent could propose a strategy that will prolong his earning even when the end results are not viable. Bethel and Liebeskind (1993) acknowledges that restructuring will occur only when threat exists. Threat of acquisition or some activism from the shareholder will force a manager to propose reorganisation strategy. But change is a pain point to agent preferring status quo than uncertainties included in the change. However, when uncertainties of business survival due to external factors such as competition and hence decreased revenue or profit (which consequently threaten agent employment) outweigh uncertainties of change, the agent is forced to take a decision. This explains why some companies' baby sits a non working solution long enough to their downfall. Drucker (1994) observes that the solution may be right and all the right things are being done but the assumption on which the firm's strategy is built on is not right. Unfortunately the agent tends to justify the strategy even when all odds are fading.

Market value of an organisation exclusively determines shareholder's wealth but managers' package depends on the magnitude of the firm and the risk to bankruptcy more than the value of the company (Bethel & Liebeskind 1993). As a result, the manager would want to trigger restructuring when there is abundance by adding more business line and sell some business lines when there exist threat. This is to ensure that the firm is big hence his package. Some business additions do not add value to the firm and hence no value to the shareholder's wealth but will significantly affect manager's package due to the added responsibility (Amihud and Lev as cited in Bethel & Liebeskind, 1993). In this case, the trigger for portfolio restructuring i.e. addition of business line was due to availability of the firms fund following profitability. Financial restructuring may come to address this problem by taking money from manager's hand and returning it to the shareholders (Bethel & Liebeskind, 1993) e.g. increasing dividends and issuing new debt then use debt proceeds to pay out share buybacks. The researcher observes this as a problem of as suffering from abundance.

According to Gibbs (1993), existence of free cash flow may trigger diversification which in essence may result to high agency cost. When agency cost goes too high, threat of takeover prompts manager to start restructuring to bring the agency cost low. This is the point where portfolio restructuring as well as operational restructuring tends to happen. Once the agency cost are in control following both portfolio restructuring and operational restructuring, financial restructuring comes in last to return the money back to shareholders. In conclusion, agency theory plays a big role in triggering restructuring or contributing to the success of restructuring which end result is performance.

SMEs on the other hand are affected by the virtual of being majorly owned by family members. Agency theory plays big role where some members use SME to benefit themselves more than the rest or turn it to a bank (Chu, 2009). Family entrenchment into an SME is rampant and business resources could be diverted to serve personal or family needs. In a different perspective, a focused and determined family may results to high ambitions that triggers need to grow the SME. In the end result, restructuring may be inevitable either to return the SME to truck after abuse by family members or to grow the business to meet family or owner ambitions. In the first case, it may lead to removal of some members from being shareholders and remaining members to inject more cash while others may be removed from being employees to avoid unnecessary agency costs. As for the second case, the owner will seek to grow the business to new levels by stopping non performing business line or products.

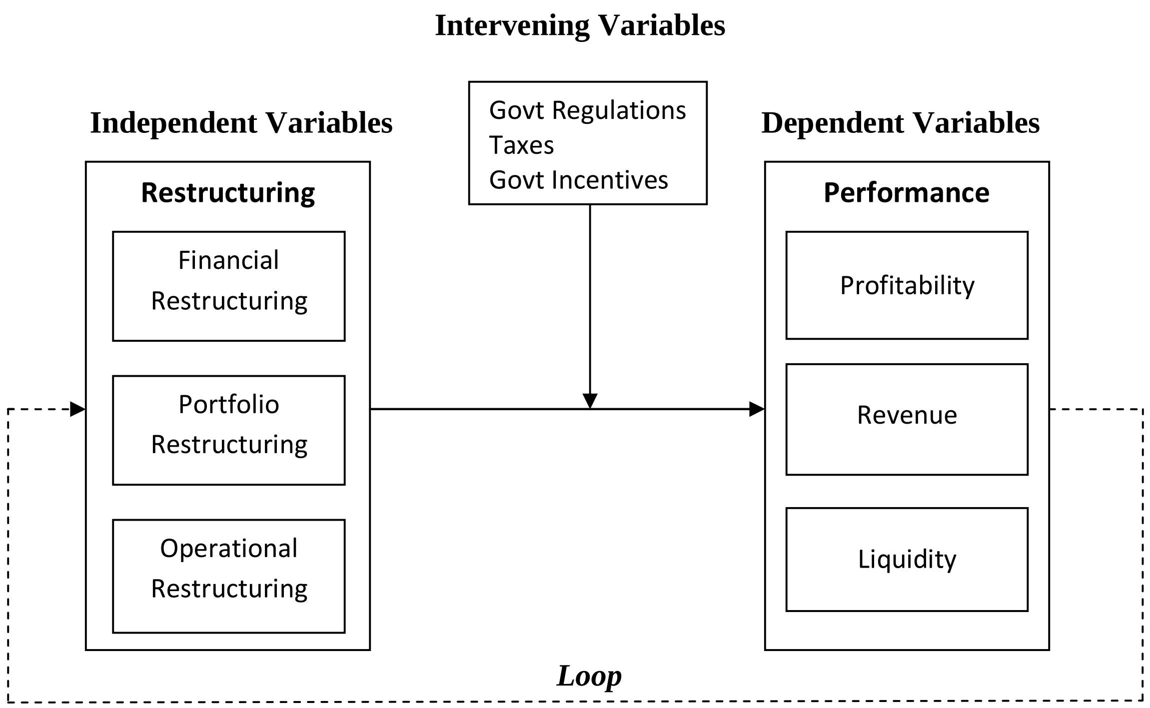
In referring to Resource based theory, it explains the competitiveness of a firm. When a firm exploits its unique competencies and transforms them to their advantages to influence performance; shareholders wealth is multiplied. Resource based theory is the use of firms unique resource that other companies don't have to compete successfully hence gaining market power (Barney, Ketchen & Wright, 2011). In attempt to grow business to become bigger, the owner attempts to introduce strategies that will be hard to copy so as to ensure high competitiveness. This is by use of his unique resources that are not available with other competitors (Prahalad et al., 2003). They create a set of activities that are unique to deliver uniquely worth results (Porter, 1996). This is through use of resource based theory where the owner makes use of resources accessible to his business only and not to others. These resources are special, durable and not easy to imitate or substitute hence placing an SME ahead of the competition (Rangone, 1999). Through implementation of this competitive position, the business is taken through rigorous changes and streamlining that in effect is restructuring process which falls under one or more of the three modes of restructuring. Companies restructure so as to concentrate on their core competences (Porter, 1996) which will in process yield positive influence on performance. In this regard, resource based theory is significant in restructuring and performance.

2.7 Conceptual Frame Work

Once a company restructures it will most likely restructure again either due to non achieved results of restructuring or the company is back again to poor performance. Alcacer, Khana, Furey and Mabud in their Havard business review, a case study of Nokia, revealed a possible evidence of spiral pattern of restructuring, thus confirming the likelihood of a company restructuring severally. Gibbs (1993) blames Agency theory as a cause for frequent restructuring. Liu and Jiang (2004) identifies cash flow, change on market conditions, competition, leadership, conflicts, ownership and management control as other triggers of restructuring. The drivers of restructuring are the same factors that restructurer targets to turnaround and have them as positive results of restructuring. This therefore creates similarities between drivers of restructuring and effect of restructuring. Such results include cash flow, revenue, profitability, competitiveness, ownership and leadership being summed up by one word as target performance. Accordingly when the target performance is not achieved, it becomes the motivation for yet another restructuring initiative. The final outlook of the process is a loop between restructuring and performance. Mckinley and Scherer (2000) in explaining the unanticipated consequences of restructuring, he establishes a loop between the cognitive order of top management and organisational restructuring, clearly indicating a loop between performance as results of restructuring and restructuring itself. The loop is in dotted line indicating that it may exist or it may not. Its existence will depend on the outcome of the effect of restructuring on performance. If the outcome is positive, the firm will not go back to restructuring but if the impact is not positive, high chances are that the firm will come up with other ways of performing restructuring afresh. The loop can also occur even when restructuring results produced positive effect. This is in case the results were not satisfactory or the company has gone back to performance crisis after sometime.

FIGURE 2

Conceptual Frame Work (Researcher)



Performance is a dependent value which is measured using different indicators such as profitability, sales & revenue, liquidity, productivity from staff, staff morale and company image. The ones indicated in the conceptual framework are just indicative and not ultimate. Different studies have used different indicators. Jin et al. (2004) have used revenue, profit margin and return on asset as measure of performance. Sulaiman (2012) uses profitability, liquidity and solvency while Chu (2009) uses profitability and ratio of firm's market value to the replacement costs of its asset value. On the other hand, restructuring remains an independent variable and the three modes of restructuring may collectively or individually influence performance. Mostly one type of restructuring evokes the other and likelihood of them occurring together is high. In this case, they can be measured together or independently. Factors like government incentives, tax reliefs, and change in various government regulations may influence positive performance even in the absence of restructuring. These factors must therefore be held constant. But since it’s impossible to hold them constant, they will most likely contribute to error margin of the measurement results.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter explains how the research was undertaken. Section one defines the type of study which is founded on descriptive study. Section two defines target population while section three outlines the sampling method and procedure where simple random method was employed. Section four indicates sources of data in this case primary data. Section five describes data collection instruments and procedure. Section six gives data analysis approach.

3.2 Research Design

The type of study was descriptive. Descriptive research describes characteristics of a particular phenomenon seeking to describe relationships and frequency of occurrence (Kothari, 2004). In this study the observation is on relationship between restructuring and performance on SMEs in ICT sector and at the same time studying the most occurring mode of restructuring. Variables and conditions in this study are described as they are observed. The time dimension of the research is cross directional as per Cooper and Schindler (2003), meaning that the data was collected based on the restructuring actions at hand in relation to financial performance at that moment.

Bearing in mind that there was no existence of database that showed SMEs which had undertaken restructuring and those that had not, an aspect of exploratory research was to be employed at the time of data collection as well. The intention was to eliminate those SMEs that had not undertaken any changes that could amount to restructuring. In this regard the questionnaire was sent to the whole population such that a survey was conducted.

3.3 Population and Unit of Analysis

Mugenda and Mugenda (2003) define population as a set of elements with widespread attributes that can be generalized. Cooper and Schindler (2003) defined population as total collection of element where an inference is made. In this research population of interest was SMEs in ICT sector within Nairobi County. There were 300 SMEs in ICT sector within Nairobi going by May 2013 list of start up business from ICT Authority of Kenya. A self administered questionnaire was sent to all of them via email.

SME in this study formed the Unit of analysis while the target respondents within this unit of analysis were the senior management of the SMEs. The goal was to reach at least one senior manager in every SME but since there was no control of who answered the email, it was found out that even some few junior officers participated in the survey. But the number was insignificant and therefore it was ignored.

3.4 Sample and Sampling Procedure

This section explains the sample size and the sampling process used during the study.

3.4.1 Sample Size and Sampling Unit

As earlier introduced, a census on population was conducted and the results were taken to data analysis stage. The target respondents in the survey were the employees of the SMEs, in this case senior management with the relevant information about the business. The minimum sample size for a population of 300 respondents assuming one senior manager in every SME would be 76 SMEs. This would pass sample representativeness going by Israel (2009) table_1 below. Therefore, the 83 responses received during the study, the same is representative.

TABLE 1

Israel (2009) Published Table that provide Sample Size for a given Criteria

Size of Population	Sample Size (n) for Precision (e) of:		
	±5%	±7%	±10%
100	81	67	51
125	96	78	56
150	110	86	61
175	122	94	64
200	134	101	67
225	144	107	70
250	154	112	72
275	163	117	74
300	172	121	76
325	180	125	77
350	187	129	78
375	194	132	80
400	201	135	81
425	207	138	82

3.4.2 Sampling Procedure

An email with a link to the online questionnaire was sent through ICT Authority to all the 300 SMEs in the list. Performing a census meant that all SMEs had a chance of being part of the study. The intention was to send the survey to CEO of each SME. This would have meant performing purposeful sampling method which Mugenda et al. (2003) points out that the subjects are handpicked since they are informative and posses the required attributes. However, since there was no control on who from the responding SMEs should address the questionnaire, few respondents i.e. less than 4% had indicated that they were not in the management.

3.5 Sources of data

Data was obtained from primary sources only. It was collected from the senior management of various SMEs. At least one response per SME was received. On the secondary data, Krishnaswam, Sivakumar and Mathirajan (2006) list internal sources as Company reports, accounting data, in house journals, data warehouses, expert opinion and computer database. Unfortunately, secondary data posed challenges to obtain since majority of the SMEs are privately owned and still treat their information such as financial records with confidentiality. The most relied source of data in this study was therefore the self administered questionnaires.

3.6 Data Collection

This section explains the data collection instruments and the procedure employed in data collection.

3.6.1 Data Collection Instruments

Primary data was collected using questionnaires as the data collection technique. Due to constraint of time interviews seeking expert opinion could not be possible as was earlier intended. Though Krishnaswam et al. (2006) argue that interviews are applicable in all segments of population and especially where questions tend to become complex he also confirms that questionnaire is an effective tool in reaching wide especially in the case of knowledgeable target population. Kothari (2004) gives merit to questionnaire as an instrument for data collection because respondents who are not easily approachable can be reached conveniently and in a less expensive manner as was the case in this study. Self administered questionnaire was therefore justified in this study.

The questionnaire in appendix 1 was structured in a simple manner to ensure that there were no struggles with restructuring terminologies. It was used as two fold tool; both to conduct census in establishing the SMEs that have structured and also to collect restructuring data needed to draw conclusion on this topic.

3.6.2 Data Collection Procedure

With questionnaire method regarded as wide reaching tool as compared to interviews (Cooper et al., 2003), the researcher endeavoured to extensively use this method as much as was possible. Self administered questionnaire was sent through email and with help of ICT Authority. The questionnaire was built online through (http://www.formsite.com) then the link of the survey was sent on email to various respondents. On completion the respondent would click a submit button and the results were sent directly to researchers mail box. An example of responses received on email is in appendix_2. Appendix_3 shows a sample of email sent to respondent by ICT Authority on behalf of researcher. Appendix_4 shows the faculty's letter of introduction used during data collection.

3.7 Data Processing and Analysis

Data processing was done as per Kothari (2004) advice i.e. editing, coding, classification and tabulation. Coding process was done using SPSS and MS-excel. Tabulation was the final action that was prepared by feeding the data to SPSS tool during analysis process.

Drawing insight from Kothari (2004), descriptive statistics and inferential statistics were employed to analyse the data. Percentages of frequencies and mean and were observed to measure tendencies. Tendencies were observed to address objective one, two, three and five on effect of restructuring to performance and preference of restructuring. Objective four was addressed using inferential statistics by use of regression analysis. A model of regression analysis used which was based on conceptual framework is indicated in figure_3. See fitted model in the next chapter.

FIGURE 3

Regression Analysis Model

$$y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where:

Y = Firm Performance

X1 = Financial Restructuring

X2 = Portfolio Restructuring

X3 = Operation Restructuring

ε = Error Margin

Data is presented in tables and graphs in the next chapter. Interpretation of treads, relationships and tendencies are explained accordingly. SPSS tool was used to run the analysis following data coding.

CHAPTER FOUR
FINDINGS AND DISCUSSION

4.1 Introduction

This chapter discusses the interpretation and presentation of the findings obtained from the field. The chapter presents the background information of the respondents, findings of the analysis based on the objectives of the study. Descriptive and inferential statistics have been used to discuss the findings of the study. Being a survey, the study targeted at least 76 respondents and at most 172 based on Israel (2009) sampling table pointed earlier. From the filled in and returned questionnaires, 83 responses were received making a response rate of 28% assuming a baseline of 300 responses. This response rate was satisfactory to make conclusions for the study. The response rate was also representative.

4.2 Reliability Analysis

A pilot study was carried out to determine reliability of the questionnaires. The pilot study involved the 10 respondents sought from ICT Authority. ICTA authority is better placed to provide valid opinion on SMEs due to the understanding they have in as far as financing and support of SMEs in ICT sector is concerned. Reliability analysis was subsequently done using Cronbach's Alpha which measures the internal consistency to establish if certain item within a scale measures the same construct.

TABLE 2

Reliability Coefficients

	Cronbach's Alpha	Number of Items
Financial Restructuring	0.836	14
Portfolio Restructuring	0.807	16
Operational Restructuring	0.813	20

Cronbach's alpha was calculated by application of SPSS for reliability analysis. The value of the alpha coefficient ranges from 0 to 1 and may be used to describe the reliability of factors extracted from dichotomous and/or multi-point formatted questionnaires or scales. A higher value shows a more reliable generated scale. Cooper & Schindler (2008) has indicated 0.7 to be an acceptable reliability coefficient. Table 2 above shows that financial restructuring had the highest reliability (α=0.836) followed by operational restructuring (α=0.813) and then portfolio restructuring (α = 0.807). This illustrates that all the three scales were reliable as their reliability values exceeded the prescribed threshold of 0.7.

4.3 General Information

The study sought to establish that respondent with the right knowledge of the business participated in the survey. Such people are expected to be in the management level. The study therefore requested the respondents to indicate their work designation.

TABLE 3

Classification of Respondents by Work Designation

Designation	Frequency	Percent
Senior management	29	34.9
Middle Management	34	41
Lower Management	20	24.1
Total	**83**	**100**

From the finding in the table 3 above the study established the 41% of the respondents were from middle management level, 34.9% of the respondents were from Senior management level, whereas 24.1% of the respondents were from Lower Management level, this implies that there was fair engagement of respondents in relation to targeted knowledgeable management levels and the data provided would address the objectives. Few of the respondent who indicated outside these classifications were assumed to belong to lower management since one cannot access and respond to company emails if not a senior personnel.

TABLE 4

Classification of Respondents by Years of Service Period

Years of Service	Frequency	Percent
Below 1 year	18	21.7
Between 1 and 5 years	32	38.6
Above 5 Years	33	39.8
Total	**83**	**100**

The study requested respondent to indicate the number of years they had served in the organization. From the findings in the table 4 above, the study established that 39.8 % of the respondents had served for a period of above five years, 38.6 % of the respondents indicated that they had served for a period of between 1 to 5 years, whereas 21.7 % of the respondent indicated that they had served for a period not exceeding 1 year. This implies that majority of the respondents had served for more than one year and therefore they had vast knowledge about the surveyed organisation which could be relied upon by this study.

TABLE 5

Classification of Respondents by Stake Holding

	Frequency	Percent
Owner or Founder	20	24.1
Minor Shareholder	24	28.9
Not a share holder	39	47
Total	**83**	**100**

The study requested the respondents to clarify whether they owned shares with the organization. From the findings tabulated in the table 5 above, 47.0% of the respondents indicated that they did not own shares with the organization, 28.9% indicated that they were Minor Shareholders, whereas 24.1% of the respondents indicated that they either owned or possessed the firm, this implies that over 50% of the respondents featured in this study were either shareholders or founders of the organization hence providing very good background for the study owners who are involved in day to day running of the organisation have wealth of knowledge about the business. This also confirms Chu (2009) study which indicated that majority of SMEs are usually run by the owners.

TABLE 6

Classification of Respondents by Profession

Profession	Frequency	Percent
Technical (ICT)	20	24.1
Human Resource	6	7.2
Finance	20	24.1
Sales and Marketing	20	24.1
Business Management	17	20.5
Total	**83**	**100**

The study requested the respondent to indicate their field of profession. From the findings contained in the table 6 above, it was established that 24.1% of the respondent indicated field of profession as Sales and Marketing, Technical (ICT) and Finance. 20.5% of the respondent indicated business management, whereas 7.2% of the respondents indicated Area of profession as human resource. This is an indication that most of the respondents focused in this study were professionals in ICT, Finance, and sales and marketing. It therefore points out that the correct knowledgeable targets of respondents were engaged as depicted in the table where Human resource who are expected to have less knowledge on some financial aspect of an ICT SMEs, the same are the minority.

TABLE 7

Classification of Respondents by Gender

Gender	Frequency	Percent
Male	48	57.8
Female	35	42.2
Total	**83**	**100**

Reference is made to table 7 above. The study sought to determine the gender of the respondent and therefore requested the respondent to indicate their gender. The study found that majority of the respondent as shown by 57.8% were males whereas 42.2% of the respondents were females, this is an indication that both genders were involved in this study and thus the finding of the study did not suffer from gender bias.

4.4 Restructuring Measures

Following are the findings on various restructuring measures undertaken by SMEs.

4.4.1 Financial Restructuring Measures

The study requested the respondent to indicate whether the organization had performed any of the below financial restructuring measures. From the findings depicted on table 8 below, the study established that 55.4 percent of the respondents indicated that their organizations had injected more cash into the business through loan/debt. 54.2 percent of the respondents indicated that their organizations had injected more cash into the business by bringing in new share holders. 53 percent of the respondents indicated that their organizations had partnered with other companies organizations where partner owns part of the business. 49.4 percent of the respondents indicated that their organizations had engaged in selling of shares to raise money for clearance of loan or. 42.2 percent of the respondents indicated that their organizations had bought shares held by other shareholders and converted debts into. Finally 38.6 percent of the respondents indicated that their organizations had considered making employees to own some of the. This clearly indicates that there are significant financial restructuring actions among SMEs in ICT sector. Loan, business partnership and new shareholding are the famous financial restructuring actions among the SMEs in this sector.

TABLE 8

The Undertaken Financial Restructuring Measures

Statement	Yes		No		Total	
	Frequency	Percentage	Frequency	Percentage	Sum of frequencies ($\sum f$)	Sum of percentages ($\sum$ %)
Bringing in of new shareholders (injection of more cash into the business)	45	54.20%	38	45.80%	83	100
Buying of shares held by other share holders (reduction/consolidation of shares /shareholders)	35	42.20%	48	57.80%	83	100
Converting debts in to shares (debt issuer becomes part of shareholders)	35	42.20%	48	57.80%	83	100
Injection of more cash through loan/debt.	46	55.40%	37	44.60%	83	100
Selling shares to raise money for clearance of loan or debt	41	49.40%	42	50.60%	83	100
Making Employees to own some shares	32	38.60%	51	61.40%	83	100
Partnering with other organizations where partner owns part of the business (Temporarily or long term)	44	53.00%	39	47.00%	83	100

Injection of more cash through loan or debt has the highest percentage meaning that this was the leading financial restructuring. This is in line with Euro found (2012) report which observed similar characteristic with SMEs in Netherlands. It also confirms the researcher's observation that many SMEs find themselves at the doors of NGOs, MFIs and other financiers which may influence frequent restructuring at SME level unlike in big firms. Debts, new shareholders and partnership are the leading in percentage indicating how desperate owners of SMEs are to get capital injection to their businesses. Unfortunately, making employees own some share in SME is the most unpopular yet it's another source of capital and probably motivation for staff.

4.4.2 Portfolio Restructuring Measures

The study requested the respondent to indicate whether the organization had performed any of the below portfolio restructuring measures. From the findings tabulated in the table 9 below, the study established 54.2 percent of the respondents indicated that their organizations had introduced new product(s) in the market whereas 50.6 percent of the respondents indicated that their organizations had formed a child company for specialization for purpose of acquiring new business and contracts. 47% percent of the respondents indicated that their organizations had sold or closured some business lines or sections of business or selling certain products; what is technically referred to as spinoff. 44.6% of the respondents indicated that their organization had merged with other companies.

TABLE 9

The Undertaken Portfolio Restructuring Measures

Statement	Yes		No		Total	
	Frequency	Percentage	Frequency	Percentage	Sum of frequencies ($\sum f$)	Sum of percentages ($\sum$ %)
Sale or closure of some parts of service business line	27	32.50%	56	67.50%	83	100
Introduction of new product(s) in the market	45	54.20%	38	45.80%	83	100
Sale or closure of business line or section making/selling certain products	39	47.00%	44	53.00%	83	100
Formation of a child company for specialization/to help acquire new business/contracts (Spin off)	42	50.60%	41	49.40%	83	100
Buying off or taking over other companies	29	34.90%	54	65.10%	83	100
Closure/Sale of Child Company	34	41.00%	49	59.00%	83	100
Merging with other companies	37	44.60%	46	55.40%	83	100

41% of the respondents indicated that their organizations had closed down or sold a child company which is the opposite of forming a child company. 34.9 percent of the respondents indicated that their organizations had bought off or taken over other companies and 32.2% percent of the respondents indicated that their organizations had sold or closed some parts of service business line.

The popular actions that amount to portfolio restructuring in this case are two. These include Spinoff and introduction of new products. This confirms researcher's observation of how SMEs' owners are hungry to grow their businesses to join the leagues of big companies. Even so buying or taking over other companies and merging with other SMEs are two activities that are not popular in this restructuring meaning that SMEs unlike big firms prefer to grow on their own without taking over other problematic business which could contribute to down fall. This trend is opposite of trends in big firms where Sulaiman (2012) reported acquisition and mergers being very popular due to quick gains derived therein.

4.4.3 Operational Restructuring

Reference is made to table 10 below. The study requested the respondent to indicate whether the organization had performed any of the below operational restructuring actions. From the findings the study established that 56.6 percent of the respondents agree that organization had retrenchment or layoff. 55.4% of the respondent agreed that the organization had increased office space to accommodate new business changes. 51.8% of the respondents agreed that their organizations had resolved to outsourcing or contracting some aspects of business.

The study further established that majority of the respondents disagreed that the organization had sold some of machinery or assets to reduce OPEX & other operational costs as shown by 72.3%.

Respondents disagree that their organization had carried any action to reduce rented office space as shown by 68.7%. The response on reduction of office space and the one on increase in office space are in agreement meaning that majority of SMEs having not reduced office they have done the opposite or remained the same. This may be suggesting significant growth among SMEs. 63.9% of the respondents disagreed that the organization had done some changes in the organizational chart (reporting lines & departmental reorganization). 62.7% disagreed that the organization had purchased of new assets or machinery due to business need to boost total cost of income. Finally 53.2% of the respondents disagreed that the organization had sold machines/assets to increase cash flow or clear debts.

TABLE 10

The Undertaken Operational Restructuring Measures

Statement	Yes		No		Total	
	Frequency	Percentage	Frequency	Percentage	Sum of frequencies (∑ *f*)	Sum of percentages (∑ %)
Sale of machines/assets to increase cash flow or clear debts	38	45.80%	45	53.20%	83	100
Sale of machinery or assets to reduce OPEX & other operational costs	23	27.70%	60	72.30%	83	100
Reduction of rented office space to accommodate new business changes	26	31.30%	57	68.70%	83	100
Increasing office space to accommodate new business changes.	46	55.40%	37	44.60%	83	100
Shifting to new office location (to cut cost or seeking for business/contracts)	44	53.00%	37	44.60%	83	100
Purchase of new assets or machinery due to business need to boost total cost of income	31	37.30%	52	62.70%	83	100
Reduction of employees (retrenchment /layoff)	47	56.60%	36	43.40%	83	100
Expanding human capital (Introduction of new staff/experts/Professionals)	37	44.60%	46	55.40%	83	100
Outsourcing or contracting some aspects of business	43	51.80%	40	48.20%	83	100
Changes in the organizational chart (reporting lines & departmental reorganization)	30	36.10%	53	63.90%	83	100

This study confirms that, the same way restructuring is linked to retrenchment in big firms (Bergh et al., 1998), same characteristics are depicted in SMEs as well. This is depicted by 56.6 percent which leads the pack of operational restructuring activities in SMEs. This notwithstanding, SMEs are also seen expanding their office space as per this report i.e. 55.4%

which would mean that business is growing but staffs are kept at minimum level as possible. This tends to confirm the study by Okatch, Mukulu and Oyugi (2011) which indicated that SMEs in Kenya are usually understaffed.

4.5 Effect of Restructuring on Performance Indicators

The study sought to establish the effect brought about by business restructuring. From the findings of the study contained in the table 11 below, majority of the respondents indicated that business restructuring had a positive effect on profit and cash flow as shown by a mean of 4.0 in each case, Overall business profitability as shown by mean of 3.9, Efficiency as shown by mean of 3.8, Productivity and sales as shown by a mean of 3.7 in each case, staff morale and business image as shown by a mean of 3.6 in each case. This is among the lowest effect which could be attributed to retrenchment and layoffs.

TABLE 11

Effect of Restructuring on Various Performance Indicators

	N	Minimum	Maximum	Mean	Std. Deviation
Impact on sales	83	1	5	3.7	0.99
Impact on profit	83	1	5	4	0.92
Impact on cash flow	83	2	5	4	0.94
Impact on revenue	83	2	5	3.4	0.95
Impact on liquidity	83	2	5	3.5	0.9
Impact on overall business profitability	83	1	5	3.9	0.96
Impact on business Image	83	1	5	3.6	0.93
Impact on Efficiency	83	1	5	3.8	1
Impact on Productivity	83	1	5	3.7	0.95
Impact on Staff Morale	83	1	5	3.6	1

The studies further revealed that majority of the respondents were of the opinion that business restructuring had no considerable change on revenues. This is in order since majority of restructuring would involve reduction in business to improve profitability and if the business grows, the expenditure grow with it hence explaining why in SMEs sale of assets and machineries to clear debt is not popular as indicated in the table 9 on operational restructuring.

4.6 Effect of Restructuring by Variables

Each mode of restructuring as an independent variable had influence on performance. Below is the discussion on the same.

4.6.1 Effect by Financial Restructuring

The study requested the respondent to indicate the action(s) which had the greatest effect on firm's performance. From the findings in the table 12 below, majority of the respondents as shown by 51.8% greed that Bringing in of new share holders had the greatest effect, 45.8% indicated Making Employees to own some shares, 42.2% indicated Selling of shares to raise money for clearance of loan or debt, 37.3% indicated Buying of shares held by other share holders (reduction/consolidation of shares/share holders), 36.1% indicated Converting debts in to shares (debt issuer becomes part of shareholders), 30.1% of the respondents indicated that the greatest effect on firms performance was due to Partnering with other companies organizations where partner owns part of the business (Temporarily or long term) and finally 24% were of the opinion that the greatest effect had been brought by Injection of more cash through loan / debt.

TABLE 12

Effect of Restructuring by Financial Restructuring Measures

Statement	Yes		No		Total	
	Frequency	Percentage	Frequency	Percentage	Sum of frequencies ($\sum f$)	Sum of percentages ($\sum$ %)
Bringing in of new share holders (injection of more cash into the business)	43	51.80%	40	48.20%	83	100
Buying of shares held by other share holders (reduction/consolidation of shares /share holders)	31	37.30%	52	62.70%	83	100
Converting debts in to shares (debt issuer becomes part of shareholders)	30	36.10%	53	63.90%	83	100
Injection of more cash through loan/debt	20	24.10%	63	75.90%	83	100
Selling shares to raise money for clearance of loan or debt	35	42.20%	48	57.80%	83	100
Making Employees to own some shares	38	45.80%	44	53.00%	83	100
Partnering with other companies organizations where partner owns part of the business (Temporarily or long term)	25	30.10%	58	69.90%	83	100

The study also established that there exist some similarities between SMEs and big firms due to popularity of bringing in shareholders to inject more cash to business and business performance. In big firms as per (Bowman et al., 1999) leverage buyout and reverse leveraged buyout have significantly contributed to positive performance of big firms.

4.6.2 Effect by Portfolio Restructuring

The study requested the respondent to indicate which of the above Portfolio restructuring Measures had the greatest effect on firm's performance. From the findings shown on table 13 below, the study established that majority of the respondents were of the opinion that the greatest effect was due to Formation of a child company for specialization to help acquire new business (Spin off) as shown by 49.4%, others indicated that it was due to Merging with other companies and Introduction of new service line as shown by 41.0% in each case. Still others indicated Introduction of new product(s) in the market as shown by 33.7%. 32.5% of the respondents were of the opinion that it was due to either selling out/closure of business line or selling certain products. Finally 24.1% of the respondents indicated that it was due to buying off or taking over other companies.

TABLE 13

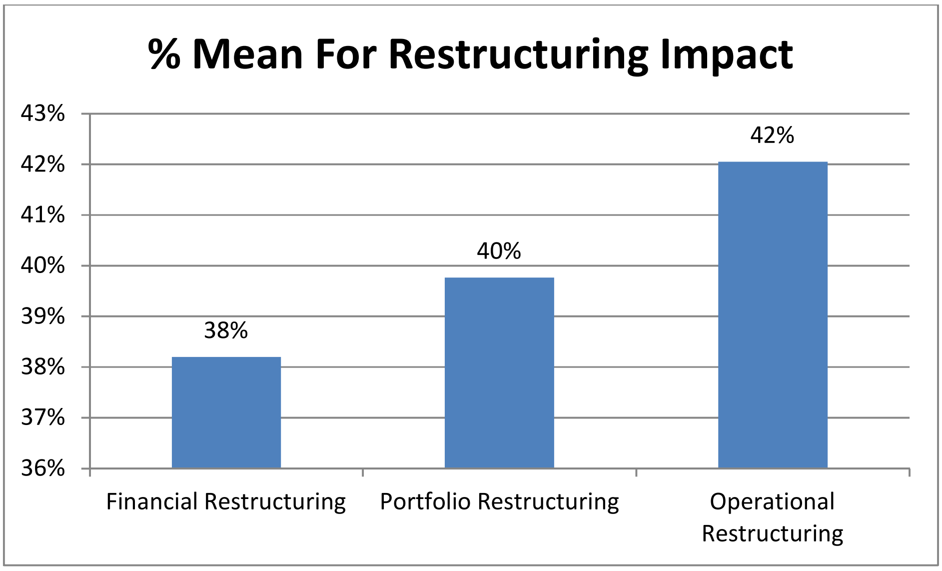
Effect of Restructuring by Portfolio Restructuring Measures

Statement	Yes		No		Total	
	Frequency	Percentage	Frequency	Percentage	Sum of frequencies ($\sum f$)	Sum of percentages ($\sum$ %)
Introduction of new service line/section	40	48.20%	43	51.80%	83	100
Sale or closure of some parts of service business line	34	41.00%	49	59.00%	83	100
Introduction of new product(s) in the market	28	33.70%	55	66.30%	83	100
Sale or closure of business line or section making/selling certain products	27	32.50%	56	67.50%	83	100
Formation of a child company for specialization/to help acquire new business/contracts (spin off)	41	49.40%	42	50.60%	83	100
Buying off or taking over other companies	20	24.10%	63	75.90%	83	100
Closure/Sale of Child Company	40	48.20%	43	51.80%	83	100
Merging with other companies	34	41.00%	49	59.00%	83	100

Though the study established that majority of the respondents disagreed that Portfolio restructuring measures had any great significance in firms overall performance, this mode of restructuring seems to stand out compared to others when using regression analysis. Bowman et al. (1999) analysis of the three modes of restructuring and their consequent effect on performance places this mode at position two but this study places it at position one. Performing mean on percentages of frequencies, the graph on figure 4.below shows that portfolio restructuring comes second while operational restructuring comes last. Even so, this study sticks to regression analysis which shows that portfolio restructuring has the highest significant effect on long term while operational restructuring has highest significant effect on short term since mean does not consider coefficient.

FIGURE 4

Mean of Percentages on Frequencies for Restructuring Effect



4.6.3 Effect by Operational Restructuring

The study requested the respondent to indicate which of the above operational restructuring measures had the greatest effect on firm's performance. From the findings on the table 14 below, the study established that majority of the respondents were of the opinion that the greatest effect was due to outsourcing or contracting some aspects of business as shown by 50.6%.

The study also established that majority of the respondents disagreed that the following operational restructuring measures had any great effect of on firms performance; Shifting to new office location (to cut cost or seeking for business/contracts) as shown by 71.1% Reduction of rented office space to accommodate new business changes, Changes in the organizational chart (reporting lines & departmental reorganization) as shown by a mean of 62.7% in each case, Increasing office space to accommodate new business changes as shown by 60.2%, Reduction of employees (retrenchment/layoff) as shown by 59.0% sale of machinery or assets to reduce OPEX & other operational costs as shown by 55.4% and finally respondents disagreed that Sale of machines to increase cash flow or clear debts, Expanding human capital as shown by 53%. On average-wise, this mode of restructuring performs the worst in terms of it effect to performance. This is expected since Bowman et al. (1999) reports the same.

TABLE 14

Effect of Restructuring by Operational Restructuring Measures

Statement	Yes		No		Total	
	Frequency	Percentage	Frequency	Percentage	Sum of frequencies ($\sum f$)	Sum of percentages ($\sum \%$)
Sale of machines/assets to increase cash flow or clear debts	39	47.00%	44	53.00%	83	100
Sale of machinery or assets to reduce OPEX & other operational costs	37	44.60%	46	55.40%	83	100
Reduction of rented office space to accommodate new business changes	31	37.30%	52	62.70%	83	100
Increasing office space to accommodate new business changes.	33	39.80%	50	60.20%	83	100
Shifting to new office location (to cut cost or seeking for business/contracts)	24	28.90%	59	71.10%	83	100
Purchase of new assets or machinery due to business need to boost total cost of income	39	47.00%	44	53.00%	83	100
Reduction of employees (retrenchment /layoff)	34	41.00%	49	59.00%	83	100
Expanding human capital (introduction of new staff/experts/professionals)	39	47.00%	44	53.00%	83	100
Outsourcing or contracting some aspects of business	42	50.60%	41	49.40%	83	100
Changes in the organizational chart (reporting lines & departmental reorganization)	31	37.30%	52	62.70%	83	100

4.7 Relationship between Restructuring and Performance

In this study, a multiple regression analysis was conducted to test the influence among predictor and variables. The research used statistical package for social sciences (SPSS v20) to code, enter and compute the measurements of the multiple regressions. The business profit was used as parameter to analyse the relationship between performance and restructuring using regression model. According to Bowman et al. (1999) restructuring derivative effect can be obtained by capturing operating profit. Sulaiman (2012) used profitability, liquidity and solvency to measure the influence of restructuring to performance.

4.7.1 Regression Analysis Summary

Reference is made to the table 15 below. Adjusted R squared is coefficient of determination which tells the variation in the dependent variable due to changes in the independent variable. From the findings in the value of adjusted R squared was 0.653 an indication that there was variation of 64.5% on performance of SMEs due to changes in financial restructuring, portfolio restructuring and operational restructuring at 95% confidence interval. This shows that 64.5% changes in performance of SMEs could be accounted for by financial restructuring, portfolio restructuring and operational restructuring. R is the correlation coefficient which shows the relationship between the study variables. From the findings shown in the table below there was a strong positive relationship between the study variables as shown by 0.691.

TABLE 15

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.691(a)	0.653	0.645	0.1944

4.7.2 ANOVA

From the ANOVA statics in the table 16 below, the processed data, which is the population parameters, had a significance level of 4.8% which shows that the data is ideal for making a conclusion on the population's parameter as the value of significance (p-value) is less than 5%. The F critical at 5% level of significance was 3.413 since F calculated is greater than the F critical (value = 1.684), this shows that the overall model was significant and that financial restructuring, portfolio restructuring and operational restructuring were significantly influencing performance of SMEs.

TABLE 16

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.232	6	0.372	3.413	.048[b]
	Residual	8.284	76	0.109		
	Total	10.516				

4.7.3 Fitted Model Coefficients

From the data in the table 17 below, the established regression equation was

Y = 0.298 + 0.237 X1 + 0.231 X2 + 0.239 X3.

TABLE 17

Coefficients

Model		Un-standardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	Constant	0.298	0.453		2.165	0.006
	Financial Restructuring	0.237	0.16	0.198	1.479	0.012
	Portfolio Restructuring	0.231	0.126	0.245	1.834	0.001
	Operational Restructuring	0.239	0.145	0.008	0.065	0.023

From the above regression equation it was revealed that holding financial restructuring, portfolio restructuring and operational restructuring to a constant zero , performance of SMEs would be at 0.298, a unit increase in financial restructuring would lead to increase in the performance of SMEs by a factors of 0.237, unit increase in portfolio restructuring would lead to increase in performance of SMEs by factors of 0.231 and a unit increase in operational restructuring would lead to increase in performance by a factor of 0.239.

At 5% level of significance and 95% level of confidence, operational restructuring had a 0.023 level of significance, financial restructuring had a 0.012 level of significance while portfolio restructuring showed 0.001 level of significance hence the most significant factor is portfolio restructuring. Overall portfolio restructuring had the greatest effect on performance of SMEs, followed by financial restructuring while operational restructuring had the least effect on performance of SMEs. All the variables were significant ($p<0.05$).

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the discussion of key data findings, conclusion drawn from the findings highlighted and recommendation made there-to. The conclusions and recommendations drawn were focused on addressing the objective of the study. The researcher had intended to establish the effect of restructuring on performance of SMEs in ICT sector in Kenya.

5.2 Summary of Key Findings

Following is the summary of the key findings derived from the study.

5.2.1 Financial Restructuring

From the findings the study established that a significant number of organizations had undertaken the following financial restructuring measures: injected more cash into the business through loan or debt, bringing in new shareholders and formation of partnership with other companies organizations where partner owns part of the business. The study further established that a few number of the Organizations had engaged in selling of shares to raise money for clearance of loan or debt. A few number of organizations indicated as having bought shares held by other shareholders and converted debts into shares. And finally some organizations had considered Making Employees to own some shares.

5.2.2 Portfolio Restructuring

From the findings the study established that a significant number of organizations had undertaken the following portfolio restructuring actions: Introduction of new product(s) in the market and formation of a child company for specialization so as to help acquire new business. The study further revealed that most of the organizations had sold or closed some business lines or products line, a few of the organization had considered merging with other companies while a few number of organizations had closed down or sold a child Company. A few numbers of the organizations had bought off or taken over other companies while most of the organizations had sold or closed some parts of service business line.

5.2.3 Operational Restructuring

From the findings the study established that a significant number of organizations had undertaken the following operational restructuring measures, retrenchment or layoff of employees, increased office space in order to accommodate new business, majority organizations considered outsourcing or contracting some aspects of business.

The furthers study established that most of the organization had sold some of machinery or assets to reduce OPEX & other operational costs, some organizations had done reduction of rented office space to accommodate new business changes, a few number organization had done some changes in the organizational chart (reporting lines & departmental reorganization) with only a few number of the organization having purchased new assets or machinery due to business need to boost total cost of ownership. Finally the study established that a few number organizations had sold machines and assets to increase cash flow or clear debts.

5.3 Effect of Restructuring

The study established that restructuring measures had a positive effect on profit, cash flow, overall business profitability, improved efficiencies, productivity and sales, Staff Morale and business Image. The study further revealed that majority of the respondents were of the opinion that business restructuring had no effect on revenue. This is expected since restructuring more often includes reduction on business portfolio which has effect on business revenues.

5.3.1 Effect of Financial Restructuring

From the findings the study established that the following financial restructuring measures had the greatest effect on firms performance in following order: Bringing in of new shareholders, Making Employees to own some shares, Selling of shares to raise money for clearance of loan or debt, Buying of shares held by other shareholders, Conversion of debts in to shares, formation of Partnerships with other companies where the partner owns part of the business, and finally Injection of more cash through loan / debt.

5.3.2 Effect of Portfolio Restructuring

From the findings the study established that the following portfolio restructuring measures had the greatest impact on firms performance in following order, Formation of a child company for specialization to help acquire new business (spin off), Merging with other companies and Introduction of new service line, Introduction of new product(s) in the market, selling some business lines or section that makes certain products, and finally Buying off or taking over other companies.

5.3.3 Effect of Operational Restructuring

From the findings the study established that the following operational restructuring measures had the greatest effect on firms performance in following order; outsourcing or contracting some aspects of business, Purchase of new assets or machinery due to business need to boost total cost of income, expanding human capital, Sale of machinery or assets to reduce OPEX & other operational costs, Reduction of employees, increasing of office space to accommodate new business changes, Changes in the organizational chart, Reduction of rented office space to accommodate new business changes and shifting to new office location.

5.4 Discussion of the Key Findings

In this study, the list of restructuring activities included in the self administered questionnaire was in line with (Bowman et al., 1999; Proctor, 2001; Mckinley & Scherer 2000; Gibbs, 1993; Liu and Jiang, 2004) list of restructuring activities. In agreement with Euro found (2012) Netherlands report, this study establishes that restructuring is also found in Kenya SMEs just as it is in other SMEs and big firms in other part of the world. In essence, similarities exist on how restructuring impact performance in SME just the same way it impacts performance on big firms. This confirms Fu et al. (2001) study which indicated that SMEs just like big firms draws same benefits from restructuring.

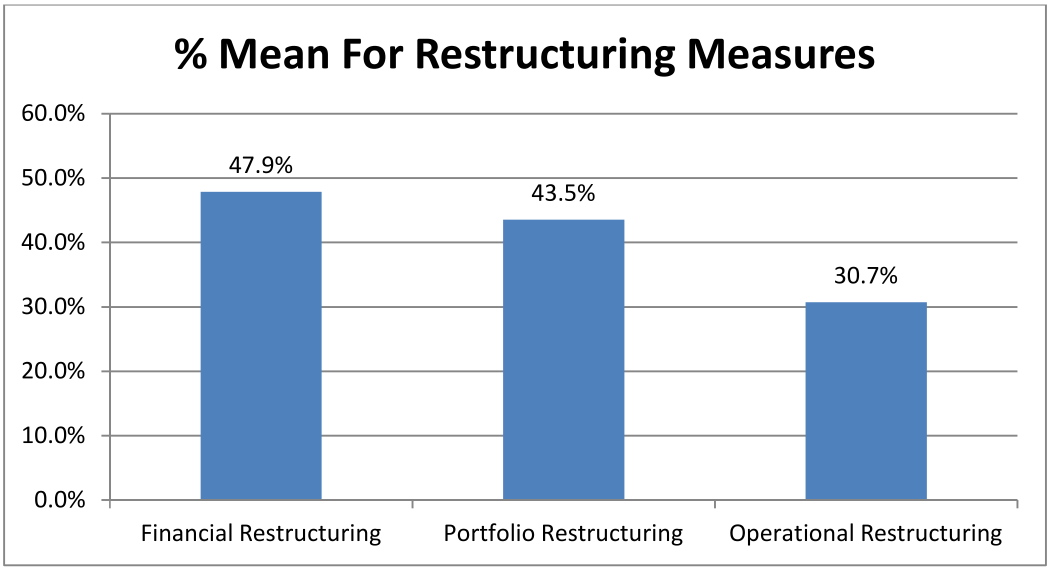
In agreement with various studies done on big firms (Sulaiman, 2012; Jin et al., 2004; Bowman et al., 1999), this study finds similar trends where restructuring shows positive influence on following performance indicators namely profitability, liquidity, cash flow, sales, productivity and efficiency. All the three modes of restructuring have individually shown positive impact on performance which is a good indicator that restructuring is not a bad idea to consider even as owners of SMEs aspire to grow their business to the leagues of big firms and multinationals.

While Bowman et al. (1999) study which indicated financial restructuring as having the strongest positive returns in big firms, this study shows portfolio restructuring having greatest positive impact on SMEs performance. Financial restructuring takes second position in this study. Amazingly, this study finds operational restructuring as having the least impact among the three modes. This means that portfolio restructuring has the least impact both in big firms as well as in SMEs.

Finally, using mean of percentages the graph in figure 5 below shows the most popular mode of restructuring. Even so Bowman et al. (1999) whose study has been used extensively in this study, the same did not explicitly find the preferred mode of restructuring in big firms. In any case, various studies have indicated that the three modes of restructuring call on each other once welcomed. This study has therefore gone step further to show that financial restructuring is the most preferred while operational restructuring is the least preferred as reflected in figure 5 below.

FIGURE 5

Preferred Mode of Restructuring



5.5 Conclusion

From the finding the study established that financial restructuring positively affect the performance of Small and Medium and Enterprise as it was found that there was a positive relationship between financial restructuring and performance of Small and Medium and Enterprise.

The study revealed that portfolio restructuring positively influence the performance of Small and Medium Enterprises also, since it was found from the regression analysis that there was positive relationship between portfolio restructuring and performance of Small and Medium Enterprises.

The study established that operational restructuring positively influence the performance of Small and Medium Enterprises, as it was found that there was positive relationship between operational restructuring and the performance of Small and Medium Enterprises.

The study also established that financial restructuring is most common mode of restructuring and therefore it can be concluded as the preferred mode of restructuring among the SMEs in ICT sector of Kenya. All the three modes were adopted by various SMEs in different magnitudes. This confirms that all the three modes of restructuring would happen at the same time in SMEs just as it happens in corporate world as earlier revealed by literature review.

5.6 Recommendations

From the findings the study recommends that there is need for the Small and Medium enterprise to adopt various type of restructuring measures as it was found that there was a positive relationship between restructuring and performance of Small and Medium Enterprises.

5.6.1 Portfolio Restructuring

Portfolio restructuring has the greatest impact on SMEs' performance. It will realise quick and immediate results if implemented according to this study's findings. In this regard, if any SME want to start off restructuring process, it's recommended to start with portfolio restructuring before embarking to the rest of the restructuring since it will reap quick benefits and instant impact to the business. But this notwithstanding, one should not stop at this stage since other restructuring modes also have their impacts too. Wu and Delios (2009) indicated that all the three modes of restructuring interact with each other giving more reasons to look beyond portfolio restructuring.

5.6.2 Financial Restructuring

Financial restructuring is seen to be a link between the three modes of restructuring. It still has significant impact on performance. Though it's not seen to generate the highest impact, it still has its benefit if combined with other mode of restructuring. It's therefore recommended to have financial restructuring alongside with the rest of restructuring for an all inclusive restructuring process and hence greater impact on performance. This is in line with Gibbs (1993) observation that the three restructuring modes are not exclusive of each other.

5.6.3 Operational Restructuring

Operational restructuring has negative publicity especially when actions of reorganisation include layoff of staffs. However, it is not limited to retrenchment and job reductions rather it involves more than that. There are some actions of this mode of restructuring which have far reaching impact while maintaining positive image to the staff and public in general (Fu et al., 2001). This study has revealed that operational restructuring has greater impact on performance in the long run. In this case, it's advisable to plan and execute the actions of operational restructuring with a vision of long term benefits and not short term moves in expectation of quick gains.

5.6.4 Preference in Implementing Restructuring

Though the study has shown that financial restructuring is the most preferred mode of restructuring among the SMEs, the researcher observes that all the three modes should be considered at different stages with specific focus. This means, Operational restructuring is for long term gains, financial restructuring serves as a link while portfolio restructuring comes as a quick measure for quick results. It's therefore recommended to impalement all three in stages and in phases.

5.7 Limitation of the Study

The researcher encountered various limitations that hindered access to information sought by the study. The main limitation was its inability to have response from all the respondents. The researcher was solely depending on ICT Authority to reach out to respondents since ICT authority could not share contacts details of various SMEs in their databases to a third party owing to confidentiality reasons. This therefore posed a challenge because there was no way to push the respondents to respond on time. In this case, time for data analysis was constrained. More time would have provided an opportunity to conduct deep dive into secondary data by scheduling interviews with respondents who responded on email.

Only primary data from the self administered questionnaire was considered in this study. Secondary data would have provided more value to the findings and conclusions. Big firms always have their financial results made public thus providing a researcher with an opportunity to consider both primary data as well as secondary data. SMEs unlike big firms have their financial records stored privately which would require thorough follow up to have access to. Financial records would have provided an apple to apple comparison between restructuring in big firms which more often are studied using both primary and secondary data and restructuring in SMEs which was the focus in this study. Some terminologies such as profit margins and general business profitability would have required some clarification.

5.8 Suggestions for Further Research

The areas of further study include the impact of restructuring to staff morale which this study could not consider into details even though some SMEs indicated that it had had negative impact on business image. Each mode of restructuring and its impact to each performance indicator i.e. productivity, efficiency, cash flow and profitability should be studied in detail since the scope of this study was more or less a high-level on each of these parameters.

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APPENDIX_1 QUESTIONNAIRE

This is a request for information by filling this questionnaire. The information supplied will remain confidential and only be used for the academic purpose as indicated in the letter of introduction. You are kindly requested to answer all question as objective as possible.

Section A: General Information

1. Rank/Designation (*Tick accordingly*)

Senior Management ☐ Middle Management ☐ Lower Management ☐

Others (*Specify*)..

2. How long have you been with this company? ....

3. Are you a shareholder? Owner/Founder ☐ Minor Shareholder ☐ N/A ☐

4. Academic Background (*Tick accordingly*)

Technical (ICT) ☐ HR ☐ Finance ☐ Sales/Marketing ☐

Business Management ☐ Others (*Specify*)..

5. Gender Male ☐ Female ☐

Section B: Restructuring

Background: In this section, the objective is to collect information about the last changes performed in your organisation in the last five to ten years. Understanding of any minor or major changes in your company will be of essence. Kindly tick any appropriate text box that suitably represents the changes that your company has performed so far. You can tick more than one accordingly.

1. Financial Restructuring

   € Bringing in of new shareholders. (*Injection of more cash into the business through shareholding*)

- € Buying of shares held by other shareholders. *(Reduction/consolidation of shares/shareholders)*
- € Converting debt into shares (*Debt issuer becomes part shareholders)*.
- € Injection of More Cash through Loan/debt
- € Selling Shares to raise money for clearance of Loan/debt.
- € Making employees to own some shares.
- € Partnering with other companies/organisations where partner owns part of business (temporarily or long term).

2. Portfolio Restructuring
   - € Introduction of new service line/section.
   - € Sale or closure of some part of service business line.
   - € Introduction of new product(s) into the market.
   - € Sale or closure of business line or section making/selling certain product.
   - € Formation of a child company for specialization/to help acquire new businesses/contracts. (Spin off)
   - € Buying off or taking over other companies.
   - € Closure/sell of Child Company.
   - € Merging with other companies.

3. Operational Restructuring
   - € Sale of machineries/assets to increase cash flow or clear debts.
   - € Sale of Machineries or assets to reduce OPEX & other operational costs.
   - € Reduction of rented office space to cut cost.

- € Increasing office space to accommodate new business changes.
- € Shifting to new business location (To cut cost or seeking for new businesses/contracts).
- € Purchase of new assets or machineries due to business need. (Boosting total cost of ownership).
- € Reduction of employees (Retrenchment/layoff)
- € Expanding human capital (Introducing of new staffs/experts/professionals).
- € Outsourcing or contracting some aspects of business.
- € Changes in organization chart (reporting lines & departmental reorganisation)

4. Any other business changes/actions (specify)...

....

....

....

....

....

....

Section C: Impact of Restructuring- Part 1

Background: In this section, the objective is to assess the benefits derived from restructuring actions above. Your thorough assessment of the above actions when answering the below part of questionnaire is requested.

In scale of 1 to 5 (Where ***1= Very Negative, 2= Negative, 3= No Change, 4= Positive, 5= Very Positive***) kindly rate the impact of the above actions on your company's performance as below.

1. Tick appropriately.

Description	**1**	**2**	**3**	**4**	**5**
Impact on Sales					
Impact on Profit Margins					
Impact on Cash Flow					
Impact on Revenue					
Impact on Liquidity					
Impact on overall Business Profitability					
Impact on Business Image					
Impact on Efficiency					
Impact on Productivity					
Impact on Staff Morale					

2. Your general view of the impact of restructuring actions in your company....................
....
....
....

Section D: Impact of Restructuring- Part 2

In your opinion, which of the following actions had the greatest impact on the firm's performance as tabulated above? You can tick more than one accordingly.

1. Financial Restructuring

   € Bringing in of new shareholders. (*Injection of more cash into the business through shareholding*)

   € Buying of shares held by other shareholders. *(Reduction/consolidation of shares/shareholders)*

   € Converting debt into shares (*Debt issuer becomes part shareholders)*.

   € Injection of More Cash through Loan/debt

   € Selling Shares to raise money for clearance of Loan/debt.

   € Making employees to own some shares.

   € Partnering with other companies/organisations where partner owns part of business (temporarily or long term).

2. Portfolio Restructuring

   € Introduction of new service line/section.

   € Sale or closure of some part of service business line.

   € Introduction of new product(s) into the market.

   € Sale or closure of business line or section making/selling certain product.

   € Formation of a child company for specialization/to help acquire new businesses/contracts. (Spin off)

   € Buying off or taking over other companies.

   € Closure/sell of Child Company.

   € Merging with other companies.

Section D Continued: Impact of Restructuring- Part 2

In your opinion, which of the following actions had the greatest impact on the firm's performance as tabulated above? You can tick more than one accordingly.

3. Operational Restructuring

   € Sale of machineries/assets to increase cash flow or clear debts.

   € Sale of Machineries or assets to reduce Opex & other operational costs.

   € Reduction of rented office space to cut cost.

   € Increasing office space to accommodate new business changes.

   € Shifting to new business location (To cut cost or seeking for new businesses/contracts).

   € Purchase of new assets or machineries due to business need. (Boosting total cost of ownership).

   € Reduction of employees (Retrenchment/layoff)

   € Expanding human capital (Introducing of new staffs/experts/professionals).

   € Outsourcing or contracting some aspects of business.

   € Changes in organization chart (reporting lines & departmental reorganisation)

APPENDIX II EXAMPLE OF RESPONSES RECEIVED ON EMAIL

Grantee survey Result #7630648 Personal/KCA_MBA x

form_engine@fs25.formsite.com <form_ 8 Oct (8 days ago)
to me

Reference #	7630648
Status	Complete
1. Rank/Designation (Tick accordingly) *	Middle Management
2. How long have you been with this company? *	3
3. Are you a shareholder? (Tick accordingly) *	N/A
4. Academic Background (Tick accordingly) *	Others (Specify) (agriculture)
5. Gender *	male
1. Financial Restructuring *	Making employees to own some shares.
2. Portfolio Restructuring *	Introduction of new product(s) into the market.
3. Operational Restructuring *	Changes in organization chart (reporting lines & departmental reorganisation)
Any other business changes/actions (specify).	no

Rate the Impact *	
Impact on Sales	Positive
Impact on Profit margins	No Change
Impact on Cash flow	No Change
Impact on Revenue	Negative
Impact on Liquidity	Negative
Impact on Overall business Profitability	Positive
Impact on Business image	Positive
Impact on Efficiency	Positive
Impact on Productivity	Positive
Impact on Staff Morale	No Change
2. Your general view of the impact of restructuring actions in your company *	n
1. Financial Restructuring *	Making employees to own some shares.
2. Portfolio Restructuring *	Introduction of new service line/section.
3. Operational Restructuring *	Increasing office space to accommodate new business changes.

Last Update	2013-10-08 06:42:13
Start Time	2013-10-08 06:33:28
Finish Time	2013-10-08 06:42:13
IP	41.89.164.35
Browser	Firefox
OS	Windows
Referrer	http://fs25.formsite.com/nyagad/grantee/index.html

APPENDIX III EXAMPLE OF EMAILS SENT TO RESPONDENTS

This is an example of an email sent to a respondent through ICT Authority's correspondence.

ICT Authority

Dear JASON,

This is a research project that we are trying to assist a student to complete his thesis. Click Here to view the students introduction letter.

Kindly assist in completing the short questionnaire on the link below.

Take the Questionnaire

Thank you for taking time to participate.

Sincerely,

Communications Team
ICT Authority

SafeUnsubscribe

Trusted Email from Constant Contact
Try it FREE today.

APPENDIX IV INTRODUCTION LETTER FROM FACULTY

Thika Road, Ruaraka
P.O. Box 56808 - 00200 Nairobi, Kenya
Pilot Line: +254 20 8070408 / 9

Tel: +254 20 3537842
Fax: +254 20 8561077
Mobile: +254 734 888022, 710 888022
Email: kca@kca.ac.ke
Website: www.kca.ac.ke

KCAU/ SGS.13/wm

Tuesday, September 03, 2013

Your Ref ....

To whom it may concern,

Dear Sir/Madam,

RE: RESEARCH PROJECT

This is to certify that **NYAGA DANIEL KINYUA REG NO. 12/00572** has been permitted by the School of Business and Public Management to carry out research on the topic **"IMPACT OF RESTRUCTURING ON PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN ICT SECTOR IN KENYA".** The research is purely for academic purposes and for the partial fulfillment of the requirements for the MBA Corporate Management degree program.

Kindly assist the student with information where possible.

Yours faithfully,

KCA UNIVERSITY
SCHOOL OF GRADUATE STUDIES
03 SEP 2013
P.O. Box 56808 – 00200, NAIROBI

Dr. Muchiri Mwangi
Dean, School of Graduate Studies & Research