



The Effect of Corporate Restructuring on the Shareholders' Value: The Case of GEC/Marconi

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Abstract

GEC/Marconi's transformation from a diversified conglomerate to a focused telecommunications and information technology company was an eventful and rambling transmission that resulted in the deterioration of shareholders' value. It represents one of the most dramatic falls from grace in British corporate history and one of the greatest corporate governance fiascos of all time. The study investigates the wealth effects of Marconi's sell-offs and acquisitions on its shareholders' value by calculating the abnormal returns on the announcement days of all the disposals/acquisition during 1996-2002. The results support the view that shareholders' value increases when a company proceeds to corporate sell-offs to pursue a focus strategy. However, the authors conjecture that GEC/Marconi has destroyed shareholders' value through these disposals/acquisitions because of several mistakes, such as being prone to heavy debt.

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Introduction

Diversification in the 1950's and 1960's gave rise to huge conglomerate firms and this has led Jiraporn, Kim, Davidson & Singh (2006) to question whether corporate diversification enhances or destroys shareholders' value. Proponents of diversification argue that diversified firms gain benefits such as enhanced operating efficiency, larger internal capital markets from where companies could increase their debt capacity, lower taxes and the capability of taking up more positive net present value projects. On the other hand, critics of diversification argue for divestiture and re-focusing instead.

For example, Jones and Miskell (2007) indicate that many mergers and acquisitions had unsatisfactory outcomes and that financial economists concluded that, on average, acquisitions benefited the shareholders of

acquired firms rather than acquiring firms. A study by Berger and Ofek (1995) showed that diversification destroys value. They estimated the value of diversified firms' segments as if they were conducting business as separate firms and found that the loss incurred varied from 13% to 15%.

Furthermore, Hoskisson, Johnson, Tihanyi and White (2005) argue that corporate restructuring has been a very popular strategy during the past 25 years and its impact is felt in almost every sector of the U.S. and European economies. They distinguish between three forms of corporate restructuring: asset restructuring, financial restructuring and organizational restructuring. Asset restructuring involves the sale or spin-off of businesses within the corporate portfolio, leading to a refocused (predominantly lower) level of diversification. Financial restructuring encompasses leveraged buyouts, stock repurchases, and leveraged recapitalisations,

whereas organizational restructuring entails reorganisations within the firm that do not involve the sale or disposal of assets. The focus of this study is on corporate restructuring that leads to divestiture.

To divest, conglomerate firms proceed to sell-offs, which are defined by Alexander, Benson and Kampmeyer (1984), as the action of selling some assets of a parent firm, like a division or a product line, to another firm. Reasons for divestitures (Weston, 1992), could be for abandoning the core business, changing strategies or restructuring, discarding unwanted business from prior acquisitions, financing prior acquisitions, warding off takeovers, reversing mistakes and/or lack of fit of the acquired division.

Most studies show that it is worthwhile to divest. However, to reinvest the proceeds from asset sales, on the other hand, is thought to destroy value. Kaiser and Stouraitis (2001) tested this argument in the case of Thorn EMI, and could not support it. The aim of this paper is to investigate the effect of a restructuring programme on the shareholders' value of Marconi Corporation plc, a provider of hardware and software for the communication and information industries.

Marconi's conversion from a UK corporate diversified conglomerate to an over-indebted company, is considered as one of the most dramatic falls from grace in British corporate history and one of the greatest corporate governance fiascos of all time. Marconi is a major global communications and information technology company with research and development facilities in 19 countries, manufacturing operations in 16 countries and serving customers in over 100 countries including the United Kingdom, Continental Europe, North America, Africa, Asia and Australia. However, Marconi is also known for having the longest-suffering shareholders, since its shares, valued at £12.50 in 2000, have now collapsed after a massive slump in profits¹. In the analysis to follow, the years from 1968 to 1996 are referred to as the Weinstock era (after GEC managing director's name during that period), the years from 1996 to 2001 as the Simpson era, (after new Marconi managing director's name). From 1996 to 1999 Marconi was operating under the name of the General Electric Company and it was only in November 1999 that it started operating as Marconi.

When GEC decided to rename itself Marconi (after one of its Italian subsidiaries), everyone knew that there were further significant changes to follow. GEC Plessey Telecommunications, which was one of GEC's subsidiaries, was chosen to lead in the new era for GEC whose core division was now Marconi communications. Marconi communications was a product of GPT and a few telecom companies around the world. These

changes not only changed GEC's identity from a UK-based diversified company to a more focused US-based company, but they also altered its structure and were generated by changes in operational and strategic levels².

During the 1960's the company fitted the model of the financial control company that created stand-alone companies and did not intervene directly in their strategies; rather monitored results through financial targets. GEC was a highly risk-averse company with a modest growth performance. To compensate for the latter, diversified companies like GEC engaged in a series of acquisitions. However, in the 1990's diversification ceased to be popular and instead the new trend was divestiture and focus. GEC's financial control style was no longer effective and GEC was perceived by many as being an under-performing defence and engineering group (Seal, 2001). It was time for GEC to follow the new trend. By 1996, GPT was a solid business but being part of a directionless conglomerate like GEC affected its potential. The appointment of a new management, whose goal was to make GEC first or second in the world, led to a number of disposals and new acquisitions. The original approach was to look for growth in three or four core business groups (defence, telecom and industrial groups), but the result was concentrating on one main industry (telecommunications).

In order to investigate the effect of the new strategic focus imposed on Marconi by Lord Simpson from 1996 to 2002, details of all the disposal/acquisition announcement dates were collected and the abnormal returns around these dates were calculated. Positive abnormal returns, (on average), were found on the announcement dates. This result is consistent with the theory and supports the fact that divesting, (increasing focus), enhances shareholders' value. However, the result is not consistent with the theory that managers destroy shareholders' value when they reinvest the proceeds from asset sales for expansion through acquisition.

The remainder of the paper is organised as follows: The following section presents an overview of the relevant literature on asset sales and the implications for shareholders' value, as well as the development of hypotheses. Section 3 describes the research method and the data sources. Section 4 examines the failure of internal capital markets and the management accounting system during both the Weinstock and the Simpson eras and presents the history of the diversification period from 1968 to 1996. Section 5 discusses the methodology used to calculate and report the abnormal returns on the announcement dates and comments on groups of the most important acquisitions/disposals and their impact on shareholders' value. The last section sets out some conclusions.

¹ In May 2002 the company announced the biggest loss in British corporate history (£5.7bn). Although Marconi returned to profit with positive cash flows in September 2004, the failure to win a large contract with BT resulted in a 40% drop in share price and 800 redundancies. In August/September 2005, Marconi reviewed its strategic position and began discussions with possible buyers.

² In May 2003, Marconi renamed as Marconi Corporation plc as a result of restructuring, giving creditors 99.5% of the shares.

Literature Review and Hypotheses Development

Divestiture of an asset takes place when the asset holds back the seller's other operations. That would be the case if, for instance, the seller's main operations were unrelated to that asset. An immediate consequence of a sell-off would be an increase in focus, i.e. the seller's business would operate more resourcefully. However, research on divestiture has generated ambiguous results (Brauer, 2006). A study by John and Ofek (1995) on asset sales, places emphasis on focus as a principal motive for divestitures. They support the view that the gains in the firm's value after the sell-off come from the enhanced management of the remaining assets. They use numerous accounting measures of performance including operating margins and return on assets, to ascertain that after the sell-off there is an increase in the profits of the firm's remaining assets. Moreover, they find that the enhancement in performance is positively related to the increase in focus. This is mainly the result of elimination of negative synergies between the divested asset with the remaining assets and increased efficiency due to improved allocation of management time and resources in a more focused firm. They regard focus as the dominant explanation for a divestiture.

Boudreaux (1975) conducted one of the first studies on divestiture and its impact on shareholders' value. He collected data from 1965 to 1970, for 169 US corporate divestiture, of which 138 were voluntary and 31 involuntary. He argued that if a company divests, then it gives up the cash flows associated with the divested assets and takes on the cash flows of the acquiring divisions. A positive net present value to the divesting firm should be related with an increase in shareholders' value.

A negative net present value would imply the opposite. He finds that voluntary divestitures are associated with abnormally positive price movements in the firm's shares and that if the divestiture is done properly, the reaction of the market is similar to the reaction from an acquisition or merger announcement; that is an increment to shareholders' wealth. Moreover, he supports the view that the market reaction is consistent with financial theory and the then existing evidence of price movements related to such corporate announcements. Jain (1985) conducted a similar study to investigate the effect of voluntary sell-offs on stock returns. She studied a sample of a thousand sell-off events and found strong evidence that both sellers and buyers receive significant abnormal positive returns. She also found evidence that for a period before the sell-off announcements, the sellers experienced significant negative returns and thus supports the view that the sellers performed poorly before the sell-off had taken place.

Klein (1986) examined how the information revealed on the announcement day of a sell-off affects the return of the relevant share. He found that the returns on shares

vary according to whether the transaction price is announced or not. He calculated both daily and cumulative average returns for a number of sell-offs and the results led him to reject the null hypothesis that on average a sell-off announcement has zero or negative effects on the ordinary shareholders' wealth. Furthermore, on average, a sell-off announcement results in significant but small positive excess returns for the seller, but not for all the announcements. He found that for the sub-sample where the transaction price was not revealed, the effect of the announcement was not statistically different from zero. For the sub-sample where the price was revealed, the returns were significantly positive. Finally, he found a positive relation between the relative size of the divestiture and the share returns: the larger the sell-off, the larger the return.

Another early study by Hite, Owers and Rogers (1987) supports the *efficient deployment hypothesis of asset sales*. This hypothesis states that a sell-off promotes efficiency by assigning assets to better uses and the seller attains some of the ensuing gains. Moreover, managers should only hold on to those assets for which they have a comparative advantage, but sell them as soon as another firm gains that advantage and can manage them more resourcefully. Shareholders then make a profit from sell-offs eventually, whether managers decide to re-invest the earnings or pay them out.

Lang, Poulsen and Stulz (1995), challenged the above hypothesis and put forward the *financing hypothesis of asset sales*. According to their research, "management values size and control, so that it is reluctant to sell assets for efficiency reasons alone" (p. 4). Accordingly, the dominant reason for a sell-off is to provide funds when other resources of financing are too expensive. Equity sales are considered unattractive mainly because of agency costs of debt, or asymmetries of information. They also support the view that once a sell-off is completed the value of the asset increases because if it had turned out to be low, the sale would not have happened. Their empirical results are consistent with the financing hypothesis of asset sales, rather than with the efficient deployment hypothesis.

They find that firms that sell assets are usually poor performers and/or, have high debt. Moreover, the typical firm sells assets primarily because of financial distress, rather than because of finding out that another firm would run the asset more efficiently. This contradicts the result of the efficient deployment hypothesis that the stock price reaction to a successful sell-off is related to the use of the proceeds. Instead they find that when the proceeds of a sell-off are used to pay debt, there is a positive stock price reaction; a negative or insignificant stock price reaction follows sell-offs for which the proceeds are expected to be kept within the firm.

Comment and Jarrell (1995) considered focus from a different point of view. In their study, they try to see how the diseconomies of scope in the 1980's led to focus

and if focus is consistent with an increase in shareholders' value. Finally, they examine the relationship between stock returns and focus. According to their research, focus changes as a company divests or acquires new businesses, or it can shift over time depending on the growth rate of the industry. Comment and Jarrell found that negative economies of scope were present during the 1980's, which led to an increase in focus, which is consistent with shareholders' value maximization.

Kaiser and Stouraitis (2001), conducted an extensive study on Thorn EMI to evaluate the effects of reversing diversification and the results on shareholders' value after reinvesting the proceeds of asset sales. The results contradict the theory that shareholders' value is destroyed if the proceeds from asset sales are reinvested for expansion purposes through acquisitions. Briefly, in 1985, Thorn EMI was one of the largest diversified UK conglomerates whose stock price had declined by 44% in the previous 18 months and was trading at a diversification discount of 68%. The change in management led to an eleven-fold increase in its market capitalization by 1996 and an outperforming stock price. The new management had divested all the non-core operations of EMI and reinvested the proceeds in the core music division. Kaiser and Stouraitis, find that contrary to the theory, managers do not destroy shareholders' value when they reinvest the proceeds from asset sales for expansion through acquisitions.

When the conglomerate lacked funds for investment in its music division, it was decided to raise funds through asset sales. The stock market met the company's announcements of acquisitions in music with positive reaction. Kaiser and Stouraitis attributed the increase in Thorn EMI's value to the fact that management chose to exit from declining industries, pursue a focus strategy and to specific restructuring and other strategy-related announcements made.

They report abnormal returns associated with thirty-four major restructuring events and they found that divestments resulted in large positive market reactions. Correspondingly, most music acquisitions resulted in positive market reaction. Their results support the hypothesis that refocusing the firm and reinvesting the proceeds from asset sales in acquisitions that strengthened the music division created value for shareholders. Thorn EMI raised funds by sell-offs to focus on their core activities and experienced operating performance advances and value increases.

Research Hypotheses

In this study, three hypotheses are tested in an attempt to understand and explain what happened to Marconi's shareholder value throughout the period under study. They examine how it was affected after the announcements of the sell-offs to pursue the focus strategy, the announcements of the acquisitions and

finally the announcements of the sell-offs to reduce leverage.

In particular, the following hypotheses are tested:

H1: Shareholders' value increases after the announcement of a corporate sell-off whose proceeds are used to increase focus

H2: Shareholders' value deteriorates after the announcement of an acquisition for expansion purposes

H3: Shareholders' value increases after the announcement of a corporate sell-off whose proceeds are used to decrease leverage.

Research Methodology

This study concentrates on one company, Marconi, and uses the theory in an attempt to understand and explain the specific. An explanatory case study approach was employed here to explain the reason behind an observed practice (focus strategy).

The aim is not to produce generalizations but to provide explanations for observed practices. The case study research method has been criticized as an immature or pre-science subject area, because one cannot generalize from a single experiment. However, to find whether a theory explains the observations, one needs to replicate the 'experiment' both in similar and in different conditions. In particular, considering the theory behind corporate sell-offs, Kaiser and Stouraitis (2001) conducted their case study on a successful company that managed to create and sustain shareholders' value after the focus-strategy. But one cannot conclude that what they found is applicable for each company that pursues a focus-strategy, especially for these companies that have had a rambling restructuring period and are now in great financial trouble, like Marconi Corporation.

By conducting a similar case study on Marconi, the findings can be compared with Kaiser and Stouraitis' (2001) and evaluate whether the theory can in fact be applied to both successful and unsuccessful companies.

Case studies are viewed as a way to use a theory to explain observations. If the theory provides convincing explanations, it is retained and used further. If not, it is rejected and modified. If a sufficient number of similar case studies can be collected, researchers would be able to generate a theory. However, researchers should be careful not to fall into "the trap of trying to select a representative case or set of cases" (Yin, 1984:39), in order to produce statistical generalizations. Marconi is by no means a representative case, rather a critical one and that is why it was chosen to test the theory. The objective was to determine whether the theory provides plausible explanations for critical cases, or whether alternative theories need to be generated.

Data Collection Method

Annual reports and financial statements are the major means of understanding and explaining the financial situation of a company across time and they were obtained from Marconi's web site (www.marconi.com). Moreover, stock market data were obtained from DataStream to calculate the abnormal returns around the announcement days. The announcement dates of each acquisition/disposal were carefully obtained from Marconi's website and major UK newspapers through the Lexis-Nexus Database. Additional data sources are referenced in the text when appropriate³.

The Failure of Internal Markets before and after the Focus Strategy

Drawing from Seal's (2001) study, this section provides a brief overview of the management accounting practice in Marconi, before and after the focus strategy. Under the leadership of Lord Weinstock, GEC had a plain management style. It was based on a small head office and it operated a substantially large number of unrelated business units. Gould and Campbell (1987) supported the view that the company fitted the model of the financial control company that created stand alone companies and did not intervene directly in their strategies, but monitored results through financial targets. Each GEC business unit was responsible for its investment strategy and Lord Weinstock would monitor their performance personally.

His tactics on investment policy have been characterized as being constraining. He would not encourage any form of innovative investment proposals and he would not provide any large bonuses or praise if such an instance occurred. Each business unit would submit a monthly report to be analysed by Weinstock, with basic figures like ratios and records of sales and cash, which was reported as negative funding. Satisfactory reports with excellent profitability ratios were common to GEC, but GEC's risk aversion regarding investment would give poor growth performance. This is how the "cash mountain" myth started unfolding. Aris (1998) recorded that GEC reported: net cash balance of £51 million in 1972, £250 million after four years and £1 billion in 1996. "Shareholders began to wonder whether they had invested their money in a manufacturing company or a bank" (Aris, 1998:168).

Under the autopoietic theory projected in Seal's paper, GEC's faulty system of management accounting did not evolve in any way but instead harmed the decision-making system. The management's task of managing processes was replaced by managing figures and no evolution could be made from that. The non-financial management control system failed to produce new ways of developing products and markets internally. It seemed

like marketing, research and development were GEC's worst nightmares. In 1996, GPT was the first high risk strategic subsidiary that was constrained by the low risk system of the directionless conglomerate. The telecommunications industry was about to explode and GPT would become a global player. But it was trapped inside GEC's constraining financial system.

When Lord Simpson took over in 1996 as chief executive, he adopted a focus strategy of disposing of all unrelated businesses of GEC and concentrating on three core groups - defence, telecommunications and industrial groups. Lord Simpson put into practice a "more risk, more return" strategy and was committed to maximizing shareholders' value by proceeding to acquisitions that "were intended to be integrated to fully exploit cross-selling and technological synergies" (Seal, 2001:497). The disposals and the acquisitions were followed by a new management control style that encouraged horizontal communication and team working across the company. As a result, a new investment policy was adopted: one that approved different types of investment projects and led to higher returns by bearing more risks.

To keep its promise to maximize shareholders' values, "Marconi introduced a value management system that signalled a continued, even enhanced awareness of the company's stock market performance" (O'Hanlon and Peasnell, 1998 as cited in Seal, 2001). The new approach encouraged the use of existing assets in different ways. To back this up, an employee share scheme was created in which the workforce was given a thousand shares each that could be cashed, if and only if, they doubled in value within five years. New ways of conducting business were implemented everywhere across Marconi; new costing methodologies, a new role of management accounting in the supply chain, creation of a performance improvement unit. There were further innovations at head office. Simpson founded a Business Excellence Centre to circulate the best practices across Marconi and induce corporate learning.

The new practices of management accounting in the post 1996 period seemed to be so promising that even a slight chance of failure seemed impossible. According to Seal, the new management control model displayed greater differentiation in its management control sub-systems. But the impact of some of the old "single-system" features of management accounting was still intense. Seal argues that Marconi's shareholders' value metric at head office exhibited a persistent dedication to a single-system thinking.

Organic growth based on innovation and learning could not keep pace with single-system thinking. In every attempt to impose such a system in lower/local areas of the company, organic growth would be damaged and the company would lose the ability to generate 'intellectual capital' through alliances between employees and customers. Furthermore, the

³ The data collected from Marconi's web site is considered reliable as it is factual in nature and not prone to bias. The data was cross-checked with other sources whenever possible.

shareholders' value approach adopted in Marconi's head office contradicted the subtler 'community of practice' model advocated in the Business Excellence Centre. Improvement and learning could be done without the shareholder value metric to measure it.

To sum up, GEC as a diversified conglomerate was trading at a diversification discount primarily because of its luck in organic growth. It was more concerned with making a 'cash mountain' than delivering shareholder value. On the other hand, GEC/Marconi as a focused company, even after adopting a more efficient management accounting system still had a number of unsettled issues, the most important being the tension between the single-system shareholder value metric and the more relaxed approach introduced at corporate and divisional levels.

The Diversification Period

The origin of Marconi can be traced back to 1897 when Guglielmo Marconi founded "The Wireless Telegraph and Signal Company", later to be known as Marconi plc. In 1946, the English Electric Company (EEC) took over Marconi's Wireless Telegraph Company and in 1968 the English Electric Company merged with the General Electric Company (GEC). From 1897 to 1999 when GEC became Marconi Plc, the latter changed name several times:

1897	Marconi's Wireless Telegraph Company
1963	Marconi Company Limited
1987	GEC Marconi Limited
1998	Marconi Electronic Systems Limited
1999	Marconi Plc

Just after the World War II, business did not look good for the English Electric company. The war was over and the manufacturing of aircrafts was not optimal anymore. George Nelson, the managing director of EEC decided to move away from aircraft and proceeded to buy Marconi. By the end of the 1950's the EEC still had persistent long-term problems. In an attempt to resolve them, Nelson proposed a merger with GEC, which was at first rejected but eventually, took place, in under GEC's managing director Arnold Weinstock in 1968. This merger left EEC and GEC, (who had earlier taken over the Radio and Allied Industries (RAI) and had acquired the Associated Electrical Industries (AEI), with half of the rising turbo generator business. Arnold Weinstock continued with a series of acquisitions, most of which are discussed here in detail, except the Yarrow Shipbuilders acquisition in 1974 and the Avery acquisition in 1979, for which the authors were unable to retrieve any information.

March 1988 witnessed the creation of GEC Plessey telecommunications (GPT). GEC decided to merge its communications interests with Plessey and create GPT with a turnover of almost £1.2 billion and an asset base of £428 million. Plessey was paid £45 million by GEC

because it was putting in more than GEC. The son of Lord Weinstock was the only main board member. The joint venture of GEC-Plessey was then seen as the chance for the British telecommunications industry to become a world player, since GPT was to become one of the top ten world companies in its sector. The following year GEC and Siemens, the West German group acquired Plessey. It was the second time Lord Weinstock had bid for Plessey⁴ in an attempt to strengthen and rationalize the British electronics industry. GEC continued its policy of developing its businesses, by forming a power generation and transport arm GEC Alsthom, with Compagnie General D'Electricite. GEC Alsthom was a European group with powerful positions in France, the UK and several export markets. This deal too faced some difficulties at the Monopolies Commission. The new company would have annual sales of £4 billion and 85,000 employees; it was the largest power engineering company in the European Community with net assets of £800 million. Siemens took a 40 per cent interest in GPT while GEC acquired a 50 per cent stake in Siemens' electronics business. Lord Weinstock's plan was to create a web of joint ventures involving different partners to make it harder for any hostile predator to attack GEC.

On January 14th 1990, Ferranti decided to agree to Lord Weinstock's offer of £310 million to buy its defence system. The £310 million sale price included part of Ferranti's interest in Italy and all the business and assets of the Edinburgh-based defence operation. Thomson CFS, the French defence group had previously offered £200 million to buy Ferranti - £200 million being the estimated value of Ferranti's sales purely on defence electronics. The deal had high importance at the time since it represented a dramatic stage in the restructuring of the UK defence electronics sector. It left the UK defence market with two dominant players: GEC and British Aerospace. From the Ferranti deal GEC got a big head start in radar and navigation systems and lifted its defence turnover to £2.7 billion. Even before the £310 million acquisition of Ferranti, GEC was fourth in the world league of defence electronics companies.

Following the Yarrow Shipbuilders acquisition in 1985 and the Ferranti acquisition in 1990 and in an attempt to build a comprehensive naval system, Lord Weinstock out-bid British Aerospace with a share cash offer worth £532 million for submarine builder Vickers Shipbuilding and Engineering Ltd (VSEL). A price war between BA and GEC began and GEC came up with a second offer of £835 million against the new £660 million offer made by BA. The fight ended with Lord Weinstock emerging as winner and therefore being the decisive player in the future British defence industry. GEC had ample cash resources to fund its offer. At the end of September 1995 net cash balances were £1.43 billion. However, Lord Weinstock's £835 million offer did not seem to

⁴ The first one was in 1985 when Weinstock's proposal was turned down by the Monopolies Commission.

make much sense. He was paying 20 times the earnings for a business whose profits could fall off in three years time. On the other hand, GEC's successful bid made BA smaller and financially weaker and therefore an easier potential prey for GEC later.

GEC's bid on VSEL was greeted with a great deal of scepticism by the Ministry of Defence (MoD). At the beginning of the BA-GEC battle, analysts thought that because of potential monopoly problems GEC would not even think about bidding. GEC bid for VSEL because it would then own the two large warship yards left in the UK. The Royal Navy was not happy with one company owning both yards. However, even if GEC gained monopoly power from the acquisition, the MoD gained power by being the only UK buyer of warships. The MoD did allow GEC to bid at the end and the long battle between BA and GEC that began in October 1994, ended in December 1995 emerging as GEC being the winner.

In 1996, Lord Weinstock retired after 33 years of leading GEC. So what was GEC under the Lord Weinstock's leadership? According to an interview with John Mayo, the chief executive of GEC until July 2001⁵, GEC was an old-style conglomerate, a group of unrelated businesses that relied on government cost-plus contracts. It had many activities locked in joint ventures and had not even started adjusting to the new commercial and competitive markets of the 1990's, in which cost-plus contracts were no longer optimal. GEC was a conglomerate with joint ventures: a 50:50 joint venture in power generation, a 60:40 joint venture in communications, GPT and finally, a smaller communications company in Italy, Marconi SpA. Investors viewed GEC as a business that had increasingly failed to deliver shareholder value.

Similar companies on the other hand had produced better performances, a fact leading to the view that there was time and a need for change. Since 1982, GEC had been constantly under performing on the FTSE All Share index and thus shareholders wanted the unwinding of the joint ventures, to achieve focus and the ability to strategically distribute their resources according to sectors. Finally shareholders wanted GEC to invest the cash mountain of £1billion it held.

On September 6th 1996, at the Annual General Meeting, George Simpson took over from Lord Weinstock as managing director of GEC and started a new era of corporate management.

Abnormal Returns for Restructuring Announcements by GEC/ Marconi Plc

Dates and relevant announcements as published in various UK newspapers and the Marconi web site are reported in the Appendix. Details of each announcement: whether it is an acquisition or a

disposal, the relevant parties and the acquisition or disposal prices are also reported. It should be noted that prices of some acquisitions/disposals are not reported in Sterling pounds due to the lack of the exchange rates used in the transaction⁶. The abnormal return for each acquisition and disposal is calculated and reported in the Appendix.

This research uses the event study methodology to assess the impact of the company's new focus strategy (acquisitions/ disposals) on the value of the firm⁷. To calculate the actual returns of a company i at day t the following method was used:

$$R_{it} = \frac{P_{it} - P_{it-1}}{P_{it-1}}$$

where P_{it} is the share price of the company i on day t and P_{t-1} is the share price on day $t-1$.

To calculate the company's return over a multiperiod event window the actual returns were compounded:

$$1 + R_{it}(N) \equiv (1 + R_{it}) * (1 + R_{it-1}) * \dots * (1 + R_{it-N+1})$$

The multi-period simple net returns are: $R_{it}(N)-1$. This study reports the buy and hold abnormal returns BHAR[-1,1], BHAR[-1,2], BHAR[-1,3], BHAR[-1,4] and BHAR[-1,5] for trading days [-1,1], [-1,2], [-1,3], [-1,4] and [-1,5] relative to the announcement day $t=0$ (defined as the day the relevant news appear in the UK newspapers reported earlier and the Marconi web site) and -1 being the day before the announcement, $+1$ the day after the announcement and $+2$ the second day after the announcement and so on. The wealth effect of the announcement is captured by the change in the share price beyond the normal or expected changes.

The AR_{it} is defined as the difference between the actual R_{it} return and the expected $E(R_{it})$:

$$AR_{it} = R_{it} - E(R_{it}).$$

To obtain the expected returns the market adjusted model $E(R_{it}) = R_{mt}$ was used. The London Stock market FTSE 100 index was used for the benchmark. The buy and hold abnormal returns for the [-1,+1], [-1,+2], [-1,+3], [-1,+4] and [-1,+5] days are calculated as follows:

$$\begin{aligned} \text{BHAR}[-1,+1] &= (1+AR_{-1})(1+AR_0)(1+AR_{+1})-1 \\ \text{BHAR}[-1,+2] &= (1+AR_{-1})(1+AR_0)(1+AR_{+1})(1+AR_{+2})-1 \\ \text{BHAR}[-1,+3] &= (1+AR_{-1})(1+AR_0)(1+AR_{+1})(1+AR_{+2})(1+AR_{+3})-1 \\ \text{BHAR}[-1,+4] &= (1+AR_{-1})(1+AR_0)(1+AR_{+1})(1+AR_{+2})(1+AR_{+3})(1+AR_{+4})-1 \\ \text{BHAR}[-1,+5] &= (1+AR_{-1})(1+AR_0)(1+AR_{+1})(1+AR_{+2})(1+AR_{+3})(1+AR_{+4})(1+AR_{+5})-1 \end{aligned}$$

Finally, the test of significance was conducted for seven days window (-1, 0, +1, +2,+3, +4, +5) and their t -

⁶ There are four different currencies were used: Sterling pounds (£), US dollars (\$), Australian dollars (A\$) and Euros (€).

⁷ See, for example, Alexander *et al.* (1984), Hite and Owers (1983), Jain (1985) and Mulherin & Boone (2000).

⁵ Financial Times, January 18, 2002, p18.

statistics are 0.57, 0.86, 0.26, -0.49, 0.72, -0.20, -0.27 for each day respectively. These results are not all statistically significant. Moreover, what is encouraging is that the t-statistics around day zero are larger than the t-statistics around any other day. This can be attributed, among other explanations, to the fact that when the positive and negative abnormal returns were aggregated, they offset each other and therefore the true effect can only be captured when the events are classified.

The History of the Restructuring of GEC/Marconi and its Effects on Shareholders' value

Following Lord Weinstock's departure in 1996, George Simpson was appointed as chief executive of GEC. In December 1996, he started his new plan to restructure the business assembled by his predecessor. After announcing the half-year results, he outlined the group's disposal plans. He intended to sell large parts of its industrial businesses that did not belong to GEC, which were made up of more than 150 separate companies. Simpson drew up a strategic plan to be completed by July 1997 and expected to raise £300 million from the sales. 1997 was an important year in shaping the future direction of GEC. Apart from Simpson's plan to dispense all activities not seen as central to GEC's future, his

biggest concern focused on GEC-Marconi, (the defence business), since he considered it to be at the heart of the future of GEC.

In the analysis to follow, there are some comments on groups of acquisitions/ disposals according to whether they stand out of the sample due to peculiarities. At the end of the group's discussion, an overall critic of the results is given to explain whether they are consistent with the theory.

Analysis of disposals for focus strategy

In December 1996, Simpson outlined the group's disposal plans (see Table 1). The first disposal of an unwanted business was that of Satchwell Controls, the UK's largest manufacturer of systems to manage temperature, airflow and humidity in commercial buildings. Satchwell Controls was sold to Siebe, a diversified engineering group for £80m including debt. Satchwell had been part of GEC since 1968. In the year before the sale it delivered record profits, making £4.9m from sales of £60.3m. It had net assets of £9.4m and employed around 1,000 people. Despite Satchwell's success, Simpson was more concerned with focus and Satchwell had to go.

Table 1: Returns on Disposals for Focus Strategy

AnDate		MARCONI		FTSE 100 – PRICE INDEX				
		£	RM	£	RFT	AR		
Satchwell								
-1	1/1/1997	308.24	0	4118.5	0	0		
0	2/1/1997	304.61	-0.01178	4057.4	-0.01484	0.003059		
1	3/1/1997	309.86	0.017235	4089.5	0.007911	0.009324	BHAR[-1,1]	1.24%
2	6/1/1997	316.31	0.020816	4106.5	0.004157	0.016659	BHAR[-1,2]	2.93%
3	7/1/1997	316.72	0.001296	4078.8	-0.00675	0.008042	BHAR[-1,3]	3.76%
4	8/1/1997	320.35	0.011461	4087.5	0.002133	0.009328	BHAR[-1,4]	4.72%
5	9/1/1997	323.98	0.011331	4087	-0.00012	0.011454	BHAR[-1,5]	5.92%
AB Dick								
-1	3/1/1997	309.86	0.017235	4089.5	0.007911	0.009324		
0	6/1/1997	316.31	0.020816	4106.5	0.004157	0.016659		
1	7/1/1997	316.72	0.001296	4078.8	-0.00675	0.008042	BHAR[-1,1]	3.44%
2	8/1/1997	320.35	0.011461	4087.5	0.002133	0.009328	BHAR[-1,2]	4.40%
3	9/1/1997	323.98	0.011331	4087	-0.00012	0.011454	BHAR[-1,3]	5.60%
4	10/1/1997	320.75	-0.00997	4056.6	-0.00744	-0.00253	BHAR[-1,4]	5.33%
5	13/1/1997	325.59	0.01509	4107.3	0.012498	0.002591	BHAR[-1,5]	5.61%
Wire and Cables Group								
-1	18/3/1997	311.47	-0.0128	4356.8	-0.00377	-0.00903		
0	19/3/1997	310.67	-0.00257	4332.2	-0.00565	0.003078		
1	20/3/1997	303.4	-0.0234	4258.1	-0.0171	-0.0063	BHAR[-1,1]	-1.22%
2	21/3/1997	303.81	0.001351	4254.8	-0.00077	0.002126	BHAR[-1,2]	-1.01%
3	24/3/1997	299.37	-0.01461	4214.8	-0.0094	-0.00521	BHAR[-1,3]	-1.53%
4	25/3/1997	297.75	-0.00541	4270.7	0.013263	-0.01867	BHAR[-1,4]	-3.37%
5	26/3/1997	301.39	0.012225	4301.5	0.007212	0.005013	BHAR[-1,5]	-2.88%
Marconi Instruments								
-1	5/2/1998	316.31	0.00512	5606.4	0.001894	0.003222		

0	6/2/1998	318.73	0.00765	5629.7	0.004156	0.003495		
1	9/2/1998	313.89	-0.01519	5600.9	-0.00512	-0.01007	BHAR[-1,1]	-0.34%
2	10/2/1998	313.49	-0.00127	5613.3	0.002214	-0.00349	BHAR[-1,2]	-0.69%
3	11/2/1998	311.47	-0.00644	5607.9	-0.00096	-0.00548	BHAR[-1,3]	-1.23%
4	12/2/1998	307.44	-0.01294	5552.5	-0.00988	-0.00306	BHAR[-1,4]	-1.54%
5	13/2/1998	309.86	0.00787	5582.3	0.005367	0.002505	BHAR[-1,5]	-1.29%
GEC Plessey Semiconductors								
-1	11/2/1998	311.47	-0.00644	5607.9	-0.00096	-0.00548		
0	12/2/1998	307.44	-0.01294	5552.5	-0.00988	-0.00306		
1	13/2/1998	309.86	0.00787	5582.3	0.00537	0.002505	BHAR[-1,1]	-0.60%
2	16/2/1998	309.05	-0.00261	5619.9	0.00674	-0.00935	BHAR[-1,2]	-1.53%
3	17/2/1998	309.05	0	5709.5	0.01594	-0.01594	BHAR[-1,3]	-3.10%
4	18/2/1998	303.4	-0.01828	5723.4	0.00243	-0.02072	BHAR[-1,4]	-5.11%
5	19/2/1998	300.98	-0.00798	5718.5	-0.00086	-0.00712	BHAR[-1,5]	-5.79%

The second disposal took place a few days later. GEC sold AB Dick, its Chicago-based office equipment company to Paragon Corporate Holdings Inc. The sale price was not revealed. AB Dick together with Videojet, a printer manufacturing business, made operating profits of £37 million with a £299 million turnover. Its performance however, was not satisfactory according to GEC's standards and off it went.

The next disposal was that of the Wire and Cables Group on 19th March. The business was sold to TT Group Plc for £16 million in cash. The Wire and Cables Group had a turnover of £197 million, profits of £2 million and net assets of £34 million.

The last two disposals of this group were the disposals of Marconi Instruments to IFR Systems Inc for £65 million and a few days later the disposal of GEC Plessey Semiconductors to Mitel Corporation for £135 million. Marconi Instruments included business units in Britain, France, Spain, Germany and the United States. It had £4.5 million profits on sales of £65.9 million. GEC Plessey Semiconductors had sales of £215 million and profits of £7.2 million. All the above disposals left GEC with almost £1 billion in hand, to pursue its focus policy.

According to the theory, one would expect the share price of Marconi to rise, which in turn would give positive abnormal returns. In most of the above disposals not only are low abnormal returns reported, but also, in the case of GEC Plessey Semiconductors, the abnormal return is negative. Apart from the AB Dick return, no other return is even close to being significant, a fact that is contradicts the theory. On the announcement day, investors are very cautious and in some cases they even have a negative reaction. In many cases, the

returns on Marconi are negative; not just for the disposal day but for the next two days also. One might argue that these five disposals were part of GEC's new managing director's strategy and since investors were not familiar with his methods they did not support his plan. On the other hand, the abnormal returns on the Satchwell disposal were found, surprisingly, to be lower than the abnormal returns of other disposals. Actually, the expectation was to report quite high abnormal returns for the first disposals, since they represented the new focus strategy, which at the end of the day, was what shareholders wanted. In all of the above disposals the abnormal returns seem to follow at an increasing scale. It is worthwhile noting that as days pass investors seem to react more to the news and the market also reacts in a more upbeat manner. This results in largely significant BHARs for the fifth, sixth and seventh day's windows. This fact is consistent with the theory that the announcements of corporate sell-offs result in large positive stock market reaction. However, it is to be noted that in the Satchwell disposal the BHAR[-1,4] and the BHAR[-1,5] are significantly high and this could be effected by the AB Dick disposal, which took place in the fifth day of the window.

Analysis of acquisitions for focus strategy

March and April of 1999 witnessed two very important acquisitions taking place with ambiguous consequences for shareholder value. In the middle of these two acquisitions, Marconi also acquired Logitron and Tetrel Ltd on the 3rd March, for which positive significant abnormal returns are reported. In this section the Reltec and Fore acquisitions and their impact on shareholder value in the short and longer term are analysed.

Table 2: Returns on Acquisition for Expansion

		MARCONI		FTSE 100 - PRICE INDEX				
AnDate		£	RM	£	RFT	AR		
Reltec								
-1	26/2/1999	404.69	-0.02449	6175.1	-0.00506	-0.01943		
0	1/3/1999	419.32	0.036151	6060.9	-0.01849	0.054645		
1	2/3/1999	435.57	0.038753	6061.3	6.60E-05	0.038687	BHAR[-1,1]	7.42%
2	3/3/1999	459.14	0.054113	6048.3	-0.00214	0.056258	BHAR[-1,2]	13.46%
3	4/3/1999	464.01	0.010607	6101.4	0.00878	0.001827	BHAR[-1,3]	13.67%
4	5/3/1999	455.07	-0.01927	6205.5	0.01706	-0.03633	BHAR[-1,4]	9.54%
5	8/3/1999	453.86	-0.00266	6208.9	0.00055	-0.00321	BHAR[-1,5]	9.19%
Fore								
-1	23/4/1999	470.51	0.02025	6427.99	0.00225	0.018		
0	26/4/1999	494.49	0.05097	6503.59	0.01176	0.0392		
1	27/4/1999	536.34	0.08463	6593.62	0.01384	0.07079	BHAR[-1,1]	13.28%
2	28/4/1999	526.99	-0.01743	6598.77	0.00078	-0.01821	BHAR[-1,2]	11.22%
3	29/4/1999	530.65	0.00695	6497.6	-0.01533	0.02228	BHAR[-1,3]	13.69%
4	30/4/1999	535.12	0.00842	6552.18	0.0084	2.36E-05	BHAR[-1,4]	13.70%
5	3/5/1999	535.12	0	6552.18	0	0	BHAR[-1,5]	13.70%

On the 1st March 1999, Marconi acquired the US telecommunication network products company, Reltec for £1.3 billion (\$2.1 billion). Reltec based, in Ohio, was at the time a fast expanding operation with sales of more than \$1 billion annually. In the year ended 31st December 1999, Reltec reported revenues of \$1,067 million and net income of \$30 million. The sale price of \$2.1 billion included net debt of \$361 million and was equivalent to an agreed price of \$29.50 per share in cash that represented a premium of 36% on the closing price on Friday 26th February. Reltec became part of the Marconi Communications' group and would sell Marconi's products to the US market, with its own products being incorporated in Marconi's portfolio. It represented an attractive acquisition because firstly, it gave Marconi access to the US market and secondly, the synergies between Reltec and Marconi in terms of products created a new product portfolio that would increase the size of the markets addressable by Marconi.

Thirdly, Reltec would strengthen Marconi's existing portfolio of products, making Marconi more attractive to its existing customers. Size and geographic reach were becoming increasingly important in the industry at the time, therefore the Reltec acquisition would help Marconi to create a global enterprise with competitive advantages and significant value to shareholders. The acquisition was expected to enhance earnings per share before goodwill and group cash flow return on investment.

On 26 April 1999, Marconi announced the acquisition of Fore Systems Inc, which was based in Pennsylvania and was a leading designer and producer of high performance networking products based on ATM and IP technologies. The acquisition price was £2.8 billion or

\$35 per share in cash, which represented a premium of 43% on the Fore closing share price on Friday 23rd of April. Fore's revenues were \$632 million with gross profit of £346 million and at that time it was a leading global supplier of high performance, internet switching equipment. Along with Marconi Communications' leading optical network solutions and next generation access products (acquired with Reltec), Marconi was positioned at the front of the rapidly growing global communication infrastructure market. Fore was an attractive acquisition at the time because it would strengthen Marconi's presence in the USA, which was the world's largest market for telecommunications equipment. That would provide Marconi with access to new markets and new customers, extend Marconi's market portfolio and give a big boost to their sales. It was expected that the acquisition would be neutral to Marconi's earnings per share before goodwill in the year to follow, but would enhance earnings thereafter.

At the time, the market welcomed both US acquisitions. They were seen as a wise move by GEC because they would increase its market value and the synergies between GEC and the acquired companies were excellent in terms of the existing industry, the potential of the industry and management expertise. Reltec's management team and employees would bring depth of experience in sales, marketing and operations. A significant 5.46% abnormal return is reported for the Reltec acquisition with high BHAR for all time windows of 7.42%, 13.46%, 13.67%, 9.54% and 9.19% respectively.

Let us point out though that the return on the FTSE 100 on the announcement date of the acquisition was - 1.8%. Overall, the Fore acquisition was thought to be a "bargain". Marconi paid a huge amount of money, to

achieve a huge amount of money. The announcement of the acquisition was taken very warmly by investors, increasing shareholders' value. The abnormal return on the day of the announcement was quite significant (3.92%) and the BHAR for all time windows were increasingly and positively significant. Accordingly, the return on the FTSE 100 on that date was 1.17%. However, the market might have welcomed these two acquisitions too warmly. Firstly, ATM (connection oriented technology), which was Fore's specialty was not too fashionable at the time, so the extreme abnormal return reported the day of the acquisition is not validly justifiable. Secondly, the prices paid for these two companies were thought to be too high. In the case of Reltec there was a 36% premium on the closing share price; plus the sale price incorporated net debt of \$361 million.

The price paid for Fore was also seen as high: a premium of 43% on the closing share price. These two large cash purchases enhanced shareholders' value at that time, but one cannot help wonder what their impact was in the longer term. The answer could be, almost with certainty, that they contributed to Marconi's transition to an over-debted and value-destroying company. To be more precise, to pay for these acquisitions, Marconi could only use cash because it was not compliant with the US Foreign Corrupt Practices Act and could not list shares in the US for use as acquisition currency. Thus Marconi had to borrow £2.1 billion to finance these acquisitions. That however was not manageable debt and there is no doubt that Marconi's management made over-optimistic assumptions in 1999 about the potential for growth in Reltec and Fore. In the longer term, the consequence of these two acquisitions was value destruction.

According to theory, the announcements of these acquisitions should be related to negatively significant abnormal returns, which is not the case here. Positive abnormal returns are reported, which mean an increase in shareholders' value. However, the authors conjecture that even though the immediate effect of the announcements was positive, shareholders' wealth deteriorated eventually because of the debt problems associated with the acquisitions on later dates. This conjecture is based on the assessment of the data, financial reports and above all, on facts. At the very end of 1999, Marconi's share price was outperforming the FTSE 100. The company had made rapid progress as communications equipment and IT provider. Lord Simpson had succeeded in pursuing his focus strategy and in mid 2000 when the company reported its full-year profits, the figures more than fulfilled analysts' expectations.

Sales in core business had risen by 40 per cent and operating profits had gone up by 48 per cent. After all the successful acquisitions, Marconi needed to win some big orders to keep its place at the top. In September 2000 Marconi's share reached its peak at

£12.50. However, in 2001, after BT and other telecom service providers cut back on their capital spending on equipment, Marconi's order book plunged; so did the telecommunications' sector; so did the FTSE- 100; so did Marconi's share price. Table 3 shows turnover, operating performance and earnings per share for the years from 1996 to 2002. The deterioration in turnover began in 2001 and was very obvious by 2002.

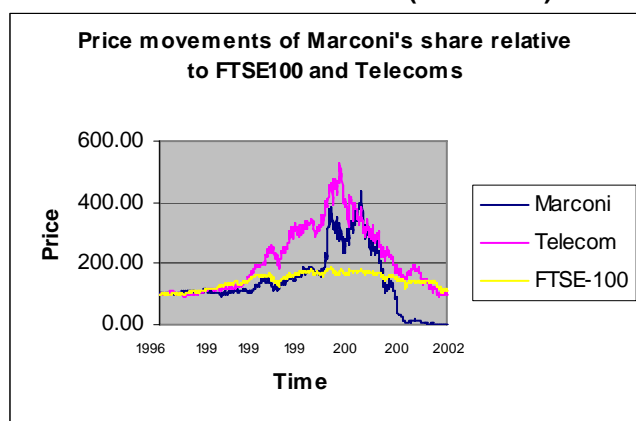
Table 3: Operating Performance for GEC (1996-1999) and Marconi (1999-2002)

Year	1996	1997	1998	1999	2000	2001	2002
Turnover							
	3,440	3,515	3,768	4,090	5,724	5,181	3,479
			(394)	(-)	(-)	(1,761)	(1,088)
Operating Performance: (loss)/profit							
	378	369	439	508	750	754	{463}
Earnings {Loss} per share							
	9.4p	9.0p	11.1p	13.0p	16.9p	15.1p	{23.2p}
	(15.2p)	(14.3p)	(17.2p)	(22.4p)	(19.4p)	{10.4p}	{21.6p}

Table 3 shows turnover, operating performance and earnings per share for GEC/Marconi. Turnover figures are given for continuing and discontinued operations (in parenthesis). Operating performance figures are for continuing operations, excluding goodwill amortization and exceptional items. Earnings per share are given for continuing operations excluding goodwill amortization and exceptional items. Basic earnings per share are given in parenthesis. Data were obtained from annual reports. All figures are in £ millions unless stated differently.

Figure 1 shows standardized values for Marconi's stock price, the Telecommunication's Index and the FTSE 100 index during 1996-2002. Marconi's share price was heading for a tumble. Analysts at that time said that Marconi was rather unlucky because of the state of the market. Furthermore, the company had severe debt problems. At the year ending 31st March 2001, Marconi's net debt amounted to £3,167 million. After a number of profit warnings during the same year, Lord Simpson ceased being part of Marconi's management team. The company then pursued a new strategy of further disposals, but not for the purpose of focusing; rather to reduce its debt. In October of 2001, Marconi announced its first disposal to reduce net debt. After four major disposals (Medical Systems, Commerce Systems, Data Systems and the 50 per cent stake in GDA), as well as a number of non-core asset disposals, Marconi managed to raise £1,559 million and reduce its net debt to £2,865 million in the year ending 31st March 2002.

Figure 1: Stock price of Marconi, Telecommunications Index and FTSE 100 Index (1996-2002)



The figure shows standardized values for Marconi's stock price, the telecommunications index and the FTSE 100 Index for the London Stock Exchange during 1996-2002. All series are standardized so that their value on 01-01-1996 equals 100 (see table 4, annexure A).

This group of disposals gave results that support the "financing hypothesis of asset sales" discussed earlier, according to which the stock price reaction of a successful sell-off is positive if the proceeds are used to pay back debt. Out of a total of eight disposals to reduce net debt, one produced a quite significant abnormal return of 1.79 percent and the rest enhanced shareholders' value by very significant percentages. On average, the new disposals' strategy to reduce net debt enhanced shareholders' value. Two disposals' announcements had a negative impact on shareholders' value, but that is attributed not to the nature of the disposal but to negative news appearing in newspapers about Marconi's debt.

In particular, the -4.4% abnormal return on the Marconi Medical Systems disposal was a product of Marconi's announcement about renegotiating its banks' contracts. Marconi intended to request a longer term for its loans and offer banks higher interest rates. The debt would be moved from the company to the subsidiaries which would give banks greater access to cash flow. Marconi was portrayed as a company without a future and that affected its share price around those days. The same situation resulted in the Lottomatica and the Data Systems disposals, for which a negative abnormal return of -3.45% is reported.

Around those days, Marconi's image in the corporate world was rather vague; it was represented as a company debilitated by corporate debacles and debt. Overall, it must be pointed out, that, unlike in the case of sell-offs to pursue a focus strategy, in this case the BHAR for all the day windows does not follow an increasing scale. As days pass, when the abnormal return is negative it becomes more negative; when it is positive, it becomes less so. Additionally, it should be noted that the BHAR around the days of the first

Lottomatica disposal (28 Nov 2001), the second Lottomatica disposal and the Data Systems disposal (5 Feb 2002) may be enlarged because of further disposals that took place around these days.

Conclusion

This case study examined GEC/Marconi's conversion from a diversified conglomerate to a focused telecommunications and information technology company. The diversification period between 1968-1996 and the restructuring period from 1996-2002 were examined. The restructuring of GEC/Marconi was a gradual one. Therefore, this case gave the opportunity to quantify some of the benefits/costs of the gradual restructuring and to test the following hypotheses:

H1: Shareholders' value increases after the announcement of a corporate sell-off whose proceeds are used to increase focus

H2: Shareholders' value deteriorates after the announcement of an acquisition for expansion purposes

H3: Shareholders' value increases after the announcement of a corporate sell-off whose proceeds are used to decrease leverage.

The abnormal returns on the announcement days and the buy and hold abnormal returns around the announcement days (7 day window) for forty-four acquisition/disposal announcements were calculated. Information about the sale price and the sellers/buyers of the disposed/acquired businesses was also gathered in an attempt to assess the validity of GEC/Marconi's actions.

Evidence was found to support the theory that corporate sell-offs are connected with positive stock price reaction. However, it is reported that some disposal announcements were related with significantly high negative abnormal returns. The results are consistent with Boudreaux (1975), Jain (1985) and Klein's (1986) findings.

Similar results were obtained for the disposals whose proceeds were used to reduce leverage. Most of the abnormal returns reported were excessively positive, as supported by Lang *et al.* (1995), with only two cases of highly negative abnormal returns.

Finally, the stock market's reaction to the announcements of acquisitions (to pursue the focus strategy) was examined. On average it was found that shareholders' value increased. This finding is consistent with Comment and Jarrell's (1995) findings. However, shareholders' value strongly deteriorated from 1996 when Lord Simpson took over and imposed the focus strategy. Therefore, the authors conjecture that in this particular case, shareholders' value was destroyed by the focus strategy, but this result was not observable in the abnormal returns calculated on the announcement

dates. The test of significance conducted for the seven-day window supports this conjecture.

Overall, the restructuring of GEC/Marconi, provides an example that counters the theory that managers destroy shareholders' value when they reinvest the proceeds from asset sales for expansion through acquisitions. However, evidence supporting the theory was found in a few cases: the analysis of GEC/Marconi reveals similarities and differences compared with the restructuring of Thorn EMI (Kaiser and Stouraitis, 2001). The Thorn EMI case contradicts the idea that managers destroy shareholders' value when they reinvest the proceeds from asset sales for expansion through acquisitions. The only difference between the current case study and the Thorn case study, is that, even though the market met Marconi's announcements of acquisitions/disposals with a positive reaction, Marconi's shareholders' value deteriorated during the restructuring period and never managed to recover.

At the end of 1996, GEC's infamous cash mountain had to be invested. Shareholders were demanding focus to achieve value for their money. The obvious path for the diversified conglomerate was to pursue a focus strategy. Its decision to concentrate on the telecommunications and information technology sector was welcomed by everyone. Lord Simpson planned his new strategy efficiently, but the results were not easy to predict. The telecommunications sector downturn had its effect on the results as well. The restructuring was accompanied by heavy debt and an extraordinary decrease in shareholders' value.

Finally, this case study raises a number of questions that could be addressed in future research on corporate restructuring. In particular, could it be the case that there is no unique answer as to whether a focus strategy through corporate sell-offs, is value enhancing on an individual basis? Under what conditions do corporate sell-offs and the reinvestment of the proceeds for acquisitions become value enhancing? What obstacles does a company face during its restructuring period?

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