EFFECT OF ORGANIZATIONAL RESTRUCTURING ON PERFORMANCE OF CO-OPERATIVE BANK OF KENYA

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ABSTRACT

Restructuring is a management strategy whose result is always a reduction in number of staff for budget reductions and or a reduction in the level of reporting otherwise known as downsizing. Organizational restructuring are put in place by the senior management part of a strategic change. It generally refers to the re-organization of the corporate operations to achieve higher levels of the operating efficiency. In October, 2014, Co-operative Bank of Kenya followed suit to lay-off senior bank managers when it parted ways with 160 managers to cut on payroll costs. Redeploying workers because of poor performance, automation of systems and redundancies produce a work environment where employees are characterized with high anxiety and uncertainty of their future in the organization. Insufficient preparation as well as unrevealing process during restructuring does impact negatively on morale of employees, the resultant effect of restructuring and downsizing strategies are that employees suffer low morale as they survive layoffs, feel fear and resentment. It is not the question of why companies have to downsize or cut jobs, it is how they should do it strategically to reach the expected goal of benefit and continue to retain the morale of surviving workers. The general objective of the research was to determine the effect of organizational restructuring on performance of Co-operative bank of Kenya. Specific objective was to determine the effects of organizational structure, business process, management structure and communication on performance of co-operative bank. This study adopted descriptive research design. A sample was drawn from the 360 staff members of Co-operative bank of Kenya headquarters. The stratified random sampling procedure was used as it ensures all the groups in the target population are selected and represented. From the study, the sample comprised of 190 staff members of Co-operative bank of Kenya headquarters. A structured questionnaire was used to collect data from the targeted respondents. Content analysis was used to test data that is qualitative in nature. The Anova was used to test the level of significant of the variables on the dependent variable The information was displayed using bar charts, graphs and pie charts and in prose form. According to the finding, taking all factors (Organizational structure, business process, management structure and communication) constant at zero, overall Performance of Co-operative
bank of Kenya was 7.998. The data findings also show that a unit increase Organizational Structure led to a 0.376 increase Performance of Co-operative bank of Kenya; a unit increase Business Process led to a 0.332 increase in Performance of Co-operative bank of Kenya; a unit increase in Management structure, led to a 0.355 increases in Performance of Co-operative bank of Kenya and a unit increase in Communication led to a 0.398 increase in Performance of Co-operative bank of Kenya. This means that the most significant variable was Communication followed by Organizational structure.

**Keywords**: Organizational restructuring; performance; Co-operative bank of Kenya.

**Introduction**

Organizational restructuring are common place put in place by the senior management as part of a strategic change. It generally refers to the re-organization of the corporate operations to achieve higher levels of the operating efficiency. Downsizing is a norm in organization today, yet the studies have indicated that these initiatives although intended to produce positive results, do more harm than good to the organization and its workforce (Cascio, 2003). According to Asika (2012), for banks to compete and profitability survive in the local banking industry, they need to evaluate their performance where possible restructure their organizations to minimize costs and increase efficiency.

In October, 2014, Co-operative Bank of Kenya followed suit to lay-off senior bank managers when it parted ways with 160 managers to cut on payroll costs. The bank took also took an action of redeploying the staff. Redeploying workers because of poor performance, automation of systems and redundancies produce a work environment where employees are characterized with high anxiety and uncertainty of their future in the organization. Over the years, researchers have dealt with the subject of organizational restructuring and its effects on performance of organization. Cascio (2003) based on research carried out in Denver, argued that employees should be viewed as assets rather than costs. Airo (2009) studied impact of restructuring on performance development in financial institutions. These studies therefore have not given enough focus on morale of surviving employees and therefore leave one question unanswered, i.e what is the effect of organizational restructuring on performance of Co-operative bank of Kenya.
Statement of the problem

Organizational restructuring are common place put in place by the senior management s part of a strategic change. It generally refers to the re-organization of the corporate operations to achieve higher levels of the operating efficiency. Downsizing is a norm in organization today, yet the studies have indicated that these initiatives although intended to produce positive results, do more harm than good to the organization and its workforce (Cascio, 2003). This harm is not only to organizational productivity and profitability but also in the learning process.

Alawode (2010) point out that bank must restructure to improve efficiency and sharpen their competitive edge if they hope to prosper in the fiercely competitive banking industry. According to Asika (2012), for banks to compete and profitability survive in the local banking industry, they need to evaluate their performance where possible restructure their organizations to minimize costs and increase efficiency.

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General objective

The general objective of the research was to determine the effect of organizational restructuring on performance of Co-operative bank of Kenya.

Specific objective
i. To determine the effects of organizational structure on bank’s performance

ii. To determine the effects of business process on performance of co-operative bank.

iii. To establish the effects of management structure on performance of co-operative bank.

iv. To find out the effect of communication on performance of co-operative bank

**Theoretical Review**

This study draws its foundation from the organizational theory and the resource based view theory. Organization theory bases its principles from the organization systems and evolution of organizational practices over time. The resource based view on the other hand is a theory that argues that organizations should look inside the company to find the sources of competitive advantage instead of looking at competitive environment for it.

**Conceptual Framework**

According to Rose (2008), conceptual framework acts like a map that gives coherence to empirical inquiry and is used to outline possible causes of action or present preferred approach to an idea; hence it is a structure of assumptions and principles that hold together the ideas comprising a broad concept. She further points out that conceptual framework synthesize ideas for the purpose of organized thinking and providing study direction, and comprise the independent and dependent variables and an examination into their relationship.
Organizational structure
- Work Specialization
- Chain of command

Business processes
- Business re-engineering
- Outsourcing

Management Structure
- Leadership styles
- Competencies

Communication
- Channels of communication
- Consultation

Performance
- Efficiency
- Profitability
- Effectiveness
- Quality

Independent variables

Dependent variable

Figure 2.1: Conceptual Framework

Business Process

This process is carried out for making operational improvements. It begins with things that are being done currently and then it moves on to re-engineering the tasks to improve. Business process
re-engineering usually results in changing roles while at times business process reengineering can also create new employment opportunities.

Today business prefers to outsource some of their processes to the other firms. There are two ways of outsourcing benefits of business. First it helps in reducing costs and it allows the business to concentrate on its core business and leave the remaining tasks to outsourcing firms whenever a business plans to outsource one of its processes, it will cause some major restructuring and reshuffling within the company. Downsizing is common when a business outsources its processes (Mugenda, 1999). When co-operative bank of Kenya was trying to reduce its cost, it found that the process of operation needed to be re-engineered. The re-engineering has helped in simplifying the controls and maintains information more accurately.

**Management Structure**

In all business and organizational activities, management is the act of getting people together to accomplish desired goals and objectives efficiently and effectively (Armstrong 2009). Management comprises planning, organizing, staffing, leading or directing, and controlling an organization or effort for the purpose of accomplishing a goal. Leadership opportunities arise when there is a vacuum. In this research, opportunities will rise because management staffs that were retrenched no longer have the right to lead and hence the remaining staff may be given those opportunities to lead (Craig 2009).

Supervision also changes when the roles changes and due to restructuring supervision is meant to change because the number of employees may reduce and departments may merge leading to one supervisor. The major change for managers associated with the adoption of self-directed teams is an increased span of control. First line supervisors, but not middle managers, are significantly
negatively affected by self-directed teams in terms of job satisfaction; but surprisingly, their involvement with SDTs is a significant predictor of commitment to the organization. On average, they appear to signal their commitment by participating in an innovation that they do not view as enhancing their job satisfaction, but that they perceive as necessary for competitiveness (Sagimo 2009)

**Communication**

According to Clutterbuck & Hirst, (2002) Management and communication skills are essential. Chief recruiting officer can reduce mistrust between the parties involved by creating transparency and setting priorities. When it comes to questions on change processes in the company, the chief recruiting officer is knowledgeable and informed point of contact. Their involvement is time-limited from the start and linked to measurable objectives, once these have been achieved, the exit process starts. All organizations have some form of more or less formalized structure which comprise of all the tangible and regularly occurring features which help to shape their members behavior. The organizational structures incorporate a network of roles and relationships and usually help in the process of ensuring that collective effort is explicitly organized to achieve specified ends (Clutterbuck & Hirst,2002).

Communication is one of the most important vehicles for performance. It ensures that the team members understand and support not only where the team is now but also they want to be (Clutterbuck & Hirst,2002). Almost all companies provide some type of training while other companies use outside consultants to conduct employee training sessions(Hughey & Mussnug, 2007).
Performance

Organization’s performance is normally looked at in terms of outcomes. However it can also be looked in terms of behavior (Armstrong 2000). Kenney et al., (1992) stated that employee’s performance is measured against the performance standards set by the organization. There are a number of measures that can be taken into consideration when measuring performance for example using productivity, efficiency, effectiveness, quality and profitability measures (Ahuja 1992)

RESEARCH METHODOLOGY

This study adopted descriptive research design. This design was appropriate because some information about the phenomenon of the study is already known and thus it is necessary to provide detailed information regarding the key aspects of the phenomenon. The research design is also advantageous when the respondents gives answers, it’s easy to probe further for any questions that may not have been included in the interview guide and it eliminates anonymity between the researcher and respondent.

Target Population of the Study

The target population of the study was 360 staff members of Co-operative bank of Kenya headquarters. The study was conducted in Nairobi County hence the staff from this region were used for the purpose of the study. A sample was drawn from the 190 staff members of Co-operative bank of Kenya headquarters.

Sampling Technique and Sample Size

Sampling is the process of selecting a number of individuals for a study in such a way that that the individuals selected represent the large group from which they were selected (Cooper & Roger, 2011). A sample is a small proportion of the target population selected using some systematic
procedures for study. According to Kothari (2014), at least 50% above of the total population is adequate sample size for descriptive studies. The selected sample size was a representative of the staff members of Co-operative bank of Kenya headquarters.

The sample size was determined using a formula by Yamane, (1967) as follows:

\[ n = \frac{N}{1 + N (e)^2} \]

Where:

- \( n \) = the sample size
- \( N \) = the target population
- \( e \) = the level of precision (95% confidence level) = 0.05

\[ n = \frac{360}{1 + 360 (0.05)^2} \]

\[ = \frac{360}{1 + 360 (0.0025)} \]

\[ = \frac{360}{1 + 0.9} \]

\[ = 190 \]

This was translated to 52% of the target population.

**Data collection Instruments and Procedures**

A structured questionnaire was used to collect data from the targeted respondents. According to Chandran (2003) a questionnaire is a series of written questions on a topic about which respondents opinions are sought. Questionnaires are useful in a descriptive study where there is need for quickly
and easily get information from people in non-threatening way, they provide a high degree of data standardization and adoption of generalized information amongst any population. This method of data collection is desired because of greater flexibility, greater control of interview situation and also the high speed of gathering data.

**Data Processing, Analysis and Presentations**

Data was validated, edited and coded then summarized using descriptive statistics, percentages and mean scores. The information was displayed using bar charts, graphs and pie charts and in prose form. This was done by tallying up responses, computing percentages of variations in response as well as describing and interpreting the data in line with the objectives through use of SPSS (version 21) to communicate research findings.

**Study Finding and Discussion**

**Regression analysis**

The researcher conducted a multiple regression analysis so as determine the effect of organizational restructuring on performance of Co-operative bank of Kenya. The researcher applied the statistical package SPSS, to enter and compute the measurements of the multiple regressions for the study as presented below.

**Table 4.1: Model Summary**

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.558&lt;sup&gt;a&lt;/sup&gt;</td>
<td>.762</td>
<td>.799</td>
<td>.89791</td>
</tr>
</tbody>
</table>

*Source: Research, 2016*
a. Predictors: (Constant) Organizational structure, business process, management structure and communication.

b. Performance of Co-operative bank of Kenya

Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (Performance of Co-operative bank of Kenya) that is explained by all the 4 independent variables (Organizational structure, business process, management structure and communication). The four independent variables that were studied, explain 92.6% of variance to establish the effect of organizational restructuring on performance of Co-operative bank of Kenya as represented by the $R^2$. This therefore means that other factors not studied in this research contribute 7.4% of variance in the dependent variable. Therefore, further research should be conducted to investigate the effect of organizational restructuring on performance of Co-operative bank of Kenya.

Table 4. 2:ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Regression</td>
<td>10.686</td>
<td>4</td>
<td>2.671</td>
<td>16.478</td>
<td>.000&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
<tr>
<td>Residual</td>
<td>81.193</td>
<td>317</td>
<td>3.56</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>91.879</td>
<td>321</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The F critical at 5% level of significance was 3.56. Since F calculated is greater than the F critical (value 16.478), this shows that the overall model was significant. The significance is less than 0.05, thus indicating that the predictor variables, explain the variation in the dependent variable...
which is Performance of Co-operative bank of Kenya. If the significance value of F was larger than 0.05 then the independent variables would not explain the variation in the dependent variable.

Table 4. 3: Multiple Regression Analysis

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>7.998</td>
<td>.984</td>
<td>.984</td>
<td>8.110</td>
</tr>
<tr>
<td>Organizational structure</td>
<td>.376</td>
<td>.117</td>
<td>.272</td>
<td>2.302</td>
</tr>
<tr>
<td>Business process</td>
<td>.332</td>
<td>.165</td>
<td>.025</td>
<td>.195</td>
</tr>
<tr>
<td>Management structure</td>
<td>.355</td>
<td>.148</td>
<td>.256</td>
<td>2.065</td>
</tr>
<tr>
<td>Communication</td>
<td>.398</td>
<td>.180</td>
<td>.275</td>
<td>2.175</td>
</tr>
</tbody>
</table>

The regression equation \( Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 \) was interpreted to mean

\[
Y = 7.998 + .376X_1 + .332X_2 + .355X_3 + .398X_4
\]

\( Y = \) Performance of Co-operative bank of Kenya

\( X_1 \) is Organizational Structure \( X_2 \) Business Process, \( X_3 \) is Management structure and \( X_4 \) is the Communication.

According to the equation, taking all factors (Organizational structure, business process, management structure and communication) constant at zero, overall Performance of Co-operative bank of Kenya will be 7.998. The data findings also show that a unit increase Organizational Structure will lead to a 0.376 increase Performance of Co-operative bank of Kenya; a unit increase Business Process will lead to a 0.332 increase in Performance of Co-operative bank of Kenya; a unit increase in Management structure, will lead to a 0.355 increases in Performance of Co-operative bank of Kenya and a unit increase in Communication Will lead to a 0.398 increase in
Performance of Co-operative bank of Kenya. This means that the most significant variable is Communication followed by Organizational structure.

**Summary of the Findings**

**Organizational structure**

The study established that business process affects organizational restructuring on performance of Co-operative bank of Kenya. This implies that business process is an important factor on performance of Co-operative bank of Kenya. From the findings respondents agreed to the statement that; Co-operative bank of Kenya have some form of formalized structure; Employees are allowed to contribute ideas; The organizational structures incorporate a network of roles and relationships; Organizational structure usually help in the process of ensuring that collective effort is explicitly organized to achieve specified ends as indicated by a mean of 3.93, 4.37, 3.98, 3.89, 3.75 and 3.60 respectively.

**Business process**

The study found out to a greater extent that From the findings respondents agreed that there is policy on staff levels; that Organization provides the necessary facilities to all employees for effective delivery; that Job functions and responsibilities of staff overlap; that The staff in co-operative bank are many; that the organization supports staff with welfare activities as indicated by a mean of 4.11, 4.04, 3.78, 3.72 and 3.63 respectively.

**Management Structure**

From the findings on level of agreement with statements regarding the effect of management structure influence on the performance of Co-operative bank of Kenya, respondents agreed that
Employees are given leadership opportunities through delegation; that the Employees freely interact with management; that Management helps employees in career development; that There is too much power given to supervisors; that Management recognizes the various departmental responsibilities and that Workers are recognized for initiative and creativity as indicated by a mean of 3.89, 3.78, 3.63, 4.07, 3.85 and 3.59 respectively.

Communication

On the findings on communication respondents agreed to the statement that there is top-down communication; that there is lateral communication in the organization; that employees are allowed to contribute ideas; that Communication is one of the most important vehicles for performance; and that Communication skills are essential in banking sector as indicated by a mean of 4.07, 3.85, 3.59, 3.89 and 3.89 respectively. These findings agree with Ombudsman, (2013) argument that communicating business needs and priorities, seek views and opinions from affected employees, either individually or through their representatives and encourage a two-way flow of information.

Conclusion

The study concludes that the organizational structures incorporate a network of roles and relationships and usually help in the process of ensuring that collective effort is explicitly organized to achieve specified ends. The understaffing associated with downsizing, has a significant negative effect on satisfaction and organizational commitment, which in turn affect some measures of performance. This suggests that while the direct effect of downsizing has a stronger negative effect on employees, it is not just employee satisfaction, but firm performance that is likely to suffer as a result of the organizational structures associated with downsizing.
Further the study concludes that business process is carried out for making operational improvements. It begins with things that are being done currently and then it moves on to re-engineering the tasks to improve. Business process re-engineering usually results in changing roles while at times business process reengineering can also create new employment opportunities.

Additionally the study concludes that the management structure always make the major change for managers associated with the adoption of self-directed teams is an increased span of control. First line supervisors, but not middle managers, are significantly negatively affected by self-directed teams in terms of job satisfaction; but surprisingly, their involvement with SDTs is a significant predictor of commitment to the organization. On average, they appear to signal their commitment by participating in an innovation that they do not view as enhancing their job satisfaction.

Finally the study concludes that Communication is one of the most important vehicles for performance. It ensures that the team members understand and support not only where the team is now but also they want to be. Communicating business needs and priorities, seek views and opinions from affected employees, either individually or through their representatives and encourage a two-way flow of information

**Recommendations**

Since quality of organizational structure is potentially important, it should be enhanced. The ability of the board to protect the assets of shareholders and add value crucially depends on the nature of organizational structure

Further the study recommends well- organizational structure since well-capitalized banks face lower need to external funding and lower bankruptcy and funding costs; and this advantage
translates into better profitability. The more capital a financial institution has, the more resistant it will be to failure.

Finally the study recommends improvement of communication in cooperative bank since it assists in lowering the total operating costs of a firm. Investment in communication. The use of the communication affects banking transactions has also helped to reduce transaction costs and enhance profitability making.

References


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