THE EFFECT OF DEMERGER STRATEGY ON ORGANIZATIONAL PERFORMANCE A CASE STUDY OF STATE DEPARTMENT FOR TRADE AND ENTERPRISE DEVELOPMENT, KENYA

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Abstract

Restructuring is the act of organizing 'differently' with a sole aim of strengthening the position of an institution in terms of its mandate and performance. It is a stage of repositioning, recasting the organizational structure. Studies conducted on the effect of demerger strategy on organizational performances have had conflicting results. The specific objective of this study was to investigate the effect of demerger strategy on organizational performance as well as establishing the state of facts concerning demerger as a restructuring strategy in the Kenyan Government Institutions. This study is premised on the Weick's Model of Organizing. The study utilised a descriptive research design. The targeted population was the employees of State Department for Trade and Enterprise Development. The sample was established by use of stratified random sampling and a sample of 146 respondents was generated. A questionnaire was used for data collection. Analyzed data was evaluated using descriptive statistics. Linear regression model was used to estimate the effect of independent variable on the dependent variable. Results of the study indicated that the response rate was 76.71% which was sufficient for inferential statistical analysis. A coefficient of determination generated after regression analysis was 85.4% of variance in the organizational performance of State Department of Trade and Enterprise Development. Results from inferential analysis showed the p-value and regression coefficient generated after running the regression model was ($\beta = 0.223$, $p = 0.017$). The study indicates that demerger has not only a significant but also a positive effect on State Department for Trade and Enterprise Development. These results therefore show that government institutions should consider demerger as a strategy for improving organizational performance in Ministries, Agencies and Departments in the public service.

Keywords: Restructuring, Demerger, Carve Out, Organizational Performance, Split-up, Split-off

Introduction

Globally, restructuring strategies have been found to induce competitiveness and resilience of organizations in the Market. According to Akumu and Nzulwa (2018) restructuring is a stage of repositioning, recasting the organizational structure, leadership, culture, job design and reward management system. In a study conducted in Indonesia by Ibrahim, Sulaiman, Kahtani and Abujarad (2012) on effect of strategy implementation on performance of Indonesian firms. The study established a direct relationship between organizational restructuring strategies and the return on equity performance.

According to Dittmar (2013) the corporate world has been changing with the adoption of demerger strategies that were introduced in America in 1920s. This has been embraced by companies or organizations that have felt the need to divest off a venture or part of its business. Demerger is well defined or understood when the focus is turned on its opposite the merger. According to Mallick and Rakshit (2016) demerger enables an organization to focus on its core when it sheds off some of its segments to other organizations being private or public either newly formed or existing or develop separate legal entities to handle the unwanted or unmanageable business segment.

It has been established that most companies that undergo demerger process are usually forced by circumstances especially when they are not performing well financially and operation wise (Njeri, 2013). In Kenya according to Njeri (2013) majority of demergers; carve outs, split offs and split ups have been witnessed in the insurance sector. These are as a result of the companies feeling that they are too large for corporate entrepreneurship activities to thrive in their state, accountability levels going down and the core activities becoming secondary rather than the focus (Rakshit & Sujit, 2016). In a study conducted in the insurance industry in Kenya by Khaugani and Ndegwa (2020) established not only a significant but surely, a positive relationship between strategic demergers and organizational performance. They focused on a target population of 161 respondents on all levels of management. In Khaugani and Ndegwa study the sampling methodology used to establish the sample was the stratified random sampling. The sampling methodology is similar to the one utilised in this study though they differ on the target population of focus.

Another study carried out in the Asian Continent focusing on the listed companies had similar results as that of Khaugani and Ndegwa (2020) study. This study was conducted by Singh, Bohowal and Bawari (2016) investigating the effect of demerger on the total shareholder’s wealth. The study utilised a longitudinal research design where it focused on the listed companies for a period of ten years (2007- 2016). This study was time specific as it traced the performance of the company before and after demerger. Singh et al., (2016) warns scholars and investors to be wary of those companies that are carrying out demergers not because of necessity of growing the business but for the sake of hype. This study differs from the present one as its focus is on listed company and also in the research design, in that the present study has adopted a descriptive research design.

According to Mokaya (2016) organizations prefer to demerge in order to be leaner, better organized and focussed in order to be competitive in the market. Demerger is considered as part of the organizational restructuring process and is preferred when a business is facing recession, bankruptcy, major financial crisis or just wants to reposition in the market. In a study conducted by Mokaya (2016) on the East Africa Breweries Limited (EABL) restructuring efforts established that it had practiced both mergers and demergers to avoid hostile takeover from competitors and ensure profitability of its portfolio's. The study derived a sample of 270 respondents from selected departments. The Mokaya (2016) study differs from the present study in terms of the target population and the scope of the study. It solely focuses on mergers, acquisitions and demergers while the present study is broader as it includes variables like work specialization and down scoping.

The study specific objective was to establish the effect of demerger performance of State Department for Trade and Enterprise Development.

This study is premised on Weick's Model of Organizing. This model was popularised by its major proponent Weick's in 1994, imputing that when you look for an organization it may not be found rather only its processes. This model emphasise dimension of processes but not the structure. According to Weick's an organization is not about its physical structures but the interlinked and interrelated processes, events and activities that make their form. The sequence and timings of these activities tends to define and differentiate one organization from the other especially their productivity, place and success in the environment.

Weick's model defines organizing as "the resolving of equivocality in an enacted environment by means of interlocked behaviours embedded in conditionally related process". Therefore organizing is about reducing uncertainty, through information processing through engaging employees via repetitive, reciprocal and contingent behavior between the actors. This explains the reason why organizations tend towards mergers and demergers that are only defined through the arrangement and carrying out of decisions. This theory speaks on the processes and activities within the organization. It explains the nature and kind of structure that results in the organization through the sequencing of the activities, habits gathered by employees through interaction and cognitive listening to one another and the rules that are implemented to guide the operations. Therefore, the theory explains the structure of the organization. Therefore, from the empirical review of past studies and the model, the study focuses in testing the following hypotheses;

$H0_1$: Demerger has no significant effect on performance of State Department for Trade and Enterprise Development

The Fig 1 represents the conceptual framework adopted by this study

The Conceptual Framework

Independent Variable **Dependent Variable**

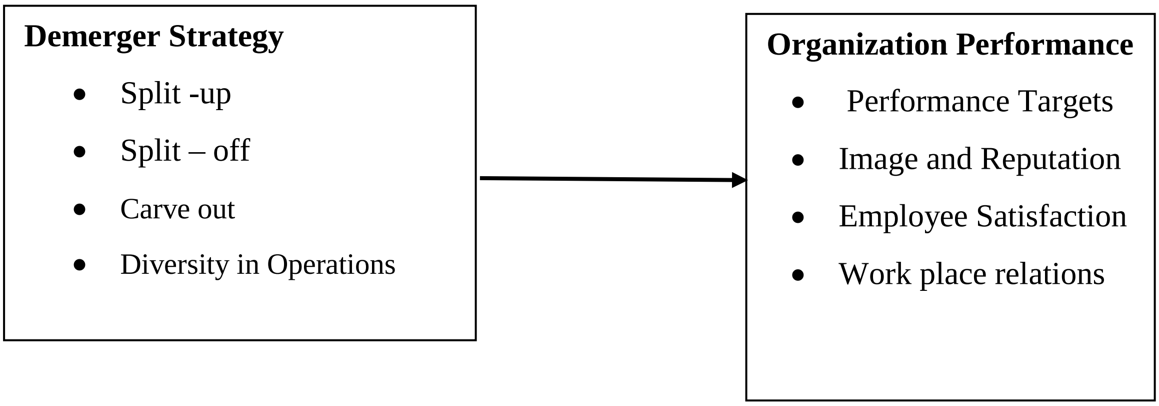

Figure 1: Conceptual Framework

The restructuring strategies adopted by an organization determine the extent of performance targets accomplished within a given period of time. Demerger as a strategy enables the organization to shed off excess baggage that may hinder its performance. This can be carried out through split up, split off or curving out. Either of these helps in ensuring that the organization management focuses its resources for maximum gains (Njeri, 2013).

Research Methodology

According to Cooper and Schindler (2014) a research design is a plan or structure on how to execute the research study. This study employed a descriptive research design due its ability to describe and explain the phenomena of the environment of the study. Taking into consideration that this study investigates a public entity, there was need to employ a robust research design that would enable the study explain the status of play of the various variables in the organization being studied. The descriptive research design according to Kothari (2016) was the most appropriate as it enabled collection of appropriate data that would help in answering the research questions in the most objective, consistent and unbiased way. This is because a descriptive research design describes the way things are and influences the choice of the sampling design adopted by the study.

It ensured the complete description of the restructuring strategies applied by the State Department for Trade and Enterprise Development and ensures sufficiency in data collected to predict the future outcome.

Empirical Model

The study made use of a multiple linear regression model of the form $Y= \beta_0+ \beta_1X_1 +\acute{\varepsilon}$ to establish the size of the effect.

Where;

Y - Organizational Performance

X_1 - Demerger

β_0, β_1 – Regression Coefficients

$\acute{\varepsilon}$ – Error Term

The target population was derived from the middle level to top management officers within the State Department for Trade and Enterprise Development as presented in the Table 1 below;

Table 1 Target Population

S/No.	Category	Population Size
1.	Domestic Trade Directorate	102
2.	International Trade Directorate	46
3.	Trade Research & Policy Directorate	8
4.	Weights & Measures Directorate	26
5.	Kenya Institute of Business Training	30
6.	Administration Division	20
	TOTAL	**230**

Source: SDT&ET (2021)

Sample and Sampling Techniques

The sample was derived from the target population by utilizing stratified sampling methodology. The methodology adopted is applied when you have a heterogeneous population. The strata’s are the various directorates within the State Department for Trade; Domestic Trade, International Trade, Trade Research & Policy, Weights & Measures, Kenya Institute of Business Training and Administration Division. The study utilizes the Yamane (1967) formula for establishing the sample size. This formula is consistent to the advice of Mugenda and Mugenda (2003) who opine that the sample should represents more than thirty per cent of the target population for adequacy in conducting inferential statistics. The study limited itself to the employees working in different directorates within the State Department for Trade and Enterprise Development.

Using Yamane (1967) $n=N/(1+N(e)^2)$

$n = 230/(1+230(0.05)^2)$

$n=146$

Where N is the population size; n is the Sample size; while *e* is the level of significance.

Therefore the proportion for each of the strata will be gotten by 146/230 = 0.63

Table 2 Sample Size

S/No.	Category	Population Size	Proportion of Population	Sample Size
1.	Domestic Trade Directorate	102	0.63	65
2.	International Trade Directorate	44	0.63	28
3.	Trade Research & Policy Directorate	8	0.63	5
4.	Weights & Measures Directorate	26	0.63	16
5.	Kenya Institute of Business Training	30	0.63	19
6.	Administration Division	20	0.63	13
	TOTAL	**230**		**146**

Source: SDT&ET (2021)

Results and Discussion

Descriptive statistics

The respondents were requested to indicate the extent of their agreement or disagreement with various elements of demerger like; split up, carving out and diversity. The study utilized mean, standard deviation, kurtosis and skewedness as descriptive measures. The response rate for the study was 76.71%. This response rate is adequate as imputed by Cooper and Schindler (2014) who avers response rate of 50 per cent and above is sufficient for data analysis and reporting; 60 per cent is good and 70 per cent and over is excellent. Results of the study are as presented in the ensuing paragraphs.

Element	Mean	Std. Deviation	Percentage Distribution of Demergers Elements Response					
	Statistic	Statistic	Very Great Extent %	Great Extent %	Moderate Extent %	Less Extent %	Not at All %	Total %
The split up in terms of directorates have created efficiency and improved performance	3.01	.963	6	29	41	19	5	100
The split up has enabled streamlining of authority and responsibility	3.10	.949	6	37	34	20	3	100
The carving out of fully fledged directorates and agencies have increased performance in the State Department of Trade	3.21	1.075	14	34	29	18	5	100
The carving out has resulted to	3.33	1.102	16	35	26	18	5	100

specialized focus of responsibilities								
Through split offs new opportunities have been created	3.19	1.078	12	38	25	21	4	100
Operating efficiency has been gained in the demerging processes within the State Department of Trade	3.12	1.046	7	36	31	20	6	100
The diversity in the operations has been restricted in the resulting organization thus improving efficiency and performance	2.96	1.048	8	28	38	20	6	100

Table 3 Demerger and Organizational Performance

Correlation Analysis

The measures of association are given in terms of Pearson's correlation coefficient which runs from -1 to +1. A coefficient closer to -1 indicates a strong negative association while a coefficient closer to positive 1 indicates a strong positive relationship. Correlation analysis findings were as presented below and showed that the association demerger and organization performance is 0.404

Correlations

		Demerger	Organizational Performance
Demerger	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	112	
Organizational Performance	Pearson Correlation	.404**	1
	Sig. (2-tailed)	.000	

**. Correlation is significant at the 0.01 level (2-tailed).

Regression Analysis of Demerger and Organization Performance

The model results indicated in the above table are undertaken through a simple regression analysis and the results are presented in Table 4, 5 and 6. Table 4 below indicates variation on the dependent variable explained by the independent variable demerger.

Table 4 Coefficient of Determination (R2) for Demerger

Model Summary

Model	R	R Square	Std. Error of the Estimate
1	.732[a]	.535	.85297

Table 4 indicates that the independent variable (demerger) generated an R value of 0.732 and R^2 = 0.535 suggesting that 53.5 % of corresponding variation in organizational performance can be attributed to work specialization. The balance of variation would be attributed to other variables in the combined regression model.

Table 5 ANOVA for Demerger

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	15.592	1	15.592	21.430	.000[b]
	Residual	80.031	110	.728		
	Total	95.623	111			

a. Dependent Variable: Organizational Performance

b. Predictors: (Constant), Demerger

From the Table 5 we realise that F test resulted to a value of F (1, 110) = 15.592, p < 0.001) which is relatively large enough to support the goodness of fit model explaining the variations in the dependent variable. This confirms that demerger is a valuable contributor of organizational performance

Table 6 Regression Coefficient for Demerger $Y = 1.777 + 0.427X_1$

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.777	.300		5.928	.000
	Demerger	.427	.092	.404	4.629	.000

a. Dependent Variable: Organizational Performance

The above results indicated presence of significant and positive relationship between demerger and Organizational performance ($\beta=0.427$, $p< 0.001$). It therefore implies that the application of demerger Strategy in the State Department for Trade and Enterprise Development will lead to improved performance.
The generated regression model is represented as; $Y = 1.777 + 0.427X_1$. Where Y is organizational Performance and X_1 is demerger.

The hypothesis under test was, demerger has no significant effect on performance of State Department for Trade and Enterprise Development. Observing from the above Table 6 it is realized that the value of p is 0.000 which is less than the p - value of 0.05 at 95 per cent significance level. Therefore, the hypothesis that demerger has no significant effect on performance of State Department for Trade and Enterprise Development is rejected. This shows demerger affect organization’s performance.
Results of this study mirror those ones established by Njeri (2013) who arrived at a positive and significant relationship between demerger and organizational performance. This is also supported by a similar study conducted by Khaugani and Ndegwa (2020) in the insurance industry which indicated that demergers influenced organizational performance. The only point of departure between this study and Njeri (2013) is that, Njeri’s study had indicated that demergers were highly associated with firms who had a long history of performance.

Conclusion and Recommendations

This study concludes that demerger strategies when applied in restructuring an organization have an impact in its performance. The study established that split offs, diversity in operations, carving out and split ups have an effect on how organization’s efficiency is attained thus affecting their performance. This study concludes that when carrying out demergers it is always worth to establish the preparedness of the organization as it introduces certain shifts in job performance and design which may not be favourable to all the employees as established by the study of (Khaugani and Ndegwa, 2020).

The study also established that diversity of operations is an important contributor towards organizational performance and thus the organization needs to restructure and embrace diversity in its operations.

On matters pertaining to demerger strategies the application of strategies like split offs and split outs should be implemented with care taking into cognizant the subtle integration of government functions. The consideration of the requisite skills for the development and sustaining of the organization's mandate should be taken into consideration. Embarking of split off or split out as a restructuring strategy should be informed by relevant laws and regulations such that the exercise does not end up in futility. The restructuring should be informed by the pursuit of the greater good of the citizen and need to bring services closer to him or her, devoid of personal or political interests.

This study found a positive and significant relationship between demerger and organization's performance. This indicates that demerger can be vital to up performance of the public service institutions. The government can, and should develop policies that would spell out the processes and regulations of implementing split ups, carving out and split offs in public organizations. The ability to encompass diversity of employees should be addressed as it is through it that the organization benefits from knowledge contributed by different employees.

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