RESTRUCTURING STRATEGY AND PERFORMANCE OF MAJOR COMMERCIAL BANKS IN KENYA

BY

HALIMA ABDULLAHI JARSO

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DECLARATION

This research project is my original work and has not been submitted for a degree in this or any other university.

SIGNED .... DATE..

HALIMA A JARSO

D61/60650/2010

The Research Project has been submitted for examination with my approval as University supervisor.

SIGNED .... DATE..

DR. Z.B AWINO, PhD.,

Senior Lecturer, Department of Business Administration, School of Business

UNIVERSITY OF NAIROBI

DEDICATION

To my sister Batula for her financial support and motivation throughout the research project, you taught me that I can achieve anything I desired in life. My daughters Biftu and Tumme for enduring my absence during the study period.

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ABBREVIATIONS AND ACRONYMS

G.O.K: Government of Kenya

C.E.O: Chief Executive Officer

H.R: Human resource

GMI: Global Market Index

NSE: Nairobi Securities Exchange

ABSTRACT

Organizations, depending on the nature of their businesses, structure, and size employ different strategies in order to achieve their desired level of output. The organization therefore must implement the right strategies that they have formulated if the desired performance level is to be achieved. (Thompson and Strickland, 2008).In an organization's quest to improve efficiency and profitability, most of these organizations tend to implement a corporate restructuring strategy involving re-building or total dismantling of areas or departments within the organization that requires special attention from management and other stakeholders. According to Bowman et al (1999), the consequences of restructuring can be conceptualized in terms of intermediate effects which may have positive or negative outcomes and these intermediate effects may have some impact on financial performance or economic wealth of the corporation. Restructuring is a contemporary solution issue to managing and anticipating change (Acharya, 2009). The purpose of the study is to establish the extent to which the various restructuring efforts executed at the top performing commercial banks affect the performance of the banks. For such a study to be carried out primary data will be used to determine the extent to which restructuring has been done by the commercial banks. Thus questionnaires are to be administered to employees of the selected banks to get this information and analyzed by use of men and standard deviation. The performance of the banks is derived from secondary data that is the published financial statements. From these the abnormal returns can be computed to determine the impact of the restructuring on the returns of the banks. This is then followed by a t test and the findings are then presented using tables. The study concludes that restructuring in banks leads to improved performance by the banks. The study had several limitations such as restricted number of participants and some respondents not giving information considered as confidential thus leading to the respondents giving unreliable information. The study implies there is a relationship between restructuring and performance of banks. For restructuring to be a success, management needs to take employee needs and concerns in planning and implementation of strategies.

CHAPTER ONE

INTRODUCTION

1.1Background of the Study

Organizations, depending on the nature of their businesses, structure, and size employ different strategies in order to achieve their desired level of output. The organization therefore must implement the right strategies that they have formulated if the desired performance level is to be achieved. Some of the strategies include; corporate restructuring, cost cutting, mergers and acquisitions, diversification, divestitures among others. Therefore, those organizations that actively manage their business portfolios through acquisitions and divestitures create a substantially more shareholder value than those kept in a fixed business line up (Thompson and Strickland, 2008). According to Johnson and Scholes (2002), a restructuring organization requires a restructurer who identifies and maximizes the restructuring opportunities in business. This means that they are able to identify the problem and its root causes, and are capable of formulating the best approach to counter the problem and any other issue arising out of the problems.

The Resource Based View (RBV) theory emphasizes the internal resources of the organization in formulating strategy to achieve a sustainable competitive advantage in its markets. Firms that possess and exploit resources and capabilities that are valuable and rare will attain a competitive advantage Barney (1991). If the organization is seen as made of resources which can be restructured to provide it with competitive advantage then its perspective does indeed become inside out. In other words its internal capabilities determine the strategic choice it makes in competing in its external environment. In some cases an organization resources may actually allow it

to create new markets and value for the customer. Organizational capabilities are combinations of human skills, organizational procedures and routines, physical assets, and systems of information and incentives that enhance performance along a particular dimension' Chandler (1992).

Dynamic capabilities refer to a firm's ability to integrate and reconfigure the resource base of a firm as well ability to deploy or release resources (Eisenhardt and Martin, 2000; Teece et al, 1997). Dynamic capabilities are often related to knowledge workers and knowledge intensive organizations operating in rapidly changing turbulent environment.

The banking industry in Kenya has over the past made tremendous adjustments aimed at improving the industry .This should be noted in line with the fact that the banking sector plays a significant role in the growth of economies all over the world especially in Kenya. Roe (2004).In addition, the banking industry is one of the most profitable in Kenya However, due to liberalization, globalization, technological advancement and more enlightened customers, it has been faced with huge non-performing loans, high overhead costs, and difficult operating environment. Banks have had to restructure their business operations by downsizing, focusing on customers care, through tailored products and restructuring of non-performing loans in order to improve their financial performance and shareholder value (Kithinji 2000).This process has had impacts on various aspects of the bank industry such as the human capital, performance and customer satisfaction as well as challenges such as lack of capital, regulatory policies, cultural and socio-economic factors which have posed high labor cost, slow business growth and delay in the implementation of restructuring. Madivenga (2002).

1.1.1 Concept of Strategy

Strategy is the pattern of activities which has an impact on the achievement of the organizational objectives in relation to its environment. Strategic management is the most important activity undertaken by any business or public organization (Eisenhardt and Zbaracki, 1992). According to Teece et al., (1997) business strategy is concerned with how the company competes within a particular industry. If the company is to prosper within an industry it must establish a competitive advantage over its rivals. Managers are constantly learning to play by a new set of rules. Organizations must be flexible to respond rapidly to competitive and market changes. They must benchmark continuously to achieve best practice. They must outsource aggressively to gain efficiencies. And they must nurture a few core competencies in race to stay ahead of rivals.

The purpose of a strategy is to make a company fit into its business environment. Various approaches have been adopted when coming up with a business strategy. The contingency approach holds that the success of an organization depends on the context in which it is operating. The contingency theory suggests that there is no universal set of strategies which is optimal for all businesses or companies and thus different strategies should be designed for different environmental contexts (Gardner et al., 2000). Zeithaml et al., (1988) reckons that the effectiveness of the strategy depends on the appropriate matching of organizational contingency factors to fit the company's context (Zeithaml et al., 1988).

1.1.2 Concept of Restructuring

Restructuring generally refers to the reorganization of the corporate operations to achieve higher levels of the operating efficiency. Pearce and Robinson (2010) viewed restructuring as a stage in strategy implementation where managers attempt to recast their organizational structure, leadership, culture and reward systems may all be changed to ensure cost competitiveness and quality demanded by the unique requirements of its strategies.

Restructuring involves the elimination of non-core business and business processes, the consolidation of related operations and business functions and to a great extent, reengineering of existing processes. According to Mintzberg and Quinn (1991), restructuring involves frequently changing organizational management team, shifting strategy, or infusing the organization with new technology that the company may follow up on new acquisitions or business in order to build a critical mass, and selling off unneeded or unconnected parts and hereby reduce the effective acquisition cost. According to (Strickland and, Gamble and Thompson, 2008), restructuring involves divesting some business and acquiring others so as to put a whole new face in the company's business in some instances, with the appointment of a new Chief Executive Officer (Strickland, Gamble and Thompson, 2008).

Restructuring has enabled organizations to globally respond more quickly and effectively to new opportunities and unexpected pressures, thereby re-establishing their competitive advantage. The competitive advantage established by the restructuring organization is grounded on reorganizing its business processes and ensuring that it is in the best position to compete while building bets practices and internal process that propel it above its competitors. This eventually makes the firm able to adapt quickly and prepares it for quick combating the competitors (Gibson, 2010). He further argues that organizations restructure to support corporate strategy or to take advantage of a business opportunity. Restructuring equips the firm with the requisite competences needed to capture opportunities that present themselves in the operating environment through leadership in focused value. Gordon (1994) , contends that restructuring institutes higher levels of operating efficiency and effectiveness of the organization.

1.1.3 Organizational Performance

According to Bowman et al (1999), the consequences of restructuring can be conceptualized in terms of intermediate effects which may have positive or negative outcomes and these intermediate effects may have some impact on financial performance or economic wealth of the corporation. Bowman et al suggest that this ultimate effect may be perceptible in a few years or over a longer period. In the opinion of the authors, the mechanism of "when does restructuring work" is composed of many intermediate steps, but the total or derivative economic effect is captured by the operating profit changes and/or stock market changes. Organizational performance comprises the actual output or results of an organization as measured against its intended outputs (or goals and objectives).

According to Richard et al. (2009) organizational performance encompasses three specific areas of firm outcomes: financial performance (profits, return on assets, return on investment, etc.), product market performance (sales, market share, etc.) and shareholder return (total shareholder return, economic value added, etc.). Well performing companies often enjoy a competitive advantage over the rest in the industry and are able to deliver on quality and superior products and services.

1.1.4 Major Commercial Banks in Kenya

Various studies have shown that restructuring as a strategy has a felt impact on the commercial banks. For instance a study by Oluoch (2007) performed a survey of the relationship between performance appraisal practices, motivation and job satisfaction of employees of commercial banks in Kenya and found that performance appraisal practices have a low impact on the factors and in the conclusions suggested further studies to reveal what heavily impacted on the success of the commercial; banks in Kenya this led to a study by Ayoo (2011) that showed that restructuring led to high job satisfaction among the employees who were retained in Kenya commercial bank as well as improve the client satisfaction from the services offered. This therefore calls for a study to determine the impact of restructuring on the performance of the banks.

The banking industry in Kenya has over the past made tremendous adjustments aimed at improving the industry .This should be noted in line with the fact that the banking sector plays a significant role in the growth of economies all over the world especially in Kenya. Roe (2004). In addition, the banking industry is one of the most profitable in Kenya However, due to liberalization, globalization, and technological advancement and more enlightened customers; it has been faced with huge non-performing loans, high overhead costs, and difficult operating environment.

Banks have had to restructure their business operations by downsizing, focusing on customers care, through tailored products and restructuring of non-performing loans in order to improve their financial performance and shareholder value (Kithinji 2000). This process has had impacts on various aspects of the bank industry such as the human capital, performance and customer satisfaction as well as challenges such as lack of capital, regulatory policies, cultural and socio-economic factors which have posed high labor cost, slow business growth and delay in the implementation of restructuring Madivenga (2002). The following table is used to identify the major banks based on their market share and asset base.

Table 1.1: Major commercial banks by market share and asset base

Bank	Market Share	Asset base
Kenya Commercial Bank	15.75%	191,212
Barclays Bank of Kenya	13.88%	168,510
Standard Chartered Bank	8.16%	99,020
Co-operative Bank	6.91%	83,871
CFC Stanbic Bank	6.85%	83,166
Equity Bank	6.49%	78,837
Diamond Trust Bank	4.62%	56,146
Ecobank	4.55%	55,202
Citibank	3.92%	47,535
National Bank of Kenya	3.52%	42,696
All others	25.35%	307,879
Totals	100%	1,214,074

Source: Wanyama (2010)

1.2 Research Problem

Banks have had to restructure their business operations by downsizing, focusing on customers care, through tailored products and restructuring of non-performing loans in order to improve their financial performance and shareholder value (Kithinji 2000).This process has had impacts on various aspects of the bank industry such as the human capital, performance and customer satisfaction as well as challenges such as lack of capital, regulatory policies, cultural and socio-economic (Madivenga ,2002).

It should be noted that the banking sector plays a significant role in the growth of economies all over the world especially in Kenya. Roe (2004).In addition, the banking industry is one of the most profitable in Kenya However, due to liberalization, globalization, technological advancement and more enlightened customers, it has been faced with huge non-performing loans, high overhead costs, and difficult operating environment. Banks have had to restructure their business operations by downsizing, focusing on customers care, through tailored products and restructuring of non-performing loans in order to improve their financial performance and shareholder value (Kithinji 2000).

As a result, a number of scholars and researchers have studied restructuring and implementation of strategic change in many organizations in Kenya and they have revealed why they need to change urgently if they are to remain competitive in their specific industries. Ayoo (2011) studied effects of corporate restructuring on employee job satisfaction in KCB Nairobi region. Nadwa (2010), focused on the factors that influence the implementation of strategic change at Development Bank of Kenya. Airo (2009) studied impact of restructuring on performance of development financial institutions and Ochira (2009) the influence of restructuring on employee job satisfaction and empowerment; a case study of Kenya Railways Corporation. Riany (2012) studied the impact of restructuring on the performance of mobile phone service providers. Oluoch (2007) a survey of the relationship between performance appraisal practices, motivation and job satisfaction of employees of commercials banks in Kenya and Butilia (2006) did a survey of supervision styles and employee job satisfaction in Commercial Banks in Kenya among others.

Despite growing interest in research on restructuring, little attention has been paid to effect of restructuring on performance of these firms. In addition, Munjuri 2011, conducted a study on impact of restructuring on the employees which found out that the most common restructuring practice by Kenyan Commercial banks involve retrenchment of the employees which reduce costs to ensure profitability. This was followed by a study by Riany (2012) on the impact of restructuring on the performance of mobile phone service providers and found that after restructuring, the firms registered positive returns.

Other studies conducted on restructuring include one by Xinliang Xu (2006) on Corporate Restructuring of Industrial and Commercial Bank of China (ICBC), Motivators and Impacts. Santhosh Kumar A.V. (2013) Corporate Restructuring in India with Special Reference to Reliance Industries Limited (RIL). Another study was by Dr. Nilam Panchal, and Dr. W.C.Singh on Impact of Restructuring on the Financial Performance of Organization: A case study of Reforms in Gujarat Power Sector which concluded that restructuring had a positive impact on performance.

These studies leave one question unanswered, that is, what is the effect of restructuring on the performance of the commercial banks? This study thus seeks to establish the extent to which the various restructuring efforts have affected the operations of the major commercial banks with regard to their performance.

1.3 Research Objectives

The objective of the study was to determine the relationship between restructuring and performance of major commercial banks in Kenya.

1.4 Value of the Study

The study is useful to policy as it will establish the relationship between restructuring and the performance of the banks. This helps to identify gaps in the institutions and the necessary measures to be taken to make strategies in future as well as determining whether the projects have achieved the objectives and if not what gaps needed to be filled. In addition it seeks to establish the impact of restructuring as a strategy used by top commercial banks in Kenya and to extension commercial banks globally. This will in return benefit Banking industry and all other related industries as they will understand the challenges facing the banking industry as regards restructuring and make the necessary adjustments as well as the benefits the banks will derive from the exercise for better relations with the banks.

The study also contributes towards theory by providing more information on the application of the various theories of strategy in the banking industry as well as the business sector as a whole. The information contained in this report will also be of use in providing empirical evidence on the impact of restructuring as a strategy on performance of institutions which will be of use to other researchers and used as a reference by all stakeholders in the field of strategy.

The study will offer a modern restructuring model for many institutions and thus contribute to the importance of further research, superior performance, and growth of the industry. The results of the study may also be applied to other organization in the service industry since restructuring strategy is applicable to all service oriented organizations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews and discusses the relevant literature that was used in the study. Then the chapter focuses on the theoretical and conceptual discussion conceptual basis under which the study is to be carried out by outlining the concept of strategy, dimensions of strategy and emphasis on restructuring strategy before detailing the specific dimension the study focuses on which is the impact of restructuring on the performance of commercial banks.

2.2 Theoretical Perspectives

The resource-based view assumes that resources, are heterogeneously distributed among firms and imperfectly mobile. The Resource Based View (RBV) theory emphasizes the internal resources of the organization in formulating strategy to achieve a sustainable competitive advantage in its markets. Firms that possess and exploit resources and capabilities that are valuable and rare will attain a competitive advantage Barney (1991). Resource-based theory seeks to delineate the set of market frictions that would lead to firm growth and sustainable economic rents (via isolating mechanisms)If the organization is seen as made of resources which can be restructured to provide it with competitive advantage then its perspective does indeed become inside out. In other words its internal capabilities determine the strategic choice it makes in competing in its external environment. Organizational capabilities are combinations of human skills, organizational procedures and routines, physical assets, and systems of information and incentives that enhance performance along a particular dimension' Chandler (1982).

Organizational capabilities are products of constant learning and relearning, from and about the firm’s activities, its suppliers and customers, and its own members. And again similarly, capabilities are firm-specific: they reside in the ‘organizational setting in which they were developed and used’ (Chandler, 1982a, p. 84). Capabilities may take the form of particular areas of technological expertise, or the ability to translate changes in demand quickly and effectively into new products, or the capacity to adjust and speed the flow of materials through a particular kind of production process.

Dynamic capabilities refer to a firm’s ability to integrate and reconfigure the resource base of a firm as well ability to deploy or release resources (Eisenhardt and Martin, 2000; Teece et al, 1997). Dynamic capabilities are often related to knowledge workers and knowledge intensive organizations operating in rapidly changing turbulent environment. The integration and configuring of a firm’s resources base involves the catalytic resources of the firm and the releasing and deploying of resources involves the productive resources of the firm. This view proposes that capabilities for mastering change are most essential elements of sustaining a firm’s competitive advantage, especially in conditions of rapidly changing environment.

Organizational ecology aims to explain how social, economic and political conditions affect the relative abundance and diversity of organizations and to account for their changing composition over time (Baum 2000). It is based on the work of Reverend Thomas Malthus (published An Essay on the Principle of Population, where he argued that unchecked population increases exponentially whereas the food supply grows only arithmetically; thus inevitable limitations of vital resources would have demographic implications, leading to a "struggle for existence".

Political economist, Adam Smith, in his The Wealth of Nations, identified a regulating mechanism in free markets, which he referred to as the "invisible hand", which suggests that prices self-adjust according to supplies and demand (Barnett 1997). This was followed by Charles Darwin who was influenced by both Smith and Malthus, and thus continued the conversation on the "struggle for existence" in nature. Darwin determined that as population outgrew resources, favorable variations would tend to be preserved and unfavorable ones to be destroyed. Darwin thus theorized that the result of this would be the formation of new species, more fit to survive due to this concept of Natural Selection (Henderson 1999).

Hannan and Freeman (1989) adopted this theory to organizational behavior and survival which was explained in the book *Organizational Ecology* where they concluded that organizational ecology examines the environment in which organizations compete and a process like natural selection occurs. Population Ecology Theory incorporated the individual, population, and community as units of analysis to look at the death of organizations and the birth of new organizations, as well as organizational growth and change. This led them to theorize about a complete life-cycle for an organization. Theoretical and empirical approach that uses insights from biology, economics, and sociology, and employs statistical analysis to try and understand the conditions under which organizations emerge, grow, and die.

Recent developments in population strategy point out that organizations juts like organisms have an active part in their endeavor to survive by taking initiatives to ensure survival amidst the dynamic environment rather than leaving their fate to environment. This has led to the assertion that firms set strategies that would enable them survive on the natural selection criterion of the environment.

2.3 Restructuring

Restructuring generally refers to the reorganization of the corporate operations to achieve higher levels of the operating efficiency. Pearce and Robinson (2010) viewed restructuring as a stage in strategy implementation where managers attempt to recast their organizational structure, leadership, culture and reward systems may all be changed to ensure cost competitiveness and quality demanded by the unique requirements of its strategies. Wilburn (2007) has attributed the shift due to increased competition from both domestic and foreign companies. This has led to an effort by companies to reduce the number of competitors and better meet the needs of their customers by focussing only on certain consumer segments. This has had an effect of reducing the potential size of the company's customer base.

To remain in the business, the companies have to strategize on how to retain their existing customers. This can only be achieved through the provision of exceptional customer experience. It entails any fundamental change in a company's business or financial structure, designed to increase the company's value, (Gibson, 2010). It is the process through which a company radically alters the contractual relationship that exists among its creditors, shareholders and other related parties. The process must lead to increasing of the economic viability of the underlying business model.

According to Gilson (2010), the need to address poor financial performance enhances the need for restructuring, declining sales, accounting losses or falling stock price are silent calls for restructuring to reverse the condition. Gilson (2010), further argues that the rationale for restructuring is for the restructuring firm to correct a large error in how it is valued in the capital market. This problem is prevalent in large diversified companies that operate in many businesses. Tracking stock, buybacks or leverage buyouts are some of the restructuring tools that can be capitalized on to reduce this value gap. Restructuring is usually carried out by organizations for economic reasons and the need by organizations to orient themselves in more strategic positions for efficiency and effectiveness. The reasons are many and varied.

According to Thomson and Strickland (2003), restructuring can be prompted by any of several factors such as when strategy review reveals that the firm's long-term performance prospects have become untenable because the portfolio of the company are too many, exhibiting slow growth, declining or are competitively weak business units; when one more of the company's principal business falls prey to hard times; when a new Chief Executive Officer takes over and decides to redirect the company; when "wave -of-the-future" technology or products emerge and a major shakeup of the portfolio is needed to build a position in a potentially high industry; when the firm has a unique opportunity to make an acquisition so big that it has to sell several existing business to finance the new acquisition; when a major business in the portfolio have become more and more unattractive forcing a shakeup into the portfolio in order to produce satisfactory long-term corporate performance.

Hills and Jones (2004), suggest that restructuring may become necessary when there are changes in the business environment or shifts in technology which may render the company's products obsolete. A company may also be compelled to restructure due to excess production capacity of goods or services which are no longer wanted by customers due to changing preferences or if these goods or services offer poor value for the money in the eyes of the customer. Hills and Jones further suggest that organizations may also downsize because they have grown too tall and inflexible or when bureaucratic costs have become too high, the organization may consider, claiming that organizations may decide to restructure even when they are in a strong simply to rebuild and improve their competitive advantage.

Restructuring has enabled organizations to globally respond more quickly and effectively to new opportunities and unexpected pressures, thereby re-establishing their competitive advantage. The competitive advantage established by the restructuring organization is grounded on reorganizing its business processes and ensuring that it is in the best position to compete while building bets practices and internal process that propel it above its competitors. This eventually makes the firm able to adapt quickly and prepares it for quick combating the competitors (Gibson, 2010). He further argues that organizations restructure to support corporate strategy or to take advantage of a business opportunity.

Restructuring equips the firm with the requisite competences needed to capture opportunities that present themselves in the operating environment through leadership in focused value. Gordon (1994), contends that restructuring institutes higher levels of operating efficiency and effectiveness of the organization. Hitt, Ireland and Hoskisson (1997) suggest restructuring processes typically have either short-term or long-term outcomes. The most successful restructuring actions are those which help top management regain strategic control of the firm's operations. Thus downscoping has been the most successful because it refocuses the firm on its core businesses. Executives can control the strategic actions of the businesses because they have fewer, are less diverse and deal with operations with which top management is more knowledgeable.

Bowman et al (1990) observe in their findings that of the three forms of restructuring they studied extensively, they found that financial restructuring improves economic performance the most. They argued that this could be because such restructuring is most explicitly focused on economic performance. However, the authors cautioned that not all forms of financial restructuring work well, but the best results are obtained from leveraged and management buyouts. Continuing with their conclusions, the authors add that good results on performance are also obtained from portfolio restructuring, with spin offs giving the highest returns followed by sell offs. Concerning organizational restructuring, Bowman et al contend that its impact on performance is contingent on the circumstances under which it is initiated but they add that generally, it leads to the smallest impact on economic performance.

In their overall conclusion, Bowman et al (1999) note that many forms of restructuring have positive but modest effects on performance, measured in terms of both accounting returns and shareholder returns. As a point of caution, Bowman et al (1999) advice that results of studies made on portfolio restructuring indicate that excessive buying and selling of business units is not effective, but rather, selectively in portfolio restructuring. The other point of caution the authors give is that there are risks in the process of restructuring, especially in financial restructuring where leverage management buyouts, which though is likely to lead to improved economic performance, may also bring increased risk of default due to the large interest payments on loans borrowed to fund LBOs. Much of restructuring has entailed downsizing and divestiture of businesses. The primary impetus for restructuring is performance along with correction of over diversification. While giving factors that necessitate restructuring, Hill and Jones (2004) emphasize that restructuring and re-engineering are often adopted when it becomes necessary to improve corporate performance of single business companies.

Candidates for divestiture typically include not only weak or underperformers or those unattractive industries but also those that no longer fit a company's revised diversification strategy (even though they may be profitable or in an attractive industry). Business units incompatible with the new related diversification criteria are divested; the remaining units are regrouped and aligned to capture more strategic fit benefits and new acquisitions made to strengthen the parent company's business position in the industries it has chosen to invest in, Hill and Jones (2004).

All too often however, companies are forced to downsize and lay off employees because they have monitored the way they operate their basic business processes and have not made incremental changes to their strategies and structures that allow them to adjust to changing environment and keep bureaucratic costs under control. The selling of portions of the company, such as a division or subsidiary that is no longer profitable or which has distracted management from its core business, can greatly improve the company's balance sheet. Staff reductions are often accomplished partly through the selling or closing of unprofitable portions of the company and partly by consolidating or outsourcing parts of the company that perform redundant functions such as payroll, human resources, and training, or security services. Common characteristics of restructuring include changes in corporate management, sale of underutilized assets, outsourcing of operations such as manufacturing to lower-cost locations, reorganization of functions such as sales, marketing, and distribution and refinancing of corporate debt to reduce interest payments, Hill and Jones (2004).

A company that has been restructured effectively will generally be leaner, more efficient, better organized, and better focused on its core business. If the restructured company was a leverage acquisition, the parent company will likely resell it at a profit when the restructuring has proven successful. Some common means of restructuring are downsizing, down scoping and leveraged buyouts. Hayes (2002:4) explains the origins of organizational restructuring in his concept of "future shock". He postulates that the change is a consequence of the existence of three related trends, namely, transience, novelty and diversity. Modern life is increasingly characterized by "impermanence and transience" due to the expanding scope and accelerated pace of change. This results in shorter duration of people's relationship with things, places,

other people, organizations and ideas. This change in turn requires new levels of adaptation for individuals and organizations in order to continue to exist. The individuals and organizations that are more adaptable are more likely to cope and vice versa. Novelty is the second trend where the accelerated pace of change leads to more unfamiliar situations that individuals and organizations must face. In the diversity trend people are faced with a wide variety of choices, particularly at work. This in turn makes decision making more complex. Hayes (2002:4) argues that when these trends come together at the same time, the society is propelled towards what he calls "historical crisis of adaptation". The end result of this becomes surroundings that are so short-lived, unfamiliar and complex, which threatens many people with adaptive collapse. This breakdown is in essence a future shock concept (Hayes, 2002:4-5).

Every industry is undergoing a consistent wave of evolution. Organizations go through periods of intermittent change with some degree of regularity that differs across industries. The last, probably most important finding for the managers was that industrial change is taking place at an increasing rate whilst the time between periods of discontinuous change, that involves what Hayes(2002:7) refers to as 'novelty', is declining. This implies that organizations will ever be faced with the challenge of managing unfamiliar situations (Hayes, 2002:7). Organizations adapt to change by restructuring. This includes transforming their structures, re-engineering business processes, and changing their cultures. In working environments, this means that individuals must either unlearn the old ways of doing things and develop new competencies or move out of their jobs.

The idea is to make the organization more flexible and competitive, but this unfortunately, tends to happen at the expense of employee security and career prospects. Workers begin to feel high levels of stress. These developments in turn do adversely impact on employee performance, commitment to work and their physical and psychological wellbeing. This also creates a huge burden for managers since their workload increases whilst they have to manage angry employees (Hayes, 2002:7). Taylor (1998:11) identified the following key techniques of successfully managing organizational restructuring; very strong project management with specific objectives and clear milestones. Good communication with everyone in the organization to ensure that every member of the staff knows exactly what is happening in their company. Resolute leadership that is not only provided by the CEO, but also by a dedicated team of professional business people running the organization. This team must be lean and mean, with selfless individuals who are excited about the corporate vision, supportive of each other and are willing to put the needs of the organization before theirs.

According to Anderson & Anderson (2001:15) organizational change is set in motion by certain signals of change that take place in the organization's environment or marketplace. Such warnings entail invention of new technology, changes in government regulations and adventurous actions by competitors. The need for organizational change may also be triggered by the failures in the leader's own organization. The organizations need to craft strategies to deal effectively with these events irrespective of what triggered them. The challenge is for management to be aware of and fully understand these signals and take action to respond appropriately. It is therefore crucial for management to be fully aware of drivers of change in their

organizations. In their “Drivers of Change Model”, Anderson & Anderson (2001:16) show the triggers of change in sequence. For the purpose of this research, only the following will be considered: The critical success factors in the marketplace that requires a customer centric approach. The business commands that require organizations to be more competitive and customer focused. The organizational imperatives that involve, amongst other things, restructuring the company in line with marketplace demands. There are basically ten principles for a successful organizational change, namely, wholeness, interconnectedness, multi-dimensional approach, continuous process through time, continuously learn and course correct, abundance, balance planning with attending to emerging dynamics, lead as if future is now, optimize human dynamics and evolve mindset. These are the operating principles that limit the adverse impact of organizational restructuring on both individuals and organizations (Anderson & Anderson, 2001:121).

High technology-driven companies are continually focused on the need to design complex structural configurations that will enable them to perform effectively in hyper-competitive environments (Black and Edwards, 2000). A consistent theme in the contemporary literature concerns the capacity to respond quickly to environmental pressures. It is generally recognized that this capacity to change is a major predictor of business success (Pettigrew and Massini, 2000). It is also well established that the capacity to change is not necessarily attributed to technical optimization but more appropriately the ability of the organization to utilize its human resources through structural transformations (Whittington and Mayer, 1999). The high performance work organization research reveals that high technology ventures increasingly adopt a range of innovative human resource practices. These have been labeled by, amongst

others, Pettigrew and Massini (2000) as process innovation, Ichniowski et al. (1996) as workplace innovations and Bacon et al. (1996) as the new management model.

Pettigrew and Massini (2000) argue that the intensification of changes to economic, technological, informational and political factors are forcing organizations to consider new ways of organizing and responding to the competitive dynamics of the external environment. The evidence concerning the success of these innovations is less comprehensive. Relatively few studies have directly linked these innovative work organizations to business success although Ichniowski et al. (1996) reported that steel mills which adopted innovative work practices combined with appropriate training, development and skill enhancement strategies achieved better results than organizations that adopted more traditional systems. In terms of the nature of change processes, large organizations have traditionally been seen as dominated by highly pluralist and incremental forms of decision making, taking into account the cognitive and political constraints on perfect choice (Alford, 1975; Hickson et al. 1985; Ashburner et al., 1996).

The managerial function was perceived as "muddling through with a purpose" and achieving a succession of minor "first order" changes (Levy, 1986). The majority of the research on organizational change viewed change as taking place incrementally, on the basis of consensus, collaboration and participation (Quinn, 1980) where the change process was essentially "owned" by the employees. Critics of the incremental change model argued that it lacked a contextual element, and had difficulty in explaining the prevalence of "coercive reorganizations" apparent in the 1980s, which were often at the behest of newly appointed chief executives (Dunphy and Stace, 1990).

This gave rise to a transformatory perspective on organizational change (Levy, 1986). Dunphy and Stace (1990) classify strategies for change into four types along two dimensions, namely incrementalism versus transformation and collaboration versus coercion. The first dimension refers to whether the change is implemented in small, continuous steps or in a large, discontinuous manner. The second dimension refers to whether employees are invited to participate in planning and implementing the change. This involves alteration of the system's (technology, core skills of employees, etc.) basic governing rules. It shifts the system as a whole irrevocably to a new paradigm (Levy, 1986). Hinings and Greenwood (1989) developed a typology of organizational change where they termed transformational change as a situation where prevailing ideas lose legitimacy and an alternative interpretive knowledge framework emerges, giving rise to a new structure.

Other associated features of transformational change include a reformed mission and core values, an altered distribution of power, and reorganization to support new roles and break the traditional business structure (Kleiner and Corrigan, 1989). Other researchers have attempted to combine the transformational and incremental perspective such as the "punctuated equilibrium model of organizational transformation" (Miller and Friesen, 1984; Tushman and Romanelli, 1985; Gersick, 1991) in that their approach to change incorporates elements of both the incremental and transition models. This model of organizational change, growing in prominence and pervasiveness, posits that while most organizations appear to fit the incrementalist model of change for a period of time, there comes a point when they undergo a period of rapid and fundamental change.

The organization evolves through relatively long periods of stability that are punctuated by short burst of revolutionary periods which subsequently establish the basis for new equilibrium periods (Romanelli and Tushman, 1994). As Gary Hamel notes in his book *Leading the Revolution* (2000), the age of incremental progress is over. Its mantra—faster, better, cheaper—is true of fewer and fewer companies. Today change has changed. No longer is it additive. No longer does it move in a straight line. In many industries it is now discontinuous, abrupt, and distinctly non-linear, as radically different ideas and commercial developments render established products and services obsolete. Perhaps the most far-reaching change of all is the Internet, which has rendered geography meaningless.

In the age of incremental progress, companies practiced rigorous planning, continuous improvement, statistical process control, six sigma quality enhancement programs, reengineering, and enterprise resource planning. If companies missed something that was changing in the environment—for example in TVs, stereos, and other consumer electronics, as in the 1970s and 1980s—there was plenty of time to catch up. Today, if a company misses a critical new development— for example in digital phones, Internet auctions, or corporate extranets (networks that connect firms to their suppliers or customers, that is, the entire value chain)—it may never catch up. As an example of the latter, consider enterprise resource planning (ERP). Firms employed armies of consultants to help them use ERP to integrate internal operations like purchasing, manufacturing, and accounting. Such activities are important and useful, but now many companies use the Web to link up with suppliers and customers. Many ERP consultants (and their firms) are not players in this area, and the Web is the wave of the future (Romanelli and Tushman, 1994).

Industrial-age management is a liability in a post-industrial world. Never before have there been such an incredible need for visionary leadership and the capacity to manage change effectively. Today the challenge is to think differently—to move beyond scientific management and kaizen (continuous improvement). As Hamel points out, the focus today is not on the slow accretion of scientific knowledge but on leaps of human imagination. In a non-linear world, only non-linear ideas will create new wealth and lead to radical improvements in human welfare. The starting point today is not a product or a service. It's the entire business concept (Romanelli and Tushman, 1994).

Some popular strategies today are spin-offs of noncore businesses, stock buy-backs, tracking stocks, and efficiency programs. All of these *release* wealth but they do not create wealth. This is financial engineering, not business concept innovation. Strategies like these do not create new customers, markets, or revenue streams. Their only purpose is to wring a bit more wealth out of yesterday's strategies. Sure, money talks, but it doesn't think. Machines work efficiently, but they don't invent. Thinking and inventing are done by the only true, long-term source of innovation and renewal that organizations possess: smart, well trained people (Gersick, 1991)

How do you increase the probability that radical, new, wealth-creating ideas will emerge in your organization? Certainly not by indiscriminate downsizing of your workforce or by trying to imitate the best practices of other companies. Rather, a key task for leaders is to create an environment in which the creativity and imagination of employees at all levels can flourish. In many cases doing so requires a radical shift in the mindset of managers at all levels. That new mindset is called responsible restructuring (Romanelli and Tushman, 1994).

2.4 Restructuring Strategy and Organization Performance

Bowman et al (1990) conducted a study on the forms of restructuring and their impact on economic performance and found out that financial restructuring improves economic performance the most. They argued that this could be because such restructuring is most explicitly focused on economic performance. However, the authors cautioned that not all forms of financial restructuring work well, but the best results are obtained from leveraged and management buyouts. Continuing with their conclusions, the authors added that good results on performance are also obtained from portfolio restructuring, with spin offs giving the highest returns followed by sell offs. Concerning organizational restructuring, Bowman et al contend that its impact on performance is contingent on the circumstances under which it is initiated but they add that generally, it leads to the smallest impact on economic performance. Thus in their overall conclusion, they noted that many forms of restructuring have positive but modest effects on performance, measured in terms of both accounting returns and shareholder returns.

As a point of caution, Bowman et al (1999) advice that results of studies made on portfolio restructuring indicate that excessive buying and selling of business units is not effective, but rather, selectively in portfolio restructuring. The other point of caution the authors give is that there are risks in the process of restructuring, especially in financial restructuring where leverage management buyouts.

Which though is likely to lead to improved economic performance, may also bring increased risk of default due to the large interest payments on loans borrowed to fund LBOs. This is emphasized by studies that show that restructuring has an impact on organizational performance. For instance, Erickson 2009 conducted a case study in 20 multinationals that have survived for over 200 years and found out that the multinationals have gone through various restructuring processes to be able to survive that long. The study also show that restructuring of the firms coincide with major economic events such as depression, economic recessions, wars and major technological and socio-cultural shifts in order to realign the firms to the environmental changes.

Munjuri 2011, conducted a study on impact of restructuring on the employees which found out that the most common restructuring practice by Kenyan Commercial banks involve retrenchment of the employees which reduce costs to ensure profitability. Riany (2012) also carried out a study on the impact of restructuring on the performance of mobile phone service providers and found that after restructuring, the firms registered positive returns.

Bowman et al (1999) distinguishes three types of restructuring as portfolio restructuring; financial restructuring and organizational restructuring and adds that the impact of restructuring is likely to vary across these major forms. The authors explain that in portfolio restructuring, significant changes are made in the mix of assets owned by the firm or in its strategic business units (SBUs). These changes may include liquidations, divestitures, asset sales and spin offs. In financial restructuring, significant changes are made in capital structure of the firm including leveraged buyouts, leveraged recapitalization and debt for equity swaps while in organizational restructuring, significant changes are made in the organization changes of the firm including organizational redesign and employment downsizing.

According to Bowman et al (1999) the consequences of restructuring can be conceptualized in terms of a sequence of intermediate effects which may have positive or negative outcomes. For example, in the case of portfolio restructuring, these intermediate effects could be increased strategic focus, greater economies of scope and more cogent control of multiple business units while in the case of financial restructuring.

Bowman et al (1999) indicate that these intermediate effects could be an emphasis on cash flows and changes in managerial incentives. In the case of organizational restructuring, these effects could be in greater employee satisfaction, reduced turnover, increased efficiencies and better communication. In the opinion of the authors, these intermediate effects may have some impact on financial performance or economic wealth of the corporation and the effect may be perceptible in a few years.

2.5 Measures of Performance

Bowman et al (1999) distinguishes two measures of company performance in the wake of restructuring as:-Market performance as shown by abnormal movements in the firm's stock price, in the days after restructuring announcement. Market performance is also measured by abnormal returns from changes in a company's share price which can be attributed to the restructuring event; Accounting performance which relates to changes in financial measures of the company's performance including return on equity and return on investment.

Bowman et al (1999) emphasize that these measures are typically calculated over several year window surrounding the restructuring event, allowing comparison of post-restructuring accounting performance with the pre-restructuring record. For each of the three forms of restructuring, Bowman et al (1999) have attempted to investigate the impact on market performance, that is, whether there is any abnormal movement in the firm's stock price after the announcement of such a restructuring event and on accounting performance, measuring changes in earnings before and after the restructuring over a period of years. The studies report a significant improvement in performance following restructuring event, but they further caution that this is not always the case. In their findings, the authors report that the average change in performance tends to be positive for portfolio and financial restructuring but is small and may sometimes be negative for organizational restructuring.

This has been widely used by scholars studying impact of business environment on performance of firms. For instance Kimberly Gladman (2013) in his study less turnover, better performance at firm well rated by GMI uses abnormal movement of firm's stock price as a measure of performance. The same is done by Gautam and

Riita (2001) who studied technological innovation and performance of acquiring firms using abnormal returns as a measure of performance. On the other hand, Stuart (2010) used accounting performance in the study Inter-organizational alliances and the performance of firms: A study of growth and innovation rates in a high-technology industry.

This has been made easier by Andre and Goergen (2011) who argue that both measure can be used together to optimize the value of performance given that those who use accounting figures tend to give a lower performance index than those who use abnormal returns. From this, the scholars assert that use of an average of both gives more accurate performance index. This has been used by Gompers et al. (2012) in the study towards optimizing human capital contribution to firm performance and Stenex (2012) in the study total quality management and firm performance. Information about corporate events is key to investor performance and investor performance signals information about corporate events. In as much as a major corporate event such as the award of a government project might lead to substantially changed investor performance, changed investor performance might signal the realization of a corporate event. Woon (2004).

An event study is concerned with the impact of an event on corporations. In particular, researchers are concerned with the hypothesis that an event will impact the value of a firm or firms, and that this impact will be reflected stock and other security prices, manifesting itself in abnormal security returns Konchitkchi (2011).Event study methodology is thus described as the set of econometric techniques used to measure and interpret the effects of an event on firms' securities. This comes from studies that have suggested that there exists a high level of efficiency in capital markets. If this suggestion is true, then one would expect that security prices would nearly continuously reflect almost all available information.

If security prices are a function of all available information, and new information occurs randomly (otherwise, it would not be new information), then one would expect that security prices would fluctuate randomly as randomly generated news is impounded in security prices. Thus, the "purchase or sale of any security at the prevailing market price represents a zero NPV transaction." thus in a perfectly efficient market, any piece of new relevant information would be immediately reflected in security prices. One should be able to determine the relevance of a given type of information by examining the effect of its occurrence on security prices. Thus, non-random performance of security prices immediately after a given event suggests that news of the event has a significant effect on security values Woon (2004). Consequently, the degree of efficiency in a market to a given type of information may be reflected in the speed that the market reacts to the new information.

Statistical tests should appropriately reflect the impact of the event only. Thus, the first step in conducting an event study is to gather an appropriate sample of firms experiencing the event, followed by the determination of the event window which is preferred to be at even intervals from the event day Konchitkchi (2011). The event window is set in reference to the event day such that the actual event period for each of the selected firms is given as the d 0 then the intervals counted the same number of intervals before and after event for each of the firms. In order to determine the extent of improvement in financial performance and shareholder value, data on Net Cash Flows, Earnings Per Share, Return On Equity and Market Price Per Share for each of the intervals in the event window are to be analyzed to isolate trends in the variables.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes how the research study will be conducted. It explains the research design applied. It also explains the data collection methods to be applied and how the data will be analyzed to produce the required information for this study.

3.2 Research Design

The research was conducted through cross-sectional survey. It collects data to make inferences about a population of interest at one point in time. Cross-sectional surveys have been described as snapshots of the populations about which they gather data. Thus yearly financial reports are used to determine the variables for five years before the restructuring and three years after the restructuring. As a result, the unaudited reports given in June are the basis of the study.

This design is appropriate because it has the ability of providing the critical success factors of restructuring that the Banks have adopted. Also, when the respondents give answers, it's easy to probe further for any question that may not have been included in the interview guide and also eliminates anonymity between the researcher and respondent. It is also appropriate considering the sensitivity of the information being provided and therefore gives an assurance that the information will be treated confidentially.

3.3 Population of the Study

The population comprises of 44 registered commercial banks operating in Kenya but study targets major commercial banks in Kenya. However, for purposes of manageability, a representative sample is used by picking a branch from the ten major commercial banks based on asset base is used for the study. The major commercial banks are selected on basis of their asset base and market share.

3.4 Data Collection

The data is collected from primary and secondary sources. The primary data is collected by means of questionnaire. A structured questionnaire, is designed with well-defined questions and administered through the "drop and pick later technique'' to give the respondent ample time to address and respond to the various questions raised.

The primary data is collected from the following respondents; branch managers, operations managers and selected non-management staff. The data is collected by noting down all the responses as provided by respondents and scanning through the strategic plan and cascade highlighting areas of importance relating to the study objectives.

The secondary data is obtained from the yearly financial reports to derive the Net Cash Flows, Earnings Per Share, Return On Equity and Market Price Per Share for each of the intervals in the event window are to be analyzed to isolate trends in the variables. These are extracted or computed where need be from the unaudited financial reports issued in June.

3.5 Data Analysis

The primary data is first sorted for reliability and consistency. This is followed by analysis using mean and standard deviation to come up with the periods for the restructuring milestones and the extent of implementation of restructuring. The information from the primary data is then used to determine the t used in analyzing the secondary data and coming up with the years to be used as the t values thus coming up with the performance tableau. The final step is to enter the performance indices in the tableau and do a combined analysis.

This begins with the computation of expected returns using the formulae

$R_{it} = a + ßR_{mt} + e_{it}$

Where,

R_{it} = return for bank i on day t

R_{mt} = return on the portfolio (20 share index or T bills)

ß = the slope

a = Constant (Y intercept)

e_{it} = error term

By the law of iterated expectations, $e_{it} = 0$

The monthly return was calculated as the change in NSE 20 index during the month expressed as a ratio of the beginning NSE 20 share index. This is expressed as follows.

$$R_M = \frac{M_t - M_{t-1}}{M_{t-1}} *100$$

Where

R_m Return of the market for period t

M_t NSE 20 share index at period t

M_{t-1} NSE 20 share index at period t-1

The abnormal return is thus calculated by the formulae

$R_m - R_{mt}$

Where

R_{mt} = expected return

R_m = actual return

From the abnormal returns deductions and conclusions can be drawn. These are then presented using tables.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION OF RESULTS

4.1 Introduction

The study used 10 major banks listed in the NSE. The study also used mean and standard deviation for the analysis of the primary data where the questions were coded thus the means show which answer was given by more respondents and the standard deviation shows how widely spread the responses were.

4.2 Demographics

Table 4.1 Demographics of the respondents

Length of stay	Percentage	Cumulative percentage
Less than a year	26	26
1 – 5 yrs	41	67
5 – 10 yrs	21	88
Above 10 years	12	100

The sampling was well balanced with a majority having served the banks for between a year and five years as well as between five years and ten years thus having sufficient knowledge of the happenings in the bank.

Level	Percentage	Cumulative percentage
Non-management	44	44
Supervisor	26	70
Middle manger	19	89
Senior manager	11	100

A majority of the respondents are non-management thus implementers with a good mix of all management levels thus giving balance account of the responses.

4.3 Restructuring by Banks

Has your bank adopted restructuring? The question sought to know whether the banks have adopted restructuring.

Table 4.2 Restructuring by banks

Bank	Mean	Standard deviation
Barclays	2	0
CFC Stanbic	2	0
DTB	2	0
Equity	2	0
Citi Bank	2	0
KCB	2	0
NBK	2	0
Ecobank	2	0
Standard Chartered	2	0
Co-operative	2	0

The question sought to know whether the banks have adopted restructuring. From the responses, a mean of two shows that the banks actually have adopted restructuring as a strategy and a standard deviation of 0 shows that all the respondents gave the same answer.

4.4 Formality of the Restructuring

Was the restructuring formal or informal? This question sought to determine formality of the restructuring.

Table 4.3 formality of the restructuring

Bank	Mean	Standard deviation
Barclays	2	0
CFC Stanbic	2	0
DTB	2	0
Equity	2	0
Citi Bank	2	0
KCB	2	0
NBK	2	0
Ecobank	2	0
Standard Chartered	2	0
Co-operative	2	0

This question sought to determine formality of the restructuring and the responses show that the banks have adopted a formal restructuring where there is a central organization and a central coordination point for the restructuring activities.

4.5 Adoption of Restructuring

When was the structuring venture initiated? The question sought the actual period when the restructuring was adopted by the bank for implementation.

Table 4.4 Adoption of restructuring

Bank	Period
Barclays	Oct 2007
CFC Stanbic	Nov 2007
DTB	Dec 2007
Equity	May 2008
Citi Bank	June 2006
KCB	May 2007
NBK	June 2007
Ecobank	March 2008
Standard Chartered	Oct 2006
Co-operative	Nov 2006

The question was not structured as it sought the actual period when the restructuring was adopted by the bank for implementation. The various periods when the management to the various banks adopted the restructuring strategy are given in the table above as extracted from the responses by senior managers, middle managers and supervisors who are privy to management decisions as well as the employees from communications given to them formally from the management

4.6 Implementation of Restructuring

When was the restructuring officially implemented in the organization? The question sought to establish the time of implementation of the strategy.

Table 4.5 Implementation of restructuring

Bank	Period
Barclays	Jan 2009
CFC Stanbic	Jan 2010
DTB	Jan 2010
Equity	Jan 2010
Citi Bank	Jan 2008
KCB	Jan 2008
NBK	Jan 2009
Ecobank	Jan 2010
Standard Chartered	Jan 2008
Co-operative	Jan 2008

The question sought to establish the time of implementation of the strategy to determine the year to use as the t 0 for the analysis of the secondary data. It is also seen that restructuring is implemented at a different time from the one in which it is adopted as it needs ample preparation time before implementation.

4.7 Responsibility for Restructuring

Who is in charge of restructuring in your bank? The question sought to find out the person responsible for restructuring.

Table 4.6 Responsibility for restructuring

Bank	Mean	Standard deviation
Barclays	2.8	0.5023
CFC Stanbic	3.3	0.4076
DTB	2.4	0.5762
Equity	3.8	0.4095
Citi Bank	3.9	0.0393
KCB	3.6	0.4643
NBK	3.2	0.6342
Ecobank	3.1	0.7135
Standard Chartered	2.6	0.5471
Co-operative	2.8	0.3463
Average	3.15	0.46403

The responses show that most of the banks have either the operation manager or the human resource manager in charge of the restructuring with some banks having the CEO in charge. The varying standard deviations also point at a mix of the responsible offices with responsibility shared mostly between the Human resource Manager and the operations manager with some banks having it shared by the CEO and the hr and operations managers.

This first shows that restructuring in banks is at corporate level activity implemented in all branches simultaneously thus directed by corporate level management but not branch managers. It also shows that the banks mix a range of structural and process changes in restructuring as seen in the wide involvement of Hr and operation mangers in the restructuring.

4.8 Satisfaction with Restructuring Activities

How satisfied are you with the extent to which the restructuring has been done? The question sought to find out the level of satisfaction of respondents in relation to restructuring.

Table 4.7 Satisfaction with restructuring activities

Bank	Mean	Standard deviation
Barclays	1.9	0.2371
CFC Stanbic	1.6	0.0247
DTB	1.7	0.4231
Equity	1.5	0.1324
Citi Bank	1.8	0.0453
KCB	1.5	0.2543
NBK	1.7	0.1034
Ecobank	1.6	0.0535
Standard Chartered	1.8	0.0405
Co-operative	1.6	0.3634
Average	1.67	0.16777

The responses are widely spread but shows that more respondents are satisfied with the restructuring efforts as seen in the means which are closer to 2 than 1 though with wide spread of responses as shown in the standard deviations.

Table 4.8 Abnormal Returns

Time	t -2	t -1	T	t 1	t 2
Bank	Abnormal returns				
Barclays	0.00234	0.03421	0.4324	0.1434	-0.0582
CFC Stanbic	0.0103	0.0362	3.0539	0.0562	-0.0243
DTB	1.4731	-1.9373	0.4258	0.1032	-0.0342
Equity	0.0428	-0.4276	2.0834	0.0307	0.0634
Citi Bank		0.0232	0.40341	0.0283	-0.0537
KCB		0.0571	1.8743	0.0586	-0.0427
NBK	0.316	0.0437	3.7462	0.3958	-0.2631
Ecobank	-0.3628	-0.4724	0.5436	0.2361	-0.4723
Standard Chartered		0.136622	0.748715	0.143066	0.00639
Co-operative		-0.33494	8.416395	0.096465	0.551923

The findings show abnormal high abnormal returns at t for all the banks which shows rapid shooting of returns in the year of restructuring which is mostly attributed to cutting of costs during the restructuring period thus high income on low costs. This high abnormal return is however seen to decline as other factors set in but does not go back to the returns prior to the restructuring.

In some instances however, it is noted that the t 2 abnormal returns start going negative to show that the impact of restructuring starts receding though at a very light margin. This needs to be taken into account for measures to ensure the restructuring has a longer span of positive impact. It also means that restructuring on its own does not guarantee long periods of profitability but needs to be reinforced with other strategies.

CHAPTER FIVE

SUMMARY, DISCUSSION AND RECOMMENDATION

5.1 Introduction

The chapter deals with a summary of the findings in chapter four and discussion of the findings in relation to the literature review and finally conclusion and recommendations.

5.2 Summary

The study shows that all banks have adopted restructuring and that the restructuring is formal and done at the corporate level seen by responsibility assigned to human resource and operations manager and in some cases the CEO. The study also shows that most of the respondents are satisfied with the restructuring activities. This is seen in the average mean of 1.67 which is closer to 2 for satisfaction than 1 for dissatisfaction. It should however be noted that this shows that some of the respondents are unsatisfied with the restructuring exercise as seen in the standard deviation of 0.17 that shows a significant low dispersion but a dispersion all the same from the answer thus a number of respondents indicated a 1 to show dissatisfaction.

The study also proves that restructuring in banks is directly related to increased profitability as seen in the high abnormal returns seen after the restructuring exercise. The abnormal returns help explain this as it gives the return above or below the expected returns based on trends thus the abnormal return is specifically attributed to restructuring. This is strengthened by the fact that the banks had their restructuring exercises at different times but the result of the restructuring is the same that is high abnormal returns in the year after restructuring which gradually reduces but still remains higher than before the restructuring exercise. It is thus imperative to note that the high return from restructuring is sustainable. It is however worth noting that the high returns gradually declines calling for more measures to ensure lasting profitability.

5.3 Discussion

The findings of the study that the banks have adopted restructuring is in agreement with the assertions of Ochira (2009) that most financial institutions globally resort to restricting when faced with low returns as a way of responding to the decline in profits and ensuring sustainable performance improvements. The study also shows that restructuring of banks is done at the corporate level. This however gives the challenge expressed by Butula (2006) who questioned the rationale of corporate level strategies among firms that have branches and subsidiaries in very diverse environments thus not allowing for uniformity of the mitigations.

Butula (2006) therefore advised for restructuring at branch level unless where all branches are in similar environment as seen in the purely domestic banks where the CEO coordinates the restructuring in conjunction with the human resource and operations manager. The study shows that such banks have higher returns on the restructuring than multinationals like Barclays bank and Standard Chartered Bank where the return is lower given the global dispersion between strategic centre and the implementation environment.

Further the study shows overall high returns during the year of restructuring. This high return is mostly attributed to the increased net cash inflow which is low before restructuring but sharply increases after restructuring and increases at a decreasing rate in the subsequent years. This establishes a trend where net cash flows peaks right after restructuring and gradually assumes a curve which increases at a decreasing rate until it starts decreasing as seen from the shape of the net cash inflow equation. The same can be said on returns on equity which is mostly gives a negative return before and sharply improves right after restructuring but also declines with time. This shows again that the impact of restructuring has a time limit after which it weakens its impact.

The market price per share sharply increases before the restructuring and stabilizes for a while before also showing a curve in its drop. This is true as indicated by Rowland K. Atiase, David E. Platt, and Senyo Y. Tse, (2004) their find were that restructuring firms experience relatively poor performance in the pre-restructuring period and that their earnings increase in the post-restructuring period.Compared with a control sample, the restructuring firms increase their return on equity and operating income,

but the evidence for improvements in cash flow from operations is mixed. Furthermore, they found stronger evidence of post restructuring performance improvements when they measured improvements relative to the restructuring year than when they measured improvements relative to the year before restructuring. Market price of the shares being indications of the firms performance show healthy performance of the firm after restructuring as well as the anticipation of the public to the expected high performance after restructuring .

The study thus establishes the fact that restructuring leads to increased performance in the banks. This is in agreement with the findings of a study by Vikas Srivastava and Ms. Ghausia Mushtaq (2011) corporate restructuring- a financial strategy which concluded that restructuring does indeed lead to improvement in performance of restructuring organizations. It however also shows that this performance declines with time after the performance. This is attributed to the constant changes in the environment and since restructuring aligns the firm to the environment, when the environment changes again, it calls for another restructuring event.

5.4 Conclusion

The study thus concludes that the restructuring in banks leads to improved performance by the banks. This is evident especially in the first year when restructuring is implemented. From a business perspective restructuring is basically doing what is necessary to the organization to stop underperformance and manage crisis which cushions the organization from collapsing or being rendered obsolete by other organizations. It’s also indicated from the study that all the major banks under study had adopted restructuring formally. It however also shows that this

improvement is not static as further changes in the environment lead to a decline in the performance which then call for further actions to ensure sustainable improvement in performance. Therefore, in concurrence with Bowman et al (1992) , restructuring improves performance the most.

Many companies are good at preparing a sound implementation plan. Some of them, however, are not aware of dedicating adequate (quantity, quality) resources and enablers to these initiatives (human, financial, technological, assets, consumables, systems, organization, headquarter functions shifting from directive centers to facilitators and business partners). In other cases the problem lays in missing regular progress monitoring against milestones and hurdles, and lash escalation management even if the concerned initiatives were of vital importance for the future business performance of these companies.

5.5 Suggestions for Further Studies

In line with the findings in this study, the following studies need to be carried out. First, a study needs to be carried out on the other mitigating actions to be taken so as to complement and sustain restructuring in order to ensure that the impact of restructuring does not decline with time as shown in the study. In addition, a study needs to be undertaken to determine the exact time frame of the impact of restructuring so as to determine the most appropriate time for the next restructuring exercise for optimum implementation.

This would enable firms to have time table for subsequent restructurings in advance to avoid time crushes and poor implementations as this gives the firms ample time to prepare in advance for the restructuring. Moreover, a similar study needs to be conducted in a different industry to see the practical applications of the findings in the particular industry.

5.6 Limitations of the Study

There were several limitations to this study. The first limitation was the restricted number of participants represented in the different demographic groups. Secondly, some of the bank officials were too busy to take time off and respond to the questionnaire even after several requests.

Due to the nature of information handled by banks, some respondents were very sensitive about information they were sharing thus did not give information considered as confidential. This may have led them to give unreliable information leaving out some questions which would be important in the study.

5.7 Implication on Policy, Theory and Practice

The study implies that there is a relationship between restructuring and performance of banks. There is significant increase in bank profits in the year when restructuring is implemented. The main reason that organizations give for restructuring is that they want to become more efficient and more profitable. Organizations often look for ways to do more with less, either because stockholders are demanding greater profits or because there has been evidence of wastefulness in the past.

Restructuring is aimed at increasing efficiency, enhancing competitive advantage, achieving synergy and improving firm value. Restructuring pursues the profitability, liquidity and solvency objectives of an organization. The study was carried out to determine whether improvements occur after restructuring was undertaken. The analysis and result shows that banks performed better in the post-restructuring era compared to the pre-restructuring era. It was also realized that restructuring played a significant role on the profitability, liquidity and solvency position of these firms, thereby suggesting that there has been increase in management efficiency, improved capital adequacy, strengthened operational capacity and assurance of the continued existence of these firms.

Organizations may switch to a more decentralized structure to try to empower front-line employees, or they may change the lines of command to move departments closer together to create more teamwork. The high performance is however not continuous which means that there are other forces other than restructuring which affect performance and should be considered when restructuring is implemented in an organization. Organizations adapt to change by restructuring. This includes

transforming their structures, re-engineering business processes, and changing their cultures. In working environments, this means that individuals must either unlearn the old ways of doing things or develop new competencies or move out of their jobs. The idea is to make the organization more flexible and competitive. The study shows that restructuring is implemented from the top most level of management. Therefore there is need for involvement of everyone in the organization in the restructuring process for it to be successful and for it to be sustainable.

For restructuring to be a success, management needs to take employee needs and concerns into consideration. The inclusion of employees in planning and implementation of strategies, enable the organization to use its inherent knowledge in moving theory into practice. There is need for organizations to; involve the staff and explain how they will be affected, improving communication, looking for ways to motivate staff, involve the stakeholders, adopt a positive attitude and try to do exactly what the restructuring has done as what they would do differently if they were in charge of the restructuring process.

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APPENDICES

Appendix 1: Questionnaire

This questionnaire is for a study to determine the effect of restructuring on the performance of commercial banks in Kenya as an MBA research project at the University Of Nairobi.

The respondents to this questionnaire have been randomly selected and your response will be treated with utmost confidentiality. Do not write your name anywhere in this questionnaire.

Your diligence and truthfulness in responding will be highly appreciated

Please respond to all questions

Part 1 Personal Details

How long have you served in the organization

Less than a year ☐

One to five years ☐

Five to ten years ☐

More than ten years ☐

What is your level in the organization

Non-management ☐

Supervisor ☐

Middle manager ☐

Senior manager ☐

Part 2 Research questions

Has your organization adopted restructuring?

Was the restructuring process formal or informal?

Formal ☐ Informal ☐

When was the restructuring venture initiated?

When was it officially implemented in your organization

Who is in charge of restructuring in your organization?

C.E.O ☐

Operations manager ☐

H.R manager ☐

Branch manager ☐

How satisfied are you with the extent to which the restructuring is carried out

Very satisfied ☐

Satisfied ☐

Somehow satisfied ☐

Dissatisfied ☐

Very dissatisfied ☐

Thanks for your time

Appendix ii: Data Collection Form

Bank	Item	t-4	t-3	t-2	t-1	t 0	t 1	t 2	t 3	t 4
Kenya Commercial Bank	Net Cash Flows									
	Earnings Per Share									
	Return On Equity									
	Market Price Per Share									
Barclays Bank of Kenya	Net Cash Flows									
	Earnings Per Share									
	Return On Equity									
	Market Price Per Share									
Standard Chartered Bank	Net Cash Flows									
	Earnings Per Share									
	Return On Equity									
	Market Price Per Share									
Co-operative Bank	Net Cash Flows									
	Earnings Per Share									
	Return On Equity									
	Market Price Per Share									
CFC Stanbic Bank	Net Cash Flows									
	Earnings Per Share									
	Return On Equity									
	Market Price Per Share									
Equity Bank	Net Cash Flows									
	Earnings Per Share									
	Return On Equity									
	Market Price Per Share									
Diamond Trust Bank	Net Cash Flows									
	Earnings Per Share									
	Return On Equity									
	Market Price Per Share									

Ecobank	Net Cash Flows									
	Earnings Per Share									
	Return On Equity									
	Market Price Per Share									
Citibank	Net Cash Flows									
	Earnings Per Share									
	Return On Equity									
	Market Price Per Share									
National Bank of Kenya	Net Cash Flows									
	Earnings Per Share									
	Return On Equity									
	Market Price Per Share									

Appendix iii: List of Commercial Banks

	BANK NAME		BANK NAME
1.	African Banking Corporation	23	First Community Bank
2	Bank of Africa	24	Giro Commercial Bank
3	Bank of Baroda	25	Guardian Bank
4	Bank of India	26	Gulf African Bank
5	Barclays Bank	27	Habib Bank
6	CFC Stanbic Bank	28	Habib Bank AG Zurich
7	Chase Bank (Kenya)	29	Housing Finance
8	Charterhouse Bank ltd	30	I&M Bank
9	Citibank	31	Imperial Bank Kenya
10	Commercial Bank of Africa	32	Kenya Commercial Bank
11	Consolidated Bank of Kenya	33	K-Rep Bank
12	Cooperative Bank of Kenya	34	Middle East Bank Kenya
13	Credit Bank	35	National Bank of Kenya
14	Development Bank of Kenya	36	NIC Bank
15	Diamond Trust Bank	37	Oriental Commercial Bank
16	Dubai Bank Kenya	38	Paramount Universal Bank
17	Ecobank	39	Prime Bank (Kenya)
18	Equatorial Commercial Bank	40	Standard Chartered Kenya
19	Equity Bank	41	Southern credit corporation
20	Family Bank	42	Trans National Bank Kenya
21	Fidelity Commercial Bank Limited	43	United Bank for Africa
22	Fina Bank	44	Victoria Commercial Bank

Source: Central Bank of Kenya (2012)

Appendix iv: List of Major Banks Based on Asset Base

Bank	Market Share	Asset base
Kenya Commercial Bank	15.75%	191,212
Barclays Bank of Kenya	13.88%	168,510
Standard Chartered Bank	8.16%	99,020
Co-operative Bank	6.91%	83,871
CFC Stanbic Bank	6.85%	83,166
Equity Bank	6.49%	78,837
Diamond Trust Bank	4.62%	56,146
Ecobank	4.55%	55,202
Citibank	3.92%	47,535
National Bank of Kenya	3.52%	42,696
All others	25.35%	307,879
Totals	100%	1,214,074

Source: Wanyama (2010)