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INFLUENCE OF ORGANIZATIONAL RESTRUCTURING ON PERFORMANCE OF COOMERCIAL BANKS IN KENYA: A CASE OF KENYA COMMERCIAL BANK

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ABSTRACT

Organizational restructuring is a process which includes improvement in efficiency and management, reduction in staff and wages and sale of assets with the expectation of higher profitability and cash flow. This study was to evaluate the impact of organizational restructure on the performance of commercial banks in Kenya. This study was guided by the specific objective that seek to find out the effect of centralization of activities, departmentalization, and staff turnover on the performance of banking sector in Kenya. The theories that were used to describe the research objectives included innovation theory; resource based theory, management by objectives theory and planned change theory. The scope of the study spanned from the year 2001 to 2014. That was the period within which the commercial banks in Kenya had incurred high operating expenses and also went through restructuring to reduce cost and promote efficiency. The target population included employees of the commercial banks at the head office. This was because major decisions impacting on the performance of the company were formulated and implemented at the head office. Hence a sample size of 462 staff were taken from commercial banks head office units. The study used stratified random sampling techniques to select the sample. Primary data was collected through a questionnaire that was distributed to respondents. The study explored literature on the financial performance of KCB between the years 2001 and 2014. The data from the questionnaires was screened and entered in readiness for analysis using SPSS software version 21. Results were presented using pie charts, bar charts and graphs, percentages and frequency tables. The analysis showed that systems upgrade had the strongest positive (Pearson correlation coefficient =.881) influence on performance of banking sector. In addition, departmentation, centralization of processes and staff turnover are positively correlated to performance of banking sector (Pearson correlation coefficient =.672, .579 and .611). The study recommended that to improve organizational restructuring on performance of banking sector, the management should make sure that all the respective heads of departments had full and clear information on time to enhance easy decision making on organizational restructuring to enhance performance at KCB.

Key Words: *System Upgrade, Centralization of Processes, Downsizing, Departmentalization, Performance of Commercial Banks*

Background of the Study

The recent global economic scenario coupled with increase in global competitiveness, fast developing technology and the evolving environment require firms to continually restructure in order to remain competitive. They require transforming from rigid bureaucracies into more flexible and leaner designs (Cummings & Worley, 2009). Organizational restructuring has attracted much attention from academics not only because it concerns a wide range of aspects but also due to its implications for firms to adjust strategies regarding to the dynamic business environment, and eventually enable firms to create and retain the competitive advantages.

Firms may obtain a core competence of continually acquiring other firms, restructuring, and retaining certain firm assets, while divesting others. Organizational restructuring has increasingly become a staple of management life and a common phenomenon around the world as unprecedented number of companies across the world have reorganized their divisions, restructured their assets, streamlined their operations and spun-off their divisions in a bid to spur organizational performance (Hitt, Ireland & Hoskinsson, 2007)

Restructuring is a complex issue with make or break implications on organizations (Higuchi & Yoshio, 2004). In organizations which restructuring result to massive layoffs and redundancy will have problems with dissatisfied employees who feel left out of the change processes thus leading to poor performance? Managers unquestionably agree that this century demands more efficiency and productivity than any other time in history since have been grappling many challenges in an attempt to put their companies ahead of competitors.

Concepts like Total Quality Management (TQM) and Business Process Reengineering (BPR) earned recognition from others in the field in the second half of the twentieth century and were found to be helpful in improving organization and performance focusing on operational and process improvement (Marcos & Sridevi, 2010). Corporate restructuring is carried by many organizations and it is usually done in the form of mergers, acquisition, de-mergers, or structural changes and resource optimization in the organization (Nag & Pathank, 2009). Corporate restructuring has enabled thousands of organizations around the world to respond more quickly and effectively to new opportunities and unexpected pressures, thereby re-establishing their competitive advantage (Prahalad, 2000).

Global Perspective on Organizational Restructuring

Studies on international experiences in implementing banking system restructuring showed that essential factor affecting the success of the restructuring is "speed" or the timeliness and agility (Hawkins & Turner, 2003). Hawkins and Turner compared the different responses of Japan and the Scandinavian countries to two serious crises in the past and

concluded that the decisive actions and timeliness of the Scandinavian countries helped their banking system recover faster than that of Japan. Planning to rectify banking system also plays an important part of the restructuring. The successful countries in bank restructuring tended to implement action plans in a year right after the weakness of the banking system was seen.Besides, all of them have properly assessed the situation, the nature and the severity of the weaknesses in the banking system. They also determined the causes and provided overall restructuring program. The Philippines is an example of having proper evaluation and banking system restructuring initiative. However, it should be noted that those successful countries have implemented the plan very flexibly and comprehensively (Bowman, Singh, Useem & Bhaduny, 2000). Especially, it is very crucial to determine the agency which takes the main responsibility for implementing bank restructuring. In Thailand, the Financial Restructuring Advisory Committee was established to issue necessary instructions.
Similarly, in Indonesia, the Indonesian Bank Restructuring Agency includes members of the state management bodies took the leading role. Thus, in terms of practice, central banks do not often directly play leadership roles and only involve as participants. Restructuring done in 24 nations and showed that if the central banks were responsible for the restructuring, the banking system would change slowly and thus the banking system's restructuring would be difficult to work efficiently (Hawkins, 2003)

No matter what methods can be used is the combination of different methods very important factor, especially for a developing country (Joseph Stiglitz). Joseph argues that restructuring the banking system would be much more difficult in developing countries since they often lack of regulations, science and institutional capacity for restructuring the system. the proportion of banks with liquidity shortages and bad assets accounts for a large proportion of the banking system, the number of banks operating effectively to be able for acquisition is less than the number of weak banks, (Stiglitz, 2002).

Dexia Group was formed in 1996 through a merger of Belgian, Luxemburg and French local government finance banks. The Group was a major player in European local government finance with a focus on France, Belgium, Italy and Spain, and also active in retail banking. At the peak in 2008, it had EUR 650 billion in assets. During the period of interest 2007 – 2012 the Group balance sheet was severely and repeatedly damaged through both ad-hoc losses and a loss of her wholesale business franchise. Ad-hoc losses were caused by the U.S. subprime crisis, into which Dexia was directly involved through U.S. insurance operations and investment portfolio holdings, as well as from 2011 onwards the Greek sovereign crisis. The wholesale business was hit by rising refinancing costs coupled with mismatches and unsustainably low loan margins. Additional losses came through mismanaged hedging activities (Darwish, 2012).

Local Perspective

The Kenya business environment has been undergoing drastic changes for some time now. Some of these changes include the accelerated implementation of economic reforms by the government, the liberalization of the economy, discontinuation of price controls, privatization and partial commercialization of the public sector and increased competition. In this changing environment, organizations have to constantly adapt their activities and internal configurations to reflect the new external realities. During the past years, the effects of economic recession forced companies to make hard decisions about their human capital investments as they worked to contain costs and maintain competitiveness (Munjuri, 2011).

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).
Retrenchment strategy has been adopted by many organizations as a way to deal with the economic pressures from the environment. This was first witnessed in the private sector, but has now spread to all levels of the government. The private organizations that adopted this strategy in Kenya include East African Breweries, Barclays Bank, East African industries, Bata Shoe Company, Shell BP, Agip, Coca cola Company, Nestle (K) Ltd, Glaxo welcome (K) Ltd amongst others. The parastatals that have undertaken retrenchment include Kenya Airways, Kenya Tea Development Agency, Kenya Commercial Bank and National Bank of Kenya. In the civil service, various ministries have been reducing their staff since 1994 in an effort to reduce costs and increase efficiency (Munjuri, 2011)
In the banking sector, all endeavours have been made to address these issues and measures have been implemented by banks with a view to achieving optimum results for all the stakeholders and to maintaining the banks market share. Such measures include investing enormous resources in information technology through which the banking halls have begun to be decongested, rationalizing the bank’s branch network and in the process closing unprofitable units in an effort to reduce operating costs and outsourcing non-core services such as internal security services and computer transport in an effort to control administrative costs. Maintenance of these services has been costly to banks, (CBK, 2001).

For KCB, the re-organisation was the first step towards reducing the bank’s operational expenses following the hiring of global consultancy firm McKinsey & Company to lead the exercise following in which KCB expected to cut down on its middle level management staff. The re-structure trimmed the bank’s executive team down to 7 from 22 in a move expected to check staff costs that rose from Kshs. 4 billion in 2006 to Kshs. 9.3 billion in 2009, stifling profit growth. KCB Annual returns (2010). In addition KCB’s staff count doubled from 2921 in 2007 to 5639 in 2013 (KCB Annual returns, 2013).

Barclays Bank set the tone for layoff of senior bank managers in January 2010 when it parted ways with 200 managers. The bank laid off 200 middle level managers to cut payroll costs that grew to Kshs. 8.3 in 2010 from Kshs. 7.2 billion the year before. The layoff saw the firm tremendously reduce its staff cost by KShs238 million according to 2011 first quarter results.(Barclays bank annual report, 2010).

Statement of the Problem

In order for the commercial banks in Kenya to be able to meet new and emerging market challenges and thus remain competitive, it has become inevitable to gradually restructure with the aim of improving productivity (CBK, 2001). For the improved returns from its international subsidiaries, as well falling operational costs saw for example KCB report a 17% year to year profit before tax increase to KES 20.1bn during the year ended December 2013. Profit before tax from international business rose 260bps to 11.5% of group profit. Cost to income ratio (excluding a one off restructuring cost of KES 1.2bn) declined by 570bps to 51.7% in 2013. This is a direct result of the bank's cost rationalization through adoption cost effective technology driven banking channels (KCB, 2013).

Commercial experienced some inefficiency in delivering value to its investors, though. The infrastructure of the company also needed to be enhanced to reflect the pan African vision with world class systems, processes and frameworks to steer the bank to the edge of innovation, risk management, strategic planning and productivity. The high operating costs and rising income to expense ratio created a felt need among the top management to come up with a transformation agenda to review the business model, structures and strategies, processes and procedures, risk management mechanisms as well as people related issues like numbers, placement, remunerations, performance management and productivity, (KCB, 2010).

Several studies have been done on restructuring of KCB among them the effect of mergers and acquisitions on the performance of KCB, (Andago, 2010), organization restructuring on the employees motivation at KCB (Kirui, 2011) and challenges faced by KCB during restructuring (Munga, 2014). This research paper seeks to bridge the gap by finding out the effect of restructuring on the performance of KCB.

Despite the foregoing, there is a dearth of research on organization restructuring on perfomance of banks in the Kenyan context. As such it is important for management of the banks in Kenya to know why don't perform as expected. This study therefore, sought to establish the effects of on organization restructuring on performance of banking sector in Kenya. However, to come up with the influence, the study seeks to examine; the influence of system upgrade, centralization of processes, staff turn-over and departmentation on performance of banking sector and sought suggestions on performance strategies that can help commercial banks to maintain high performance standards.

Research Objectives

The overall objective of this study was to establish the effects of organizational restructuring on the performance of commercial banks in Kenya.

Specific Objectives

The specific objectives of the study were to;

- Establish the effect of system upgrade on the performance of commercial banks in Kenya
- Find out the effect of centralization of processes on the performance of commercial banks in Kenya
- Determine the effect of downsizing on the performance of commercial banks in Kenya
- Determine the effect of departmentantion on the performance of commercial banks in Kenya

LITERATURE REVIEW

This literature review discusses previous studies relevant to the researcher's topic of study.

Theoretical Review

Theoretical review is a collection of existing theories and models from literature which underpin conceptual framework and subsequently inform the problem statement (Mugenda & Mugenda, 2008). Theories are analytical tools for understanding, explaining, and making predictions about a given subject matter. A theory is a set of statements or principles devised to explain a group of facts or phenomena especially one that has been repeatedly tested or is widely accepted and can be used to make predictions about natural phenomena (Hawking, 2003).Theories are important in predicting, explaining and mastering phenomenon (behaviour of systems, events, activities of employees and time). The theoretical framework of the current research is divided into two parts: first part provides an overview of the current theories about organizational restructuring, while second part refers to performance of commercial banks. The two informed the conceptual framework that was developed.

Planned Change Theory

Planned change theory assumed that organizations are purposeful, adoptive and that change occurs because leaders, change agents and others see the necessity of change. The process for change is rational and liners thus making individual managers more instrumental to the process of change, (Carnal,l 2002), (Hard & Tranant, 2006). Internal organizational features or decisions rather than external environment motivate change (Carr, 2006). Key aspects of change process include planning, assessment, incentives and rewards, stakeholder analysis and engagement, leadership, scanning, strategy, restructuring and re-engineering, (Bill & Worth, 2000).

World over, organizations have introduced key reforms to enhance the effectiveness and responsiveness of their services. Many of the reform policies have had an internal bearing in the organizations. assert that the degree to which decision making is centralized and the quality of strategic management has been identified by policy-makers and scholars as determinants of performance that are readily susceptible to political and managerial control. (Batley & Larbi, 2004) decentralization empowers service managers to make service delivery decisions, while effective strategizing makes organizations flexible, (Pollitt & Bouckaert, 2004).

Kenyan firms are not an exception to the above strategies. Staff layoff in Kenya is seen as the high impact solution available to management of organizations faced with economic difficulties In consonance with the reviewed literature. The positive outcomes of staff lay-offs include increased profitability, improved productivity and leaner structures. He further established that lay-off lead to reduced staff morale and innovativeness, affected corporate reputation and loss of capacity-build staff. Although liked by many firms as a cost cutting strategy, its impacts affect the organization positively and negatively (Mwandembo, 2009).

Resource Based View

The resource-based view assumes that resources are heterogeneously distributed among firms and imperfectly mobile. The Resource Based View (RBV) theory emphasizes that the internal resources of the organization are important 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).

Resource availability has the potential to influence restructuring and its outcomes. 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 (Cameron & Smart, 2008).

According to resource-based theory, organizations wish to maintain a distinctive product (competitive advantage) and will plug gaps in resources and capabilities in the most cost-effective manner (Krim, 2003). This theory emphasizes that resources internal to the firm are the principal driver of a firm's profitability and strategic advantage (Barney, 1991). It rejects traditional economic assumptions that resources are homogeneous and perfectly mobile. Instead, it argues that resources are heterogeneously distributed across firms and are imperfectly transferred between firms (Barney, 1991).

Barney (1991) categorized resources into three groups: physical resources such as plant, human resources and organizational resources. Resources enable a firm to conceive of and implement strategies to improve its efficiency and effectiveness. Organizations can obtain above-normal returns if they can use their existing resources to sustain competitive advantage by exploiting opportunities in the market or neutralizing threats from competitors' strategic resources. Resources might be imperfectly imitable if they involve unique history, causal ambiguity, or social complexity (Barney, 1991). Similarly, resources are non-substitutable if another organization is not able to implement the same strategies by using alternative resources.

Innovation Theory

Innovations are often adopted by organizations through two types of innovation-decisions: collective innovation decisions and authority innovation decisions. The collection-innovation decision occurs when the adoption of an innovation has been made by a consensus among the members of an organization. The authority-innovation decision occurs when the adoption of an innovation has been made by very few individuals with high positions of power within an organization. Unlike the optional innovation decision process, these innovation-decision processes only occur within an organization or hierarchical group. Within the innovation decision process in an organization there are certain individuals termed "champions" who stand behind an innovation and break through any opposition that the innovation may have caused. The champion within the diffusion of innovation theory plays a very similar role as to the champion used within the efficiency business model Six Sigma (Rogers, 2005).

The innovation process within an organization contains five stages that are slightly similar to the innovation-decision process that individuals undertake. These stages are: agenda-setting, matching, redefining/restructuring, clarifying, and routinizing. There are both positive and negative outcomes when an individual or organization chooses to adopt a particular innovation. Rogers states that this is an area that needs further research because of the biased positive attitude that is associated with the adoption of a new innovation. In the Diffusion of Innovation, Rogers lists three categories for consequences: desirable vs. undesirable, direct vs. indirect, and anticipated vs. unanticipated (Rogers, 2005).

Management by Objective Theory (MBO)

This has evolved historically through various “schools” of writers and developed by each one but was originally founded by Peter Drucker. Further books by Drucker refined and reinforced the concept, particularly the effective executive and managing for results. Notable names in the “history” of management theory are (McGregor, 2000), (Odiorne, & Humble, 2003) and (Reddie &Mali, 2001)

Management by objectives refers to a formal set of procedures that begins with goal setting and continues through performance review. Managers and those they supervise act together to set common goals. Each person’s major areas of responsibility are clearly defined in terms of measurable expected results or objectives, used by staff members in planning their work, and by both staff members and their managers for monitoring progress. Performance appraisals are conducted jointly on a continuing basis, with provisions for regular periodic reviews (Drucker, 2000).

Main principles of MBO deriving from systematic thinking that characterize the theory include the following; Principle of improvement; Managers must act to make the future of an organization better than in the past. Principle of expectation; People expend more effort when the probability of receiving a reward from achieving the goal is known in advance. Principle of achievement; large achievements are accomplished by people who break these down into smaller related elements. Principle of strategic planning; decision on desired future effects and formulation of present day causes to make them happen. Principle of targeting; the greater the focus of effort on a specific goal, the greater the possibility of reaching within a certain time scale.

Principle of risk taking; a concerted effort should be made to set objectives to optimize expected value and minimize risk of failure. Principle of linking; setting objectives in a participative process in advance of doing work gives visibility to the state of co-ordination in an MBO management system. Principle of performance stretch; the more managers tolerate mediocrity in subordinates the more they tolerate it in themselves (Drucker, 2000)

Conceptual Framework

According to Jabareen (2008) a conceptual framework is a network of interlinked concepts that together provide a comprehensive understanding of a phenomenon or phenomena.

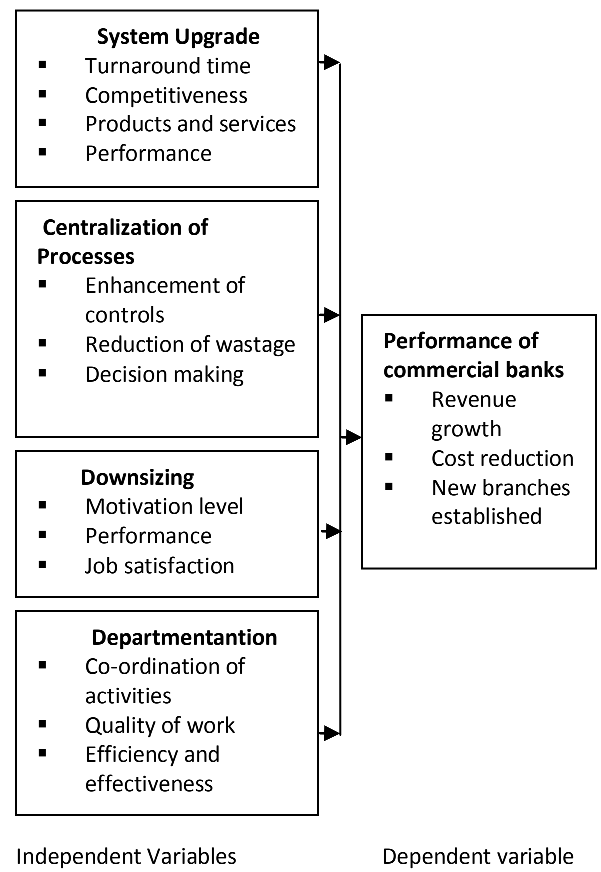

Figure 1: Conceptual Framework

Systems Upgrade

Systems upgrade involves an overhaul of the existing core system and putting in its place a newer and better system to handle the core functions (Boot, 2009). Banks' core systems can prove to be inadequate for today's business needs. They‘re focused on product-oriented back-office processes instead of customer oriented processes; perform batch processing instead of online, real-time, STP (straight through) processing; and are IT driven and reactive instead of business driven and proactive. Older core systems are fragmented and don‘t present an integrated global view (Forgia et al, 2008). System rupgrade with a modern core banking solution includes such benefits as greater efficiency, easier access to information, and the ability to add new applications without fear of system crashes. Among other benefits, developments in packaged solutions include a move away from dependencies on hardware platforms and operating systems (Boot, 2009).

A core system upgrade is likely to be the largest information technology (IT) investment an institution will take on. Depending on the size of the institution, such an initiative could cost several hundred thousand to several million Kenya shillings and take three to five years to complete. Most banks have instead opted for middleware layers to quickly improve integration, with less risk and in less time. The financial crisis, however, brought to light the more urgent need for institutions to replace their cores and move beyond the —quick-fix strategies of the past. In fact, Turnbull et al (2007) found that the key difference between those institutions that are less able and better able to withstand challenges is ease of access to data being requested by regulators and customers. Those institutions with outdated, siloed systems are not able to access the necessary information requested by regulators and, as a result, are forced to readjust their IT priorities and absorb additional costs due to additional man-hours and manual data entry—often at the expense of customer service. These banks are feeling the repercussions of past decisions to implement quick fixes to overcome technology challenges that only masked underlying problems that grew worse with time. In addition, several saw their corporate customers grow increasingly frustrated and, in some cases, form new banking relationships with competitors better able to provide information on exposures and real-time cash positions which are critical information in the current environment (Boot, 2009).

Centralization of processes

Centralization is the degree to which decisions are made at the top of the organization. According to Gururajan & Hafeez-Baig (2012), the quality movement and programs that stress delegating responsibility and decision making to lower levels result in decentralization. At the same time, reductions in organizations have altered the middle management tier of the organization by eliminating part of the central reporting structure. Typically, the larger and longer the organization has been in existence, the more centralized its structure will be (Singh, 2008).

To manage human capital, companies need centralization of process which have the ability to connect employees around a common goal particularly in order to boost organization performance. Managers must adopt the best leadership style that motivates and empowers knowledge workers. The role of centralization of process was identified by Nonaka et al. (2000) who stated that leaders “provide the knowledge vision, develop and promote sharing of knowledge assets, create and energize and enable and promote the continuous spiral of knowledge creation”. Moreover, Nonaka and Toyama (2005) emphasized the role of centralization of process in implementing a mindset of sharing, communication and trust that enhance organization performance. Gururajan & Hafeez-Baig (2012), Kumar et al. (2013) and Von Krogh et al. (2012) provided also that centralization of process is a significant factor influencing organization performance. According to Singh (2008), consulting and delegating centralization of process are significant predictors of organizational restructuring. In addition, Politis (2001) highlighted the importance of centralization of process in enhancing organization performance.

Downsizing

Staff turnover affects both workers and organizations. Workers experience disruption, they need to learn new job specific skills and find different career prospects (Alogoskoufia et al., 2000). Organizations suffer the loss of job-specific skills disruption in production and incur costs of hiring and training new workers. But incoming workers may be educated, more skilled and have greater imitative and enthusiasm than those who leave. Review: From the perspective and view of organization, employee turnover is very expensive. When employee leave an organization, it has become imperative for that specific organization to make a costly replacement as soon as possible. These replacement costs include for example, search of the external labour market for a possible substitute, selection between competing substitutes, induction of the chosen substitute, and formal and informal training of the substitute until he or she attains performance levels equivalent to the individual who quit John (2000).

Morell et al (2004) identifies direct and indirect costs of voluntary turnover as replacement, recruitment and selection, temporary staff, management time, morale, pressure on remaining staffs, costs of learning, product or service quality, organizational memory, and the loss of social capital (Dess and Shaw, 2001). Bureau of Labour Statistics (2008) when accounting for the costs of labour turnover in organizations, has estimated the cost of employee turnover to for-profit to be up to 150% of employees remuneration package. These are both direct and indirect costs. Direct costs are leaving costs, replacement costs and transition costs and indirect costs are loss of production, reduced performance levels, unnecessary overtime and low morale. Testa (2008) in his research work, noted that high turnover rates of skilled professional is not desirable and can pose as a risk to organization due to human capital cost. He emphasized that these employees by their skillful ability are likely to be re-employed within the same industry by the competitor.

Departmentantion

Departmentantion is a means of dividing a large and complex organization into smaller flexible administrative units. It is the organization-wide division of work into various manageable units, departments to facilitate the accomplishment of the organization objectives. It permits an organization to take advantage of specialization and facilitate communication, coordination and control while contributing to the overall success of the organization (Hari, 2009)

Departmentantion can be by function, by customer or by product. Departmentantion by function allows an organization to divide activities by common function. Each function unit a dissimilar set of duties and responsibilities. A set of function could include marketing, operation, retail, finance, communication, information technology or procurement depending on the business (Rao, 2009)

Deprtmentantion by product applies in cases of multiproduct enterprises. The structure is divided into several autonomous units prevent some products from being neglected and other being over-emphasized. This could be classified as heads of the various products. Departmentantion by customer on the other hand enabled the organization to cater for the needs of the various customers. This could be advantage banking for high end customers, mortgage, small and medium enterprise department or corporate department (Rao, 2009

Performance of the banking sector

Performance measurement and reporting is now widespread across the private sector as well as public sector of many industrialized and industrializing countries. The common tool that is used for this process, key performance indicators (KPIs), have been argued to provide intelligence in the form of useful information about a public and private agency 's performance Nimalathasan (2009),

KPIs are viewed as a good management device and a socially constructed tool that makes sense (DeKool, 2004). The fact that KPIs tend to be quantitative has helped to promote their image of objectiveness and rationality. The image of KPIs is further enhanced by their widespread application across the banking sector of many countries. The importance of performance measurement is that it is important to expect that citizens see and understand the results of organisational programs. (Williams, 2003).

Commercial banks represent the core of the credit for any national economy. In turn, the credit is the engine that put in motion the financial flows that determine growth and economic development of a nation. As a result, any efficiency in the activities of commercial banks has special implications on the entire economy. The management of every commercial bank must establish a system for assessing performance which suits its circumstances and needs and this evaluation must be done at consecutive intervals to ensure the achievement of the Bank's objectives and to know the general direction of the behaviour of performance in the past and therefore predict the future. Profitability offers clues about the ability of the bank to undertake risks and to expand its activity. Cicea & Hinc u (2009)

The indicators are submitted to observation along a period of time in order to detect the tendencies of profitability. The analysis of the modification of the various indicators in time shows the changes of the policies and strategies of banks and/or of its business environment (Greuning &Bratanovic, 2004)

Empirical Review

Different empirical studies have been done by several researchers in both the public and private sectors. Most of them have failed to find significant relationships between centralization, lay-offs and restructuring, and performance. While studying productivity and efficiency in human service organizations, established that centralization has a statistically significant positive effect on the productivity of human service organizations in the US. This was found to be true even after controlling the effects of other factors such as organizational structuring. Centralization has a positive effect on the output of US manpower agencies and is associated with a negative staff perception of effectiveness (Glisson & Martin, 2000)

Kanamori & Motashi(2010) conducted an empirical analysis to examine the change in performance of firms that changed their decision making structure, using a panel data set for 2,300 Japanese firms over 4 years. The results evidently showed that both centralization and decentralization have a significant productivity effect. To them, the effect was more for firms that implemented a wide range of changes in decision making. Different from other studies, they established that the effect of decision making on performance was more pronounced in big non-manufacturing firms; banks are not an exception.

Studying the impact of staff lay-off in Kenyan firms listed in the Nairobi stock exchange, Mwandembo (2009) added to the existing knowledge arguing that staff lay-off increase profitability. However, the study also established that the positive outcomes resulting from downsizing can also be realized through other ways such as increasing volumes of sales by targeting more market share. Improvement of production efficiency is another sure way of recording profits.

In his study on centralized and decentralized decision making in organizations, Zábojník found out that it is less costly to allow employees to work on their ideas than to push on with those proposed by the managers. In support of decentralization, he argues that people are likely to do more with their own bad idea than with another’s good idea (Zábojník, 2002). In support of Zábojník, Osterman opines that centralized decision making is one of the key areas in the management. To him, delegation in decision making leads to a better utilization of information by the lower levels of an organization’s hierarchy (Osterman, 2004). To the managers, delegation entails losing control. As they supports decentralization arguing that decentralization suits quick responses which are good when there are changing technologies and operational environment and where the flow of information is follows a certain hierarchy (Athey et al., 2004)

RESEARCH METHODOLOGY

This chapter described the methods and tools that were used in collecting the available data.

Research Design

A research design is the plan, structure of investigation conceived to obtain answers to research questions that includes an outline of the research work from hypothesis, methods and procedures for collecting and analyzing data and presenting the results in a form that can be understood by all (Mugenda & Mugenda, 2008). This study employed a descriptive research design. The design enabled the study to combine both quantitative and qualitative research approaches.

Target Population

A population is the aggregate of all cases that conform to some designated set of specifications (Paton, 2002). Population in this study was the larger group from which the sample was taken. Population was a complete set of individuals, cases or objects having some common observable characteristics that were of interest to the researcher. The target population involved KCB employees based at the bank’s head office. The population comprised of 462 permanent staff in the units in KCB head office.

Instruments and Data Collection Procedure

The study used both primary and secondary. Primary data was collected through self-administered questionnaires. The structured questionnaire consisted of open ended and closed ended questions designed to elicit specific responses for qualitative and quantitative analysis respectively. Secondary data was collected from the bank’s annual report, International Monetary Fund and World Bank Websites. The year 2002 was be picked as the base while 2013 reflected current realities and hence it covered the period from 2002-2013.

Data analysis and Presentations

Kothari (2004) define data analysis as a mechanism for reducing and organizing data to produce findings that require interpretation by the researcher. The data collected was quantitative and qualitative. The questionnaires were received, coded and edited for completeness and consistency. Quantitative data was analyzed by employing descriptive statistics and inferential analysis using statistical package for social science (SPSS) version 21 and excel. The findings were presented using tables, charts and graphs for further analysis and to facilitate comparison.

DATA ANALYSIS, FINDINGS AND PRESENTATIONS

This chapter discusses the interpretation and presentation of the findings obtained from the field.

Response Rate

The study targeted a sample size of 46 respondents from which 33 filled in and returned the questionnaires making a response rate of 72%.

Educational Level

The study sought to establish the educational background of the respondents. From the study findings, most of the respondents as shown by 55% indicated that they held bachelor's degrees certificates, 25% of the respondents held masters degrees, 15% of the respondents held diploma, 5% of the respondents held doctor of philosophy. This implies that respondents were well educated and that they were in a position to respond to research questions with ease.

Work Experience

The research sought to establish to find out the work experience of respondents. On period of service, the study revealed that most of the respondents as shown by 36% indicated to have served for a period of 6 to 10 years, 22% of the respondents indicated to have served for a period of 3 to 6 years, 16% of the respondents indicated to have served for a period of 1 to 3 years. 18% of the respondents indicated to have served for a period of 10 years whereas 8% of the respondents indicated to have served for more less than 1 year. This implies that majority of the respondents had served for a considerable period of time and that they were in a position to give credible information relating to this study.

Position in the Organization

Respondents were requested to indicate their job position, from the research firings, the study established that 48 % of the respondents held positions of middle level management, 17% of the respondents held positions of senior level management whereas 35% of the respondents held positions of lower level management of employee entry level.

Systems Upgrade

The research determined whether there had been system upgrade in the organization in the last 10 years. From the research findings, it implied that KCB was adjusting to systems upgrade to enjoy the benefits thus improving its performance.

The research sought to establish whether system upgrade had improved the organization competitiveness. From the research findings, system upgrade had reduced time taken to offer service in the organization to a great extent.

The research also sought to establish whether system upgrade in the organization was offering more and unique products and services. From the research findings, system upgrade had improved the organization competitiveness to a great extent.

Centralization of Processes

The research sought to determine whether centralization of processes has enhanced controls in the organization. From the research findings, it was established that centralization of processes had enhanced controls in the organization to a great very great extent. Centralization is the degree to which decisions are made at the top of the organization.

The research also sought to determine whether centralization of processes has reduced resource wastage in the organization. From the research findings, it was established that centralization of processes had reduced resource wastage in the organization to a great very great extent.

The research sought to determine whether centralization of processes had eased decision making in the organization. From the research findings, it was established that centralization of processes had eased decision making in my organization to a great very great extent.

Downsizing

The research went further to determine whether the organization has experienced staff turnover. From the research findings, majority of the respondents as shown by 55% agreed that the organization had experienced staff turnover whereas 45% of the respondents were of the contrary opinion, this is an indication that there had been staff turnover in the organization.

Departmentation

The research went further to investigate whether the organization had designated different departments for different services and products. From the research findings, majority of the respondents as shown by 55% agreed that the organization had designated different departments for different services and products whereas 45% of the respondents were of the contrary opinion, this is an indication that there had been organization had designated different departments for different services and products in the organization.

Performance of the Banking Sector

The study sought from the respondents to indicate rate of change on revenue growth of the organization the last five years .The study established that the revenue growth was slow with an average of 55% of the respondents stated that it increased by 10%, with an average of 25% of the respondents indicated that it increased by more than 10%, with an average of 15% of the respondents posited that it increased by less than 10%, with an average of 2 % of the respondents cited that it decreased by 10%, with an average of 2% of the respondents indicated that it decreased by more than 10% and an average of 1% of the respondents indicated that it decreased by less than 10% in the last five years. The study findings imply that there was slow revenue growth the organization in the last five years.

Multiple Regression Analysis

The study used multiple regression analysis so as to establish the relationship of independent variables and dependent variable that is performance of KCB. The study applied the statistical package for social sciences (SPSS V. 21) to code, enter and compute the measurements of the multiple regressions for the study. According to the model summary Table 4.6, R is the correlation coefficient which shows the relationship between the indepednt variables and depedent variable. It is notable that there extists strong positive relationship between the indepedent variables and depedent variable as shown by R value (0.880). The coefficient of determination (R^2) 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 and the four independent variables that were studied explain 77.00% of the performance of banking sector as represented by the R^2. This therefore means that other factors not studied in this research contribute 23.00% of the performance of banking sector. This implies that these variables are very significant therefore need to be considered in any effort to boost performance of banking sector. The study therefore identifies variables as critical factors of organizational restructuring on performance of banking sector From the findings in the Table 1.

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.880	.770	.089	.123

Analysis of Variance

Further, the study revealed that the significance value is 0.043 which is less that 0.05 thus the model is statistically significance in predicting how systems upgrade; centralization of processes, staff turnover and departmentation affect performance of KCB. The F critical at 5% level of significance was 1.197. Since F calculated (1.9225) is greater than the F critical (value = 1.197), this shows that the overall model was significant.

Table 2: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	1.894	4	.4735	1.9225	.043[b]
1	Residual	6.896	28	.2463		
	Total	8.790	58			

a. Dependent Variable: Performance of KCB
b. Predictors: (Constant), systems upgrade, centralization of processes, downsizing and departmentation

Critical value =1.197

Regression Coefficients

The study ran the procedure of obtaining the regression coefficients, and the results were as shown on the Table 3 Multiple regression analysis was conducted as to determine the relationship between performance of textile projects and the four variables. As per the SPSS generated table above, the model equation would be (**$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$**) becomes: **$Y = 11.443 + 0.881X_1 + 0.721X_2 + 0.816\ X_3 + 0.776\ X_4$.** Therefore, Performance of KCB = 11.443 + (0.881 x systems upgrade) + (0.721 x centralization of processes) + (0.816 x downsizing) + (0.776 x departmentation). According to the regression equation established, taking all factors into account (systems upgrade, centralization of processes, downsizing and departmentation) constant at zero performance of KCB was 11.443. The data findings analyzed also shows that taking all other independent variables at zero, a unit increase in systems upgrade will lead to a 0.881 increase in performance of KCB.; a unit increase in centralization of process will lead to a 0.721 increase in performance of KCB, a unit increase in downsizing will lead to a 0.816 increase in performance of KCB and a unit increase in departmentation will lead to 0.776 increase performance of KCB. This infers that systems upgrade contributed most to performance of KCB. At 5% level of significance, systems upgrade had a 0.001 level of significance; centralization of processes showed a 0.004 level of significance, downsizing showed a 0.003 level of significance and departmentation showed a 0.004 level of significance hence the most significant factor was systems upgrade. The findings are in line with David &Lewis (2006) who indicated that the level of systems upgrade on the banking sector influences its performance significantly and positively.

Table 3: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	11.443	1.033		1.494	.005
	Systems upgrade	.881	.108	.203	4.602	.001
	Centralization of processes	.721	.127	.227	2.528	.007
	Downsizing	.816	.125	.216	4.528	.003
	Departmentation	.776	.113	.251	2.327	.004

a. Dependent Variable: Performance of KCB

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Summary of the findings

Systems Upgrade

The study established that there had been system upgrade in the organization in the last 10 years and it affected organizational performance. The study also found out that system upgrade has led to a reduction in time taken to offer a service in the organization has improved the organization competitiveness and has facilitated more and unique products and services to a great extent. The study further established that the systems upgrade was statistically significant and positively influenced organizational performance at 5% level of significance. This implies that the more systems upgrade becomes the more the performance of KCB.

Centralization of Processes

The research established that the organization had centralized its processes and it enhanced controls in the organization to a great very great extent. The centralization of processes has reduced resource wastage in the organization to a great very great extent and has eased decision making to a great very great extent. The study further established that the centralization of processes was statistically significant and positively influenced organizational performance at 5% level of significance. This implies that the more centralization of processes becomes the more the performance of KCB.

Downsizing

The study established that that there had been downsizing in the organization and it was to a very high extent. The staff turnover enhances performance amongst organization staff to a very high extent. The study further established that the staff turnover was statistically significant and positively influenced organizational performance at 5% level of significance. This implies that the more KCB lays ofF staff it improves its performance.

Departmentation

The research found out that the organization had designated different departments for different services and products and it makes coordination of activities easier in the organization. The departmentantion has improved service quality in the organization to a great extent and has led to improved effectiveness and efficiency in the organization. The study further established that the departmentation was statistically significant and positively influenced organizational performance at 5% level of significance. This implies that the more departmentation becomes the more the performance of KCB

Conclusions

The study established that there had been system upgrade in the organization in the last 10 years and it affected organizational performance. The study also found out that system upgrade has led to a reduction in time taken to offer a service in the organization has improved the organization competitiveness and has facilitated more and unique products and services to a great extent. Additionally, the organization had centralized its processes and it enhanced controls in the organization to a great very which has reduced resource wastage in the organization to a great very great extent and has eased decision making to a great very great extent.

Further, study established that that there had been staff turnover in the organization and it was to a very high extent. The staff turnover enhances performance amongst organization staff to a very high extent. Finally, the research found out that the organization had designated different departments for different services and products and it makes coordination of activities easier in the organization. The departmentantion has improved service quality in the organization to a great extent and has led to improved effectiveness and efficiency in the organization.

Recommendations

The study recommends that there is need to have effective system upgrade in the organization to enhance organizational performance. The study also recommends that system upgrade will lead to a reduction in time taken to offer a service in the organization thus improving the organization competitiveness and facilitate more and unique products and services.

The study recommends for the organization to centralize all its processes so as to enhance controls and thus have reduced resource wastage and ease decision making. The study also recommends for effective policies on downsizing in the organization that enhances performance amongst organization. Finally, there is need for the organization to establish the departmentation on the organization that has designated different departments for different services and products as it makes coordination of activities easier in the organization. The departmentantion will improve service quality, effectiveness and efficiency in the organization.

Recommendations for further studies

The study established that from literature review most studies available were scanty with relevant literature specifically in Kenyan organization and banking sector set up. Additionally, very little has been undertaken on organizational restructuring and organizational performance thus the researcher call for similar studies to be undertaken for generalization of the findings of this study. This study was confined one organization in the banking sector in Kenya. A comparative study should be carried out to compare whether the findings also apply for the other banking organizations in Kenya in order to validate whether the findings can be generalized to organizational performance in banking sector in Kenya.

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