

An Analysis of the Response to Corporate Unbundling Announcements on the Johannesburg Stock Exchange

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***A research report submitted to the Faculty of Commerce, Law
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ABSTRACT

This research report examines the effect of the announcement of corporate unbundling by South African corporations listed on the Johannesburg Stock Exchange. This research was carried out in order to update the literature and to analyse whether results confirm the previous research performed by Blount and Davidson (1996) or coincides with international trends, which displayed positive responses to unbundling announcements. The event study methodology was used for analysing the market's reactions to corporate unbundling announcements. Abnormal returns were calculated using the market model approach with an event window of ten days and an estimation window of 120 days. A sample of 27 corporations were analysed in this research report during the period January 2002 to June 2011. The results indicated strong negative abnormal returns as a result of the corporate unbundling announcements. This finding confirms Blount and Davidson's (1996) earlier research.

DECLARATION

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Commerce in Accounting at the School of Accounting, University of Witwatersrand. It has not been submitted before for any degree or examination in any other university. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

Jared Bayman Jordan

Date

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TABLE OF CONTENTS

ABSTRACT	II
DECLARATION	III
ACKNOWLEDGEMENTS	IV
1 INTRODUCTION.....	7
1.1 PURPOSE OF THE RESEARCH UNDERTAKEN.....	7
1.2 CONTEXT AND SIGNIFICANCE OF THE RESEARCH.....	8
1.3 RESEARCH OBJECTIVE	10
1.4 DEFINITION OF TERMS	11
1.5 DELIMITATIONS OF THE RESEARCH.....	13
1.6 ASSUMPTIONS	15
2 LITERATURE REVIEW.....	17
2.1 WHAT IS UNBUNDLING?.....	17
2.2 ADVANTAGES AND DISADVANTAGES OF UNBUNDLING	18
2.3 THE CASE FOR UNBUNDLING IN SOUTH AFRICA	21
3 RESEARCH METHODOLOGY	27
3.1 RESEARCH METHODOLOGY	27
3.2 RESEARCH DESIGN.....	28
3.2.1 INTRODUCTION	28
3.2.2 TEST PERIOD.....	29
3.2.3 NORMAL RETURN	30
3.2.4 ABNORMAL RETURNS.....	31
3.2.5 CUMULATIVE ABNORMAL RETURN (CAR)	32
3.2.6 VOLUME TRADED	32
3.3 POPULATION AND SAMPLE	33
3.3.1 POPULATION	33
3.3.2 SAMPLE AND SAMPLING METHOD.....	33

3.4	PROCEDURE FOR DATA COLLECTION	34
3.5	LIMITATIONS OF THE STUDY	35
4	PRESENTATION OF RESULTS	37
4.1	INTRODUCTION	37
4.2	RESULTS	37
4.2.1	CUMULATIVE ABNORMAL RETURN (CAR)	37
4.2.2	VOLUME TRADED	41
5	DISCUSSION OF THE RESULTS	42
5.1	INTRODUCTION	42
5.2	CUMULATIVE ABNORMAL RETURNS	42
5.3	VOLUME TRADED	43
6	CONCLUSIONS AND RECOMMENDATIONS	44
6.1	CONCLUSION OF THE RESEARCH	44
6.2	RECOMMENDATIONS AND SUGGESTIONS FOR FURTHER RESEARCH	45
	REFERENCES	47
	APPENDIX A – RESEARCH METHODOLOGY	56

1 INTRODUCTION

1.1 Purpose of the Research Undertaken

The purpose of this research is to investigate whether corporate unbundling announcements by listed South African corporations have a positive or negative impact for shareholders, by measuring the resultant change to the traded share price. Blount and Davidson's (1996) research found that in an immediate post-democratic South Africa, potential investors and shareholders had reacted negatively to announcements of unbundling by corporations, due to certain limitations. However, as institutions evolve – coupled with changing regulatory policies and shifting social views – corporate restructuring through unbundling could be seen by shareholders as a desirable strategy and, accordingly, could be seen in a positive light (Afshar, Taffler and Sudarsanam, 1991; Cao, Owen and Yawson, 2006; Lasfer, Sudarsanam and Taffler, 1998; Gadada and Thomas, 2005; Alexander, Benson and Kampmeyer, 1984; Jain, 1985; Hite, Owers, and Rogers, 1987). By way of example, releasing shareholder value and concentrating on core activities, *inter alia*, are interpreted as moves in a desirable direction (Cao, Owen and Yawson, 2010; Gentle, 2011; Bhana, 2000; Eckbo and Thorburn, 2008; Lee and Madhavan, 2010; Alexander, Benson and Kampmeyer, 1984; Jain, 1985; Hite, Owers and Rogers, 1987).

In researching Blount and Davidson's (1996) findings, and giving due consideration to the momentous political changes that had just occurred in South Africa, these findings have been assessed to consider whether or not their results are still valid in a more mature post-

democratic South Africa. In so doing, the share price reaction has been analysed resulting from unbundling announcements by listed corporations over an eight-year period.

Using secondary data, this research has identified and assessed abnormal returns of publicly-listed South African corporations during an eight year period, from 2002 until 2011, and draws conclusions about corporate unbundling announcements on the Johannesburg Securities Exchange (JSE). This research report examines whether corporate unbundling announcements influence share prices positively or negatively.

1.2 Context and Significance of the Research

This research has drawn a distinction between the announcement of an unbundling and the actual or post-effect of the unbundling on the share price. A shareholder or potential investor will anticipate the effect of the unbundling on a corporation at the time of the announcement of such intention, and the research analyses the movement in the share price at this point in time.

With reference to Blount and Davidson (1996) and Bhana (2006), international studies analysing the effect of announcements of voluntary unbundling of listed corporations have shown a particular pattern relating to their respective share prices. It has been found that the international trend, related to announcements of corporate unbundling, has caused an increase in the value of shareholders' wealth and, hence, an increase in the share price (Blount and Davidson, 1996; Bhana, 2006).

Prior to 1994, there were artificial restrictions on JSE corporations as a result of isolation and sanctions (Hattingh, 2007; Rossouw, 1997; Castle and Kantor, 2000; Kantor, 2001; Bhana,

2006). A study was undertaken by Blount and Davidson (1996) – being the first definitive study in a post-apartheid South Africa – related to voluntary unbundling of locally listed entities and the respective impact on shareholder value. Blount and Davidson’s (1996) study suggests that JSE listed corporate unbundling announcements had a negative impact on the share price and that the findings were contrary to similar unbundling announcements in the United States. The possible reasons for this, provided by Blount and Davidson (1996), were considered from both a corporate and capital market perspective. The corporate viewpoint was that an unbundling in South Africa represents a movement away from “efficient” structures and that the motives for unbundling were not market related. The capital market viewpoint, asserted by Blount and Davidson (1996), was that South African markets may not be sufficiently sophisticated for unbundling to be a wealth-enhancing exercise. The international findings, however, were positive, with shareholders and potential investors anticipating a better structure and a better deployment of capital and resources, resulting in the unbundled corporate’s share price increasing (Afshar, Taffler and Sudarsanam, 1991; Cao, Owen and Yawson, 2006; Lasfer, Sudarsanam and Taffler, 1998; Gadada and Thomas, 2005; Eckbo and Thorburn, 2008; Alexander, Benson and Kampmeyer, 1984; Jain, 1985; Hite, Owers, and Rogers, 1987).

This research report has analysed the period between January 2002 and June 2011 and has provided an updated view of the situation in the post-apartheid era in South Africa with regards to unbundling. Blount and Davidson’s (1996) findings were reached shortly after democratisation in South Africa where, during the Apartheid Era, South African listed corporations had very few alternatives – due to isolation and sanctions – other than to acquire and merge with non-core business entities. Subsequently, when corporations were readmitted

to the international markets, unbundling exercises became attractive. Corporations entertained unbundling, and previously-acquired, non-core businesses were disposed of for reasons similar to those of their international counterparts and because of the attraction some corporations saw in international listings, which they were previously unable to explore due to sanctions (Bhana, 2000; Gostner, 2002; Walters and Prinsloo, 2002; Rossouw, 1997; Castle and Kantor, 2000). This research is intended to either (i) confirm Blount and Davidson's (1996) findings, or (ii) show that their study was reflective of the past and not a true indication of where South Africa was heading, which may now have evolved to coincide with international financial trends. The value of knowing what will likely happen to the share price when management is considering whether or not to unbundle, will be of significance to the outcome of their decision.

1.3 Research Objective

This research report investigates the change to share prices of listed corporations in response to unbundling announcements in South Africa. Since the Blount and Davidson (1996) study, little is known about how unbundling announcements in post-democratic South Africa have had an effect on the share price of corporations listed on the JSE.

An empirical research review was carried out on the factual findings to determine whether the market would react positively or negatively. These factual findings were analysed to inspect what abnormal returns would be observed, if any.

1.4 Definition of Terms

The significant terms used in this research report are defined as follows:

- **Abnormal returns** – The excess returns experienced over and above the normal return (De Jong, 2007). The Investor Dictionary (2012) defines abnormal returns as a term used by market traders to describe the difference between a single share's performances in comparison to the average market performance, JSE Top 40, over a set period of time.
- **Alpha** – The Investor Dictionary (2012) defines alpha as a risk-adjusted measure of the "excess return" on an investment. The Investor Dictionary states that the difference between the fair and actually expected rates of return on a stock is called the stock's 'alpha'.
- **Asset Stripping** – The Investor Dictionary (2012) defines asset stripping as the process of buying an undervalued company with the intent to sell off its assets for a profit.
- **Read more:** <http://www.investopedia.com/terms/a/assetstripping.asp#ixzz1uxn9plyw>
- **Beta** – According to Investor Dictionary (2012), beta is a statistical measure of the relative volatility of a stock, fund, or other security in comparison to the market as a whole.
- **Conglomerate** – Investor Word (2012) defines a conglomerate as a corporation consisting of several, unrelated companies. Such a structure allows for diversification of business risks.

- Confounding events – These are events which are not specific to the corporation and unrelated to that being researched however have a significant impact on the share price
- Cumulative Abnormal Return (CAR) – According to Financial Terms, CAR is a measure used in finance to measure the excess returns an investor would have received over a particular time period. This term is the sum of all the abnormal returns over a specific period of time.
- Estimation window – This is a period within the Test Period where the estimates for the event study are calculated.
- Event study methodology – This is a methodology that attempts to measure the valuation effects of a corporate event, such as an unbundling or merger announcement, by examining the response of the share price around the announcement of the event (Fisher, 2011).
- Event window – This is a period within the Test Period where the abnormal returns around the event for the event study are calculated.
- Normal returns – The average market performance, JSE Top 40, over a set period of time (De Jong, 2007).
- Observational period – This is the period related to the unbundling announcement that incorporates the estimated event window periods that share price data will be obtained for each listed corporation. See Appendix A (De Jong, 2007).
- Thin Trading – Investor Word (2012) defines thin trading a day's trading where not many shares are offered for sale.
- Read more: http://www.investorwords.com/11288/thin_trading.html#ixzz1uxx1vENF

- Secondary data – This is the term given to statistical material, which is not originated by the researcher himself but obtained from someone else's records (Bowman and Singh, 1993).
- Securities Exchange News Service (SENS) – According to the JSE, “SENS is a system provided by the JSE, which disseminates corporation announcements and price sensitive information, i.e. mergers, takeovers, rights offers, capital issues, cautionaries, etc., all of which have an impact on the share price movement in the market.”
- Unbundling – As per Investopedia (2012), unbundling is the process of selling off subsidiaries while retaining the core business. In other words, the parent corporation's action of disposing and selling of assets, facilities, product lines, subsidiaries, divisions and business units (Moschieri and Mair, 2003; Bhana 2006; Correia, Flynn, Uliana and Wormald, 2011).

According to the JSE Ltd (2012), after unbundling, the holding corporation may or may not be dissolved. For this research report, only the non-dissolving unbundling events will be analysed. The JSE Ltd (2012) states that the shareholder will receive the following, in relation to the initial holding in the Holding Corporation: shares in the subsidiaries (listed or private), or cash, or a combination of the shares and cash.

1.5 Delimitations of the Research

This research report, unlike Blount and Davidson's (1996) paper, defines the unbundling experience in particular instances, and specifically excludes forced unbundling

announcements, as stated hereunder. The purpose of this research is to observe the impact that unbundling announcements have on a corporation's share price. It is important to draw this distinction in order to determine an accurate analysis of the impact of unbundling announcements. The report excludes:

- *Involuntary unbundling operations* – Forced divestitures imposed by legislative or judicial fiat are excluded. This is due to the fact that when a corporation chooses to make an announcement, it is conveying information about the corporation at a particular time. The corporation is most likely going to announce only at the time most favourable, which introduces a truncation bias (Fisher, 2011). This is to limit the undesired variables that could possibly influence the results of the event study methodology.
- For similar reasons as those mentioned in the point above, this research report only analyses the non-dissolving unbundling events. The JSE Ltd (2012) states that the shareholder will receive the following, in relation to the initial holding in the Holding Corporation: shares in the subsidiaries (listed or private), or cash, or a combination of the shares and cash.
- Corporations not listed on the JSE – This is because of the expected availability and quality of the data desired.
- Analysing the strategic reason for the unbundling decisions for each separate corporation – The intention of this study was to analyse factual findings and not to add normative value.

- This study has not analysed the law and regulations concerned with corporate unbundling. This has been excluded as this research report intends to focus on the impact the unbundling announcement has on the corporation's share price.
- Gentle (2011) suggests that unbundling may be interpreted as an attempt by corporations to escape South Africa's government policies. This has not been analysed within this research report.
- All other analysis regarding corporation specifics (e.g. size) has not been carried out, as this research report intends to focus on unbundling across the board of JSE-listed corporations.
- This research report has not analysed Pension and Mutual Fund restrictions or requirements, as the objective of this research report is to analyse the response from the unbundling announcement.
- Investor profiling has not been analysed in this research report. This is because this research report focused on the wealth effects of shareholders as a whole.

1.6 Assumptions

Due to the nature of the research, it is important to understand that there are many variables that have not been included in the analysis contained within this research report. This complexity needs to be controlled in a suitable manner so as to draw conclusions. This has been accomplished by making assumptions, which are considered to be plausible and

reasonable. The following assumptions have been made, and enable a comparative analysis to be made:

- The parent corporation is not engaged in another divestiture or engaged in other contemporaneous corporate restructuring activities, such as mergers (McWilliams and Siegel, 1997).
- Management decisions are made with the intention of increasing shareholders' wealth (Cao, Owen and Yawson, 2010; Zhao, Michalisin and Stubbart, 2011; Moschieri and Mair, 2003; Hagel III and Singer, 2000; Bowman and Singh, 1993).
- The SENS announcements are complete in terms of the unbundling announcements.
- Share price volatility is a correct measure of the market's response and reflects all relevant information (Fama, Fisher and Jenson, 1969; McWilliam and Siegel, 1997).
- The market processes information about the event in an efficient and unbiased manner (Fisher, 2011).
- The unbundling announcement is unanticipated, and the abnormal returns are a result of reaction to the unbundling announcement (Dos Santos, Peffers and Mauer, 1993; McWilliams and Siegel, 1997).
- The data collected from the JSE is accurate and complete.
- The event study is based on the assumption that new information introduced to the market will trigger immediate reaction from investors (Seiler, 2000; McWilliams and Siegel, 1997; De Jong, 2007).

2 LITERATURE REVIEW

2.1 What is Unbundling?

Corporate unbundling is an area of great interest to corporate strategy, finance and organisational scholars (Bowman and Singh 1993; Cao, Owen and Yawson, 2006; Lee and Madhavan, 2010; Eckbo and Thorburn, 2008; Lamont and Polk, 2002). Hagel III and Singer (2000) and Rossouw (1997) suggest that, as unbundling becomes more common, corporations are pressured to follow suit and make a definitive decision about their core business focus.

Moschieri and Mair (2003) define ‘corporate unbundling’ as an operation where the parent corporation initiates an action of disposing and selling assets, facilities, product lines, subsidiaries, divisions and business units. According to Hagel III and Singer (2000), ‘unbundling’ refers to the process of separating a large business into its smaller components. They go on to explain how this process of separating a corporation into individual entities can create greater profitability than is possible in a conglomerate. Hence, managers of large corporations should evaluate the advantages of unbundling to access the potential obtained from the operation and to focus on what is best for their business and all other related stakeholders (Cao, Owen and Yawson, 2010; Zhao, Michalisin and Stubbart, 2011; Moschieri and Mair, 2003; Hagel III and Singer, 2000; Bowman and Singh, 1993).

2.2 Advantages and Disadvantages of Unbundling

It is important for management to understand the impact of its decision on shareholders' wealth as a result of unbundling an organisation (Moschieri and Mair, 2003). The benefit of unbundling an organisation, as suggested by Hagel III and Singer (2000), is that it allows an entity to focus and deploy resources on core business activities. This allows the businesses to concentrate their efforts on the aspects that are key to their success. Other motives for unbundling a corporation include generating cash and reducing debt (Lang, Poulsen and Stulz, 1995). The decision to unbundle may come about due to an initial poor decision to merge; or the fact that the poor performance or under-utilised assets and personnel are misplaced suggests that the need to unbundle is required (Ravenscraft and Scherer, 1987). Berger and Ofek (1995) reiterate this view, suggesting that over-investment in poorly performing segments results in pyramid structures, which allow dominant shareholders to retain the bulk of the voting rights resulting in inefficiencies. Doukas and Kan (2004) found that conglomerate organisations, acquiring unrelated business, experience larger cash flow decreases and valuation discounts than do investors who buy related corporations. Doukas and Kan's (2004) findings also suggest that a lack of investment focus results in a post-acquisition cash flow decline, which in turn highlights the advantages of unbundling. Another reason for unbundling may be the fact that the assets (non-core businesses) may be more valuable to other corporations, resulting in the sale of the business at inflated prices. Moschieri and Mair (2003) contribute another advantage by suggesting that unbundling can commonly be used to rectify previous merger decisions.

Hagel III and Singer's (2000) research hypothesised that while unbundling an organisation may allow for increased focus in a business, there are shortcomings that need to be

contemplated, which are the advantages one would obtain from a merger of organisations. One such shortcoming is that the individual corporation cannot benefit from synergies that it may have collectively. Eckbo and Thorburn's (2008) study found that the announcement to unbundle might spur a negative response from the market as it can indicate that the corporation is in financial distress and, therefore, management has to unbundle the corporation as part of a restructuring process. This may result in asset stripping and the corporation losing key businesses, which ultimately decrease the long-term performance of the corporation. Additionally, smaller businesses will have less power than a large corporation to negotiate with buyers and suppliers. Lee and Madhavan (2010) also suggest that an unbundling announcement may portray that management perceives the corporation to have poor liquidity and a weak outlook. They further state that the unbundling may be an effort to fend off potential bankruptcy and other financial distress. This leads to potential going concern woes and, therefore, a possible negative perception with regards to a corporation announcing the intention to unbundle, as this may be interpreted as a sign of desperation leading to a last resort to keep afloat.

Bhana (2006) states that unbundling is not a trivial event and is usually accompanied by a change in shareholders' wealth. Noting this, however, Bhana (2006), Moschieri and Mair (2003), Afshar, Taffler and Sudarsanam (1991) and Gadada and Thomas (2005) argue that there is still very limited corporate unbundling literature outside the United States, compared to the large number of studies on mergers and acquisitions. To an extent, unbundling is generally perceived as the opposite of mergers and acquisitions. Jazani (2009) confirms that unbundling transactions are becoming more effective and, hence, more popular as a result of

advances in technology, such as the Internet and accelerated communications, resulting in quicker dissemination of data.

Jazani (2009) found that leading corporations have become focused on their core business and have unbundled subsidiaries that did not relate to the core business. According to Hagel III and Singer (2000), many organisations have examined the value of large conglomerates and, in so doing, have separated large, diverse organisations into smaller, more focused businesses. Jazani's (2009) research also found that unbundling a corporation was an effective method for corporations to refocus on core business activities and achieve their desired level of growth.

Gadada and Thomas (2005) and Afshar, Taffler and Sudarsanam (1991) stated that little research has been carried out on unbundling, compared with corporate mergers and acquisitions, although in both events a transfer of the ownership and control of corporate assets occurs. Afshar, Taffler and Sudarsanam (1991) and Gadada and Thomas (2005) found that, in the United Kingdom, the popularity of corporate unbundling announcements are growing rapidly due to positive significant gains in shareholder wealth, resulting from the unbundling exercise. Gadada and Thomas (2005) also explain that these abnormally positive returns could stem from the market's expectation of future benefits of the additional liquidity achieved by the debt reduction using the proceeds of the unbundling.

Studies carried out internationally generally find evidence that public announcements of voluntary unbundling are associated with significant positive effects on shareholders' wealth. Afshar, Taffler and Sudarsanam (1991); Cao, Owen and Yawson (2006); Lasfer, Sudarsanam and Taffler (1998); Gadada and Thomas (2005); Alexander, Benson and Kampmeyer (1984);

Jain (1985); and Hite, Owers, and Rogers (1987) all found positive cumulative abnormal returns from unbundling announcements in international markets. They all concluded that the investment decision conveyed favourable information to the market, which resulted in share price gains on the announcement date. Mavlutova (2011) found that due to the impact of an inconsistent economic environment and processes of globalisation, the life cycle of companies have shrunk and businesses have become more dynamic, which has encouraged the processes of unbundling corporations. This is confirmed by the research finding that operating the divisions of conglomerates as standalone corporations would create significant value (Zhao, Michalisin and Stubbart, 2011; Lee and Madhavan, 2010; Eckbo and Thorburn, 2008; and Lamont and Polk, 2002). Overall, the international literature finds that corporations that pursued focusing strategies outperformed corporations that pursued a diversification strategy within a conglomerate (Zhao, Michalisin and Stubbart, 2011; Lee and Madhavan, 2010; Eckbo and Thorburn, 2008; Lamont and Polk, 2002; Bhana, 2000; Bhana, 2004; Bhana, 2006; and Bhana, 2008).

2.3 The Case for Unbundling in South Africa

In the context of South African listed corporations, the opportunity in a democratic South Africa leads to the ability for large, previously-induced conglomerates to unbundle and expand internationally (Rossouw, 1997 and Hattingh, 2007). One attraction resulting from this opportunity was for corporations to take advantage and utilise their resources to become dual-listed. This meant that corporations could unbundle and focus their business on a global scale. The general view from the literature is that this type of decision from a corporation has been viewed positively from the market (Afshar, Taffler and Sudarsanam, 1991; Cao, Owen

and Yawson, 2006; Lasfer, Sudarsanam and Taffler, 1998; Gadada and Thomas, 2005; Eckbo and Thorburn, 2008; Alexander, Benson and Kampmeyer, 1984; Jain, 1985; Hite, Owers, and Rogers, 1987). Walters and Prinsloo (2002), Gostner (2002) and Bhana (2000) ultimately found that the positives outweighed the negatives when it came to a corporation deciding to become dual-listed, and that becoming dual-listed would increase a corporation's liquidity.

Many negative perceptions relating to a corporation becoming dual-listed are, however, found in the literature. Walters and Prinsloo (2002) explain how the possibility of the decision to seek a foreign listing can be perceived negatively, because it impacts on the domestic economic growth. Personal Finance (n.d.) and Gostner (2002) found that another negative view surrounding corporations seeking a foreign listing was due to a lack of faith in South Africa. South African corporations have had to unbundle in order to be successful in their pursuit of a foreign listing (De Jong, Rosenthal and Van Dijk, 2009).

Gentle (2011) comments on the political situation that has impacted on South Africa during the last ten years (which correlates with the period of this study) and with specific reference to new policies being adopted by the country's ruling party, the African National Congress (ANC); for instance, the proposed nationalisation of the mines in South Africa. Gentle (2011) suggests that unbundling may be interpreted as an attempt for corporations to escape South Africa's government policies.

In South Africa, the popularity of unbundling operations is growing rapidly as part of the widely accepted restructuring of the corporate landscape (Bhana, 2006). This is consistent with the rest of the world (Afshar, Taffler and Sudarsanam, 1991; Lasfer, Sudarsanam and Taffler, 1998; Gadada and Thomas, 2005; Alexander, Benson and Kampmeyer, 1984; Jain,

1985; Hite, Owers, and Rogers, 1987). With globalisation and the onset of democracy in South Africa, it is expected that the market's response will be more in line with that of the rest of the world. Therefore, a positive abnormal return will be expected (Castle and Kantor, 2000; Bhana, 2006; Correia, Flynn, Uliana and Wormald, 2011). Blount and Davidson (1996) researched the effect of unbundling announcements in South Africa in 1996; at this time, there were eight companies that restructured by unbundling. The empirical study herein was to document the market's response to the unbundling announcements of these companies and to provide an explanation for the results obtained, using event study methodology. Empirical studies have shown that markets react positively to unbundling announcements because the market has a systematic positive response to unbundling announcements (Blount and Davidson, 1996), and investors perceive advantages associated with reverse diversification. The following hypothesis is proposed (a decade after Blount and Davidson's (1996) study): this research investigates the effect of the announcement of a restructuring (unbundling) on the returns of the companies, and explains the results observed.

Furthermore, due to strict exchange controls in South Africa in the past, the Apartheid era was characterised by a culture of local mergers and acquisitions, which was underlined by isolation and sanctions (Rossouw, 1997 and Hattingh, 2007). Access of diversification into international markets was curtailed and it is, therefore, understandable that conglomerates dominated the JSE (Castle and Kantor, 2000). With the relaxation of strict exchange controls as a result of democratisation starting in 1994, Hattingh (2007), Bhana (2004) and Rossouw (1997) stated that local corporations have since been able to re-join the international business community; they go on to suggest that unbundling announcements may be a more frequent

occurrence in the future. Following from this, conglomerates have been unbundling more frequently (Correia, Flynn, Uliana and Wormald, 2011).

Hattingh (2007), Rossouw (1997), Kantor (2001) and Bhana (2006) found that political change in South Africa, since 1994, has spurred a selling-off of divisions that are not part of a corporation's core activities. The drive to maximise business value, as measured by market capitalisation bases, yields one explanation for this: Black Economic Empowerment provides further stimulus for unbundling (Kantor, 2001; Correia, Flynn, Uliana and Wormald, 2011). The *Broad-Based BEE Act No. 53 of 2003* (BEE Act) makes the empowerment of previously disadvantaged groups imperative. Concurrently, respective BEE codes allow enterprises to achieve BEE ownership recognition through the disposal of businesses and assets. Bhana (2006) conveys that this presents an opportunity for local conglomerates to dispose of their non-core assets while earning valuable BEE points.

Blount and Davidson (1996) researched the wealth effects of voluntary corporate unbundling announcements in South Africa and they found that the share price was negatively impacted as a result of the unbundling announcement. Interestingly, their findings did not coincide with that of corporations in the United States. Blount and Davidson's (1996) reasoning for this was examined and explained from a corporate and capital market perspective. The corporate viewpoint was that South Africa was viewing the unbundling as a movement away from "efficient" structures and that the unbundling decision was not market related. They suggested, from the capital market perspective, that South African markets were not sufficiently sophisticated for unbundling to be a wealth-enhancing exercise.

The Blount and Davidson (1996) study realised the position South Africa was in at that time, and their findings were produced so as to reveal the country's situation with regards to this newfound opportunity that large South African conglomerates had, which was to unbundle non-core businesses and to expand internationally while focussing on core activities. The political aspect within South Africa played a part in their findings, as they concluded that the reason behind the negative reactions from the unbundling announcements, felt on the share price, may be explained by the fact that South African corporations may have had some "political pressure" to unbundle or that political motivations to unbundle were not wealth-creating in the short term.

However, an examination of the literature reveals that South Africa is not consistent with regards to the reasons for unbundling, compared to the rest of the world and regarding reaction from unbundling announcements made by listed corporations (Blount and Davidson, 1996). Subsequent to Blount and Davidson's (1996) research and given the period of time elapsed, positive effects on shareholders' wealth are expected to result from unbundling announcements. Updating this area of research will certainly assist managers in making key strategic decisions in the future (Moschieri and Mair, 2003).

The previous literature regarding unbundling announcements' effect on listed corporations' share price, in a South African context, was carried out in 1996, approximately fifteen years ago, when the situation of listed corporations had come about previously due to sanctions and isolation, making it suited to a reflective analysis inspired by the benefits of hindsight (Hayek, 1960; Blount and Davidson, 1996).

Refreshing the body of knowledge by analysing the effect of corporate unbundling announcements on shareholders' wealth, by listed JSE corporations, will fill a gap in South Africa's literature in this regard.

3 RESEARCH METHODOLOGY

3.1 Research Methodology

The purpose of this research is to update the body of knowledge regarding shareholders' response to corporate unbundling announcements in South Africa, by analysing the impact of the corporate unbundling announcement on shareholders' wealth.

The methodology used is a quantitative research method. This methodology is widely used in finance and economics because of the finding's high levels of reliability and the elimination of subjectivity from the processed data (Balsey, 1970; Kealey and Protheroe, 1996). The quantitative research approach produces factual findings by analysing, observing and reporting on the results realised. The research question in this report – being the wealth effects of the shareholder caused by corporate unbundling announcements – lends itself to a quantitative approach. The event study methodology was used. This method is based on the assumption that new information, in the form of an event, introduced to the market will trigger immediate reaction from investors, the event in this study being the corporation's announcement of an unbundling activity. The event study methodology was performed by determining the relationship between the corporate unbundling announcement and the shareholders' wealth, by investigating the movement on the share price. Mathematical models, such as the market model, were used in order to provide the estimates required for the event study methodology. Statistical analysis was then performed on the data so as to verify the findings and provide a better understanding of the situation.

Sufficient and accurate secondary data, from *McGregor BFA*, in the form of the corporation's share closing share prices, was used in the mathematical and statistical calculations to produce the desired outcome of observing the impact resulting from the corporate unbundling announcement.

The primary purpose of the event study methodology was to examine the abnormal equity returns around corporate unbundling announcements of publicly listed South African corporations, post-democratisation, during the eight-year period from 2002 until 2011.

3.2 Research Design

3.2.1 Introduction

Event study methodology was used to analyse the impact of unbundling announcements on the share price. This methodology was developed by Ball and Brown (1968) and, according to Peterson (1989), event study methodology is most frequently used as an analytical tool in this field of financial research. This methodology determines whether there is an abnormal share price effect associated with an unanticipated event (McWilliams and Siegel, 1997). The event in this research is the corporate unbundling announcement. According to MacKinlay (1997) and McWilliams and Siegel (1997), the event study methodology has been utilised by many different researchers in similar studies. Researchers such as Miles and Rosenfeld (1983), Blacconiere and Northcutt (1997) and Lindholm, and Moss (2010), have tried and tested this methodology for similar research objectives.

The event study methodology was used to assess whether the impact of the corporate unbundling event has had an abnormal return on the corporation's share price. The basic idea of this statistical method is to find the abnormal return attributable to the unbundling event by adjusting for the return that arises from the price fluctuation of the market as a whole. Abnormal returns may be caused by events. This chapter will explain the methodology that was followed. For an added perspective about the significance of the unbundling announcement on the market, secondary data of the volume traded around the event date was collected and analysed.

3.2.2 Test Period

The test period is the time frame used for the event study to run its course. Abnormal returns are computed in the test period for each corporation within the sampled data. The test period is from 125 days prior to the unbundling announcement to 5 days after the announcement. The test period has been separated into two components, namely the estimation window and the event window. This test period is similar to that used by Blount and Davidson (1996) and Bhana (2006). Please refer to Appendix A (De Jong, 2007).

The estimation window is the period where the normal returns, the estimates of the intercept, and the slope parameters for a given corporation were calculated, respectively. This period runs from 125 days prior to the announcement to 5 days prior to the announcement.

The event window is the time frame within which the abnormal returns, around the announcement of the unbundling, were calculated. The event window is a short period of 5 days prior to the announcement until 5 days after, so as to capture the shareholders' response.

This period was selected because of the pure announcement effect desired from this research report, which is a short period around the actual announcement date. The pure announcement time frame is common within this field of research, as a longer period provides other variables to taint the data. This is known as the pure announcement effect. Additional steps were manually undertaken to make sure that there were no confounding events.

3.2.3 Normal return

In an event study, the aim is to calculate the abnormal return associated with an event. Firstly, the normal return must be measured before identification of abnormal returns can take place. This has been achieved by implementing the market model approach of calculating normal return. The market model seeks to explain realised share returns by postulating a linear relationship with realised returns on “the market”:

$$R_{jt} = \alpha_j + \beta_j R_{mt} + \varepsilon_{jt}$$

Where:

- $\beta_j R_{mt}$ is the realised returns on share j and “the market” respectively;
- α_j and β_j are constants; and
- ε_{jt} is a random variable uncorrelated with R_{mt} and having a Gaussian distribution with zero expected value (Fama, 1973).

The market model assumes that all shares are affected to a greater or lesser extent by a common underlying factor that will impact on the overall market. If there is an increase in the

investor confidence, then most companies will do well and their related share prices will increase in value. Whereas in recessionary times, the opposite will hold true, certain developments peculiar to the company will, however, cause the share price of the company to move against the prevailing trend. These peculiar factors would be calculated using ε_{jt} in the market model equation (Gilberston and Goldberg, 1981; Harvey, 2011; and Fisher, 2011).

In the context of this study, the market model states that the share's normal return is related to the JSE index's return according to its beta.

3.2.4 Abnormal Returns

An abnormal return is a summary of how the actual returns differ from the predicted returns. The predicted returns are calculated using the estimates generated as a result of the normal return calculation model. Once the estimations regarding the normal returns had been calculated from the market model, the abnormal returns for each corporation were calculated within the event window. In the context of this research, an abnormal return is the difference between the actual return of a share and the expected normal return of that share. This was done on a day-to-day basis over the span of the event window. For example, if the expected return on an investment is 10% and the actual return is 8%, while the investor has 8% more than he/she had when he/she started, the abnormal return is still -2%. On the other hand, if the expected return is 8% and the actual return is 12%, then there is a positive abnormal return of 4%. This step is key within the event study methodology, as it is from these results that conclusions are generated.

3.2.5 Cumulative Abnormal Return (CAR)

CAR measures the excess returns an investor would have received over the event window if he or she were invested in a particular share. The abnormal return over the expected normal return is accumulated over the event window period and is called the CAR.

The abnormal return observations were aggregated to make an overall inference regarding the unbundling announcement event. Firstly, each corporation's abnormal returns, within the event window, were aggregated to achieve a CAR across corporations. This would illustrate to what extent the unbundling announcement impacted on the corporation's share price. After each corporation had an individual CAR, the individual CARs were aggregated to reveal an overall impact on the share price felt by the announcement of the corporate unbundling.

3.2.6 Volume Traded

The volume traded has been analysed to ensure that the unbundling announcement is not a trivial matter and that thin trading has not been an influential factor. The volume for each corporation within the selected sample for each day, within the event window, has been obtained from *McGregor BFA* and analysed in this research report. The day's trading volumes are accumulated so that it can be presented in a graphical format and visually analysed so as to inspect the significance of the announcement on the volume traded by the JSE.

3.3 Population and sample

3.3.1 Population

This research report is based around the announcement of an unbundling transaction event. The population consists of only genuine unbundling announcements. The population included all JSE-listed corporations which had undergone a voluntary unbundling announcement during the period 1 January 2002 to 31 June 2011 (post-democratisation). This period is used because prior research was carried out in 1996, and similar events to unbundling, such as sell-offs, have been researched up until 31 December 2001 (Bhana, 2006; Blount and Davidson, 1996). This data was sourced directly from the JSE. The data was received in the form of the SENS announcement from which a sample was then selected.

3.3.2 Sample and Sampling Method

The sample consisted of voluntary corporate unbundled reported corporations listed on the JSE during the period 1 January 2002 to 31 July 2011. The sample consists of only the initial unbundling announcement. If a corporation made two or more unbundling announcements within the researched period, then only the first instance is included in the sample. The sample has included only those corporations that have their daily share price data available for the full observation period. According to Hopkins (2000), the estimate of the relationship is less likely to be biased if you have a high participation rate in a randomly selected sample. This is why the maximum amount of corporations that qualified within these criteria was analysed. Twenty-seven corporations were included in the sample. This was a sufficient

sample size for the event study methodology to be effective and yield unbiased results that can be generalised to the larger population.

3.4 Procedure for Data Collection

The collection of the data was of great significance, due to the nature of quantitative research. The process started with collecting secondary data from the JSE SENS database. The JSE sent through a complete list of the corporations and dates of the unbundling announcements. A list of relevant SENS announcements of corporations that had undergone unbundling announcements within the observation period had also been received directly from the JSE. The sample of corporations that had undergone unbundling operations within the observation period has been extracted from this database. Only genuine unbundling announcements were included in the sample selected. The SENS announcements were analysed, and the earliest and initial unbundling announcement was used in the researched sample. If a corporation's cautionary announcement announced the unbundling transaction, then that was the date incorporated into the sample. This was done in order to analyse the initial impact an unbundling announcement would have on the shareholders' wealth. Each corporation's and the market's index share price for each day, relating to the observation periods, was extracted from *McGregor BFA* and *I-Net Bridge*. The secondary data related to the announcements – being the data collected from *McGregor BFA* and *Reuters News*, and not from the researcher of this report – has provided selected news services stories from *Business Day* and other financial publications. All other relevant information about the unbundling event has been sourced from the relevant Annual Financial Statements of the particular corporation.

3.5 Limitations of the Study

This study is limited due to the complexity involved in corporate restructurings and the variables that take part in shareholders' reactions. The significant limitations are listed below:

- The event study methodology depends on the assumption of an efficient market (Fama, 1970). This assumption is not valid in many situations.
- Share price may incorporate more information than just the market's response to the unbundling decision.
- The event study approach provides estimates of the short-run impact on shareholders only, and fails to consider many other effects of the event.
- The event study approach is sensitive to change in the research design. Changes in corporation compilation or estimation window period will result in vastly different results.
- The normal return may not be an accurate way of measuring normal variance with regards to share price.
- The sample of 27 corporations may not reflect the true situation with regards to the market's response.
- The input into this methodology is very important – if incorrect data is inserted into the method, then incorrect data will be produced.
- Only the share price is assessed for each sampled corporation, without due consideration of the impact on other social partners and the community at large.

This research intends to be used as an indicator. It should be used with other indicators and is not a means to an end in itself. Although there are limitations, they do not invalidate the research or the results.

4 PRESENTATION OF RESULTS

4.1 Introduction

This chapter presents the information which was utilised in reaching the conclusion presented in this research report. The data is displayed in both tabular and graphical format so as to present a comprehensive view of what the information is communicating.

4.2 Results

4.2.1 Cumulative Abnormal Return (CAR)

a. *Figure 1.1*

A table listing the corporations used in this research report, as well as the CAR calculated using the event study methodology, is shown below. The table displays the CAR prior to the corporate unbundling announcement, in addition to the CAR subsequent to the corporate unbundling announcement. Below is the table summarising the observations discovered during this research report. There is also a t-test for the difference between the averages.

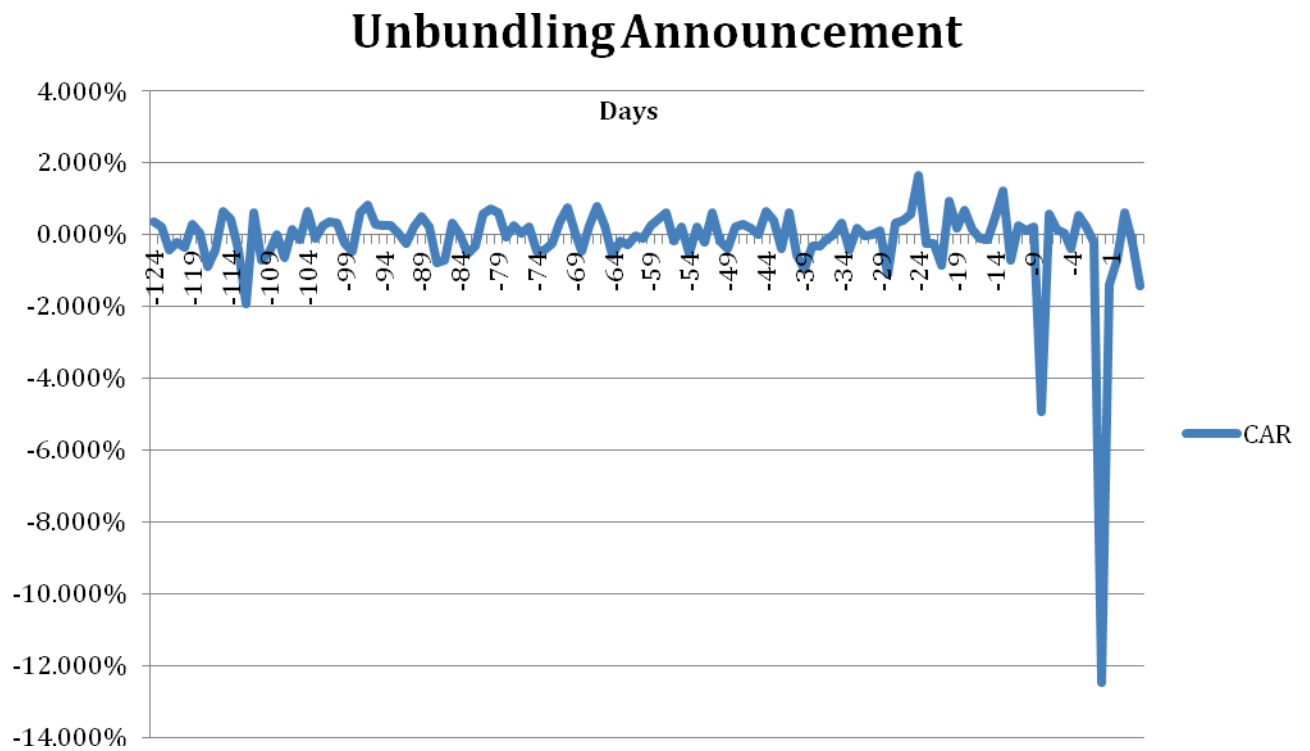
Corporation Name	CAR Prior Announcement	CAR Post Announcement
ANGLO AMERICAN PLC (AGL)	-0,014%	-0,581%
AVI LIMITED (AVI)	0,009%	-9,478%
BARLOWORLD LIMITED (BAW)	-0,022%	-0,150%
BRIMSTONE INVESTMENT CORPORATION LTD (BRT)	-0,053%	-1,413%
CONTROL INSTRUMENTS GROUP LIMITED (CNL)	-0,028%	-1,998%
CORPCAPITAL LIMITED (CPA)	0,076%	0,035%

FIRSTRAND LIMITED (FSR)	0,007%	-0,230%
GENCOR LIMITED (GMF)	-0,009%	-0,878%
HOSKEN CONSOLIDATED INVESTMENTS LD (HCI)	0,003%	-1,722%
IMPERIAL HOLDINGS LIMITED (IPL)	0,063%	-1,426%
JOHNNIC HOLDINGS LIMITED (JNC)	-0,002%	0,325%
LABAT AFRICA LIMITED (LAB)	-0,071%	-31,996%
MOBILE INDUSTRIES LIMITED (MOB)	-0,006%	0,807%
MONDI Limited (MND)	-0,002%	0,328%
MVELAPHANDA GROUP LIMITED (MVG)	0,022%	0,040%
MVELAPHANDA RESOURCES LIMITED (MVL)	0,023%	-1,500%
PSG GROUP LIMITED (PSG)	0,099%	-0,007%
PSG INVESTMENT BANK HOLDINGS LTD (PGH)	-0,140%	-0,279%
REMGRO LIMITED (REM)	0,027%	-0,284%
RMB HOLDINGS LIMITED (RMH)	-0,025%	-0,264%
SIMMER AND JACK MINES LIMITED (SIM)	-0,002%	0,135%
TELKOM SA LIMITED (TKG)	0,115%	-0,423%
TIGER BRANDS LIMITED (TBS)	0,003%	-0,104%
TIGER WHEELS LIMITED (TIW)	-0,020%	-1,018%
TONGAAT HULETT LIMITED (TON)	-0,007%	-0,407%
UCS GROUP LIMITED (UCS)	0,003%	-2,243%
WOMEN INVESTMENT PORTFOLIO HOLDINGS LTD (WPH)	-0,013%	-15,537%

Abnormal Returns for Corporations		
Period	Average	Standard Deviation
Prior Announcement	-0,001562	0,009008
Post Announcement	-0,008754	0,097124
T-STAT:	-2,000757163	
p Value:	0,05596809	

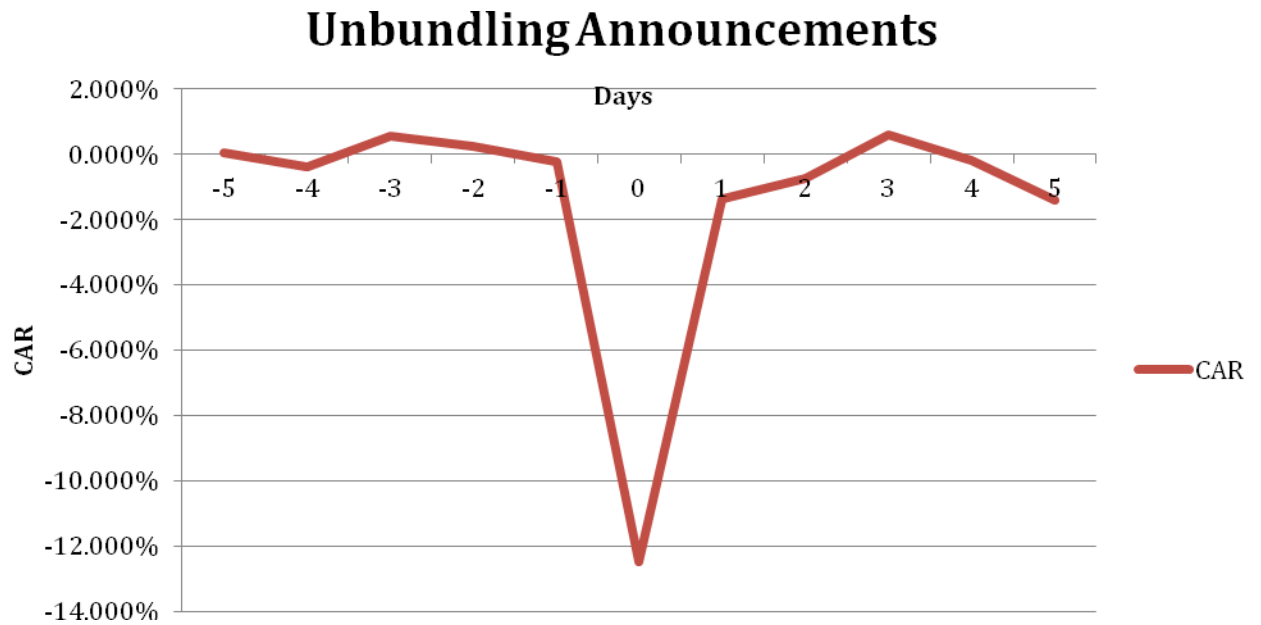
Note to table: T-STAT measures for a difference between the average abnormal returns pre and post-announcement.

b. *Figure 1.2*



The graph above (Figure 1.2) illustrates the CAR of all the corporations included in the sample over the entire estimation and event window period (-125 days to +5 days). The most significant abnormal returns can be seen within the event window period.

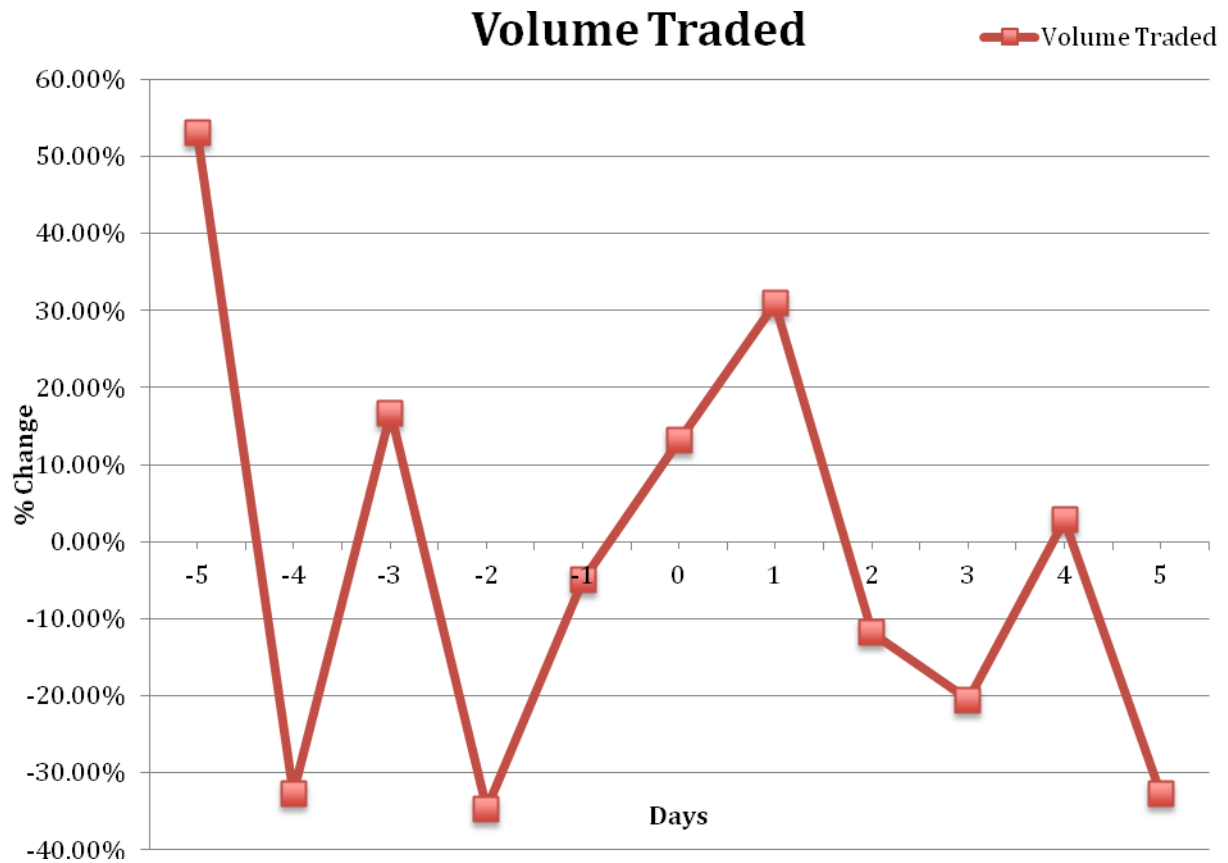
c. *Figure 1.3*



The graph above (Figure 1.3) illustrates the CAR of all the corporations included in the sample within the event window period (-5 days to +5 days). Significant abnormal returns can be seen around the announcement of the unbundling event.

4.2.2 Volume Traded

a. *Figure 2.1*



This graph above (Figure 2.1) illustrates the percentage change within the event window period (-5 to +5). This data was used to determine the significance of the unbundling announcement of the volume on shares traded. This data was captured and processed to provide evidence that a corporation's unbundling announcement is not a trivial event.

5 DISCUSSION OF THE RESULTS

5.1 Introduction

This research report utilised the event study methodology to produce results which could be compared with those found in Blount and Davison's (1996) research. This approach is consistent with similar research carried out on this topic (Blount and Davidson, 1996; Bhana, 2006; Afshar, Taffler and Sudarsanam, 1991; Cao, Owen and Yawson, 2006; Lasfer, Sudarsanam and Taffler, 1998; Gadada and Thomas, 2005; Eckbo and Thorburn, 2008; Alexander, Benson and Kampmeyer, 1984; Jain, 1985; and Hite, Owers, and Rogers, 1987). It was found that a negative impact on the share price resulted from the corporate unbundling announcement.

5.2 Cumulative Abnormal Returns

Cumulative abnormal returns are shown in Figures 1.1, 1.2 and 1.3. These clearly illustrate that there is a negative abnormal return experienced as a result of the corporate unbundling announcement. While the abnormal returns are not significantly different pre and post-announcement, the cumulative abnormal returns are strongly negative. From the results observed, there is a 12,47% negative cumulative abnormal return on the share price on the day the unbundling is announced.

Despite the many benefits of unbundling a corporation, as mentioned in this research report, the results indicate that management needs to be mindful that a corporate unbundling announcement will most likely have a negative impact on the share price.

The findings of this investigation are of particular importance to South African diversified corporations that intend following the international trend of unbundling. The results reveal that South Africa is inconsistent with the international trend with regards to the market responding to corporate unbundling announcements.

These results, as displayed in 4.2.1, confirm the findings of Blount and Davidson (1996). One can expect the market in South Africa to react negatively to a corporate unbundling announcement.

5.3 Volume Traded

The graph in Figure 2.1 indicates an increase in the volumes traded on the date of the corporate unbundling announcement. This reveals that the announcement of the corporate unbundling causes a reaction from the market. This graph (Figure 2.1) illustrates a volume increase of 13.12% on the day of the announcement, followed with a further 30.88% increase in the volume traded on the day after the announcement. Underlining the importance of a corporate unbundling announcement shows that there is a reaction from shareholders, resulting in an increase in the volumes of shares traded of that corporation immediately thereafter.

6 CONCLUSIONS AND RECOMMENDATIONS

6.1 Conclusion of the Research

After analysing the numerous international authors on this topic and their persuasive arguments made for unbundling, it appeared that Blount and Davidson's (1996) conclusion in their research (in a South African context) – which differed from the international conclusions – was either incorrect or the result of a specific time period of unique historical change in South African society. This research was carried out so as to either confirm Blount and Davidson's (1996) findings or to show that their study was reflective of the past and not a true indication of where South Africa was heading with regards to international markets.

This research report updated Blount and Davidson's (1996) findings with new observations that took place from January 2002 to June 2011. A sample size of 27 corporations was included in the research that analysed unbundling announcements and the JSE's reactions to the announcements. This research report fulfilled its task of analysing the effect that a corporate unbundling announcement has on shareholders' wealth by using the event study methodology. This was done in order to remain consistent with the prior research and to make a relevant comparison.

The results indicated that negative abnormal returns were observed, confirming the findings of Blount and Davidson (1996). Even though the abnormal returns were not significantly different pre and post-announcement, the cumulative abnormal returns are strongly negative. Blount and Davidson's (1996) reasons for their findings suggested, amongst others, political pressures or that the capital market conditions in South Africa are not conducive to restructurings of this nature. Coupled with a view that "bigger is better", it may also be the case that the capital markets in

South Africa are still not as sophisticated as those in the United States or the United Kingdom. Furthermore, the Johannesburg Stock Exchange remains highly regulated, which may also contribute to the findings and this result may indicate that the market in South Africa is not able to evaluate and monitor management as efficiently as international counterparts. Another argument put forward by Blount and Davidson (1996), which may stand firm, is that investor power is not as well developed in South Africa as it is in the more developed international markets.

Ultimately, the results observed are consistent with those found by Blount and Davidson (1996). In a post-democratic South Africa (eight years from democratisation) unbundling announcements made by corporations still have a negative impact on shareholders' wealth.

6.2 Recommendations and Suggestions for Further Research

This research report analysed the impact of corporate's unbundling activities on shareholders' wealth. This report has provided an updated view of the situation in the post-apartheid era in South Africa, with regards to unbundling. The value of knowing what will probably happen to the share price, when management is considering whether or not to unbundle, is of significance to the outcome of their decision.

The information in this research report should be used as a tool when managers are considering unbundling activities. This research intends to be used as an indicator and as a launching pad from which more research can be done on this topic. It should be used with other indicators and is not a means to an end in itself.

Blount and Davidson's (1996) findings has confirmed that the South African market differs from international markets with regards to corporate unbundling. Further research into this topic is possible as there are many aspects that can be further analysed.

The event study approach offers a potentially powerful empirical methodology, with a wide range of applications in finance and economics (Cable and Holland, 1999). The way in which the counterfactual, 'normal' returns that would have been earned in the absence of the 'event' are modelled, is crucial for successful application of this methodology. There are many variables/announcements that fall within the definition of 'events' in the case of the event study, which leads to the opportunity for further research being achievable.

The South African market, the JSE, contains a wealth of information. There is sufficient access to high-quality secondary data, which will lead to efficient and effective research in the future. From this research report, it is suggested that further research be done on particular 'events' and their impact on shareholders' wealth.

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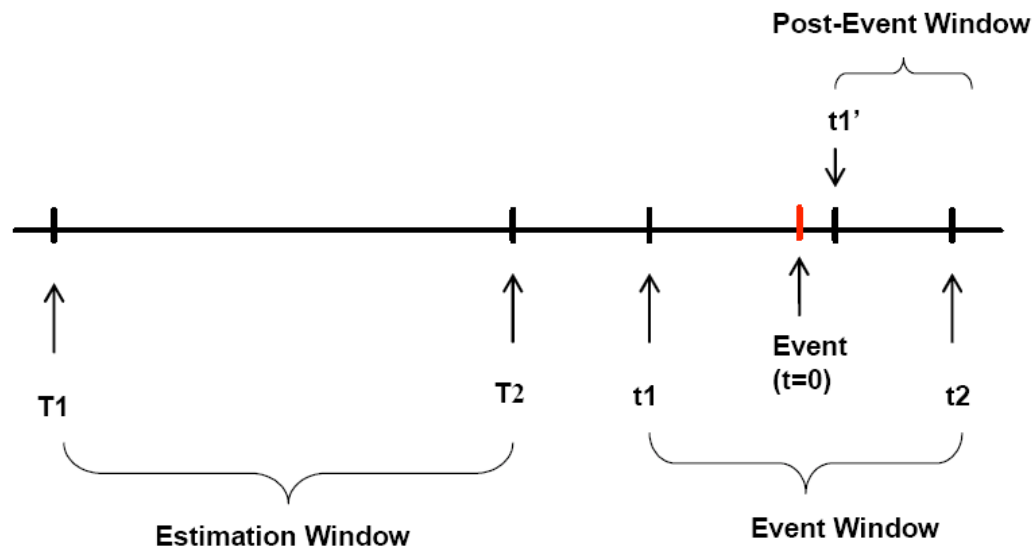
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APPENDIX A – RESEARCH METHODOLOGY

Test period timeline for typical event study (De Jong, 2007):



$[T_1; T_2]$ – The estimation window

$[t_1; t_2]$ – The event window

The event window is indicated by $t = 0$ is the effective date of unbundling announcement.

Windows are the number of periods (days) from the event and not the usual calendar time.