

# **CORPORATE PARENTING PRACTICES BY PUBLICLY QUOTED COMPANIES IN KENYA**

**BY**

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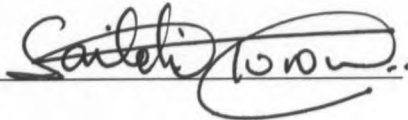
**A Management Research Project Submitted in  
Partial Fulfilment of the Requirements for the  
Degree of Master of Business Administration (MBA),  
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## DECLARATION

I declare that, this project work is my own original work and has not been presented for award of any degree in any university.

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## **DEDICATION**

This work is dedicated to my dear wife Jacinta Wanjiru, our children  
Sylvanus Saiyalel, Abigail Lanoi and Brenda Muthoni.

To my beloved parents the late Joseph K. Torome and Grace W. Torome

## **ACKNOWLEDGEMENT**

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I acknowledge my deceased parents for their believe in the power of education. They inspired me to study hard right when I was young thus sowing the seed of academic excellence at my early age whose fruits I now enjoy and share with my family. I also thank my wife and children for their patience and the divided attention they endured throughout the course duration.

Last but not least I would like to thank God for giving me good health and more so the resources needed to complete this course.

## **ABSTRACT**

The key question for multi-business is not which businesses to be in, how to structure them, or what size they should be but rather how the parent can create a strategy which will add value to the constituent businesses. Questions have emerged on: What is the strategic rationale of the corporate parent? What is it there for? What is its valuable role? The real issue is not whether a business unit should have a parent or be independent, but which parent is most appropriate and what corporate strategy it has such that it can support the businesses it manages by enhancing value created at business unit level. This, according to Goold et al (1994) is essentially what entails a good corporate parenting practice.

Despite the importance of the concept of corporate parenting in managing multi-business companies, there has been no empirical study done on practice among the group companies in Kenya. This study sought to determine corporate parenting practices in group companies listed in the Nairobi Stock Exchange (NSE) and how they support their business units. In order to determine this, a census study was done. The population of interest was all the twelve quoted group companies in the NSE and their twenty seven subsidiary companies which are

incorporated in Kenya and were active and trading as at 30<sup>th</sup> June 2007. Two separate questionnaires with open ended and close ended questions were used to collect data from the parent companies and their subsidiaries. For the purpose of showing the relationship among various variables, quantitative analysis was done on the data collected using descriptive statistics such as percentages, bar charts, pie charts and tables to describe the distributions.

From the study, it was established that out of twelve group companies listed in the NSE, seven of them, representing fifty eight percent practiced some aspects of corporate parenting to a great extent. However, the level of practice differed in many aspects. The study also revealed that even though the parent companies exercised a high degree of control over their subsidiary companies, most of them were satisfied with the support they received from them and considered it adequate.

The fact that the response rate was not one hundred percent and that the study was a census survey concentrating only on group companies quoted in the NSE can be regarded as some of the limitations of the study.

It is therefore recommended that a similar study should be carried out on non-quoted group companies to determine how corporate parenting is practiced and how they support the business units they manage. Corporate parenting practices could be studied in the context a case study whereby some of the largest and well established conglomerates in Kenya could be researched so to establish the strategic interaction between parent company and business units it controls.

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## **CHAPTER ONE: INTRODUCTION**

### **1.1 Background**

#### **1.1.1 The Concept of Corporate Parenting**

There have been various waves concerning corporate strategy in multibusiness companies where different concepts and approaches have proved fashionable at different times but have all ultimately appeared incomplete. To address this need, the work of Goold et al (1994), brought in the concept of parenting advantage that provides a new management approach to the management of multibusiness companies.

Johnson and Scholes (2002) define corporate parent as the level of management above that of a business unit and therefore does not cover direct interaction with buyers and competitors. Therefore, corporate parenting are those practices by the parent to influence the activities and performance of the business units its controls with a view to boosting their individual contributions to the overall group results.

The failure of divisionalisation, diversification, portfolio planning, restructuring and core businesses concepts to manage multibusiness corporations with success gave birth to the rise of the corporate parenting concept. By 1950s, the issue at that time was overload at the centre, which led to the emergence of decentralization concept and decentralization strategies were formulated and practiced to address it.

However, by the early 1970s many managers recognized that diversification was not an easy corporate strategy as it had encountered many performance problems due to mainly external factors such as inflation and competition and internal challenges such as resource allocation problems. There was therefore a need to these challenges and this led to the emergence of the concept of portfolio planning (Bower, 1986). However, problems emerged in managing balanced portfolios as companies discovered that while certain businesses appeared to meet all the economic requirements of corporate portfolios, they did not fit easily into the corporate family.

During the 80s, widespread skepticism about ability of companies to manage diverse portfolios gained ground. Faced with criticism, chief executives devoted themselves increasingly to the task of restructuring. Delaying, downsizing, and reducing corporate costs became popular, coupled with divestment of businesses that were seen less attractive for the company. Although academic studies (Jense, 1989; Bhagat et al, 1990; 1991; and Chatterjee, 1992) support the view that restructuring does help to improve performance of corporations, Markides (1993) concluded in research carried out among Fortune 500 that companies which restructured to reduce diversity were those characterized by poor performance, relative to the industry counterparts.

Restructuring implied that companies should focus on one or a few closely related industries. This gave birth to the issue of defining the core business which led to the emergence of core competence and shared resources concepts (Grant, 1988). Moreover, sticking to a single industry does not necessarily limit complexity or ensure that companies expand into the areas they know. Another reservation about corporate strategy based on limiting diversification to closely related businesses is that despite extensive research, empirical evidence on performance of companies pursuing more or less related diversification strategies is ambiguous and contradictory (Ramanujam and Varadarajan, 1989).

According to Goold et al (1994), corporate parenting is relevant and applicable to all multibusiness companies ranging from those that have developed organically from single business companies to those that have developed through acquisition and diversification. To underscore the importance of this new management approach, Johnson and Scholes (2002), point out that corporate parenting is not restricted to only large conglomerate businesses, but also small businesses consisting of a number of business units.

The concept of parenting is also applicable to public sector such as local government or health service which provides different services which

corresponds to business units in commercial organization. In this case, the government is viewed as the corporate centre while the various state-owned enterprises are regarded as business units. However, one empirical study in Thailand revealed corporate parenting practices in public sector destroy value than creating it (Swanabol and Jones, 1990).

The key question for multibusiness is not which businesses to be in, how to structure them, or what size they should be but rather how the parent can create a strategy which will add value to the constituent businesses. Questions have emerged on: What is the strategic rationale of the corporate parent? What is it there for? What is its valuable role? According to Johnson and Scholes (2002), being clear about this is important because in the absence of such clarity, it is likely that corporate parent may undertake activities and bear costs that have nothing to do with support of the business units.

Corporate managers should be able to make clear to the stakeholders what the corporation's object is. Failure to do so may lead to role ambiguity. Investors can become confused as to what the corporation's objectives are or how it intends to achieve them. They might not understand the arguments for presence of certain businesses within a portfolio, or how a corporate parent might add value to them (Johnson and Scholes, 2002).

Koch (2000) and Johnson and Scholes (2002) observe that few corporate centres are small, most are very expensive to run and consume a lot of profit generated by the businesses they own and most of them would do better without the parent. Corporate centre should therefore not be viewed more or less as a cost burden on business units, but as a parent who adds value to them.

However, Porter (1987) argues that the benefit of giving business units complete autonomy is questionable. Increasingly, company's business units are interrelated as they may be drawn together by new technology, broadening distribution channels, and changing regulations. Setting strategies of units independently may well undermine unit performance corporate identity.

Mintzberg and Quinn (1991) question the contribution made by head offices to their divisions, by observing that what headquarters does in a multibusiness organization is otherwise performed by various boards of directors of a set of independent firms. They question what else is offered by headquarters which is not offered by boards of directors of autonomous organizations since it cannot offer management of individual businesses as full time managers have time and information to manage them effectively.

Despite divergence of views and opinions by management scholars and writers on the role of corporate parent, the real issue is, not whether a business unit should have a parent or be independent, but which parent is most appropriate and what corporate strategy it has such that it can support the businesses it manages by enhancing value created at business unit level. This, according to Goold et al (1994) is essentially what entails a good corporate parenting practice.

### **1.1.2 Publicly Quoted Group Companies in Kenya**

Companies quoted in the Kenya's Nairobi Stock Exchange (NSE) are diverse and are segmented as agricultural, commercial and services, finance and investment and industrial and allied, which forms the main investment market (MIM) comprising of forty companies. There is also the alternative investment market (AIM), which is considered a less active counter, with only eight quoted companies. Finally, there is the fixed income securities market segment comprising of only one quoted company. In summary, there are fifty four companies quoted in the NSE, twelve of them are group companies with a total of twenty seven subsidiaries operating in Kenya.

Publicly quoted companies are either single business or multibusiness. Group or holding companies constitute subsidiary undertakings, this

being multibusiness companies which the group has either direct or indirect interest of more than 50 per cent or those in which it has power to exercise control over their operations. However, there are numerous companies in the NSE which have several subsidiaries but they do not refer themselves as “Groups” or “Holdings” companies.

Companies adopt diversification strategy due to various motives, among them, to increase stock value of the firm, increase its growth rate, make better use of funds than internal investment, revenue earnings, and improve stability and to increase efficiency and profitability. Diversification strategy therefore makes a company to change its structure from a single business to multi-business company where it is suppose to play the role of a parent. Depending on how it plays this new role, it can either create or destroy the value of its business units.

Majority of the publicly group quoted companies in Kenya have somewhat diversified on the areas related to their core businesses, a feature common to especially companies in the media industry. A few of these have also established subsidiaries in the East African region, in an effort to exploit opportunities created by the regional economic integration initiatives.

It is also not uncommon to find a group company with one or two of its subsidiaries being quoted in the NSE whilst the rest of the subsidiaries are operating as private businesses. This is probably to enhance the subsidiary's competitiveness in the market segment it is operating with a view to improving profitability and efficiency.

## **1.2 Statement of the Problem**

The ability of corporate level strategy to support businesses managed by a corporate parent by adding value to them is one of the key challenges to the multi-business firms today. Multi-business companies around the globe are grappling with the fundamental questions about what businesses their companies should be in, and how they should structure and influence these businesses. According to Goold et al (1994), multi-business corporations should develop a clear corporate-level strategy to achieve corporate advantage for successful management of their diversified businesses.

In Kenya's context, publicly quoted group companies face a lot challenges. They must ensure that all their subsidiaries make profits so that when the group is reporting end year financial results, every subsidiary has contributed positively. This will increase not only the shareholders' wealth but also the group value in the NSE. The parent company must also enhance competitiveness of its subsidiaries in their

respectful market segments, especially those facing stiff competition. Furthermore, the parent must make a decision on whether to divest non-performing businesses or restructure them altogether. Such challenges require that the parent company formulates viable corporate strategy which will support businesses it manages.

Since it is evidenced that there are at least twelve group quoted companies in Kenya, parent companies must at least be crafting strategies to enhance the competitiveness of their business units. This implies that perhaps there is some interaction between the corporate and business level strategies, which is essentially corporate parenting practices.

In the past, there has been no empirical study on corporate parenting practices among the multibusiness companies in Kenya. Earlier studies (Mwanzi, 1991; Mwindi, 2003; and Thuo, 2003) have concentrated on reasons for adoption of diversification strategy, but they had not addressed the interaction between the corporate parents and the business units they manage. Any research that would study corporate parenting practices among multibusiness organizations in a developing and a relatively liberalized economy such as Kenya's and in deed go further to investigate how the parent supports businesses it manages would greatly improve the understanding and applicability of corporate

parenting. Therefore, the study will attempt to address the question, how do group quoted companies practice corporate parenting? It will further seek to address the question, how do the parent companies support the businesses they manage?

### **1.3 The Study Objectives**

The study has two objectives

- To establish corporate parenting practices by publicly quoted group companies in Kenya.
- To establish how publicly quoted group companies in Kenya support businesses they manage.

### **1.4 Importance of the Study**

This study will be important to various stakeholders. First, to the academic community as it will shed more light on the concept of corporate parenting and its practices in Kenya. Second, it will contribute to organizations' understanding of corporate parenting, especially risk of not giving their business units enough support. The author hopes that the discussion would provide some useful insights to guide managers at corporate level in the development process of corporate level strategies that support the business units they control. Finally, it will act as a basis for further research in the area of corporate parenting and in particular,

practices that will contribute to successful corporate level strategies in Kenya's group companies.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 The Concept of strategy**

Aosa (1992) pointed out that the major task of managers is to assure continued existence of their organization. To this end, one of the concepts that have been developed and is very useful to management is strategy. Various leading management scholars, consultants and writers have underscored the importance of this concept (Porter, 1980; Minzberg, 1987; Ansoff and McDonnell, 1990; and Johnson and Scholes, 2002).

Different authors have defined strategy in different ways. The various definitions suggest that the authors gave selective attention to aspect of strategy, which are all relevant to our understanding of the concept (Aosa, 1992). Chandler (1962) defined strategy as the determination of the basic long term goals and objectives of an organization and the adoption of courses of action and the allocation of resources necessary for carrying out these goals. Strategy may also be viewed as a means of establishing the purpose of an organization by specifying its long-term goals and objectives, action plans and resource allocation patterns to achieve the set goals and objectives (Chandler, 1962).

Porter (1980) viewed strategy as building a defense against the competitive forces and finding positions in the industry where the forces are weakest. Knowledge of the company's capabilities and of the causes of competitive forces will highlight the areas where the company should confront competition and where it should avoid. Strategies need to be considered not only in terms of extent to which the existing resource capability of the organization is suited to opportunities but also in terms of the extent to which resources can be obtained and controlled to develop a strategy for the future.

According to Mintzberg (1987), strategy could be seen as plan, a ploy, a pattern, a position, and a perspective. As a plan, strategy specifies a consciously intended course of action of an organization. The strategy is designed in advance of actions and is developed purposefully. As a ploy, strategy is seen as a maneuver to outwit competitors. As a pattern, strategy is seen as a pattern emerging in a stream of action. Strategy is seen as a consistency in behaviour and the strategy develops in the absence of intentions. As a position, strategy is a means of locating an organization in its environment. Strategy as a perspective consists of a position and an ingrained way of perceiving the world. It gives an organization identity or a personality.

As evidenced in these various definitions, none can be said to capture explicitly all the dimensions of strategy. Lack of a precise definition of strategy can be attributed to the fact that strategy is a multidimensional concept in terms of content and substance which, embraces all critical activities of an organization providing it with a sense of unity, direction and purpose, as well as facilitating the necessary changes induced by its environment. However, most authors in terms of definitions emphasize on the essence and nature of strategy and agree that strategy is a unifying theme that gives coherence and direction to the actions and decisions of an organization.

Strategy can be categorized into two corporate-level strategy and business level strategy (Finlay, 2000). While both the corporate and business levels will have some concern for and some inputs into strategic aspects of an organization, the primary strategic responsibility of the corporate and the business levels are different. Corporate strategy is primarily concerned with identifying the set of different businesses a company is to in. These may be businesses within the same industry or in a different industry. Strategy at this level also specifies how total corporate resources will be allocated among the various businesses the company is involved in.

Business level strategy focuses on how each business unit will compete in a particular industry. It addresses issues on how to develop and maintain a competitive edge in the market. The business unit management has to ensure that different functional activities are integrated in such a way as to achieve and maintain the desired competitive competence in the market (Pearce and Robinson, 1997).

Though corporate level strategy is formulated by the office of chief executive in most organizations, according to Watson and Wooldridge (2005) business unit managers who report directly to the CEO exert “upward influence” with corporations, including influence on the formulation of corporate strategy. While Nadler (2004) provides distinct benefits for the companies that systematically and effectively involve their board members in strategic directions. Such benefits are creation of broader understanding, building of ownership, improvement of the quality of decisions, definition of a more collaborative dynamism between the board and management, increasing board’s satisfaction, etc.

However, Nadler (2004) observes that for a board to participate in corporate level strategy its members need a comprehensive understanding of the company and this takes time and commitment. Furthermore, increased board participation can result in less management control over the outcome.

Some studies have been conducted on the interaction between corporate level staff and business unit managers. For example, an empirical evidence of Fortune 500 companies by Poppo (2003) found out that corporate staff was more likely to involve itself in business level decisions for uncertain product. The study also revealed that when corporate staff is responsible for capital investment used in divisional venture, it is more likely to guide and influence product strategy decisions and inter-divisional conflict. Poppo (2003) therefore reasoned that corporate staff may selectively involve itself in business level strategy and operating decisions when product characteristics signal threats to effective inter-divisional coordination as well as opportunities for value creation.

A study on the effects of corporate diversifications and business unit strategy on the presence of slack in business unit budget revealed that business units that pursue diversification strategy receive less budgetary controls from the corporate managers, which left them with necessary slack to effectively pursue the critical success factors on which their strategies were built (Stede, 2001). The research also discovered that corporate diversification was positively associated with slack in business unit budget; and that tight budgetary control and high-powered incentives effectively curtailed such slack. Thus, in diversified firms most interactions between corporate and business unit managers are likely to

evolve mainly from budget related issues, as opposed to operational details of the business.

For multibusiness organizations, the interaction between the corporate level strategy and business level strategy leads to the concept of corporate parenting. This has prompted Goold et al (1994) to observe that corporate level strategy guides corporate level decisions and relates to two key issues. The first one being the businesses an organization should invest its resources either through ownership, minority holdings, joint venture or alliances. The second is how the parent company should influence and relate to the businesses under its control. Companies should thus formulate corporate strategies that are clear, powerful and hard to challenge to guide in both types of decisions.

## **2.2 Corporate Parenting Practices**

### **2.2.1 Meaning and Role of Corporate Parent**

Johnson and Scholes (2002) define corporate parent as the level of management above that of a business unit and therefore does not cover direct interaction with buyers and competitors. The corporation as a whole includes every person throughout the company, whereas the parent organization includes only those people who work at levels above or outside the business units, whether in the corporate centre or at a divisional, group, sector or country level.

Various scholars, management writers and consultants view different roles played by corporate parents in managing multibusiness organizations. Key roles of the parent in a multi-business organization include deciding what new businesses to support, what acquisitions to make, whether to form new joint ventures or alliances, determining the structure of the corporation, defining budgeting and capital expenditure processes, and setting the tones for corporate values and attitudes (Goold et al, 1994). It is also the responsibility of the parent to make sure that decisions such as takeover bids are to the advantage of the organization since it will come under intense scrutiny from the shareholders if such actions do not add returns to the company.

Koch (2000) identifies six roles of the corporate parent, which are emergency corporate strategy, Olympian corporate strategy, acquisition-driven corporate strategy, market expansion corporate strategy, competency-based corporate strategy and performance control corporate strategy. The applicability and adoptability of each will however depend on the prevailing circumstances, particularly the environment, both internal and external in which the company is operating.

According to Grant (1991), the role of the corporate parent in a diversified company can be examined in relation to the means by which

the corporate centre can add value to the businesses it manages. The most important role is managing corporate portfolio where the parent allocates investment resources among the businesses, assignment and transfer of senior divisional managers, etc.

The role of corporate parent may also be viewed in terms of developing synergy between the business units managed by a corporate centre (Ensign, 1998). This means developing horizontal goals and objectives that include coordination of activities and development of projects and programmes that encourage sharing of resources and skills.

Goold et al (1994) point out that despite the importance of the role of the parent, advice on how it should be played is confusing and contradictory. Parents are exhorted to downsize and delayer, and at the same time intensify the search for synergy and also to foster core competence. They are told to stick to knitting, but ensure corporate growth and renewal. They are urged to manage strategic alliances and global networks, while empowering individual businesses. They are pressed to balance their portfolios, while increasing their focus.

Despite divergent views expressed with regards to the role of the parent, one issue which is clear is that corporate parent must formulate and implement corporate level strategy that will create value to independent

business units it manages. Goold et al (1994) emphasize that the issue of determining the valid role of the parent organization has become a topic of central importance to chief executives who are eager to improve the performance of their group businesses. Corporations that lack a convincing corporate level strategy may not have a competitive edge and where the performance is not satisfactory, corrective steps must be taken more rapidly. To forestall the crisis and management changes, the parent organization must focus on how it can support its businesses by adding value.

The role of the parent can also be viewed in terms of levels and types of decision making in a multibusiness organization. Sirpal (1998) empirical study on strategic planning, risk taking and reward system for managers in multi-divisional companies concluded that the various strategic decisions such as new project selection, setting profit goals, long term goals, and splitting up money among various divisions were found to be made primarily at the head office. However, decisions relating to short-run growth of divisions were found to be undertaken primarily at the divisional level. The study also concluded that divisional managers in multi-business companies were deterred from undertaking new risk projects, even if profitable because of the corporate policies. Sirpal (1998) also found that annual bonus, salary raise and stock options were found to be

most prevalent reward systems for divisional managers for their divisions' outstanding performance.

Whatever role the parent plays, its ultimate goal should be to add value to the businesses it manages. Also the role which the parent chooses, it should the parent chooses to play it so effectively than any other possible parent would do and this is essentially what parenting advantage entails.

### **2.2.2 Parenting Advantage**

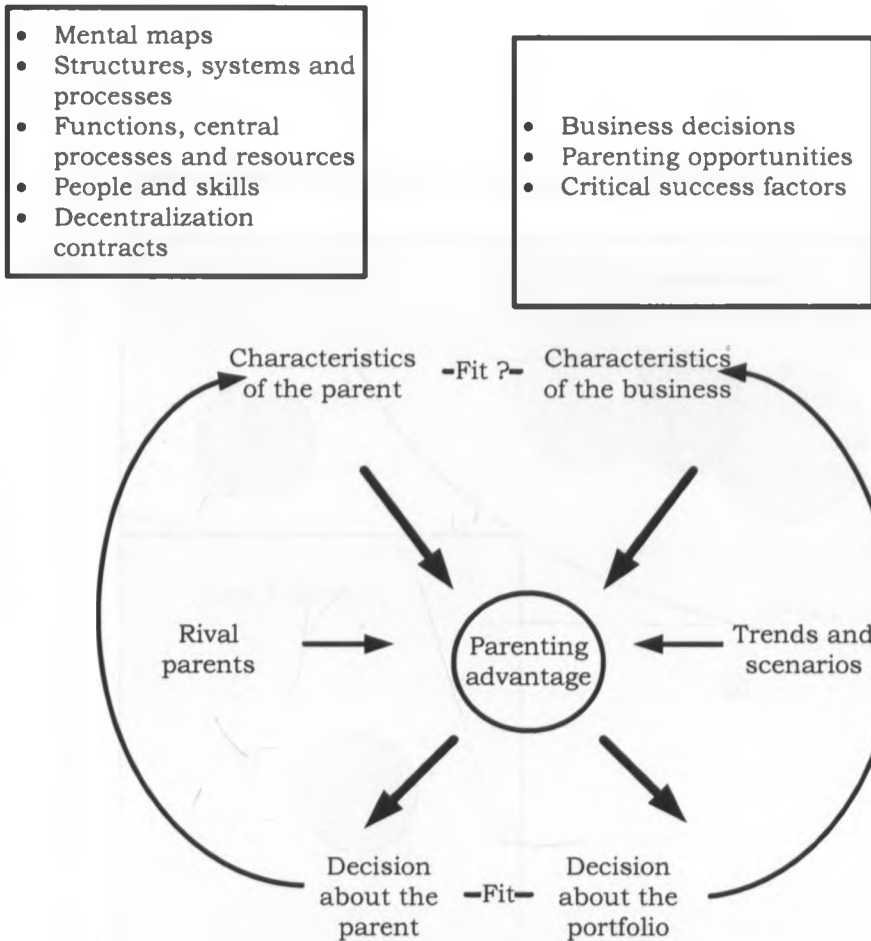
Goold et al (1994) define parenting advantage as the ability to create more value than the rival parents and that which makes a business better off as part of the parent than it would be as an independent business. This basically means that if value creation insights are not shared by rival parent, they can easily lead to parenting advantage. A company with parenting advantage will enable its businesses to outperform their competitors. Parenting advantage is thus a fundamental test and basis for sound corporate strategy. It provides a goal to guide decisions about the parent and the portfolio and acts as a benchmark against which to assess these decisions. However value creation insights do not remain typically proprietary indefinitely as other corporate parents may copy them (Goold et al, 1994).

A parenting advantage issue regarding what businesses should the company own and creates more value than any other possible corporate parent should be addressed (Goold et al, 1994; Collis and Montgomery, 1998; Goold and Campbell, 2002). Koch (2000) concurs with this argument by asserting that one of the common elements of a good corporate strategy is that the centre must be able to add more value to its operating companies than any other centre would.

Rijamampianina et al (2003) attempt to relate parenting advantage with diversification strategy by stating that prior to embarking on a diversification; management must carefully consider the core business and its competitive advantage. Any diversification option must be evaluated based on whether the business can provide an added advantage to the traditional businesses.

An important aspect in parenting advantage is the fit between the parent and its business unit. A parent must seek to achieve closer fit with its businesses than would be achieved by rivals (see figure 1). In adopting the goal of parenting advantage, corporate strategy must therefore consider rival parents' level of fit. However, in pursuit of parenting advantage, it is not enough to simply have some level of fit, but the parent must avoid major misfit (Goold et al, 1994).

**Figure 1: Corporate strategy framework**



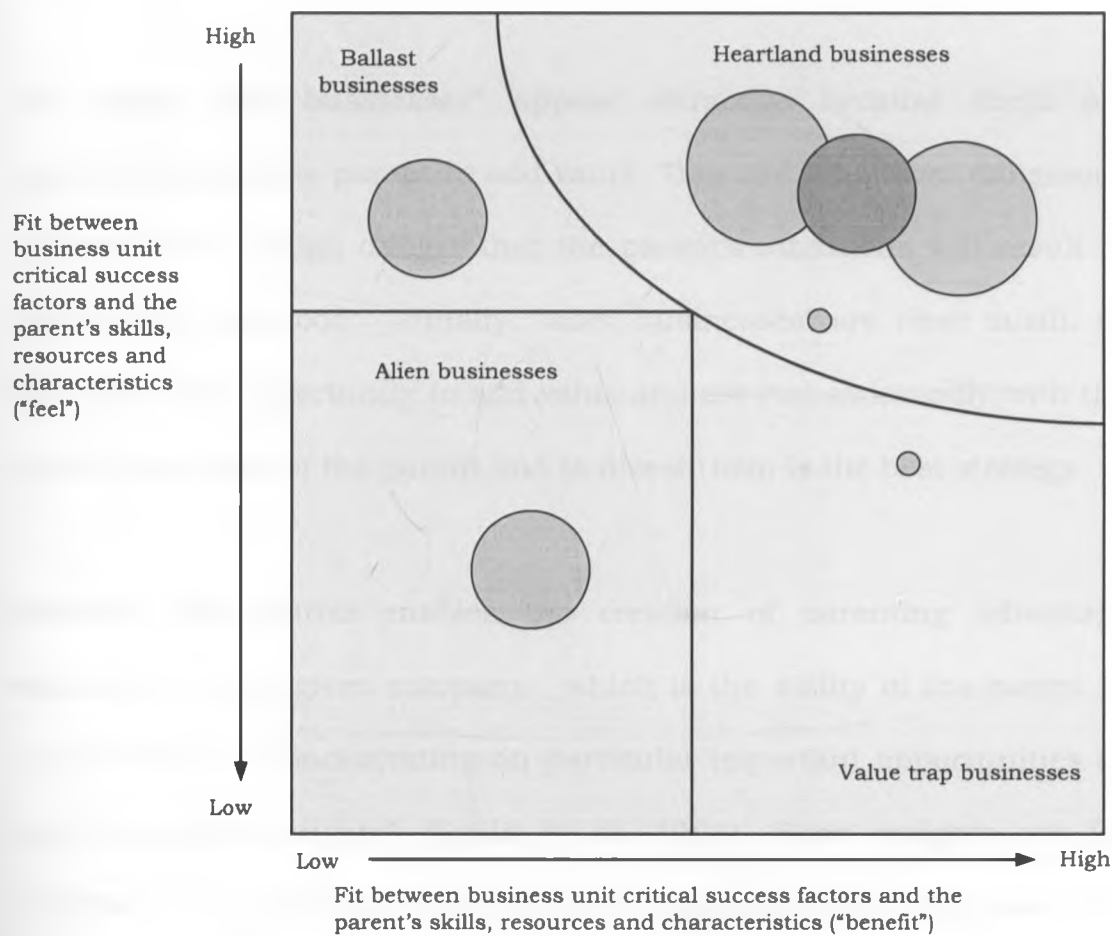
**Source: Goold, M., Campbell, A. and Alexander M. (1994), *Corporate-Level Strategy: Creating Value in the Multibusiness Company*, John Wiley & Sons, New York, p.17.**

Furthermore, "fit today" does not ensure "fit tomorrow" because environment is dynamic (Goold et al, 1994). Therefore, in developing corporate strategy based on parenting advantage, future trends and scenarios should be considered.

The concept of fit between the parent and its businesses is well illustrated by the parenting fit matrix (Goold et al, 1994; and Johnson

and Scholes, 2002) which is also referred to as Ashridge Portfolio Display (see figure 2).

**Figure 2: The Parenting Matrix: Ashringe Portfolio Matrix**



**Source: Johnson, G. & Scholes, K. (2002), *Exploring Corporate Strategy: Text with cases*, Prentice Hall Inc. p.291**

It suggests that corporations should seek to build portfolios that fit well with their corporate centre parenting skills, and these should also be appropriate to their portfolios. The business areas to focus on are the "heartland businesses" where the parenting skills can generally be

expected to bring some benefits. Companies may decide to keep some businesses that fall outside the heartland in their portfolios. This may be “ballast businesses”, which the parent understands well but can do little for them.

The “value trap businesses” appear attractive because there are opportunities for the parent to add value. They are however dangerous because there is high danger that the parent’s attentions will result in more harm than good. Finally, “alien businesses” are clear misfit, as they offer little opportunity to add value and are run awkwardly with the normal behaviour of the parent and to divest them is the best strategy.

Parenting Mix Matrix enables the creation of parenting advantage statement for any given company , which is the ability of the parent to unlock value by concentrating on particular important opportunities as “value creation insights” (Goold et al, 1994). Such insights are for example, the knowledge that in mature manufacturing businesses cost recovery is crucial because typical managers are reluctant to raise prices.

The characteristic of the parent and its businesses must fit well together if value is to be generated. Goold et al (1994) identify five groups of related characteristics of the parent as parent’s mental maps, parenting structures, central services, certain people with unique expertise, and

the “decentralization contract”. The parent’s mental maps are commonly held views, thought processes and attitudes of its key staff. All these shape the parent’s perception of business improvement opportunities and embody its understanding and feel for different businesses.

The parenting structures, system and processes are the mechanisms through which the parent creates value. They include the number of layers in the hierarchy, the existence or no a matrix, the appointment processes, human resource systems, budgeting and planning processes, capital approval systems, decision making structures transfer pricing systems, and other coordination and linkages mechanism are all relevant aspects of parenting.

On the other hand, the functions, central services and resources are the corporate staff departments and central assets that support line manager’s efforts to create value. Furthermore, parents create value because they have certain people with unique expertise. Because of the small size of most parent organizations, they are frequently dominated by a handful of individuals whose personality and individual skills make critical difference. Finally, the “decentralization contract” between the parent and the business defines the issues on which the parent normally decentralizes to business managers.

The two key characteristics of the businesses that are a prerequisite for value creation by the parent according to Goold et al (1994) are first, businesses must have contain parenting opportunities and second, critical success factors which provide the parent with an opportunity for value creation. Factors that give rise to opportunities include weaknesses in the business management team, conflict between business managers' interest and those of the shareholders, the need for a specialist expertise not possessed by the business and the existence of potentially useful, unrealized linkages with other businesses. Koch (2000) observes that such a situation provides the parent with an opportunity for emergent corporate strategy.

On the other hand, critical success factors provide the parent with an opportunity for value creation. In each business certain factors play a major role in business level success, but they differ from business to business. However, if critical success factors of the business fit badly with the skills and characteristics of the parent organization, then the parent managers are likely to misunderstand the business and inadvertently do it harm (Johnson and Schole, 2002). Thus, fit between critical success factors of the business and the characteristics of the parent are about downside risk; high fit means low risk of problems while low fit means high risk of problems.

### **2.2.3 How Parents Support Their Business Units**

Goold et al (1994) identify four main approaches in which a parent can support businesses it controls. The first is stand-alone influence, whereby the parent improves the individual performance of the business units. This is exerted by agreeing and monitoring basic performance targets, approving major capital expenditures, and in selecting and replacing the business unit managing directors. The influence can however be abused by setting inappropriate targets, making wrong appointments, denying business the necessary funds for investments, and parent devoting very little of its time on business units.

The second approach is the linkage influence, whereby the parent improves the links between businesses. Parents try to generate extra value by promoting relationships between business units, creating synergy so that the whole company is worth more than the sum of its parts. This may be achieved through corporate decision-making processes and structures, policies and guidelines, transfer pricing mechanism, personal pressure, and encouraging relationships between business units that would not have occurred if the businesses were independent companies.

Goold et al (1994) have, however, found that the attempts by parents to generate value by encouraging links are generally disappointing, with

inappropriate policies and economically unjustifiable initiatives making synergistic benefits elusive. They suggest an “enlightened self interest” paradox pointing out that if capable and motivated business unit managers are unable to see and exploit mutually advantageous linkages, between business units, how can the parents profess to discern such benefits?

The third, approach on parental support, is the functional and service influence, which occurs when the parents provide cost effective central services and functional management. Many companies believe that the centrally resourced corporate functions and services can be made to add value to the whole organizations. In some cases, such functions and staff groups can provide an essential, expert, and cost-effective resource which it would be uneconomical for any business unit to try in it. More often than not, through, bureaucracy, cost, and irrelevance combine to make such overheads departments deeply unpopular with the business units they profess to serve.

Finally, Goold et al (1994) provide that a parent can support businesses through corporate development activities, with the parent improving the organization by changing the constitution of the business portfolio. This will adjust its portfolio of businesses, through acquisition and disposals, choosing which businesses to grow organically and which to run down. It

can seek out new opportunities, identify businesses for sale that are under-priced or find ways to make existing businesses more competitive.

Goold et al (1994) have carried out a considerable research focus on “multi-business” business companies in North America, Europe, and Japan. Among the 15 companies they researched are ABB, Banc One, Canon, General Electric, Hanson, 3M, Shell and Unilever. In their research, they conducted interviews with management of both the parent and businesses and consulted published materials such as books, articles and case studies of the companies. The study assessed the impact of the corporate strategies, by analyzing overall results and monitoring the parent’s influence on specific decisions and situations.

Following their extensive research, Goold et al (1994) made several conclusions about successful parents. First, their attempts to create value also fit well with parenting opportunities in their particular businesses. Parents also possess unusual insights about how they can create value. Successful parents also possess distinctive parent characteristics such as being mutually supportive and providing a consistency and coherence that reinforces the power of each element. Furthermore, they focus on businesses where their parenting is likely to lead to high net value creation. In particular, parents avoid businesses where parenting misfit is likely to lead them destroy value.

Despite their extensive research on corporate parenting practices among multi-business companies, Goold et al (1994) note that the value which the parent adds to its businesses is difficult to measure. Unequivocal evidence that the parent does create value, is however, hard to come by. It is always difficult to disentangle the contribution of the parent from that of business itself, and there are no simple measures of parental performance to monitor. Comparing the parent's value creation with other rival parents is even harder.

Porter (1987) also conducted a research on acquisitions made in by 33 American companies between 1950 and 1986 and found out that most of these acquisitions were subsequently resold, usually within 5 to 6 years, because the new parents frequently decided that they had made a mistake and were unsuitable owners of the businesses. From these finding, Porter (1987) therefore recommended that to help the parent make better acquisition decisions, the new unit should gain competitive advantage due to its link with the corporation, or vice versa, in either case the combination should result in value creation.

A study on diversification strategy of the Nation Media Group (NMG) in Kenya shed some light on certain aspects of corporate parenting practices (Thuo, 2003). The research noted that competence sharing and

transfer and high level communication and coordination, takes place between subsidiary companies under NMG. According to the study, this is probably why NMG has adopted a common functional department to facilitate this. This is consistent with Goold et al (1994) classification of functional and service influence as one of the key sorts of value creation by a corporate parent to its business units.

Early and Mcbratney (2002) point out that the CEO, group executives and their supporting human resource and strategic planning executives can support the businesses by grouping business units in a way that each group has a clear value proposition, defining the roles and responsibilities that are most important for the group executives to fulfill and selecting and developing group executives with an eye on the skills and values that matter most to success in the job.

Johnson and Scholes (2002) observe that corporate parent should have ready access to information within the businesses not available to external financial analysts so that the corporate parent should be able to take decisions with regard to those businesses. For example, in terms of resource allocation, increasing or decreasing investments, and changing management in times of poor performance. A parent must also make sure that if one business is doing particularly well, other businesses

should be able to learn from it. Similarly, if one business has particular skills other businesses should be able to benefit from it.

However, Johnson and Scholes (2002) point out two major problems do arise in trying to use synergy to create value in a multi-business firm. First, the skills and competences on which argued synergy are supposed to be based, may not really exist or if they do, may not add value. Also, costs of sharing or transferences of skills might outweigh the benefits

In terms of practical realities, managers at business level must be prepared to cooperate and that rewards may have to be tailored to encourage such sharing. Second, compatibility between systems and cultures of business units must exist. A business may have been acquired with the logic of gains in synergy from another existing business in a firm's portfolio, only to find that the two businesses are quite different in cultural terms such that sharing between them is problematic.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Research Design**

This was a descriptive study aimed at determining corporate parenting practices exercised by group quoted companies in the NSE. A descriptive study was chosen because according to Cooper and Schilder (2003), is concerned with finding out who, what, where, when, and how variables, which was the concern of this study. In addition, a descriptive study was used because the purpose of the study was to describe certain parenting characteristics and how they influenced the performance of their business units.

### **3.2 Population**

The population consisted of the parent companies and their subsidiaries within the group companies quoted in the NSE. Of the fifty four companies quoted in the NSE, twelve are multi-business with a total of twenty seven subsidiaries operating in Kenya. The population of the study therefore constituted the group companies. A similar study was extensively carried out by Goold et al (1994) among 15 companies in North America, Europe, and Japan whereby interviews were conducted with management of both the parent and business units.

To arrive at actual population size of the subsidiaries studied, subsidiaries operating outside Kenya were excluded from the study population because of the cost and time involved in extracting data from them. Secondly, non-trading and dormant subsidiaries were also excluded from the study. For non-trading subsidiaries, some were formed as holding companies only and they don't directly contribute to the profitability of the Group Company. Others do exist purely to provide a particular service to other subsidiaries in the group. For dormant subsidiary companies, these have not commenced business, it was found prudent not to include them because they just exist by name.

### **3.3 Data Collection**

Data for this study was collected from all the companies quoted in the NSE as at 30<sup>th</sup> June 2007. Primary data was collected using a questionnaire with structured and unstructured questions. There were two sets of questionnaire, one addressed to the group Chief Executive Officer and the other one to the general manager of the subsidiary company. The questionnaire was addressed to the Group Managing Director contained questions on corporate parenting practices (see appendix I). It was divided into Part A and B where Part A contains general questions about the group and its subsidiaries while Part B contains questions on corporate parenting practices. The questionnaire addressed to the General Manager of the subsidiary company contained

questions on how the parent company supports subsidiaries it controls [see appendix II]. It was also divided into Parts A and B where Part A contains general questions about the subsidiary and Part B on how the parent supports the subsidiary company.

The researcher distributed and collected questionnaires through “drop and pick” method. The Chief Executive/General Manager or a senior manager responsible for strategic management, human resources, finance or marketing was expected to fill the questionnaire, upon directed by the Chief Executive/General Manager.

### **3.4 Data Analysis**

Data collected from the field was edited for completeness and accuracy to ensure that minimum data quality standards were achieved. Descriptive methods of data analysis based on the variables covered were used for data analysis. Mean scores and frequencies were used to determine open ended responses on certain corporate parenting practices by group companies and presented in a tabular form. Percentages and frequencies were used to determine responses on close ended questions to both parents and subsidiaries particularly on how parents assisted latter, and these were also presented in a tabular form. These methods were effectively used in the past studies (Gekonge, 1999; Kinyua, 2000; Ng’ang’a, 2001; Ogachi, 2002; and Kamau, 2006).

## CHAPTER FOUR: FINDINGS AND DISCUSSION

### 4.1 Introduction

This chapter contains analysis and findings from the study. The analysis and findings presented in this chapter are based on data collected from the respondents. Out of the twelve group companies targeted, seven responded giving a response rate of fifty eight per cent. Similarly, out of twenty seven subsidiary companies targeted, eighteen responded this being sixty six per cent response rate. According to the researcher, both response rates were adequate for the study. To show the relationship among various variables, quantitative analysis was done using descriptive statistics such as mean scores, percentages, and frequencies. The response rates for both the group companies and subsidiaries are presented below, in tables 1 and 2 respectively.

**Table 1: Response rate for parent companies**

| Response                              | Frequency | Percentage |
|---------------------------------------|-----------|------------|
| Group Companies which responded       | 7         | 58         |
| Group Companies which did not respond | 5         | 42         |
| <b>Total</b>                          | <b>12</b> | <b>100</b> |

*Source: Primary data*

**Table 2: Response rate for Subsidiary Companies**

| Response                                   | Frequency | Percentage |
|--------------------------------------------|-----------|------------|
| Subsidiary companies which responded       | 18        | 66         |
| Subsidiary Companies which did not respond | 9         | 33         |
| <b>Total</b>                               | <b>27</b> | <b>100</b> |

*Source: Primary data*

**4.2 Corporate parenting practices by listed group companies**

The objectives of the study were to research on corporate parenting practices by quoted group companies in Kenya and to establish how they support businesses they manage. Data was collected during the month of September 2007 using questionnaires with both structured and unstructured questions on the extent of corporate parenting practices by quoted group companies. Subsidiary companies were also required to respond on how they got support from their parent companies. Therefore, two separate questionnaires, one on corporate parenting practices and another on how parents support for their subsidiaries were sent to group companies and subsidiary companies respectively.

**4.2.1 Group companies involvement of subsidiaries in strategic planning**

The study sought to know whether the subsidiaries participate in the formulation of group strategic plan. The findings are represented in table 3 below.

**Table 3: Involvement of subsidiaries in strategic planning**

| Response     | Frequency | Percentage | Cumulative Percentage |
|--------------|-----------|------------|-----------------------|
| Not answered | 1         | 14.3       | 14.3                  |
| Yes          | 5         | 71.4       | 85.7                  |
| No           | 1         | 14.2       | 100                   |
| Total        | 7         | 100        |                       |

*Source: Primary data*

As presented in the table and figure above, over seventy one percent of the respondents indicated that they involved their subsidiaries in the formulation of the group strategic plans. This shows that most subsidiary companies participate in formulation of group strategic plan. This is attributed to the fact that group strategic plan is very important to the future success of the entire group.

**4.2.2. Parenting Roles**

Parent companies were asked to state, through likert scale, the extent to which they play key parental roles as far as their subsidiaries are concerned. Table 4 below summarizes the findings, where 1 = not at all, 2= to less extent, 3 = to a great extent, and 4= to a very great extent.

**Table 4: Roles of the Parents in supporting their subsidiaries**

| Statement                                   | Mean Score |
|---------------------------------------------|------------|
| Deciding what new business to support       | 3          |
| Deciding what acquisition to make           | 4          |
| Forming joint ventures or alliances         | 4          |
| Determining the structure of the group      | 4          |
| Defining budgeting and capital structure    | 3          |
| Setting the corporate values and attitudes  | 3          |
| Allocating resources among the subsidiaries | 3          |

*Source: Primary Data*

From the findings above, most parent companies to a very great extent decide what acquisition to make, make decisions regarding joint ventures and alliances and determining the structure of the group. To a great extent parent companies also determine what new business to support, define budgeting and capital structure processes, set the corporate values and attitudes and allocate resources among subsidiaries. All these are attributed to the fact that most of these roles are significant to the overall performance of the group and its businesses. Furthermore, such roles, if played effectively could a lot of value to group company's business units.

**4.2.3. Parenting Characteristics**

Parent companies were asked to state the extent to which they possess certain key characteristics which are crucial in supporting the

subsidiaries they control. Table 5 below summarizes the findings, where 1 = not at all, 2= to less extent, 3 = to a great extent, and 4= to a very great extent.

**Table 5: Parenting Characteristics**

| <b>Statement</b>                              | <b>Mean Score</b> |
|-----------------------------------------------|-------------------|
| Appropriate structures                        | <b>4</b>          |
| Clear systems and processes                   | <b>3</b>          |
| Appropriate No. of layers in the hierarchy    | <b>3</b>          |
| Well defined human resource system            | <b>3</b>          |
| Well defined budgeting and planning processes | <b>3</b>          |
| Well stated capital budget approval process   | <b>4</b>          |
| Clear decision making structures              | <b>4</b>          |

*Source: Primary Data*

From the above findings, to a very great extent, the multi-business companies quoted in the NSE consider themselves to have appropriate structures, clear systems and processes and clear decision making processes. To great extent, these group companies consider themselves to have appropriate number of layers, well-defined human resource system, well-defined budgeting and planning processes and well-stated capital approval processes. Parenting characteristics is an aspect of parenting advantage and the parent must have them in order to add value to the businesses it controls more than any other parent would do.

#### **4.2.4. Parent Common Services to Subsidiaries**

Parent companies were asked to state whether they offered certain common services to all their subsidiaries. The study established that the most common central services offered to subsidiaries by group companies were the legal, information technology, and human resources. to a great extent, parents also provided procurement and financial services. On the other hand, most parent companies have decentralized transport services to subsidiaries. These findings are consistent with Thuo (2003) who noted that NMG had adopted a common functional department to facilitate competence sharing, high level communication and coordination between the subsidiaries it controlled. This is also consistent with Goold et al (1994) classification of functional and service influence as one of the key sorts of value creation by a corporate parent to its business units.

#### **4.2.5. Size of the staff for the common support services**

Parent companies asked to indicate how they consider the size of the staff for the common services to the subsidiaries they control. Table 6 below summarizes the findings.

**Table 6: Size of the staff for the common support services**

| <b>Response</b>   | <b>Frequency</b> | <b>Percentage</b> | <b>Cumulative Percentage</b> |
|-------------------|------------------|-------------------|------------------------------|
| <b>Very small</b> | 1                | 14.3              | 14.3                         |
| <b>Small</b>      | 2                | 28.6              | 42.9                         |
| <b>Medium</b>     | 4                | 57.1              | 100                          |
| <b>Total</b>      | <b>7</b>         | <b>100</b>        |                              |

*Source: Primary Data*

From the above findings, fifty-seven percent reported that the size of the corporate headquarters staff was of medium size, twenty-eight percent reported that the size was small and finally, only fourteen percent responded that the size was very small. Most multi-business companies would avoid a situation whereby they have a large corporate centre which consumes most profits generated by the business units. According to Koch (2000) this is one way of value destruction by the parent.

#### **4.2.6 Parents' Intangible assets**

As part of parenting advantage, group companies were asked to indicate the strength of certain key intangible assets which can add value to the businesses they manage. They were asked to state whether they consider each item very weak, to be weak, strong, or very strong. Table 7 below presents the result as mean score per item, where 1= very weak, 2 = weak, 3= strong, and 4= very strong.

**Table 7: Parents' Intangible assets**

| Item                              | Mean Score |
|-----------------------------------|------------|
| Patent                            | 2          |
| Corporate brand                   | 3          |
| Government relation               | 3          |
| Access to scarce financial assets | 3          |

*Source: Primary Data*

From the above table, on average, group companies quoted in the NSE consider their corporate brand, access to scarce financial resources and government relationship a strong tangible resource as their all scored a mean of 3. They however considered patent as a weak intangible resource. A group company must have a strong brand so as to give its business units competitive advantage over its rivals as it is difficult to imitate it. Most companies consider government relationship to be a strong intangible asset and this is attributed to the fact that some of the major group companies used to be fully owned state corporations before they were privatized through Initial Public Offering (IPO) at the NSE. Since the government is still a minority shareholder, its relationship with them is still strong. Access to scarce financial assets is considered as a strong intangible asset as it can provide financial leverage to the businesses a parent company controls so as to increase their value.

#### **4.2.7. Performance target for subsidiaries**

Group companies were asked to indicate whether they set performance targets for the subsidiaries they control. The response in affirmation that group companies actually do set performance targets to their subsidiary was a hundred percent. This shows in order for parent company to justify why it should have a certain business in its portfolio, it must constantly monitor its performance and progress.

The group companies were then asked to state whether there were any of their subsidiaries that performed below their expectations. Only two indicated having subsidiaries performing below targets. This was an indication that most group companies set achievable targets to their subsidiaries, which is a good parenting practice and could add value to their businesses.

Parents companies were then asked to state the steps they took on non-performing subsidiaries. They were required to state whether they sell them out, change their senior management or restructure them. The two parent companies with underperforming subsidiaries, responded that the step they took was to restructure them. This could be attributed to fact that probably if well restructured, those subsidiaries could still exploit the opportunities available in their market environment.

**4.2.7. Promotion of relationship between subsidiaries**

Group companies were required to state the extent to which they promoted relationship between subsidiaries they control through certain key methods. All responded that to a great extent, they promoted relationship between subsidiaries through corporate decision making, processes and structures, policies and guideline and encouraging relationship between business units. All these are good corporate parenting practices as they ensure that all the subsidiaries are moving on the same strategic direction.

**4.2.8. Changing the constitution of business portfolio**

Parent companies were asked to indicate the extent to which through the corporate development activities change the constitution of their business portfolios through certain stated methods. The findings are represented in table 8 below, where 1 = not at all, 2= to less extent, 3 = to a great extent, and 4= to a very great extent.

**Table 8: Changing the constitution of business portfolio**

| Statement                                    | Mean Score |
|----------------------------------------------|------------|
| Acquisition and disposal                     | 2.9        |
| Choosing which business to grow organically  | 3.0        |
| Choosing which business to divest            | 2.7        |
| Identifying under-priced businesses for sale | 2.7        |
| Making existing businesses more competitive  | 2.7        |

Source: Primary Data

From the above, quoted group companies to a great extent change the composition of their business portfolio through acquisition and disposal, choosing what business to grow organically, choosing what business to divest, identifying under-priced businesses for sale and making the existing business more competitive as all of them have an average score of about 3. However, to a relatively great extent, choosing what business to grow organically is more practiced, probably for most business it is easier to achieve than others.

#### **4.2.9. Learning from the subsidiary performing better**

The study sought to find out whether parent companies ensured that other subsidiary companies within the group learnt from the subsidiary performing particularly well. Six out of seven group companies responded they actually ensured such a practice was in place. This is attributed to the fact that parent company would like create synergy value so that the whole company is worth more than the sum of its part.

#### **4.2.10. Sharing of skills by the subsidiaries**

The study sought to establish whether the parent company ensured that if one of its subsidiaries company has particular skills others subsidiaries benefit from it. The findings are summarized in table 9 below:

**Table 9: Sharing of skills by the subsidiaries**

| Response     | Frequency | Percentage | Cumulative Percentage |
|--------------|-----------|------------|-----------------------|
| Not answered | 1         | 14         | 14                    |
| Yes          | 5         | 72         | 86                    |
| No           | 1         | 14         | 100                   |
| Total        | 7         | 100        |                       |

*Source: Primary Data*

From the above findings, seventy-two percent of the group companies who responded ensure that if one of its subsidiaries company has particular skills, others benefited from it. One group company representing fourteen per cent did not respond while similar number and percentage responded that such a practice does not take place between its group of companies. The high percentage of this particular parenting practice is attributed to the need for creation of synergy among group’s business units.

**4.2.11. Reward to subsidiaries with exemplary performance**

The study sought to find out whether the group companies have set up a reward system for the subsidiary company that performs exemplary well. The findings are summarized in table 10 below.

**Table 10: Reward to subsidiaries with exemplary performance**

| <b>Response</b>     | <b>Frequency</b> | <b>Percentage</b> | <b>Cumulative Percentage</b> |
|---------------------|------------------|-------------------|------------------------------|
| <b>Not answered</b> | 1                | 14                | 14                           |
| <b>Yes</b>          | 5                | 72                | 86                           |
| <b>No</b>           | 1                | 14                | 100                          |
| <b>Total</b>        | <b>7</b>         | <b>100</b>        |                              |

*Source: Primary data*

From the above findings, seventy-two percent of the group companies indicated that reward system for subsidiary company performing exemplary well did exist. There was no response from one group company and another responded that there was no such reward system. Each of these responses represents fourteen per cent. The reason for rewarding best performing subsidiaries is to encourage competition in terms of performance among business units managed by the multi-business company.

#### **4.2.12. Types of reward system offered to subsidiary companies**

The research sought to find out the extent to which parent companies apply certain reward systems to the subsidiary companies whose performance is excellent. The findings are summarized in table 11 below, where 1 = not at all, 2= to less extent, 3 = to a great extent and 4= to a very great extend.

**Table 11: Types of reward system offered to subsidiary companies**

| <b>Statement</b>                        | <b>Mean Score</b> |
|-----------------------------------------|-------------------|
| Annual bonus                            | <b>3</b>          |
| Raising salary grade                    | <b>2</b>          |
| Awarding of shares                      | <b>1</b>          |
| Provision and use of company facilities | <b>1</b>          |
| Medical plans                           | <b>1</b>          |
| Product discount plans                  | <b>1</b>          |
| Vacation trips                          | <b>1</b>          |

*Source: Primary Data*

From the study, to a great extent, parent companies rewarded subsidiaries performing exemplary well by the annual award system as it had mean rate of 3 and to lesser extent, subsidiaries are rewarded through raising of salary grade as a mean of 2 was recorded. This is consistent with Sirpal (1998) study which concluded that annual bonus, salary raise and stock options were found to be the most prevalent reward systems for divisional managers for their divisions' outstanding performance.

### **4.3 How parent companies assist their subsidiaries**

The second objective of the study was to find out how the parent companies assist their subsidiaries. Data was collected using structured and unstructured question sent to subsidiary companies of which eighteen out of twenty seven responded representing a response rate of sixty-six per cent as indicated in table 2 above.

**4.3.1. Parent’s assistance in formulation of strategic plan**

The study sought to find out whether parent companies assist their subsidiaries in formulation of their strategic plans. The findings are summarized in table 12 below:

**Table 12: Parent’s assistance in formulation of their strategic plans**

| Response     | Frequency | Percentage | Cumulative Percentage |
|--------------|-----------|------------|-----------------------|
| Not answered | 2         | 12         | 12                    |
| Yes          | 14        | 82         | 94                    |
| No           | 1         | 6          | 100                   |
| Total        | 18        | 100        |                       |

*Source: Primary Data*

From the above findings, eighty two percent responded that the parent companies assist them in strategic plan formulation while only six per cent responded that they do not get support from their parent. The reason why the parent company would give assistance to their subsidiaries in formulation of strategic plan is to ensure that their business plans are in tandem with the overall group strategic plan. This will ensure that the group and its subsidiaries are moving on the same strategic direction with a view to achieving unity of purpose.

**4.3.2 Parent’s support in the competitive environment**

The study sought to find the usefulness of the parent’s support to its subsidiaries in their competitive market environment. The findings are as shown in table 13 below:

**Table 13: Usefulness of the parent’s support in facing competition**

| Response     | Frequency | Percentage | Cumulative Percentage |
|--------------|-----------|------------|-----------------------|
| Not answered | 3         | 17         | 17                    |
| Useful       | 11        | 61         | 78                    |
| Very useful  | 4         | 22         | 100                   |
| Total        | 18        | 100        |                       |

*Source: Primary Data*

From the above, sixty one per cent of the respondents felt that the parent’s support they receive in the light of competitive environment is useful while twenty two per cent felt that it was very useful. In a competitive business environment, parental support is very necessary and if it is not adequate it can destroy the value of the business by eroding its market share.

**4.3.3. Decision making for long run growth of the subsidiaries**

The research sought to find out who made decisions that affect the growth of the subsidiaries in long run. The findings are as shown in table 14 below.

**Table 14: Decision making with long term effects on subsidiaries**

| <b>Response</b>       | <b>Frequency</b> | <b>Percentage</b> | <b>Cumulative Percentage</b> |
|-----------------------|------------------|-------------------|------------------------------|
| Not answered          | 1                | 5.6               | 5.6                          |
| By Parent Company     | 14               | 78                | 83.6                         |
| By Subsidiary Company | 3                | 17                | 100                          |
| <b>Total</b>          | <b>18</b>        | <b>100</b>        |                              |

*Source: Primary Data*

From the above seventy eight percent of the subsidiaries reported that the parent companies are the ones who make decisions that have long term effects, while seventeen percent reported that they are the ones who made such decisions. These findings are consistent with Sirpal (1998) study which concluded that the various strategic decisions such as new project selection, setting profit goals, long term goals, and splitting up money among various divisions were found to be made primarily at the head office. However, decisions relating to short-run growth of divisions were found to be undertaken primarily at the divisional level.

#### **4.3.4. Performance target set by the parent company**

The research sought to establish whether according to the subsidiary companies the targets set the parent company are reasonable. The findings are as shown in table 15 below.

**Table 15: Performance target set by the parent company**

| Response   | Frequency | Percentage | Cumulative Percentage |
|------------|-----------|------------|-----------------------|
| Too high   | 3         | 17         | 17                    |
| Reasonable | 15        | 83         | 100                   |
| Total      | 18        | 100        |                       |

*Source: Primary Data*

From the above findings, eighty three percent responded that they considered the targets set by their parent company as reasonable while seventeen percent felt that the targets were too high. Perhaps the reason why some parent companies set too high targets is because their subsidiaries face stiff competition in their market segments and the only way to make them fight the competition is to set too high performance targets. However, according to Goold et al (1994) this could be counterproductive since one way in which a parent can destroy the value of its business units is to set unreasonable targets.

**4.3.5. Approval of major capital expenditures**

The research sought to find out who approves subsidiary’s major capital investments. The findings are as shown in table 16 below:

**Table 16: Approval of Major capital expenditures**

| Response              | Frequency | Percentage | Cumulative Percentage |
|-----------------------|-----------|------------|-----------------------|
| By Parent Company     | 16        | 89         | 89                    |
| By Subsidiary Company | 2         | 11         | 100                   |
| <b>Total</b>          | <b>18</b> | <b>100</b> |                       |

*Source: Primary data*

From the above finding, eighty nine percent of the subsidiaries responded that their major capital investment is approved by the parent company while eleven percent responded that it was the subsidiary company that approved its major capital expenditures. These findings are consistent with Sirpal (1998) study which concluded that the various strategic decisions such as new project selection, setting profit goals, long term goals, and splitting up money among various divisions were found to be made primarily at the head office. However, subsidiaries approval of its major capital expenditures occurs in a situation where a parent company controls only one or two subsidiaries and they have been accorded full autonomy of making such major decisions.

#### **4.3.6. Time taken for approval of major capital expenditures**

The research sought to find from the subsidiary companies whose major capital expenditures are approved by their parents how they considered the time take for the approval to be granted. The findings are as shown table 17 below:

**Table 17: Time taken for approval of Major capital expenditures**

| Response   | Frequency | Percentage | Cumulative Percentage |
|------------|-----------|------------|-----------------------|
| Very long  | 2         | 11         | 11                    |
| Long       | 2         | 11         | 22                    |
| Short      | 10        | 56         | 78                    |
| Very short | 3         | 17         | 100                   |
| Total      | 18        | 100        |                       |

*Source: Primary data*

From the above fifty-six percent of the approvals took a short time, seventeen per cent very short time, long and very long time both eleven percent. Time taken to approve a major capital expenditure is very critical since it may represent a case whereby a subsidiary company is undertaking a capital project to support its strategic objective. Any delay in approval could result the opportunity being spotted and exploited immediately by its competitors in the market and hence loosing such a precious environmental opportunity.

**4.3.7. Adequacy of capital investment funds**

The research sought to find out if the subsidiaries considered as adequate the capital investment fund provided by their parents. The findings are as shown in table 18 below:

**Table 18: Adequacy of capital investment funds provided**

| <b>Response</b>     | <b>Frequency</b> | <b>Percentage</b> | <b>Cumulative Percentage</b> |
|---------------------|------------------|-------------------|------------------------------|
| <b>Not answered</b> | 1                | 6                 | 6                            |
| <b>Yes</b>          | 16               | 89                | 94                           |
| <b>No</b>           | 1                | 6                 | 100                          |
| <b>Total</b>        | <b>18</b>        | <b>100</b>        |                              |

*Source: Primary data*

From the above, eighty-eight percent responded that they considered the capital investment funds provided by the parent being adequate while only six percent felt that it was not adequate. This is in realization of the fact that provision of inadequate capital investment funds may destroy the value of their business units as they may not take opportunities spotted in the market.

**4.3.8. Transfer pricing between business units**

The research wanted to establish the extent to which subsidiary companies practiced transfer pricing among themselves. They were asked to state whether there were charges levied when one subsidiary provides goods/services to another subsidiary within the group. The findings are as shown in table 19 below:

**Table 19: The existence transfer pricing between business units**

| <b>Response</b> | <b>Frequency</b> | <b>Percentage</b> | <b>Cumulative Percentage</b> |
|-----------------|------------------|-------------------|------------------------------|
| <b>Yes</b>      | 16               | 89                | 89                           |
| <b>No</b>       | 2                | 11                | 100                          |
| <b>Total</b>    | <b>18</b>        | <b>100</b>        |                              |

*Source: Primary data*

From the above, eighty nine percent of the subsidiary companies stated there existed a charge when one subsidiary company offered goods and services to their counterpart in the same group, while only eleven percent stated that such a charge did not exist.

In a subsequent enquiry, subsidiary companies were asked to state the sort of rate charged. The findings are as shown in table 21 below:

**Table 20: Type of charge levied on transfer pricing**

| <b>Response</b>     | <b>Frequency</b> | <b>Percentage</b> | <b>Cumulative Percentage</b> |
|---------------------|------------------|-------------------|------------------------------|
| <b>Not answered</b> | 2                | 11                | 11                           |
| <b>Market rate</b>  | 8                | 44                | 55                           |
| <b>Subsidized</b>   | 8                | 44                | 100                          |
| <b>Total</b>        | <b>18</b>        | <b>100</b>        |                              |

*Source: Primary data*

From the above, both market and subsidized rates are tying with forty four percent each. This is attributed to existence of some subsidiaries especially among the group manufacturing companies whereby some

subsidiary companies have been established to produce inputs or packaging materials to other subsidiaries who produce the final product. For such a subsidiary to make profit, it must sell its output at market rate.

**4.3.10. Selection and replacement of management team**

The subsidiary companies were asked to state who selected and replaced senior management team. The findings are as shown in table 21 below:

**Table 21: Selection and replacement of management team**

| Response              | Frequency | Percentage | Cumulative Percentage |
|-----------------------|-----------|------------|-----------------------|
| By Parent Company     | 11        | 61         | 61                    |
| By Subsidiary Company | 7         | 39         | 100                   |
| <b>Total</b>          | <b>18</b> | <b>100</b> |                       |

*Source: Primary data*

From the above, sixty one percent responded that selection and replacement of the senior management was the responsibility of the parent company while thirty nine percent responded that it was the responsibility of the subsidiary companies. Since most parent companies have controlling majority of subsidiary companies they find it prudent to appoint senior management in order to, for instance, replace it if performs below expectations. The subsidiary company selects and replaces its senior management staff, in cases where the parent company

has one or two subsidiary companies that have been accorded full autonomy in major decision making.

## **CHAPTER FIVE: SUMMARY, CONCLUSION, & RECOMMENDATIONS**

### **5.1 Summary**

The objectives of this research was to establish corporate parenting practices by quoted group companies in the NSE and to determine how they support subsidiaries they control.

In chapter one, the research problem was identified and discussed, the objectives were developed, the justification for this study established, the research design proposed and the framework of the project outlined and developed.

The literature pertaining to the research problem was reviewed in chapter two. The literature review covered the concept of strategy, the levels of strategy, corporate parenting practices which mainly concentrated on the role of the parent and parenting advantage, and how the parents support businesses they manage.

In chapter three, various research methodologies were reviewed and an appropriate research method pertaining to the research problem was selected. The preferred method in this case was a descriptive survey study aimed at determining corporate parenting practices exercised by quoted group companies and how they support their subsidiaries. Two survey questionnaires were designed as the principal research

instruments to capture data from parent companies and their subsidiaries respectively. The structured and unstructured questionnaires contained open-ended and closed-ended questions developed from the study objectives.

In chapter four, the data obtained from the respondents was edited, its results presented and analyzed. The data analysis was quantitative and results were presented in the form of tables. Statistical Package for Social Sciences (SPSS) was utilized as a tool to assist the analysis process for quantifying the results obtained from the survey.

## **5.2 Conclusion**

### **5.2.1. Corporate parenting practices by group listed companies**

All the group companies agreed that they had group strategic plan and seventy one per cent responded that they involved their subsidiary companies in its formulation. To a very great extent, the study established the parent companies played roles such as deciding what acquisition to make, forming joint ventures and alliances, and determining the structure of the group.

It was also found out that parents agreed that they set performance targets for the subsidiaries that they controlled and 71% agreed that they

did not have subsidiaries within their group who did not perform below the targets set.

The findings also revealed that 71% of the group companies agreed that they had a reward system to subsidiary companies that had exemplary performance. To a large extent, subsidiary companies with excellent performance were rewarded with annual bonus and to a relatively lesser extent, with annual salary increment.

The study established that the most common central services offered to subsidiaries by group companies were the legal, information technology, and human resources. To a great extent, parents also provided procurement and financial services. On the other hand, most parent companies have decentralized transport services to subsidiaries.

### **5.2.2. How parent companies support their subsidiaries**

The study revealed that most parent companies had a lot of control over their subsidiaries, such as making decisions with long term effects on them, approval of their major capital expenditures, selecting and replacement of senior management staff. For example, 61% of the subsidiary companies reported that selection and replacement of the senior management was the responsibility of the parent company.

The research also established that to a large extent, most subsidiaries were satisfied with the support they received from their parent companies. For instance 78% of the subsidiary companies agreed that their parent companies gave them enough support to enable them compete effectively with their competitors in the market. The findings also indicated that, 83% of the subsidiary companies agreed that they considered the target set by their parents as reasonable.

The study also revealed that time taken by the parent company to approve major capital expenditures, was reasonably short as 56% percent of the approvals took a short time, 17% very short time, long and very long time both 11%. The study also indicated that 88% of the subsidiary companies considered the capital investment funds provided by parent adequate.

The research also indicated that transfer pricing practices existed among subsidiaries within the same group of companies as 89% of the subsidiary companies stated there existed a charge when one subsidiary company offered goods or services to their counterpart in the same group.

### **5.3 Recommendations**

From the study, we recommend that when multi-business companies are formulating group corporate strategy, it should guide corporate level decisions that relate to the business which the group company should invest its resources either through ownership, minority holdings, joint ventures, or strategic alliances. The group strategic plan should state clearly how the parent company will influence and relate with the businesses under its control.

We further recommend that the parent company should strive to be the best possible parent for its business units. In total, the business under its ownership should perform not only better than it would as stand alone entities but also better than it would under the ownership of another different parent. The corporate parent should thus divest businesses which it is destroying value rather than creating it.

Finally, we recommend that corporate parents should ensure that the head office staff is very small but very active. A large corporate centre will be very expensive as it will consume a lot of profit generated by the businesses they own. Group companies should thus avoid a situation where they are viewed more or less as cost burdens on business units, but as parent who add value to them. A multi-business company should also avoid a situation where it is trying to do too much, it is in too many

stages of value added chain, and it is in too many products/market segments. Rather, a group company should focus on a few businesses which it is capable of supporting by creating value on them.

### ***Recommendation for future studies***

This study covered only quoted group companies listed in the NSE and a similar study should be carried out on non-quoted group companies to determine how corporate parenting is practiced to support the business units they manage. The research design also adopted by this study was based on a survey. This approach has shortcomings as it captures a situation or an event at a point in time especially in corporate parenting practices based survey. Practices are very dynamic and changing every other day. Future research could employ a more qualitative approach such as a case study.

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## APPENDICES

### APPENDIX I

#### QUESTIONNAIRE TO THE GROUP COMPANIES

This questionnaire seeks to collect responses by publicly quoted group companies on **Corporate Parenting Practices**. It is divided into two parts: A and B. Kindly, provide the information frankly and honestly. All the information received will be treated confidentially and used for academic purposes only. Your participation in facilitating the study is highly appreciated.

#### PART A

1. Group Company's Name.....
2. Title of the Respondent.....
3. Name of the respondent (Optional).....
4. In which industry does your company fall as per NSE classification?
  - Agriculture [   ]
  - Industry/Manufacturing [   ]
  - Finance and Investment [   ]
  - Commercial and services [   ]
  - Alternative Investment Market [   ]

#### PART B

6. (a) Do you have a strategic plan for the entire group company?
  - Yes [   ]
  - No [   ]

(b) If the answer is **yes** to the above question is, do all the

subsidiaries in the group participate in its formulation?

- Yes [     ]
- No [     ]

(c) How important is the group strategic plan for its future success?

- Of no importance at all [     ]
- Of little importance [     ]
- Important [     ]
- Very important [     ]

(d) How often does your group company prepare its strategic plan?

- After 1 year [     ]
- After 2 years [     ]
- After 4 years [     ]
- After 5 years [     ]
- Others (*Specify*).....

7. To what extent does the parent company play the following roles as far as the subsidiaries it controls are concerned? *Please tick the most appropriate option using the provided scale*

1. Not at all
2. To a less extent
3. To a great extent
4. To a very great extent

| Statement                                             | 4 | 3 | 2 | 1 |
|-------------------------------------------------------|---|---|---|---|
| 1. Deciding what new business to support              |   |   |   |   |
| 2. Deciding what acquisition to make                  |   |   |   |   |
| 3. Forming joint ventures or alliances                |   |   |   |   |
| 4. Determining the structure of the group             |   |   |   |   |
| 5. Defining budgeting and capital structure processes |   |   |   |   |
| 6. Setting the corporate values and attitudes         |   |   |   |   |
| 7. Allocating resources among the subsidiaries        |   |   |   |   |
| Others ( <i>Specify</i> )                             |   |   |   |   |

8. (a) Do the staff of the head office have knowledge of the businesses at the subsidiary level?

- Yes [     ]

○ No [     ]

(b) To what extent do the following characteristics exist in your parent company and which are important in supporting the subsidiaries it controls? *Please tick the most appropriate option using the provided scale.*

1. Not at all
2. To a less extent
3. To a great extent
4. To a very great extent

| Statement                                        | 4 | 3 | 2 | 1 |
|--------------------------------------------------|---|---|---|---|
| 1. Appropriate structures                        |   |   |   |   |
| 2. Clear systems and processes                   |   |   |   |   |
| 3. Appropriate No. of layers in the hierarchy    |   |   |   |   |
| 4. Well defined human resource system            |   |   |   |   |
| 5. Well defined budgeting and planning processes |   |   |   |   |
| 6. Well sated capital budget approval process    |   |   |   |   |
| 7. Clear decision making structures              |   |   |   |   |
| Others ( <i>Specify</i> )                        |   |   |   |   |

9. (a) Does your parent company offer the following common support services for all subsidiaries it controls? (*Please tick (✓) where appropriate*)

| Support Service           | Yes | No |
|---------------------------|-----|----|
| Human resources           |     |    |
| Finance & account         |     |    |
| Transport                 |     |    |
| Marketing & Sales         |     |    |
| Information Technology    |     |    |
| Procurement               |     |    |
| Stores                    |     |    |
| Others ( <i>Specify</i> ) |     |    |

(b) How do you consider the size of the staff for the common support services for the parent company you have indicated in (a) above?

- Very small [     ]
- Small [     ]

- Medium [   ]
- Large [   ]
- Very large [   ]

10. (a) Of the following intangible resources how do you consider their strength in the group company? *Please tick the most appropriate option using the provided scale.*

1. Very weak
2. Weak
3. Strong
4. Very strong

| Statement                            | 4 | 3 | 2 | 1 |
|--------------------------------------|---|---|---|---|
| 1. Patent                            |   |   |   |   |
| 2. Corporate brand                   |   |   |   |   |
| 3. Government relationship           |   |   |   |   |
| 4. Access to scarce financial assets |   |   |   |   |
| Others ( <i>Specify</i> )            |   |   |   |   |

12. (a) Are there performance targets the group company sets for its subsidiaries?

- Yes [   ]
- No [   ]

(b) Are there subsidiaries in your group of companies which perform below your expectations?

- Yes [   ]
- No [   ]

(c) If the answer is **yes** to the above question, which of the following steps does the parent company take? (*Kindly, you may tick more than one if it is appropriate to your group company*)

- Sell it of [   ]
- Change its senior management [   ]
- Restructure it [   ]
- Others (*Specify*).....

13. To what extent does the group company promote relation between the subsidiaries it controls through the following methods? *Please tick the most appropriate option using the provided scale.*

1. Not at all
2. To a less extent
3. To a great extent
4. To a very great extent

| Statement                                          | 4 | 3 | 2 | 1 |
|----------------------------------------------------|---|---|---|---|
| 1. Corporate decision making                       |   |   |   |   |
| 2. Processes and structures                        |   |   |   |   |
| 3. Policies and guidelines                         |   |   |   |   |
| 4. Encouraging relationship between business units |   |   |   |   |
| Others ( <i>Specify</i> )                          |   |   |   |   |

14. To what extent does the group company, through the corporate development activities; change the constitution of its business portfolio through the following methods? *Please tick the most appropriate option using the provided scale*

1. Not at all
2. To a less extent
3. To a great extent
4. To a very great extent

| Statement                                       | 4 | 3 | 2 | 1 |
|-------------------------------------------------|---|---|---|---|
| 1. Acquisition and disposal                     |   |   |   |   |
| 2. Choosing which business to grow organically  |   |   |   |   |
| 3. Choosing which business to divest            |   |   |   |   |
| 4. Identifying under-priced businesses for sale |   |   |   |   |
| 5. Making existing businesses more competitive  |   |   |   |   |
| Others ( <i>Specify</i> )                       |   |   |   |   |

15. Does the parent company ensure that other subsidiaries within its group are learning from one the subsidiary performing particularly well?

- ☐ Yes [    ]
- ☐ No [    ]

16. Does the parent company ensure that if one of its subsidiaries company has particular skills others subsidiaries benefit from it?

- ☐ Yes [    ]

○ No [    ]

17. (a) Is there a reward system for the subsidiary company that performs exemplary well?

○ Yes [    ]

○ No [    ]

(b) If the answer is **yes** to the above question to what extent does the parent company apply the following reward systems to the subsidiary company whose performance is excellent? *Please tick the most appropriate option using the provided scale.*

1. Not at all
2. To a less extent
3. To a great extent
4. To a very great extent

| Statement                                    | 4 | 3 | 2 | 1 |
|----------------------------------------------|---|---|---|---|
| 1. Annual bonus                              |   |   |   |   |
| 2. Raising salary grade                      |   |   |   |   |
| 3. Awarding of shares                        |   |   |   |   |
| 4. Provision and use of company's facilities |   |   |   |   |
| 5. Medical Plans                             |   |   |   |   |
| 6. Product discount plans                    |   |   |   |   |
| 7. Vacation trips                            |   |   |   |   |
| Others ( <i>Specify</i> )                    |   |   |   |   |

**Thank you very much for taking time to complete this questionnaire!!!**

## APPENDIX II

### QUESTIONNAIRE TO SUBSIDIARY COMPANIES

This questionnaire seeks to collect responses by subsidiaries of publicly quoted group companies on **Corporate Parenting Practices**. It is divided into two parts: A and B. Kindly, provide the information frankly and honestly. All the information received will be treated confidentially and used for academic purposes only. Your participation in facilitating the study is highly appreciated.

#### PART A

1. Company's Name.....
2. Title of the Respondent.....
3. Name of the respondent (Optional).....
4. Parent Company's Name.....
5. What is the percentage controlling majority of the parent company in your company?
  - 51-60% [    ]
  - 61-71% [    ]
  - 71-80% [    ]
  - 81-90% [    ]
  - 91-99% [    ]
  - 100% [    ]
6. How did your company become part of the current parent?
  - Establishment from the scratch [    ]

- Acquisition [   ]
  - Others (*Specify*) .....
7. In which year did your company become a subsidiary of the current parent? .....

### **PART B**

8. (a) Does your company have its own strategic plan?

- Yes [   ]
- No [   ]

(b) If the answer to the above question is **yes**, does the parent company assist you in formulating the strategic plan?

- Yes [   ]
- No [   ]

(c) If the answer to the above question is **yes**, how useful is the parent assistance in developing your strategic plan?

- Not useful at all [   ]
- Less useful [   ]
- Useful [   ]
- Very useful [   ]

(d) Is the company's strategic plan drawn from the overall group's strategic plan?

- Yes [   ]
- No [   ]

(e) How often does your company prepare strategic plan?

- After 1 year [   ]
- After 2 years [   ]
- After 4 years [   ]

- After 5 years [   ]
- Others (*Specify*).....

9. (a) Does your company face stiff competition from other competitors in the market segment it operates?

- Yes [   ]
- No [   ]

(b) If the answer is **yes** to the above question, does the parent company, give you enough support to enable you face the competition?

- Yes [   ]
- No [   ]

(c) If the answer is **yes** to the above question, how do you consider the support you get from the parent company in terms of usefulness?

- Not useful at all [   ]
- Less useful [   ]
- Useful [   ]
- Very useful [   ]

(d) Do you think the support you get from your current parent is more than you would receive from any other possible parent?

- Yes [   ]
- No [   ]

10. (a) Who makes decision that affects the relative long-run growth of subsidiary companies in your group?

- Parent company [   ]
- Subsidiary company management [   ]
- Others (*Specify*) .....

(b) Who makes decision that affects the relative short-run growth of subsidiary companies in your group?

- Parent company [    ]
- Subsidiary company management [    ]
- Others (*specify*) .....

11. (a) Are there set performance targets for your company by your parent company?

- Yes [    ]
- No [    ]

(b) If the answer is **yes** to the above question, how appropriate are the targets by the parent company in terms of standards?

- too high [    ]
- reasonable [    ]
- low [    ]
- too low [    ]
- Others (*specify*) .....

12. (a) Who approves your company's major capital expenditures?

- Parent company [    ]
- Management of the company [    ]
- Others (*specify*) .....

(b) If the answer to the above question is by "Parent Company" how do you consider the time taken for approval to be granted?

- Very short [    ]
- Short [    ]
- Long [    ]

○ Very Long [    ]

(c) If the parent company provides you with the capital investment fund, do you consider it enough?

○ Yes [    ]

○ No [    ]

13. (a) Are there charges levied when one subsidiary provides services/goods to another subsidiary within the group?

○ Yes [    ]

○ No [    ]

(b) If the answer is **yes** to the above question, what sort of rate is charged to the recipient subsidiary?

○ Market rate [    ]

○ Subsidized rate [    ]

14. Who selects and replaces the senior management team of your company?

○ Parent company [    ]

○ The Subsidiary company [    ]

○ Others (*Specify*) .....

**Thank you very much for taking time to complete this questionnaire!!!**

## APPENDIX III

### LIST OF GROUP COMPANIES AND THEIR SUBSIDIARIES

|   | GROUP              | SUBSIDIARIES                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | STATUS OF THE SUBSIDIARY                                                                                                                                                                                                                                   |
|---|--------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 | CMC Holdings       | (a) CMC Motor Kenya Ltd<br>(b) CMC Engineering Ltd<br>(c) CMC (Tanzania) Ltd<br><br>(d) All Make Parts & Accessories Ltd<br>(e) Hughes Ltd<br>(f) CMC Management Services Ltd<br>(g) Abacus Data Ltd<br>(h) Leyland Albion (East Africa) Ltd<br>(i) Dobie Coopers Motor Ltd<br>(j) CMC Aircharters Ltd<br>(k) CMC (Uganda) Ltd                                                                                                                                                                                                          | Active & trading<br>Dormant<br>Operation commence in 2007<br>Dormant<br><br>Dormant<br>Dormant<br>Dormant<br>Dormant<br>Dormant<br>Active & trading                                                                                                        |
| 2 | Nation Media Group | (a) Nation Marketing and Publishing Ltd<br>(b) Monitor Publications Ltd*<br>(c) Mwananchi Communications Ltd*<br>(d) Nation Holdings Tanzania Ltd*<br>(e) Nation Carriers Uganda Ltd*<br>(f) African Broadcasting Uganda Ltd*<br>(g) East African Magazines Ltd<br>(h) Nation Broadcasting Division<br>(i) Nation Newspaper Ltd<br>(j) Nation Carriers (K) Ltd<br>(k) East African Television Network Ltd<br>(l) Nation InfoTech Ltd<br>(m) Africa Broadcasting Ltd<br>(n) Nation Printing & Publishing Ltd.<br>(o) Africa Broadcasting | Active & trading<br>Active & trading<br>Active & trading<br><br>Active & trading<br>Active & trading<br>Active & trading<br>Active & trading<br>Active & trading<br>Non-trading<br>Non-trading<br>Non-trading<br>Non-trading<br>Non-trading<br>Non-trading |

|           |                                         |                                                                                                                                                                                                                        |                                                                                                                            |
|-----------|-----------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|
|           |                                         | (Mauritius) Ltd*<br>(p) Nation Carriers Tanzania Ltd*<br>(q) Africa Broadcasting (Tanzania) Ltd*                                                                                                                       | Non-trading<br>Non-trading<br>Non-trading                                                                                  |
| <b>3</b>  | Standard Newspaper Group Ltd            | (a) The Standard Ltd<br>(b) KTN Ltd                                                                                                                                                                                    | Active & trading<br>Active & trading                                                                                       |
| <b>4</b>  | Jubilee Holdings Ltd.                   | (a) Jubilee Financial Services Ltd.<br>(b) Jubilee Insurance Company of Mauritius Ltd*<br>(c) Jubilee Insurance Company of Kenya Ltd<br>(d) Jubilee Insurance Company of Tanzania Ltd*                                 | Active & trading<br>Active & trading<br>Active & trading<br>Active & trading                                               |
| <b>5</b>  | Pan African Insurance Holding           | (a) Runda Water Ltd.<br>(b) Pan Africa Life Insurance Ltd.<br>(c) PA Securities Ltd.                                                                                                                                   | Active & trading<br>Active & trading<br>Active & trading                                                                   |
| <b>6</b>  | Standard Chartered Bank Ltd.            | (a) Standard Chartered Financial Services<br>(b) Standard Chartered Estate Management<br>(c) Standard Chartered Kenya Nominee<br>(d) Standard Chartered Investment Services                                            |                                                                                                                            |
| <b>7</b>  | Housing Finance Company of Kenya (HFCK) | (a) Kenya Building Society Ltd<br>(b) First Permanent (EA) Ltd                                                                                                                                                         | Being Restructured<br>Dormant                                                                                              |
| <b>8</b>  | Barclays Bank of Kenya Ltd.             | (a) Barclays (Kenya) Nominee Ltd.<br>(b) Barclays Financial Services Limited<br>(c) Barclays Mercantile Limited                                                                                                        | Non-Trading<br>Active & trading<br>Active & trading                                                                        |
| <b>9</b>  | Kenya Commercial Bank Group Ltd         | (a) Kenya Commercial Finance Co. Ltd<br>(b) Savings & Loans Ltd.<br>(c) Kenya Commercial Bank Nominee Ltd<br>(d) Kencom House Ltd<br>(e) KCB (Tanzania) Ltd*<br>(f) KCB (Sudan) Ltd*<br>(g) Enterprise Consultants Ltd | Active & trading<br>Active & trading<br>Non-Trading<br>Active & trading<br>Active & trading<br>Active & trading<br>Dormant |
| <b>10</b> | National Bank of Kenya                  | (a) Kenya National Capital Corporation<br>(b) National Bank Trustee and Investment Services                                                                                                                            | Didn't trade in 2006<br>Didn't trade in 2006                                                                               |
| <b>11</b> | Unga Group Kenya Ltd.                   | (a) Unga (K) Ltd<br>(b) Unga Millers (Uganda) Ltd*<br>(c) Unga Farm Care (East Africa)                                                                                                                                 | Active & trading<br>Active & trading                                                                                       |

|           |                            |                                                                                                                              |                                                                                  |
|-----------|----------------------------|------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------|
|           |                            | Ltd.<br>(d) BullPark Ltd<br>(e) Unga Feeds Ltd<br>(f) Unga Foods Ltd<br>(g) Ungax Ltd<br>(h) Unga Maize Millers Ltd          | Active & trading<br>Active & trading<br>Dormant<br>Dormant<br>Dormant<br>Dormant |
| <b>12</b> | East African Breweries Ltd | (a) Kenya Breweries Ltd<br>(b) Kenya Malting Ltd<br>(c) Central Glass Industries<br>(d) Kampala Based Uganda Breweries Ltd.* | Active & trading<br>Active & trading<br>Active & trading<br>Active & trading     |

*Source: Nairobi Stock Exchange (2002) and Annual Reports and Accounts (various)*

*\* Foreign subsidiaries which will be excluded from the study*



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DATE.....

**TO WHOM IT MAY CONCERN**

The bearer of this letter SAITOTI TEROME

Registration No: DEI/P/8003/02

is a Master of Business Administration (MBA) student of the University of Nairobi.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate if you assist him/her by allowing him/her to collect data in your organization for the research.

The project is entitled CORPORATE PARENTING PRACTICES  
BY PUBLICLY QUOTED COMPANIES IN KENYA

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

**J.T. KARIUKI**

**CO-ORDINATOR, MBA PROGRAM**

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