Vol-3, Issue-1 PP. 43-49 ISSN: 2394-5788

GLOBAL JOURNAL OF ADVANCED RESEARCH
(Scholarly Peer Review Publishing System)

EFFECTS OF ORGANIZATIONAL RESTRUCTURING ON FIRM PERFORMANCE: A CASE OF NATIONAL BANK OF KENYA

Isabwa Kajirwa Harwood
Part time Lecturer,
Department of Business Management,
School of Business and Management sciences,
University of Eldoret, P.O. Box 1125-30100, Eldoret,
Kenya,
Email:isabwaharwood@gmail.com

Joel Oloishorua Nakola
Graduate Assistant,
School of Economics, University of Eldoret,
P.O. Box 1125 -30100, Eldoret,
Kenya,
Email: fpoloishorua@gmail.com

Derek Nyankuru Nyaana
Department of Business Management,
School of Business and Management sciences,
University of Eldoret, P.O. Box 1125-30100, Eldoret,
Kenya,
Email: derek.nyankuru20@ gmail.com

ABSTRACT

This study examines the effect of organization restructuring on performance of National Bank of Kenya. The specific objectives were to: find out the effects of organizational restructuring on firm performance, determine the relationship between organizational restructuring and firm performance. The study used an explanatory research design in data collection. A target population of 54 respondents was considered in the study. A sample size of 18 respondents was used computed based on Mugenda and Mugenda (2003), 10 - 30% rule and stratified and simple random sampling were used in the collection of data from the sample. Factor analysis was used to test for validity and the test retest method was used to test for reliability. The data was then analyzed using simple linear regression model and Pearson product moment correlation. The study found that organization restructuring positively affects firm performance although not statistically significant (β =.062, p>0.05). The conclusion of the study was that organization restructuring positively affects firm performance although not statistically significant. The study recommended that National Bank of Kenya should ensure at all times that none of the parts of the organization are significantly over or under staffed, stagnant workforce productivity should be phased out completely. Accountability for results should be clearly communicated and measurable resulting in objective and rational performance appraisals.

Key words: Organization Restructuring, Firm Performance

1. INTRODUCTION

Firm performance of National bank in Kenya has been on the spot light to have decreased over the last past few years prompting key stakeholders to opt for restructuring to cut down on expenses inflating the statement of financial performance of the Bank. Restructuring is the act of reorganizing the legal, ownership, operational or other structures of a company for the purpose of making it

GLOBAL JOURNAL OF ADVANCED RESEARCH
(Scholarly Peer Review Publishing System)

more profitable and better organized for its present needs (Norley *et al*., 2001). The reasons as to why the bank opts for restructuring are notably to become leaner, more efficient, better organized and focused on its core business with a revised strategic and financial plan. Restructuring also helped the Bank to streamline cost, increase productivity and revenues, improve employees' welfare, increase shareholders wealth, enhance efficiency and improve performance. Restructuring can either be portfolio, financial and/ or organizational restructuring (Bowman & Singh, 1999). There were few studies on organization restructuring in Kenya more specifically in the banking sector. The researcher sought to address the knowledge gap on organizational restructuring in the banking sector by focusing on National Bank of Kenya. This paper focuses on organizational restructuring which emanates from changes in human resources policies that is, the current human resource policies of the bank need to be changed in accordance with the changing scenario. The main purpose of this study was to examine the effect of organizational restructuring on the performance of National Bank of Kenya.

2. LITERATURE REVIEW

2.1 Concept of Firm Performance

Performance is best looked at in two ways namely; end results and a means to achieve the results. According to Ukko (2009) performance is the ability to distinguish the outcomes of organizational activities. Performance can either be financial and non-financial performance (Ittner, 2008). The non-financial performance can be measured using operational key performance indicators such as market share, innovation rate or customer satisfaction (Hyvonen, 2007).

Financial performance is a subjective measure of how well a firm can use its assets from its primary role of conduction of business and its subsequent generation of revenues. This term is also used as a general measure of a firm's overall financial status over a given period of time and can be used to compare similar firms across the same industry or to compare industries or sectors in totality.

There are two measurement techniques used in evaluation of the firm's financial performance. The two measurement techniques are market measurement technique and accounting measurement technique. The two measurement techniques represent different perspectives on how to evaluate a firm's financial performance and subsequently have different theoretical implications (Ramaswamy, 2001).

The financial performance is specifically measured using accounting key performance indicators such as return on assets, return on sales, or sales growth, net profit margin (Crabtree & DeBusk, 2008).The advantage of these measurements is their general availability, since every profit oriented organization produces these figures for the yearly financial reporting (Chenhall *et al.*, 2007). This study assessed conclusively whether organization restructuring had increased or reduced cash inflows of National Bank of Kenya, therefore the study was interested much with qualitative firm performance measures such as employee motivation, customer retention, employee empowerment, innovation rate, and employee alignment to evaluate firm performance of National Bank of Kenya.

2.2 Organizational restructuring and Firm Performance

Restructuring is a crucial strategy implemented to remain relevant in the business world. Gibbs (2007) defines restructuring as a change in the operational structure, investment structure, financing structure and governance structure of a company. Sterman (2002) defines restructuring as diverse activities such as divestiture of under-performing business, spin-offs, acquisitions, stock repurchases and debt swaps, which are all a onetime transaction, but also structural changes introduced in day to day management of the business. It is perceived that restructuring is concerned with changing structures in pursuit of short and long term gains.

According to Bowman & Singh (1999) restructuring activities can be classified into three major categories that is financial restructuring, organizational restructuring and portfolio restructuring. Financial restructuring includes changes in the capital structure of a firm, including leverage buyouts, leveraged recapitalization and debt equity swaps. A common way for financial restructuring is increasing equity through issuing of new shares. Portfolio restructuring entails significant changes in the asset mix of a firm or the lines of business which a firm operates, including liquidation, divestitures, asset sales and spin-offs. Organizational restructuring involves significant changes in the organizational structure of the firm, including redrawing of divisional boundaries, flattening of hierarchic levels, spreading of the span of control, reducing product diversification, revising compensation, reforming corporate governance and downsizing employment. This study is grounded on organizational restructuring which emanates with the changes in human resources policies. The current human resources policies of the organization may need to be changed in accordance with the changing scenario. The human resources department needs to enable change management. Burnes (2004) indicates that rationalization of the present pay structure should be accomplished in order to maintain the internal and external equity among the employees.

According to Hane (2000) there are symptoms that may indicate the need for organizational restructuring. Such symptoms are: Parts of the organization are significantly over or under staffed; organizational communications are inconsistent, fragmented, and inefficient; technology and/or innovation are creating changes in workflow and production processes; significant staffing increases or decreases are contemplated; new skills and capabilities are needed to meet current or expected operational requirements; accountability for results are not clearly communicated and measurable resulting in subjective and biased performance appraisals; personnel retention and turnover becomes a significant problem; stagnant workforce productivity or deteriorating morale. Organizational restructuring has proven to be beneficial in a number of ways that are not limited to lowering operational costs and assisting in better formulation and implementation of strategies (Eby & Buch, 1998).

A study by Srivastava, & Mushtaq (2011) on the impact of restructuring on the operational aspects of the publicly traded firms in China. They used changes in revenue, profit margin, return on assets and the total asset turnover ratio before and after the restructuring as proxies for firm performance and conducted tests to determine whether restructuring resulted in significant changes. Their study found that there were significant improvements in total revenue, profit margin, and return on assets following restructurings but there was no evidence of any significant impact on asset turnover ratio. They also found evidence of significant market anticipation and over reaction to the restructuring announcements. Airo (2010) conducted a study to explore improvements in the corporate performance of firms involved in merger and acquisition. Using a sample of Egyptian companies in the period from 1996 to 2005 in the construction and technology sectors, their results show that merger and acquisition in the construction sector has contributed in improving the profitability of firms while in the technology sector, no improvements were discovered. For both sectors, Merger & Acquisition did not improve efficiency, liquidity, solvency and cash flow positions.

A research done by Dong, Putterman, & Unel (2004), on the implications of restructuring on financial performance in Chinese context assert that a performance improvement is realized upon organizational restructuring. This is supported by inconclusive evidence from Wen (2002) study which shows organization restructuring results in better profitability. Bowman *et al.,* (1999) comparative studies found contradictory results; positive change in performance for firms that adopted portfolio and financial restructuring and negative results for firms that adopted organization restructuring.

Ngige (2012) studied the implication of restructuring on the performance and long-term competitiveness within the Kenyan banking sector and further, the significance of different modes of restructuring adopted by the banks in influencing performance. Findings revealed that generally, restructuring resulted to improvement in performance in terms of market share growth, competitiveness, growth in quality of products, geographical spread and customer retention. Further findings revealed that banks used different strategies of restructuring which had different motives in influencing performance. In the case of organizational restructuring the study showed an increase in the year of restructuring and the year after though it was at a greater magnitude in the organization mode of restructuring.

According to the research studies of Mbogo & Waweru (2014), on the corporate turnaround response by financially distressed companies listed on the NSE, they surveyed companies that were listed for the entire period of the study (2002-2008). The survey found that employee layoff was the most preferred course of action being carried out by 63% by the companies. Asset restructuring was the second most preferred turnaround strategy being carried out by 50% of the companies. Financial restructuring and top management change were the least preferred turn around strategies each one of them being taken by one company each.

The study by Riany *et al*., (2012) on the effects of restructuring on organization performance of mobile phone service providers in Kenya concluded that the three methods of restructuring have a favorable effect on the companies' market share and market growth. Their results indicate that financial restructuring had the greatest impact on a company's market share followed by portfolio restructuring and organization restructuring. It is distinct that organizational restructuring had the greatest impact on market growth rate.

$H_0$1: Organization Restructuring has no significant effect on firm performance

GLOBAL JOURNAL OF ADVANCED RESEARCH
(Scholarly Peer Review Publishing System)

3. RESEARCH METHODOLOGY

The study adopted an explanatory research design and sought to determine the effect of organizational restructuring on performance of National Bank of Kenya. A target population of 54 respondents was considered in this study. Out of the 54 respondents only a sample size of 18 respondents was used in the study computed based on (Mugenda & Mugenda, 2003), 10 – 30% Rule. The study utilized both primary and secondary data. It employed a stratified random sampling technique. National bank was stratified into departments thereafter simple random sampling was used to select the respondents used in the study. Two departments were chosen that is, Finance and Human resource departments. Each department received 9 questionnaires that were filled by the Head of Department and 8 junior staffs in the same departments. The questionnaires were administered at the Head office of the bank. The primary data was obtained through 18 questionnaires with closed-ended questions. The primary data was supplemented by use of secondary data obtained from published financial statements. Most of the items adopted a Likert scale (such as 1-strongly disagree, 2-disagree, 3-undecided, 4-agree, 5-strongly agree). Factor analysis was used to test for validity and the test retest method was used to test for reliability. Data analysis was conducted through Descriptive statistics and inferential statistical methods more specifically Pearson product moment correlation and simple linear Regression model. The regression model was as follows:

Financial Performance, M, t = $\beta_0 + \beta_1 x_1 M, t +$ e M, t

Where; X_1M, t = Organization Restructuring of the firm M in year t

e M, t = error term

β_0 = intercept, β_1, = coefficient of X_1, M = A given firm, in this case National Bank.

4. EMPIRICAL RESULTS

Correlations among the study variables are reported in Table 4.1. The levels of correlations among the variables are relatively modest, with most variables exhibiting significant correlations. Since a number of independent variables were relatively correlated, a multicollinearity analysis was conducted using Variance inflation factor (VIF). The results indicated that multicollinearity was not a problem since all the variables were within the recommended threshold of 10 (Hair *et al*., 2006). Pearson Correlations results in Table 4.1 showed that organization restructuring was positively and significantly associated with Firm Performance as shown by ($r = .890$, $\rho<0.05$) implying that organization restructuring had 89.0% positive relationship with Firm Performance.

Table 4.1: Correlations Statistics

		Firm	**Organization Restructuring**
Firm	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	18	
Res	Pearson Correlation	.890	1
	Sig. (2-tailed)	.035	
	N	18	18

Source: (Survey data, 2015)

Regression

A Simple linear regression model was used to predict firm performance in the study. The prediction was carried out basing on the effect of organization restructuring and firm performance. From Table 4.2, the findings indicated that the model coefficient of determination (adjusted R2) was -.061 which indicated that - 6.1% total variation of firm performance is explained by organization restructuring.

Table 4.2 Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.035[a]	.001	-.061	6.39159	.405

a. Predictors: (Constant), Restructuring

b. Dependent Variable: Firm Performance

Source: (Survey data, 2015)

The F-ratio was .020 at 1 degree of freedom which is the variable factor. This represented the effect size of the regression model and was insignificant with a p-value of 0.890 as shown in Table 4.3.

Table 4.3: ANOVA STATISTICS

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.805	1	.805	.020	.890[a]
	Residual	653.640	16	40.852		
	Total	654.444	17			

a. Predictors: (Constant), restr

b. Dependent Variable: Perfor

Source: (Survey data, 2015)

The research findings concur with Riany *et al*., (2012) that organization restructuring has a non significant effect on the companies' market share and market growth. According to hypothesis statement that, organization restructuring has no significant effect on firm performance, However, research findings concurs with the hypothesis since organization restructuring recorded coefficient estimates of $\beta_1 = .062$ (p-value =0.890 which is more than $\alpha = 0.05$) as shown in Table 4.4, hence we accept the null hypothesis thus the study is in agreement with Ngige (2012) that organizational restructuring results into improvement in performance in terms of market share growth, competitiveness, growth in quality of products, geographical spread and customer retention. Their study further found that organizational restructuring showed an increase in a firm's performance in the year of restructuring. The current study disagrees with Bowman *et al., (*1999) the researchers argued that organizational restructuring has a negative effect on firm performance that is the more firms conducted organization restructuring the poor the performance of the firms.

Table 4.4: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	10.522	21.664		.486	.634					
	Res	.062	.441	.035	.140	.890	.035	.035	.035	1.000	1.000

a. Dependent Variable: Firm Performance

Source: (Survey data, 2015)

GLOBAL JOURNAL OF ADVANCED RESEARCH
(Scholarly Peer Review Publishing System)

5. CONCLUSIONS

The study findings affirm that organization restructuring positively affects a firm's performance although not statistically significant. This implies that the more the Bank restructures the better the performance of the bank although the extent of the effect caused by organization restructuring is statistically insignificant. Organization restructuring is only one of the strategies of restructuring. There are other forms of restructuring that the National Bank of Kenya can adopt besides organization restructuring. The bank may also opt for portfolio restructuring or financial restructuring and /or implement both portfolio restructuring, financial restructuring and organization restructuring at the same time.

6. RECOMMENDATIONS

Based on the study findings the following recommendations are made:

i. National Bank of Kenya should ensure at all times that none of the parts of the organization are significantly over or under staffed.
ii. The organizational communications should be consistent and efficient all the time.
iii. New skills and capabilities that are needed to meet current or expected operational requirements should be in existence in due course of operations.
iv. Accountability for results should be clearly communicated and measurable resulting in objective and rational performance appraisals.
v. Stagnant workforce productivity should be phased out completely.
vi. Deteriorating staff morale should be mitigated completely.
vii. A further research should be conducted on portfolio restructuring and how it affects firm performance of all firms listed at the Nairobi Securities Exchange.

7. REFERENCES

[1] Airo, P. (2009). *Impact of restructuring on performance of development finance institutions: A case study on ICDC.* Unpublished MBA project: School of Business, University of Nairobi.

[2] Bowman, E.H., and Singh, H. (1999). When does restructuring improve performance? *California Management Review*, winter, 41(2), 34-54**.**

[3] Burnes, B. (2004), *Managing Change: A Strategic Approach to Organizational Dynamics* (4th Ed.), Prentice Hall.

[4] Chenhall, R. H., and Langfield-Smith, K. (2007). Multiple perspectives of performance measures. *European Management Journal*, *25*(4), 266–282.

[5] Crabtree, A. D., and DeBusk, G. K. (2008). The effects of adopting the balanced scorecard on shareholder returns. *Advances in Accounting*, *24*(1), 8–15.

[6] Dong, X., Putterman, L., & Unel, B. (2004). Enterprise restructuring and firm performance: A comparison of rural and urban enterprises in Jiangsu Province.

[7] Eby, L.T., and Buch, K. (1998). The impact of adopting an ethical approach to employee's dismissal during corporate restructuring, *Journal of Business Ethics*, 17(12), 1253-1264.

[8] Gibbs, K.L. (2007). *Accounting Management and Control,* John Murray (Publisher) Ltd., London.

[9] Hair, J.F., Anderson, R.E., Tatham, R.L., and Black, W.C. (2006). Multivariate Data Analysis, (5th Ed.). Prentice-Hall International, Upper Saddle River, NJ.

[10] Hane, P.L., Bell and Howell. (2000). Will restructure to create to separate companies, *Information Today*, 1- 6.

[11] Hyvönen, J. (2007). "Strategy, performance measurement techniques and information Technology of the firm and their links to organization performance." *Journal of Management Accounting Research*, 18(3), 343–366.

[12] Ittner, C. D. (2008). "Does measuring intangible for management purposes improve firm Performance? A review of the evidence." *Journal of Accounting & Business Research*, 38(3), 261– 272.

[13] Mugenda, O. M., & Mugenda, G. A. (2003). *'Research Methods': Quantitative and Qualitative Approaches.*

[14] Mbogo, J., & Waweru, G. (2014). Corporate Turn Around Strategies By Financially Distressed Companies Quoted At The Nairobi Securities Exchange. *Research Journal of Finance and Accounting*, *5*(2), 137-147.

[15] Norley, L., Swanson, J., and Marshall, P. (2001). *A Practitioner's Guide to Corporate Restructuring*, City Planning Publishing.

[16] Ngige, A.W. (2012). *Corporate restructuring and firm performance in the banking sector of Kenya***.** Unpublished MBA project: School of Business, University of Nairobi.

GLOBAL JOURNAL OF ADVANCED RESEARCH
(Scholarly Peer Review Publishing System)

[17] Ramaswamy, K. (2001). "Organizational ownership, competitive intensity, and firm Performance: an empirical study of the Indian manufacturing sectors." *Strategic Management Journal*, 22, 989 - 998.

[18] Riany, C., Musa, G., Odera, O., & Okaka, O. (2012). Effects of restructuring on organization performance of mobile phone service providers. *International Review of Social Sciences and Humanities*, *4*(1), 198 - 204.

[19] Srivastava, V., & Mushtaq, G. (2011). *Corporate Restructuring - A Financial Strategy. Asian Journal of Technology & Management Research.*

[20] Sterman, I.A. (2002). *Mergers and Acquisition,* Oxford University Press, New York

[21] Ukko, J. (2009). Managing through measurement: A framework for successful operative level Performance measurement. PhD. Thesis.Lappeenranta University of Technology.

[22] Wen, M. (2002). *Corporate Governance and Firm Performance*. The China Boom and its Discontents.