ASSESSMENT OF THE RELATIONSHIP BETWEEN ORGANIZATIONAL STRUCTURE ALIGNMENT AND GROWTH OF FINANCIAL INSTITUTIONS IN KENYA: A SURVEY OF COMMERCIAL BANKS IN NAKURU TOWN

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Abstract: In the recent past, the banking sector has witnessed a number of challenges including some commercial banks posting losses while others have collapsed altogether. The present study assessed the relationship between organizational alignment and growth of commercial banks in Nakuru town, Kenya. The study was guided by contingency and organizational theories. The study employed a cross-sectional survey designed. The study targeted all the managers in charge of the 35 branches of commercial banks currently operating in Nakuru town. This study used a structured questionnaire to collect data. The Statistical Package for Social Sciences Version 24 software facilitated data processing and analysis. Both descriptive and inferential statistics were used in the analysis. The results of the analyses were presented in tables. The study found that the relationship between organizational structure alignment and growth of commercial banks was positive, moderately strong and significant. The findings further indicated that organizational structure alignment was very important in influencing growth of commercial banks. The study also inferred that organizational structure alignment was important in enhancing growth of commercial banks in Nakuru town. The study recommended that the organizational structure of commercial banks should be flexible enough to mitigate the challenges emanating from bureaucratic bottlenecks.

Keywords: Organizational growth, organizational structure alignment, financial institutions, commercial banks.

1. INTRODUCTION

Organizations across the world are dynamic and usually operate best when all their components are designed to function together effectively and efficiently. Therefore, changes introduced into organization systems ought to be aligned to fit the organization system or model the system to incorporate the changes [1]. The authors further maintain that organizational alignment occurs when the strategic goals and cultural values are mutually supportive and that the fundamental components of an organization such as values, objectives, daily activities, organizational leadership, and support systems among others are not only compatible but also consistent with each other.

It is stated that alignment is effected by such aspects as the mutual support between business or organization and the information system management [2]. In the banking sector of South Africa, the authors established the business and information system was poorly aligned in that information system managers were only involved in providing guidance on technology and systems but not consulted enough in business strategy development. This suggests that organizational alignment should be a holistic process where all the elements in the organization should be involved and integrated for an organization to operate efficiently.
Recently, a local survey examined the alignment of Kenya’s financial system with inclusive green investment [3]. It is observed that one of the requirements of enhancing inclusive green investment in Kenya is aligning foreign direct investment (FDI) objectives with the green growth agenda. The authors further reported that Kenya’s domestic investment authority ought to lay a leading role in supporting the alignment of FDIs with sustainable development. The theme of organizational alignment particularly in the context of the banking sector, however, has hitherto lacked in-depth focus in Kenya.

The growth of financial institutions and financial sector in general is vital for the economic health of a given country. Singapore has emerged to be one of the leading financial sector in the world [4]. It is further noted that the growth of the sector has outperformed the overall gross domestic product of the country in the recent past. The success story of the financial sector and financial institutions in particular is pegged on prudence and competitive advantages the sector has enjoyed over other globally. The financial sector in the country has been able to withstand the volatile financial markets probably due to the regulators good understanding of the counties’ financial markets and to leverage on competitive strengths. It is noted that financial sector in the foreseeable future will benefit form he growth in consumption and trade in Asia and increase in the use of the Renminbi currency in investment transactions.

The transformation experienced in the banking industry in Kenya has been as a result of innovation in information technology [5]. This can be argued that the banks’ adoption of technologies such as agency banking, mobile banking, use of automate teller machines coupled with policies and deregulations in the financial environment have contributed to the continued growth of the Kenyan financial institutions. contends that the financial innovation adopted by commercial banks such as creating and nurturing strong brands, customer satisfaction through redefining and repackaging products, environmental analysis and response to changes in the market have not only helped banks to increase their profitability and productivity but also fostered faster business growth.

The banking sector is Kenya has witnessed innovation in the recent past particularly the financial innovation. This has been as a result of changes in customer tasted and preferences and the ever challenging business environment within the banking sector. With the advent of information technology, banks in Kenya have designed new competitive products, re-engineered their way of doing business for better customer service and has enhanced financial inclusion. Such notable innovations in the banking sector include the fast and efficient clearance of cheques by use of the magnetic ink character recognition and the Kenya electronic payments and settlement system aimed at modernizing the country’s payment system to match the global trends [6].

The banking sector in Kenya has registered an improved performance with increases in assets, loan and advances, deposit base and profit before taxes. It is anticipated that the commercial banks and the banking sector at large will maintain its growth due to the efforts put in place to enhance transparency and disclosure, entrenchment of full file credit information sharing, regional integration initiatives among other mechanisms [7].

2. STATEMENT OF THE PROBLEM

Despite a robust legal, regulatory and supervisory framework under which the banking sector in Kenya operates, the players in the sector have witnessed several challenges that threaten the growth of the sector (CBK, 2014). A report of 2014, by the supervisory committee of the Central Bank of Kenya revealed that the banking sector has been facing crucial challenges. Online fraud following the adoption of information and communication technologies (ICT) that has led to increased use of mobile and internet banking has been on the increase [8]. A local study which delved into the performance of commercial banks [9] revealed that commercial banks and other financial institutions have been facing challenges occasioned by declining interest rates due to inflation, ICT, downsizing of employees as a cost cutting measure, amongst others. The increase of the overall inflation from 5.82% in the quarter to March 2015 to 7.0% in the quarter to June, 2015 further compounded the situation, CBK report 2015. In addition, the strengthening of the US Dollar against the Kenyan Shilling has ultimately affected the performance of commercial banks. While some commercial banks have recorded substantive profits, a significant number have registered huge losses. The National Bank of Kenya (NBK) reported a loss of more than KSh 1billion. Four commercial banks operating in Kenya namely Dubai Bank, Imperial Bank, Chase Bank and NBK have been in the limelight for their poor performance. The top leadership of these financial institutions has been accused by the Central Bank of Kenya for failing to offer the requisite leadership. They have been accused of abusing their leadership positions and engaging in insider trading. The scenarios a clear indication of misalignment of various essential components in the organization with expected growth outcomes. Investigations on these issues are ongoing [10]. These challenges can only be expected to keep on increasing, given the ever changing business environment. This sector can be grossly affected if it is not established how the alignment of the following organizational
elements are related to organizational growth. This study therefore seeks to assess the relationship between organizational structure alignment and growth of commercial banks in Kenya with particular interest in such institutions operating in Nakuru town.

3. OBJECTIVE OF THE STUDY

To determine the relationship between organizational structure alignment and growth of commercial banks in Nakuru town, Kenya

4. RESEARCH HYPOTHESIS

H₀: There is no significant relationship between organizational structure alignment and growth of commercial banks in Nakuru town.

H₁: There is significant relationship between organizational structure alignment and growth of commercial banks in Nakuru town

5. ORGANIZATIONAL THEORY

Organizational theory is part of performance management theories and focuses on how organizations acclimatize and also on both the strategies and structures that guide those organizations. The theory is concerned with efficiency in a firm, in addition to evaluation of performance. The organizational theory carries out a comparison between ability to measure behaviours and outcomes [11].

It is asserted that organizational theory is not a single theory; rather it encompasses several theories. The various competing theories of organization include Weber’s bureaucracy theory, rationalization theory, and division of labour theory. All these theories have one thing in common in that they focus on organizational structure. Bureaucracy theory holds that an organization is governed by rules. Rationalization theory notes that formalization within an organization is a way to standardize organizational behaviour. More so, division of labour theory holds that there is specialization of individual labour roles [12]. Therefore, in reference to theories of organization, it is imperative to understand the organizational structure of commercial banks. This would enable aligning of the same in the most appropriate way to get the best results. This would in turn enhance both the performance and growth of the aforementioned banks.

6. EMPIRICAL REVIEW

6.1 Organizational Structure Alignment:

A study conducted in France empirically examined strategic alignment as a performance tool [13]. Their study purposed to investigate whether the alignment of information technology, strategy and organizational structure of small and medium enterprises in France resulted to performance. The study used data from 381 small and medium enterprises operating in different sectors. The study employed a multivariate perspective to test the alignment between strategy, structure and information technology. The study established that strategic alignment significantly influenced performance. As such it was concluded that when organizational structure, firm’s corporate structure and information technology strategy are aligned, performance of improves. There was therefore a positive link between strategic alignment (organizational structure, strategy and information technology) and firm performance.

Organizational structure plays a crucial role in the attainment of objectives and accomplishment of strategic goals [14]. It was noted that organizational structure becomes more profound when it is aligned with the mission, competitive environment and resources of the organization. Indeed, a study conducted on organizational structure as a determinant of organizational performance indicated that organizational structure becomes a recipe for enhance performance when adequate attention is given to it and it is matched with the prevailing environment in order to incorporate changes [15]. The authors further argued that the structure entails control, communication, governance and values that should be matched with dynamic environment.

An empirical investigation on organizational structure and performance was carried out [16]. The study investigated whether organizational structure influenced performance of large manufacturing firms in Kenya. The study was based on the argument that structure follows strategy in order to enhance performance. However, the study concentrated on the alignment of structure to performance instead of strategy-structure alignment. A cross-sectional survey was employed by the study where data was obtained from chief executive officers, senior managers and middle level managers of 102 large manufacturing firms in Kenya. The measure for performance was return on assets. The findings indicated that
organization structure on its own did not influence performance. However, when performance was measured by non-financial measures such as internal processes and customer perspective, it was noted that organizational structure influenced performance even without putting in place strategy for the organization.

6.2 Organizational Growth:

It is noted that the banking sector in India plays a critical role in the expansion of Indian economy [17]. The authors sought to determine the growth and technological development in Indian banking sector. The authors noted that in the recent past, the banking sector has registered tremendous growth through bank branch expansion for both public and private banks. Indeed, it was noted that in the year 2010/11 the state owned banks registered an increase in growth of 5.4%. The private sector banks, foreign banks and regional rural banks registered growth in branch by 3.6%, 2.9% and 1.9% respectively. It was further noted the banks have registered substantial increase in deposits bank investments and credit advances in the same year which contributed to the growth of the banks. The growth was attributed to development and adoption of relevant technology such as automated clearing house, mobile banking, electronic funds transfer and cards transactions among others.

A regional study examined the determinants of Tunisian banking industry profitability [18]. The study noted that the external and local factors have influence on the growth in performance banks in Sub-Saharan Africa. In another study, the nexus between bank growth and profitability in East African Community was determined [19]. Secondary data relating to banks from Kenya, Uganda, Tanzania and Rwanda was used. The study noted that there has been an increase in the growth of banks evidenced by increased number of banks, bank assets, influx of foreign investors and establishments of domestic banks. It was further noted that the higher growth in the banking sector has been as a result of the smoother and easier regulations for bank entry provided by the respective central banks. In addition, the unexploited opportunities have further enhanced growth of the banks especially in Tanzania.

A study conducted locally assessed the factors that influence customer growth in commercial banks in Kenya. The case study was on commercial banks in Migori town [19]. A total of five commercial banks with three branches each were targeted. Questionnaires were used to obtain data from the respondents. The study findings indicated that banks in the town had experienced increased growth in the past few years. Indeed, it was established that customer growth to between 5000 and 10,000. The increase in customer growth was associated with stellar customer services and product pricing. In addition, the use of technology enabled fast and efficient service delivery which further contributed to the growth. It was also noted that bank industry regulation influenced the growth and particularly customer growth in surveyed commercial banks.

7. CONCEPTUAL FRAMEWORK

A conceptual framework is defined as a diagrammatic representation of the hypothesized relationship between study variables. The framework must contain at least two sets of variables which are independent and dependent variables. Figure 1 shows the conceptual framework that guided this study. According to the framework, there are two variables, which are organizational structure alignment and organizational growth of commercial banks. Each of these study constructs is parameterized by a number of key indicators. Organizational infrastructure, bureaucracy, and organizational leadership are some of the parameters of organizational structure alignment. On the other hand, organizational growth is operationalized by such metrics as branch expansion, customer base, and product lines. It was hypothesized that organizational structure alignment influences growth of commercial banks in Nakuru town. It was upon this hypothesis that this study was carried out.

![Figure 1: Conceptual Framework](image-url)
8. RESEARCH METHODOLOGY

The procedure that is followed to carrying out a research study constitutes research methodology. In this respect, therefore, the methodology outlines the research design adopted, target population, census design, research instrument, and method of data analysis.

8.1 Research Design:

A research design outlines how a research study is carried out [20]. It is a roadmap about which the study procedure is founded. A cross-sectional survey research design was adopted. Census design was used since all the elements in the population were used. The choice of this research design was premised on the fact that participating respondents were drawn from all commercial banks in Nakuru town and included all branch managers.

8.2 Target Population:

The target population is described as the universe of interest. It comprises of individuals with similar characteristics hence making the results of the study to be generalizable to it. This study targeted all the branch managers in the 35 branches of commercial banks that were operating in Nakuru town when the study was conducted.

8.3 Census Design:

The census approach ensured that there was no element of chance left and as such the results obtained were very precise. A census is a study of every unit, everyone or everything, in a population [21]. The census design enhances generalizability of the study findings since it eliminates both the sampling error and sampling bias. It was the best technique to use in this study since the study population was relatively small. A total of 35 respondents were considered.

8.4 Research Instrument:

A research instrument is a tool that is used to aid in collection of data. This study used a structured questionnaire to collect data from the respondents. It is noted that questionnaires are the most ideal data collection tools in studies where respondents are not centralized due to their ease of administration and data collected using them are easy to interpret [22]. The questionnaire contained questions that addressed background information of respondents and specific sections handling objectives formed the main part of the questionnaire. The questions dealing with the objectives were on a 5-point Likert scale.

8.5 Data Analysis:

The collected filled questionnaires were scrutinized to ensure that they had been filled according to instructions. Those that did not meet this threshold were discarded. The Statistical Package for Social Sciences (SPSS) version 24 software facilitated data processing and analysis. Both descriptive and inferential statistics were used in the analysis. Descriptive statistics took the form of frequencies, percentages, means, modes, medians and standard deviations. Inferential statistics took the form of correlation analysis and multiple regression analysis. The results of the analyses were presented in tables. The following univariate regression model guided the study.

\[ Y = \beta_0 + \beta_1 X_1 + \varepsilon \]

Where:

- \( Y \) = Growth of commercial banks
- \( \beta_0 \) = Constant
- \( X_1 \) = Organizational structure alignment
- \( \varepsilon \) = Margin of error
- \( \beta_1 \) = Regression coefficient of the explanatory variable

The results of the study were presented in form of tables and were accompanied by relevant interpretations and discussions.
9. RESULTS AND DISCUSSION

9.1 Response Rate:
Response rate describes the number of questionnaires returned or collected by the researcher after being filled according to the pre-set instructions [23]. Response rate is, therefore, also referred to as questionnaire return rate. In this study, a total of 35 questionnaires which were equivalent to the study population were issued to the respondents. However, not all questionnaires were filled appropriately and collected. The ones that attained the foregoing threshold were 28 in number. This represented 80% response rate which was deemed acceptable [23].

9.2 Descriptive Results:
This section puts into perspective results that emanated from descriptive analysis. The results which are in line with study objectives (and variables) are presented in form of measures of distribution (frequencies), central tendencies (means) and dispersion (standard deviations).

9.2.1 Organizational Structure Alignment:
The study further analyzed the views of managers working with commercial banks in Nakuru town regarding the issue of organizational culture alignment. Their views are as presented in Table 1.

<table>
<thead>
<tr>
<th></th>
<th>N 1</th>
<th>D 2</th>
<th>N 3</th>
<th>A 4</th>
<th>SA 5</th>
<th>Mean</th>
<th>Std. Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial banks have several levels of decision making</td>
<td>28 0</td>
<td>0 0</td>
<td>4 24</td>
<td>4.86</td>
<td>.353</td>
<td></td>
<td></td>
</tr>
<tr>
<td>There is organizational leadership in banks</td>
<td>28 0</td>
<td>0 0</td>
<td>10 18</td>
<td>4.64</td>
<td>.483</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial banks have well-aligned organizational infrastructure</td>
<td>28 0</td>
<td>0 2</td>
<td>6 20</td>
<td>4.64</td>
<td>.616</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank's organizational structure demands for regulation's compliance</td>
<td>28 0</td>
<td>0 2</td>
<td>18 8</td>
<td>4.21</td>
<td>.283</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organizational structure of commercial banks is highly flexible</td>
<td>28 6</td>
<td>10 4</td>
<td>2 6</td>
<td>2.71</td>
<td>1.449</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The study revealed that respondents strongly agreed (mean ≈ 5.00; mean < 1.000) that commercial banks had well-aligned organizational structure. The findings concurred with earlier observations that commercial banks adopted an organization structure that aligned with the goals and strategic objectives of the. It was further agreed (mean = 4.21; std dev = 0.283) that organizational structure of commercial banks demanded for compliance to regulations.

However, managers held divergent views (mean = 2.71 std dev = 1.449) regarding the proposition that organizational flexibility of commercial banks being highly flexible. All respondents except 2 that remained neutral were in agreement that such banks had well-aligned organizational structure. Similar observations were made in respect to organization structure for banks demanding regulation’s compliance. This was in support of findings by a previous study [24] that organizational structure greatly influenced compliance with regulations in banks. Majority of branch managers at 16 disagreed that organizational structure of commercial banks in Nakuru town was highly flexible.

9.2.2 Organizational Growth:
Lastly, the study examined the views of branch managers in regard to the growth of their banks. Table 2 outlines these views.

<table>
<thead>
<tr>
<th></th>
<th>N 1</th>
<th>D 2</th>
<th>N 3</th>
<th>A 4</th>
<th>SA 5</th>
<th>Mean</th>
<th>Std. Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our bank as increased its branch network</td>
<td>28 0</td>
<td>0 0</td>
<td>12 16</td>
<td>4.57</td>
<td>.499</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The size of our bank's workforce is on the increase</td>
<td>28 0</td>
<td>2 0</td>
<td>6 20</td>
<td>4.57</td>
<td>.828</td>
<td></td>
<td></td>
</tr>
<tr>
<td>There is an increase in the number of customer</td>
<td>28 0</td>
<td>2 0</td>
<td>16 12</td>
<td>4.43</td>
<td>.499</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Our bank's products lines have increased</td>
<td>28 0</td>
<td>0 4</td>
<td>6 18</td>
<td>4.36</td>
<td>1.052</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Our bank has been recording increase net income</td>
<td>28 0</td>
<td>0 2</td>
<td>14 12</td>
<td>4.29</td>
<td>.803</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The assets of our bank have been increasing</td>
<td>28 0</td>
<td>2 0</td>
<td>16 10</td>
<td>4.21</td>
<td>.780</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The study found that branch managers generally concurred on all facets of organizational growth in respect of their banks. They strongly believed (mean = 4.57; std dev< 1.000) that commercial banks had increased their branch network; the size of the workforce was on the rise; and that there was an increase in the number of customers. The aforementioned dimensions of growth are similar to the ones indicated in an earlier study on the development and growth of selected private commercial banks in Bangladesh where banks registered growth in terms of branches, employees, loans and deposits among other facets [25]. Similar observations were made in a study conducted in India where banks registered tremendous growth through bank expansion [17]. It was further agreed (mean > 4.00; std dev ≈ 1.000) that product lines for commercial banks had increased; banks had recorded increased net income; the bank assets had been increasing; and that bank loan books had also been increasing. None of the branch managers interviewed disputed that banks had increased their branch networks and that the said banks had increased their product lines. Twenty managers out of 28 strongly concurred that the size of commercial banks’ workforce was on the rise; and also that bank customers were increasing in number.

9.3 Inferential Results:

This section shows the results of inferential analysis in form of both Pearson’s product moment correlation coefficient and univariate regression analysis. The purpose of this analysis was to illustrate the relationship between organizational alignment and organizational growth and how the said alignment impacted on the growth of commercial banks in Nakuru town, Kenya.

Relationship between Organizational structure Alignment and Organizational Growth

The results of correlation analysis between organizational structure and organizational growth of commercial banks in Nakuru town are presented in Table 3.

9.3.1 Results of correlation analysis:

The correlation findings are depicted in Table 3.

Table 3: Correlation between of Cash flow Forecast and Financial Sustainability

<table>
<thead>
<tr>
<th>Cash flow Forecast</th>
<th>Financial Sustainability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td>.494**</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.000</td>
</tr>
<tr>
<td>N</td>
<td>28</td>
</tr>
</tbody>
</table>

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

The study found that the relationship between organizational structure alignment and organizational growth in commercial banks was positive, moderately strong and significant (r 0.494; p < 0.05). The results meant that organizational structure alignment was important in growth of commercial banks.

9.3.2 Results of regression analysis:

The study further examined the influence of organizational alignment as described by organizational structure alignment on the growth of commercial banks in Nakuru town, Kenya. The pertinent results are as shown in Table 4.

Table 4: Regression Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>.344</td>
</tr>
<tr>
<td></td>
<td>Organizational Structure Alignment</td>
<td>.446</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Organizational Growth

The univariate regression model was substituted as illustrated below.

\[ Y = \beta_0 + \beta_1 X_1 + \epsilon \]
\[ Y = 0.344 + 0.446X_1 \]
The results showed that for a unit change in growth of commercial banks to be realized, the organizational structure alignment of the said financial institutions had to be enhanced by 0.446 unit. This was possible when all other factors were held constant.

9.3.3 Testing Null Hypothesis (H₀):

The null hypothesis was tested at 95% confidence level which is equivalent to 0.05 significant level (p-value = 0.05). The results of t-statistics shown in Table 4 were employed to test the hypothesis. The null hypothesis (H₀) stated that: the relationship between organizational structure alignment and organizational growth of commercial banks was not statistically significant. However, according to the result of the t-statistics, it was found to be statistically significant (t = 3.549; p < 0.05). The results, therefore, led to the rejection of the null hypothesis and the alternate hypothesis (H₁) was considered to be true.

10. CONCLUSIONS AND RECOMMENDATIONS

It was deduced that commercial banks in Nakuru town had several levels of decision making. More so the study concluded that organizational structure is the one that spelt out how the banks were to comply with various regulations such as Central Bank of Kenya Act among other statutes. The study also concluded that commercial banks in Nakuru town were not flexible enough in as far as their organizational structure were concerned. This is despite such banks having well-aligned organizational infrastructure. Moreover, the study inferred that organizational structure alignment was important in enhancing growth of commercial banks in Nakuru town. The study recommended that that the organizational structure of commercial banks should be flexible enough to mitigate the challenges emanating from bureaucratic bottlenecks.

REFERENCES


