

EFFECT OF RESTRUCTURING STRATEGY ON PROFITABILITY OF COMMERCIAL BANKS IN KENYA: A SURVEY OF COMMERCIAL BANKS IN KENYA

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Abstract: In the recent years, corporate restructuring has become a key strategy undertaken by many commercial banks in order to survive in the fierce business environment (World Bank, 2013). The main objective of the study was to establish the effect of restructuring strategy on profitability of commercial banks in Kenya. The study specifically aimed to; determine the effect of change of organizational structure; establish the effect of operational costs reduction; assess the effect of new technology adoption and examine the effect of competitive advantage on the profitability of commercial banks in Kenya. The study adopted a descriptive research design and the target population comprised of 43 commercial banks in Kenya. The study applied a stratified random sampling technique to select a total of 12 commercial banks as the sample size for the study. The main data collection instruments were the questionnaires and a pilot study was carried out to test the reliability and validity of the questionnaires. Descriptive statistics data analysis method was applied analyze data aided by Statistical Package for Social Sciences (SPSS) to compute responses frequencies, percentage mean and standard deviation results. Finally, Multiple Linear Regression model was employed to establish the significance of the independent variables on the dependent variable. The findings were presented using tables and charts. The study findings showed that implementation of restructuring strategy led to change of organizational structure; reduction of operational costs; adoption of new technology and increased banks competitive advantage in the target market hence leading to increased banks profitability.

Keywords: Operational costs, Restructuring and New Technology adoption.

1. INTRODUCTION

Globally, organizational restructuring has become an important business management practice due to its implications for firms to adjust strategies regarding to the dynamic business environment, and eventually enable firms to create and retain the competitive advantages (Bartik, 2009). Implementation of restructuring strategies has therefore become a common practice undertaken by firms for surviving in an increasingly fierce competitive business environment. Firms may obtain a core competence of continually acquiring other firms, restructuring, and retaining certain firm assets, while divesting others. Organizational restructuring has hence increasingly become a staple of management life and a common phenomenon around the world as unprecedented number of companies across the world have reorganized their divisions, restructured their assets, streamlined their operations and spun-off their divisions in a bid to spur organizational performance (Hitt, Ireland & Hoskinsson, 2007). Organization restructuring strategies help an organization to get the most from its workforce when the business significantly changes by developing a plan for corporate restructuring, layoffs and mergers (McKinley, 2007).

Statement of the problem:

According to the Kenya Bankers Association (2012) about 37% of the potential value of a restructuring strategy in commercial banks in Kenya is lost during strategy implementation and the success of corporate restructuring implementation has been a 10 to 30 % in many commercial banks. Many commercial banks in Kenya have been implementing various restructuring strategies for over the last 10 years as a measure to increase profitability. The restructuring strategies are aimed at streamlining retails and operations, corporate, credit and risk, procurement, finance, human resources management, information technology and marketing. Since the beginning of the implementation of the restructuring strategy in the year 2010, in just six months the Co-operative bank recorded a pre-tax profit of over Kshs 3 billion representing a pre-tax profit increase of over 20% from the year 2009. The bank attributed its steady growth in profits to the success of restructuring strategies with a profit increase from Ksh 2 billion in 2009 to over Ksh 4 billion in the year 2014 (Co-Operative Bank of Kenya, 2016).

The bank total operating income that rose to KShs.26.9 billion from KShs.29.6 billion, translating to a 25% improvement. The assets increased by an impressive 32% to KShs.331 billion. The International Business pre-tax profits jumped by 100% from a loss of KShs.221 million in 2010, to KShs.1 billion in 2011. Customer deposits equally registered a growth of 32% from KShs.197 billion in 2010 to KShs.259.3 billion. Customer numbers grew from 1.3 million to 1.8 million. Statistics from the Central Bank of Kenya (CBK) shows that in the year 2016 Co-operative bank profit increased by over Ksh 2 billion (CBK, 2016).

Despite the significance contribution of restructuring strategy on profitability of commercial banks, there lacks a specific study that has explained the effects of restructuring strategy on bank profitability in terms of organizational structure, operational costs reduction, new technology adoption and competitive advantage. Previous studies on restructuring includes; a study by Ithiri, (2008) on restructuring and its effects on Kenya Commercial Bank performance. Namatsi (2010) study on implementation of restructuring strategy at Kenya Airways. To this end, there is scanty of research on effects of restructuring strategy on profitability of commercial banks in Kenya. This study sought to fill the existing research gap by conducting a study to establish the effects of restructuring strategy on profitability of commercial banks in Kenya, a Survey of Commercial Banks in Kenya.

Objectives:

1. To determine the effect of change of organizational structure on the profitability of commercial banks in Kenya.
2. To establish the effect of operational costs reduction on the profitability of commercial banks in Kenya.
3. To assess the effect of new technology adoption on the profitability of commercial banks in Kenya.
4. To examine the effect of competitive advantage on the profitability of commercial banks in Kenya.

2. THEORETICAL REVIEW**Institutional Theory:**

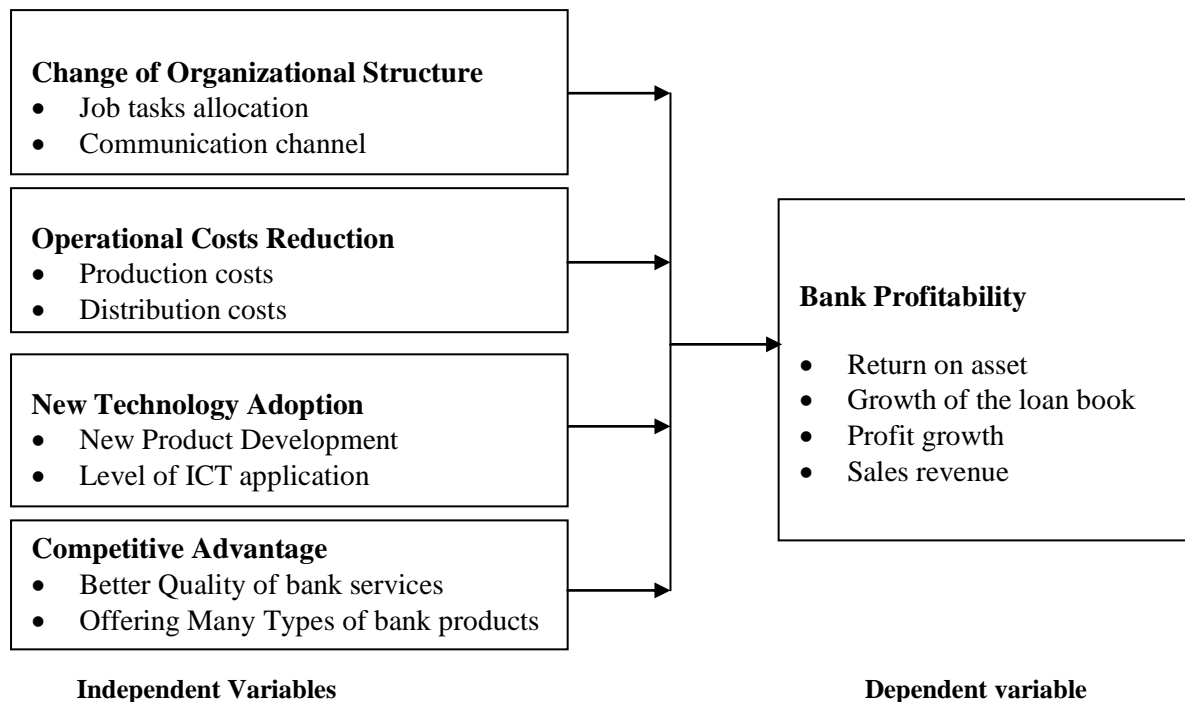
According to Oliveira and Martins (2011) institutional theory emphasizes that institutional environments are crucial in shaping organizational structure and actions. The theory stipulates that organizational decisions are not driven purely by rational goals of efficiency, but also by social and cultural factors and concerns for legitimacy. Institutions are transported by cultures, structures, and routines and operate at multiple levels. The theory claims that firms become more similar due to isomorphic pressures and pressures for legitimacy. This implies that firms in the same field tend to become homologous over time, as competitive and customer pressures motivate them to copy industry leaders. For example, rather than making a purely internally driven decision to adopt e-commerce, firms are likely to be induced to adopt and use e-commerce by external isomorphic pressures from competitors, trading partners, customers, and government. These leads to change of organizational structure hence this theory are important in determining the effect of change of organizational structure on profitability of commercial banks (Pralhad, 2007).

Technology Adoption Theory (model):

This theory explains how, why and at what rate new ideas and technology spread through cultures operating at the individual and the firm level (Venkatesh , 2003). Technology adoption theory sees acceptance of technology (innovation) as being communicated through channels over time and within a particular social system. Individuals are seen as

possessing different degrees of willingness to adopt innovation and thus, it is generally observed that the portion of the population adopting innovation is normally distributed over time. Technology adoption in an organization is related to individual leader characteristics and external characteristics of the organization. Individual characteristics describe the leader's attitude towards change and internal characteristics of the organizational structure (Venkatesh, 2003). Internal characteristics of the firm may include centralization of authority, thus the degree to which power and control in a system are concentrated in the hands of a few individuals, the degree to which organization members possess a relatively high level of knowledge and expertise.

Conceptual Framework:



Research gaps:

Review from the empirical literature demonstrates that there lacks a specific study on the effect of restructuring strategy on profitability of commercial banks in Kenya. It is hence evident that a rich gap in literature exists on the effect of restructuring strategy on profitability of commercial banks in Kenya. This study therefore aims to fill the missing knowledge gap in literature by establishing the effect of restructuring strategy on profitability of commercial banks in Kenya. The study will specifically focus on the effect of restructuring strategy on profitability of commercial banks in Kenya in terms of change of organizational structure, operational costs reduction, new technology adoption and competitive advantage.

3. RESEARCH METHODOLOGY

The research design used in this study was descriptive research design. The target population comprised of a total of 43 commercial banks in Kenya. The researcher used questionnaires as research instruments to collect data to study. This study applied a stratified random sampling technique. The statistical Package for Social Sciences (SPSS) was used for data analysis purpose.

Model:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$$

Where:

Y = Profitability of Commercial Banks (Dependent Variable)

X₁ = Change of Organizational Structure (Independent Variable)

X_2 = Operational Costs Reduction (Independent Variable)

X_3 = New Technology Adoption (Independent Variable)

X_4 = Competitive Advantage (Independent Variable)

\acute{e} . = error term

B_0 = constant of regression

\acute{e} . = error term

4. RESULTS AND DISCUSSION

Regression Results:

Table 4.1 further presents the results of the test of beta coefficients which shows the extent to which each independent variable affects dependent variable. As presented in table 4.10, (X_1) Change of Organizational Structure coefficient of 0.281 was found to be positive at significant level of 0.001 and this indicates that Change of Organizational Structure significantly affects the profitability of commercial banks. (X_2) Operational Costs Reduction Coefficient of 0.098 was found to be positive at significant level of 0.005 and this indicates that Operational Costs Reduction significantly affects the profitability of commercial banks.

(X_3) New Technology Adoption coefficient of 0.767 was found to be positive at significant level of 0.000 and this indicates that New Technology Adoption significantly affects the profitability of commercial banks. (X_4) Competitive Advantage coefficient of 0.349 was found to be positive at significant level of 0.000 and this indicates that Competitive Advantage significantly affects the profitability of commercial banks. This clearly demonstrates that all the independent variables significantly affect the profitability of commercial banks and thus the regression equation was;

$$Y=0.125 + 0.171X_1 + 0.117X_2 + 0.554X_3 + 0.143X_4 + \acute{e}$$

Table 4.1 Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.125	.262		1.096	.001
	X1	.171	.114	.134	1.152	.005
	X2	.117	.179	.110	.656	.001
	X3	.554	.168	.530	3.290	.000
	X4	.143	.093	-.054	.463	.000
a. Dependent Variable: Y						

The above beta coefficient value in table 4.1 shows that (X_3) New Technology Adoption is the variable that affects most profitability of commercial banks with a highest beta coefficient of 0.554, followed by (X_1) Change of Organizational Structure with a beta coefficient of 0.171, then (X_4) Competitive Advantage with a beta coefficient of 0.143 and finally (X_2) Operational Costs Reduction with a beta coefficient of 0.117. According to Gibbs (2007) noted that new technology adoption and change of organizational structure are major effects of restructuring that affects performance of commercial banks in terms of profitability.

5. CONCLUSION

The study concluded that implementation of restructuring strategy leads to change of organizational structure which affects the profitability of commercial banks. Implementation of restructuring strategies that leads to changes in the organizational structure in terms of provision of better job tasks allocation; implementation of effective communication channel; improved employees relations and better decision making process and these impacted positively on banks profitability. It was also concluded that implementation of restructuring strategy leads to operational costs reduction since

effective restructuring strategies leads to reduction of production costs, distribution costs, customer service management costs, human resource management costs and also helps in economies of scale which leads to reduction of the total organization operational costs hence leading to increased profitability. The study also concluded that restructuring strategy that leads to new technology adoption increases bank profitability. The study finally concluded that successful implementation of restructuring strategies leads to improved organizational competitive advantage in terms of increased quality of bank services; delivery of many types of bank products, increased ability of the bank to capture and retain a big market share and acquisition and improvement of the organization core competencies and these leads to increased banks profitability

6. RECOMMENDATION

The management of commercial banks should implement restructuring strategies that leads to changes in organizational structure in terms of provision of better job tasks allocation; implementation of effective communication channel; improved employees relations and better decision making process. Commercial banks should adopt restructuring strategy that leads to operational costs reduction without interfering with the quality of bank services. To improve on new technology adoption, the bank should implement latest ICT based banking systems and automate all bank processes. To improve on banks competitive advantage, in terms of increased quality of bank services; delivery of many types of bank products, increased ability of the bank to capture and retain a big market share and acquisition and improvement of the organization core competencies.

Suggestions for Further Research:

The study established the effect of restructuring strategy on profitability of commercial banks in Kenya. The study drew focus on change of organizational structure; reduction of operational costs; adoption of new technology and competitive advantage. Further studies should therefore be undertaken to determine the effect of restructuring strategy on other factors that were not covered by the study. Similar study should also be undertaken in other profit making organizations

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