RESTRUCTURING STRATEGY AND THE PERFORMANCE OF KENYA COMMERCIAL BANK LTD

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DECLARATION

This research project is my original work and has not been presented for the award of degree in any other university or institution for any other purpose.

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The research project has been submitted for examination with my approval as University supervisor.

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DEDICATION

This research is dedicated to my mother Wanjiku and my brothers Gitahi, Muhuhi and Macharia for their constant support and encouragement throughout my studies.

I cannot forget my teachers for their wisdom and counsel that has been the cornerstone in my quest for knowledge.
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ABSTRACT

In today’s globalised economy, competitiveness and competitive advantage have become the buzzwords for corporate around the world. Corporates worldwide have been aggressively trying to build new competencies and capabilities, to remain competitive and grow profits. As organizations seek to enhance their competitive positions in an increasingly global marketplace, they are discovering that they can cut costs, maintain quality and improve their performance by undertaking organizational restructuring strategy. 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. The study sought to establish the influence of organizational restructuring as a strategy on the performance of the Kenya Commercial Bank. The study used case study research design. The study used primary data which was collected using an interview guide. The data obtained was analyzed using content analysis. The study found out that the Kenya Commercial Bank undertook restructuring which involved disposal of non-core assets, outsourcing of key services, closed of non-profitable operations; staff rationalization; change in executive management, defining, a set of core values, a mission statement and vision as well as by re-branding and restructuring of non-performing loans portfolio. Restructuring was found to have resulted in improved performance of the bank in terms of reduction of operating costs, non-performing loans, increased market share and growth in shareholder value (Profit & Return on Capital). The study found out that the bank encountered resistance from employees for fear of losing their jobs. At the same time employees and pensioners resisted management attempts to sale the bank headquarters. To counter the challenges the bank ensured that there was effective communication and also they trained employees in order to change their culture. Organizational restructuring should be informed from situational based analysis of the firms operating environment and aimed at adapting the business to changing business environment with top management support being a key ingredient to successful process.
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CHAPTER ONE

INTRODUCTION

1.1 Background of the study

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. Hitt, Ireland and Hoskinsson (2007) noted that 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. 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. In effective change management, the focus should be on information gathering, communication and learning so as to engage all stakeholders. On the other hand, some organizations have registered an increase in profits and customer satisfaction in return to proper execution of restructuring strategy. The other benefits include reduced cost base while creating more efficient structures, effective processes and high labour output. It has enabled numerous organizations to respond quickly and more effectively to new opportunities and unexpected pressures so as to re-establish their competitive advantage.
The study is based on the Resource-Based View and the dynamic capabilities theory. The Resource Based View theory emphasizes the internal resources of the organization in formulating strategy to achieve a sustainable competitive advantage in its markets (Gibson et al., 2010). 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. Resource-based theory (Barney, 1991) proposes that firm activities and performance depend on firm-specific availability of resources and capabilities to deploy these resources. Resource availability, therefore, has the potential to influence restructuring and its outcomes. On the other hand, Dynamic capability theory focuses on survival of a firm rather than achievement of competitive advantage. It was defined by Teece at al. (1997) as the firm’s ability to integrate, build and reconfigure internal and external competencies to address rapidly changing environment. Firms are more likely to achieve strong performance through the stable deployment of resources, supported by capabilities that commit firms to consistent strategies (Barney, 1991).

In KCB Ltd, Restructuring began in the year 2011 to review the bank’s corporate and governance structures, business model as well as review job roles and people placement within roles across the business. These changes are strictly driven by business needs and will enable the bank to focus on its objectives of improving customer service, leading through innovation, growing market share particularly in small and medium enterprises. Kenya Commercial Bank has registered good performance in the recent years despite high competition in the industry. In the year 2013, KCB Ltd registered a profit of 20.1 billion up from 17.2 billion the previous year 2012, an increase of 16.9% (KCB press release, Thursday 27th Feb 2014). In its final results
going forward the bank is expected to improve its performance in the backdrop of new opportunities in both domestic and regional markets. In a bid to grab these opportunities, the bank has to ensure that it maintains its cost at minimum level in order to improve its performance while at the same time ensuring customer satisfaction. This therefore calls for the development and adoption of strategies that will respond to the high competition in the industry, to both safeguard their niches and to enlarge their market share. These strategies include organizational restructuring, outsourcing none-core services, changing work processes by assigning employees more tasks and requiring them to learn new skills among others.

1.1.1 Restructuring Strategy
Restructuring is the process of making major change in an organization’s structure. It involves reducing the management levels and possibly changing components of the organization through divestiture and or acquisition, as well as shrinking the size of the work force (Bartol and Martin, 1998). Restructuring a corporate entity is often a necessity when the company has grown to the point that the original structure can no longer efficiently manage the output and general interests of the company. Bowman and Singh (1998) indicate that organizational restructuring involves significant changes in the organizational structure of the firm, including redrawing of divisional boundaries, flattening of hierarchic levels, spreading of the span of control, reducing product diversification, revising compensation, reforming corporate governance and downsizing employment. According to Pearce and Robinson (2011), restructuring is one of those terms that reflect the critical stage in strategy implementation where managers attempt to rationalize and recast their organizational structure, leadership, culture, and reward systems to ensure a basic level of cost competitiveness, capacity for responsive quality, and the need to shape each one of the terms to accommodate unique requirements of their strategies.
Organizational restructuring provides potential for better integration and improved performance of firms. However, the condition to achieve that, as Amburgey et al., (1990) demonstrate, is the coherency of the restructuring program. A firm needs to reorganize its activities in order to remain competitive as well as retain existing customers and attract new ones. A firm is assured of a competitive advantage only after others’ efforts to duplicate its strategy have ceased or failed. Even if it achieves a competitive advantage, it can sustain it only for a certain period of time (Hitt, Ireland and Hoskinsson, 1997). The speed with which competitors are able to acquire the skills needed to duplicate the benefits of a firm’s value-creating strategy determines how long a competitive advantage will last. Understanding how to exploit its competitive advantage is necessary for a firm to earn above-average returns.

Byars (2002) contends that an organization can restructure during both good and bad times. The need to restructure may be triggered by various forces such as the business expansion of the organization, products or customer base diversity, expansion of product lines through acquisitions, or entering into a joint venture with another company in a bid to access bigger markets. Byars (2002) further postulates that there are many factors that affect the structure of the organization, but the structure of the organization cannot be altered every time one of these factors changes. Perpetual restructuring will engender a state of chaos and confusion within the organization. The organizational restructuring is also not a panacea to poor product offering, bad strategy or filling of positions with unsuitable individuals.
1.1.2 Organizational Performance

Organizational performance is the final achievement of an organization and contains a few things, such as the existence of certain targets, has a period of time in achieving these targets and the realization of efficiency and effectiveness (Gibson et al., 2010). On the other hand, organizational performance refers to ability of an enterprise to achieve such objectives as high profit, quality product, large market share, good financial results, and survival at pre-determined time using relevant strategy for action (Koontz and Donnell, 2003). Organizational performance can also be used to view how an enterprise is doing in terms of level of profit, market share and product quality in relation to other enterprises in the same industry. Consequently, it is a reflection of productivity of members of an enterprise measured in terms of revenue, profit, growth, development and expansion of the organization.

Organizational performance includes multiple activities that help in establishing the goals of the organization, and monitor the progress towards the target (Johnson et al., 2006). It is used to make adjustments to accomplish goals more efficiently and effectively. Organization performance is what business executives and owners are usually frustrated about. This is so, because even though the employees of the company are hard-working and are busy doing their tasks, their companies are unable to achieve the planned results. Results are achieved more due to unexpected events and good fortune rather than the efforts made by the employees. However, for any business to be successful, functions must be defined and accomplished. Organizational performance is affected by myriad factors including: the lines of communication and command connecting these individuals; the resources and information to which the individuals have access; the nature of the task faced by the individuals; and the type and severity of the crisis under which the individuals operate (Richard et al., 2009)
1.1.3 The Banking Industry in Kenya

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The banking sector was liberalized in 1995 and exchange controls lifted. As at December 2012 there were forty five banking and non-bank institutions, fifteen micro finance institutions and one hundred and nine foreign exchange bureaus. Over the last few years, the banking sector in Kenya has continued to grow in assets, deposits, profitability and products offering. The CBK (2011) emphasizes that the banking institutions will need to cope continuously with changing business environment and a continuous flood of new requirement via a robust ICT platform, while staying sufficiently agile. Consumers will continue to demand individualized services, and to demand them faster than ever. Hence banks will continue to aggressively design new products that leverage on ICT to remain competitive. Downstreaming into the retail market segment will also be expected to continue particularly with the anticipated licensing of deposit taking Micro finance Institutions.

In the coming period, according to the CBK (2009), diversification into other financial services is also expected as consumers increasingly seek “one stop financial supermarket.” These developments are expected to enhance banking products being offered and bring more Kenyans into the banking space. However, the main challenges facing the banking sector today include the Finance Act 2008, which took effect on 1 January 2009 that requires banks and mortgage firms to build a minimum core capital of Ksh 1 billion by December 2012. This requirement, it is hoped, will transform small banks into more stable organization. The implementation of this requirement poses a challenge to some of the existing banks and they may be forced to merge in order to comply with the act. The Kenyan banking industry has continued to grow both in terms
of new local and foreign entrants, customer and deposit base, regionalization and increased scrutiny from the regulators specifically the Central Bank of Kenya. This new shift in the Kenyan banking industry can be attributed to the liberalization of the sector, increased adoption of information technology and improved business environment due to reforms being undertaken in the political, economic, social and cultural fields. With these changes, the level of competition in the banking industry has reached an all level high and coupled with an enlightened customers and increased scrutiny from the regulators, local banks have had to shift their attention to human resource which is the most important asset for any organization and it is the source of achieving competitive advantage.

1.1.4 The Kenya Commercial Bank Ltd
The Kenya Commercial Bank Ltd, then National Bank of India, started in the year 1896 with operations only at the coastal region targeting business at the port. The bank later expanded its operations into Nairobi and merged with Grindlays Bank to form National Grindlays Bank. It set its head office in Nairobi. The Government of Kenya acquired 60% shareholding in National & Grindlays Bank after independence, in an effort to bring banking closer to the majority of Kenyans. The National and Grindlays Bank was renamed Kenya Commercial Bank Ltd in 1970 after the government acquired 100% ownership of the bank’s shares. In the most recent rights issue in 2010, the Government has gradually reduced its stake in KCB Ltd to 17.7%(KCB Press release, Q1 Group Financial Results).

The bank has over the last 5 years expanded to other African countries like Tanzania, Southern Sudan, Uganda, Rwanda and latest Burundi. KCB Ltd is listed on the Uganda Securities Exchange, Dar-es-Salaam Stock Exchange and Rwanda Stock Exchange. KCB Ltd is the largest
bank with an assets base of Kshs 411B (www.kcb.co.ke). In Kenya, KCB Ltd has the widest network with 238 branches, 950 ATMs and 7,181 agents. It has future plans to infiltrate other markets like the Democratic Republic of the Congo, Ethiopia and Zambia so as to increase its market presence. KCB Ltd major challenge over the years has been increased competition and technological advancement which has seen it change from a conservative bank to a paperless modern bank. In the midst of other banks selling similar products and services, KCB Ltd has applied innovation strategy to manage competition. Thus the bank has to be dynamic by innovating new product and services. One of the ways that the bank has improved service delivery is through Internet and mobile banking. The M-Banking product called M-Benki account enable customers to make deposits, bank to bank transfers and balance enquiries through reliable and secure environment. Internet banking also called I-Banking has made it possible for financial activities to increasingly be conducted not in banking halls, insurance agencies or the offices of financial advisors but instead via electronic devices or in unconventional locations such as restaurants, railway stations, grocer’s shops and even on a bus. Technological innovations promise to transform how people transfer money to family members, pay for food at the farmers market, secure loans from peers and raise capital to fund business ventures. Recently, the bank underwent a restructuring process themed as “moving from good to great”. The structure was aimed at positioning the bank on its journey to becoming a Pan African bank. It also aimed at providing a delightful customer experience to the customers.

1.2 Research Problem

In today’s globalised economy, competitiveness and competitive advantage have become the buzzwords for corporates around the world. Corporates worldwide have been aggressively trying
to build new competencies and capabilities, to remain competitive and grow profits (Mantravadi and Reddy, 2008). As organizations seek to enhance their competitive positions in an increasingly global marketplace, they are discovering that they can cut costs, maintain quality and improve their performance by undertaking organizational restructuring strategy. However, to be able to achieve this, the service delivery process need to be carefully defined, negotiated, and agreed upon considering involved parties’ needs, wants and preferences. For an organization to become profitable it must put in place strategies that position itself in market dominance and improve the firm’s overall performance. Subsequently, Hitt et al., (2007) noted that organizational restructuring has been recognized as a vital tool to confront the competitive pressure in the market and also as a tool of improving the performance of these firms.

With intense competition from both domestic and international players, rapid innovation and introduction of new financial instruments, changing consumer demands and explosive growth in information technology, the way in which commercial banks conducts business and reaches out to its customers has significantly changed and therefore in order to survive and adapt to the changing environment, commercial banks are putting more input on understanding the drivers of success, like better utilization of its resources (technology, infrastructure and employees), process of delivering quality service to its customers, coming up with strategies to manage its loans effectively and performance benchmarking through restructuring of its operations. The banking sector plays a significant role in the growth of economies all over the world especially in Kenya. 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 in order to improve their organizational performance and shareholder value.

The international studies that have been undertaken on organizational restructuring include Oloyede and Sulaiman (2012) study on comparative analysis of post restructuring performance of firms in financial and real sectors in Nigeria. The findings of the study was that restructuring has significant effect on the profitability, liquidity and solvency of firms in real sectors and that restructuring does not have any significant effect on firms in the financial sector. Udoka & Anyingang (2012) undertook a study on the effect of corporate restructuring in the banking industry and economic growth in Nigeria. The findings revealed that foreign direct investment, aggregate capital to the private sector, significantly influenced economic growth in Nigeria. The result also revealed that pre-tax profit for all banks and number of employees of banks significantly influenced economic growth in Nigeria. Lal et al., (2001) undertook a study on organizational restructuring in European telecommunications and established that a firm’s decision to restructure is influenced by a change in the firm’s objectives, political/legal, technological, economic and socio-cultural factors; with a greater weight being set on the firm’s objectives, technological change and economic factors.

The studies that have been undertaken locally on organizational restructuring include Kithinji (2010) who researched on evaluation of bank restructuring approaches adopted by the three leading commercial banks in Kenya. The findings were that the banks undertook operational restructuring and asset restructuring. On the other hand, Amboka (2012) researched on organizational restructuring as a strategic approach to performance by Safaricom Limited and established that the notable of restructuring were improved customer service, initiatives to retain
high value customers, delivery on cost initiatives aimed at improving margins, focus on quality, product differentiation and value creation. Finally, Ngige (2012) undertook a study on corporate restructuring and firm performance in the banking sector of Kenya. The findings of the study was that restructuring resulted in performance improvement in terms of market share growth, competitiveness, growth in quality of products, geographical spread and customer retention. Further findings revealed that banks used different strategies of restructuring which had different motives in influencing performance. Owing to afore mentioned studies, none of them considered the implication of restructuring strategies on performance of Kenya Commercial Bank Ltd. This study seeks to determine the effect of organizational restructuring on performance and the challenges encountered by Kenya Commercial Bank in organizational restructuring. This study seeks to achieve the following question; what effect does organizational restructuring have on the performance of Kenya Commercial Bank? What challenges did Kenya Commercial Bank encounter in organizational restructuring?

1.3 Research Objective

i. To determine the effect of restructuring strategy on performance of the Kenya Commercial Bank Ltd.

ii. To establish the challenges encountered by the Kenya Commercial Bank Ltd in implementation of restructuring strategy.
1.4 Value of the study

The findings of the study benefited other commercial banks and all other related industries as they understood the influence of restructuring on performance of organizations and the challenges facing the banking industry as regards restructuring and make the necessary adjustments when they undertook restructuring in their organizations.

For the commercial banks policy makers, the study brought light to the implication of the different modes of restructuring strategies on performance of the banks and brought out the long-term and short-term outcomes of the strategies. This in turn helped the banking institution in identifying the best strategy that suits their situation and that which enhanced superior performance and competitiveness. To the investors it widened their knowledge when faced with restructuring decisions by analyzing their effect on performance of the firms they are involved and have invested in.

The outcomes of this study gave rise to the formulation of an appropriate strategic framework that assisted organizations in implementing organizational restructuring. Moreover, the findings of the research were used to develop new models for implementing organizational change that was adapted to various change situations. This study was therefore be of value to academicians and researchers, commercial banks policy makers, investors and the government. To the researchers and academicians it provided more insight into the implication of restructuring on performance and build their body of knowledge for more expounded research which they used as a reference for future studies.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

In this chapter literature of relevance to the study was reviewed. Key areas of literature that took center stage in this section include the theoretical framework. The study further put in context organizational restructuring and organizational performance, and organizational restructuring challenges.

2.2 Theoretical Foundation

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 and 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.

Dynamic capabilities are often related to knowledge workers and knowledge intensive organizations operating in rapidly changing turbulent environment (Eisenhardt and Martin, 2000). 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. Therefore, organizational capabilities are products of constant learning and relearning about the firm’s activities, its suppliers and customers and its own members. Similarly, capabilities are firm-specific: they reside in the organizational setting in which they were developed and used (Carbery and Garavan, 2004).
2.3 Organizational Performance and Restructuring Strategy

Organizational restructuring enhances the prospects for improved performance for firms (Hoskisson and Turk, 2006) via strategic reorientation, organizational configuration and governance structure adjustment. It provides an opportunity to transfer assets to higher valued users hence recapturing competitive advantages that have been dissipated from over-diversification and a more focused strategy based on core business which is likely to produce higher profits. This argument is supported in the study of Duhaime and Grant (2004) which found higher gains produced by divestitures under circumstances of a related strategy. Bowman et al., (1990) 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.

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 form of 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. Organizational restructuring provides potential for better integration and improved performance of firms. Organizations with designs that facilitate
information processing and accurate decision making should exhibit higher performance when faced with crises as well as in other situations (Perrow and Davy, 2008).

The resource-based view stresses the importance of the intangible resources and capabilities of the firm in the context of the competitive environment. In this way, the firms that devote their internal forces to exploit the opportunities of the environment and to neutralize threats while avoiding weak points are most likely to improve their performance than those that do not do the same and also are also able to build a good reputation. The company’s organizational restructuring is its response to the situation in the competitive environment. These are important as with the implementation of the right restructuring strategies, the company can sustain its positive growth and high rates of return- the two most important value drivers (Kolleret et al., 2010).

2.4 Restructuring Challenges

In order to perform effectively, restructuring is one of the strategies implemented by organizations. Management often cites operational restructuring as necessary for improving efficiency, controlling costs, and coping with the changing business environment. When firms are dealing with negative earnings and/or economic downturns, operational restructuring is often initiated as a rescue tool. Such environmental changes have placed corporations under increased competition domestically and internationally. However, organization must realize that organizational restructuring is not an easy exercise. Many organizational changes fail or do not realize their intended outcome. Other than that, after change has been implemented, some firms recover and prevail, while others fail to survive. Research on organizational change reveals that
many change programs are likely to face problems. Stuart (1996) shows that, organizational change can be traumatic for many individuals. Most employees believe that restructuring can create a stressful working environment and it can affect their motivation level. Furthermore, employee experiencing organizational change at a personal level often feels threatened and is fearful. 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 employees’ 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).

Bargrain et al., (2003) organizational restructuring makes the workers feel powerless. Any change in the organization is likely to cause uncertainty among workers as it challenges their sense of control and competence. This is so because most employees do not have strong self-esteem and inner recourses, and therefore do not see themselves as architects of their own destiny. The process of organizational change should therefore be implemented in a more structured and professional way. It should not only focus on change management but also should ensure that individuals are empowered. Organizational restructuring is a process that requires a great deal of change management. It is for that reason that communication becomes one of the cornerstones of a successful organizational restructuring. Effective communication with employees plays a vital role during the restructuring period of any organization as it helps to properly inform the employees about the changes. This helps to remove the uncertainty and allay fears amongst employees and therefore may overcome any resistance that may result thereof.
Culture does play a valuable role in managing change. Paton and McCalman (2000) contend that every organization has a very special cultural design plan. This unique blueprint determines the way in which the organization interacts with its surroundings and also how it manages its people. For the organization to manage its change effectively, it needs to understand the way in which its cultural web and a changing environment are connected. Organizational restructuring does change the size of divisions or departments and the power of certain individual managers. Those whose feel threatened that restructuring will erode their power base are more likely to resist restructuring. In a power culture, it is the responsibility of top executives with highest authority to stop the bitter disagreement at lower levels resulting from the restructuring process. It is therefore imperative for those executives to equip themselves with conflict handling techniques to enable them to effectively manage the change process. It is also the duty of the top management to ensure that the new structure of the organization does not make the skilled employees who are vital for the survival of the organization feel isolated. Indeed, it might help them to acquire the services of an outside organizational development consultant to deal with the power conflict triggered by restructuring (Pheysey, 2003).

Organizational justice is one of the key considerations in any restructuring process, particularly when job losses are inevitable. Employees will always make their own judgments about the fairness of the decisions taken during a restructuring process. Such perceptions do have serious impact on the behaviour and attitudes of employees. When employees feel that they were not treated fairly, they may sabotage the restructuring process and vice versa. Fairness also decreases the levels of stress amongst employees, enhances performance, job satisfaction and commitment to an organization. It also promotes organizational citizenship behaviours that help in assisting
fellow employees to carry out their jobs as well as positive attitude towards the organization. Top management must always bear in mind that, when it comes to restructuring, the first concern that employees raise is whether the process was fair to them. Every effort must be made to ensure that all the elements of fairness such as trust, openness and respect do exist during restructuring (Cascio, 2002). Organizational restructuring may assume different forms and the most common challenge of these various forms of restructuring is that they require workflows to be reorganized and appropriately aligned (Forrer et al, 2004). They also require staffing levels to be altered so that an appropriate level of resources can be maintained in a corporate structure capable of rapid response to changes in the marketplace. On the other hand, 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 focusing only on certain consumer segments which has had an effect of reducing the potential size of the company’s customer base.
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research methodology that was used to carry out the study. The chapter
describes the proposed research design, data collection instruments and how data was analyzed,
interpreted and presented.

3.2 Research Design

The research design adopted was a case study. A case study is an in-depth investigation of an
individual, institution or phenomenon. Case studies allow a researcher to collect in-depth
information, more depth than in cross-sectional studies with the intention of understanding
situations or phenomenon (Cooper and Schindler, 2000). It also helps to reveal the multiplicity
of factors, which have interacted to produce the unique character of the entity that is subject of
study.

The reason for this choice was based on the knowledge that case studies are the most appropriate
for examining the processes by which events unfold, as well as exploring causal relationships
and also they provide a holistic understanding of the phenomena. The research design was used
to determine the use of organizational restructuring as a strategy on the performance of the
Kenya Commercial Bank Ltd.


3.3 Data Collection

The study used primary data which was collected using an interview guide. An interview guide is a set of questions that the interviewer asks when interviewing. The respondents interviewed were the managers in charge of information technology, business development and research, marketing, corporate affairs, finance, business systems reengineering and operations. These were considered to be key informants for this research since they were involved in the formulation and implementation of policies and strategies that were geared towards the achievement of corporations’ objectives.

This method have been considered more often by researchers since it provides more qualitative information, more depth, more representation, more efficiency, more statistics, and more value (Stokes and Bergin, 2006). The interviews were semi-structured so that some questions can be omitted or added if some new and useful information come up through the whole procedure, which were face to face interviews.

3.4 Data Analysis

The data obtained from the interview guide was analyzed using content analysis. Content analysis is the systematic qualitative description of the composition of the objects or materials of the study (Hsieh and Shannon, 2005). It involved observation and detailed description of objects, items or things that comprise the object of study.
Content analysis, as a class of methods at the intersection of the qualitative and quantitative traditions, is used for rigorous exploration of many important but difficult-to-study issues of interest to management researchers (Carley, 2003). Content analysis has a number of advantages. This includes its non-obtrusive character, use of naturally evoked verbal behavior as the source of value-data; suitability for carrying out longitudinal research given the availability of different kinds of text over long periods of time; and its systematic and quantitative approach to dealing with qualitative, text data (Kabanoff and Daly, 2000).
CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The research objective was to establish the effect of organizational restructuring on the performance of Kenya Commercial Bank. This chapter presents the analysis and findings with regard to the objective and discussion of the same.

4.2 Interviewees Profile

The interviewees comprised of both top and middle management of Kenya Commercial Bank (KCB). In total, the researcher interviewed seven interviewees out of the nine that had been intended to be interviewed. Two of the interviewees were not available during the interview. The duration in which the interviewees have been holding the current position in the KCB varied from two to thirty three years. Five of the interviewees have held the position for more than five years while the other three had held the position for less than five years. This indicates that majority of the interviewees have held the position for a longer duration of time and therefore understand the effect of restructuring on performance of the bank.

On the question regarding the duration the respondents have worked in the bank, the interviewees said that they have worked for a period of between six and thirty three years and therefore they are well versed with the happenings in the bank. On the level of education, three of the interviewees indicated that they were post graduate holders while the other four interviewees indicated that undergraduate was their highest level of education and therefore in
relation to the number of years they have worked in the bank, the researcher had confidence on the information being given on restructuring in the bank.

4.3 Restructuring Strategy
Restructuring has been adapted by managers in several industries so as to streamline cost, increase productivity and revenues, improve employees’ welfare, increase shareholders wealth, enhance efficiency and improve performance among other reasons. The study tried to establish how KCB has undertaken organizational restructuring. For this objective to be achieved, the researcher studied how the bank undertook restructuring. The findings of this study indicates that KCB undertook restructuring by disposing of non-core assets, outsourcing of key services, closed of non-profitable operations; change in executive management, defining, a set of core values, a mission statement and vision as well as by re-branding and restructuring of non-performing loans portfolio. At the same time the bank invited employees who would like to take voluntary retirement scheme to apply for consideration and this reduced the number of employees working in the bank. In order to respond to market dynamics, the bank also in the year 2011/2012 engaged consultants who recommended the reorganization of the bank through corporate restructuring which resulted in streamlining of organizational structure, functional restructuring/change of functions and merging of departments. The restructuring was undertaken with the aim of positioning the bank with a view of taking advantage of its potential and maximizing its returns and this was to be achieved through five pillars which were identified as business staff, information technology and internal process.
The interviewees noted that the restructuring strategy that was used in the bank took several forms which include the use of both corporate and operational strategies with a view to increasing shareholders’ value and operational efficiency. The bank also undertook some drastic measures which involved downgrading some jobs in order to manage its operational costs which were taking a lion’s share of the bank profits. Employees are an organization’s greatest resource and therefore since restructuring affects the employees, the bank took measures to ensure that its employees were involved in the process in order to reduce resistance to the changes. In this instance, the bank involved all the employees in the processes so far, and the buy-in was encouraged. In relation to process changes and implementation of information technology infrastructure, almost every other employee personally was provided.

Communication with the employees is essential for effective implementation of restructuring. In order to ensure that the restructuring was undertaken in the bank as intended, the interviewees noted that there was good communication with everyone in the bank to ensure that every member of the staff knows exactly what is happening in the bank. This was achieved through the restructuring idea being cascaded to the employees where they gave their ideas and each step being communicated to them. The medium through which information is passed has an effect on the passage of the message and effectiveness, the interviewees were asked whether the medium used was effective in communication of restructuring strategy, and they noted that the bank used several medium which includes staff newsletters, memos, internal circulars, and workshops. This medium was found to be effective and therefore restructuring message was received by the employees who supported the process as they were aware of the effect.
4.4 Restructuring Strategy and Performance

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 bank. On the question regarding the performance of the bank after restructuring, they said that the performance of the bank has increased year by year through reduction of operating costs, non-performing loans and growth in shareholder value (Profit & Return on Capital). They further noted that the bank has been able to compete with other commercial banks as they have streamlined their operations which enable the bank to respond quickly to the changes in the market. At the same time technology has driven the bank to come up with products such as mobile banking, internet banking and agency banking in order to ensure that the customers undertake their transactions whenever they are and this helps to maintain their customers.

Restructuring has equipped KCB with the requisite competencies needs to capture opportunities that present themselves in the operating environment through leadership in focused value. The change of leadership in the bank has seen the bank take aggressive undertaking to reclaim its market share which was reducing due to competition from other institutions. The bank leadership has been quick to respond to market changes with products that suit the industry and an example was given by the interviewees that in order to tap into the diaspora market the bank has partnered with the diaspora Sacco to offer loans to those living in the diaspora. This was aimed benefiting the bank from the money that has been remitted by those in the diaspora which as per the Central Bank of Kenya figures stood at 72 billion as at July this year. KCB being the largest bank in terms of assets in Kenya has undertaken aggressive marketing, opening of more branches across
the region and use of technology in order to increase its market. The interviewees said that the bank has also undertaken other measures in order to increase its market share and these include improved brand image, more visibility, optimal staffing, improved customer satisfaction, increased customer base.

Competitiveness is evidently a decisive factor for survival in the business world and it is sustained through constant improvement and upgrading. The competitiveness of KCB was indicated to be as a result of its ability to assemble and utilize appropriate combination of resources through development of existing and creation of new resources and capabilities in response to the dynamic market conditions. The interviewees said that the bank has utilized its assets to expand to other east African region markets and this has been achieved by the bank through management skills which has enabled the bank implement business strategies that improves its competitiveness. The interviewees further noted that KCB has implemented successful knowledge management by ensuring that all its employees understands what is being done in different departments so that in case of an employee leaves, there is smooth transition. The management of knowledge creates a flexible competitive advantage that is hard to imitate. Therefore, the bank acquires a competitive advantage by means of the relationship of knowledge with the ability to innovate and to configure a flexible structure capable of reacting favorably to the frequent changes in its environment.

Communication is essential in order for restructuring to achieve its intended objectives. The interviewees noted that restructuring in the bank has seen the bank be leaner, more efficient, better organized, and better focused on its core business and therefore communication within the
bank has become better after restructuring as the management has come up with policies that ensures that every member of staff knows exactly what is happening in the bank. At the same time there is constant contact between the executives and the staff which enables the staff to be free with the management by sharing their ideas on what needs to be done and this helps the bank to know its employees needs and responding to it adequately.

Restructuring enables the bank to make decisions that will have an effect on current and future operations of the bank. On the question on whether restructuring has facilitated information procession and decision making, the interviewees said that acquisition of IT platforms in every restructuring effort has not only facilitated information processing but also reduced error rates and re-works impacting positively on customer service while empowerment at various management levels has promoted accuracy in decision making. At the same time the interviewees said that the adoption of new technology has seen the bank undertake several duties with the system and this minimizes errors.

Expansion of the bank is guided by the availability of market and therefore restructuring has seen the bank open more branches so that they can maintain their presence in areas that have potential for generating more income to the bank. At the same time the bank has moved to newer markets in Rwanda and Burundi and this is part of its strategy to ensure that the bank has enter to the untapped markets which has always had a significant effect on the performance of the bank. The market in South Sudan has suffered a little setback due to the conflict in that country although the interviewees were upbeat that the other branches are doing so well and therefore there are minimal changes to their performance although it affects the banks plan of opening more
branches. At the same time the interviewees noted that the bank has used its efficient information technology in its expansion as it enables the bank headquarters to know the progress of the branches through quick processing of data to information while reports such as MIS are easily accessible hence hastening decision making process.

4.5 Challenges Encountered in the Implementation of Restructuring Strategy

Restructuring strategy is implemented in organizations in order to perform effectively by improving efficiency, controlling costs, and coping with the changing business environment, however the strategy is not an easy exercise as it might fail or do not realize their intended outcome. The implementation of the strategy in the bank was found to have its fair share of challenges as the interviewees said that there was resistance to the process emanating from the employees who were not sure what would happen to their jobs despite the assurance from the management that there was no mass layoff but rather voluntary retirement. At the same time employees and pensioners resisted management attempts to sale the bank headquarters in the central business district following the construction of another building in the upper hill area. Also the interviewees said that restructuring process introduced new requirements on staff including cross setting of products and an attempt on productivity measurement which the employees resisted.

Effective communication throughout restructuring strategy implementation processes offers a great success to the strategy. Strategies can only be sustained by clarity of purpose and clarity can only be achieved through changes of behaviour. At the same time the culture of the bank constitutes mostly values and beliefs that are held over time in the course of doing business. Therefore the match between communication, culture and restructuring strategy is crucial for
successful implementation of the strategy. Communication and culture of the bank on restructuring was noted by the interviewees as simple and friendly and made teams feel invited to shared goals and objectives. On the other hand, culture advanced willingness to adopt new opportunities of doing business. The employees were also trained in order to change their culture and perception. This was a noble idea from the management as this will enable the employees to serve the bank with a changed mentality of the strategy targeting certain cadre thus instilling confidence on the employees. The top management at the same time was found to have used top-down approach of communication while at the same time ensuring that there was feedback on issues raised by the employees.

The top management of the bank were indicated by the interviewees to have played their role in restructuring as there was daily bulleting from the top management on the progress of restructuring with clear direction of the same were communicated. The management of the bank however was not equipped with conflict handling techniques and this hindered effective implementation of the strategy although it did not have much effect on the intended objective of the strategy. The interviewees said that there was unfairness in the process in that some staff whose jobs could not be field internally had to be given a fair redundancy package. At the same time there was fairness in the bank in that the process was voluntary and at the same time the management allowed employees to apply for all the vacant positions competitively through internal job advertisement.
4.6 Discussion of the Findings

As organizations seek to enhance their competitive positions in an increasingly global marketplace, they are discovering that they can cut costs, maintain quality and improve their performance by undertaking organizational restructuring strategy. However, to be able to achieve this, the service delivery process need to be carefully defined, negotiated, and agreed upon considering involved parties' needs, wants and preferences. The study found out that the bank undertook restructuring by disposing of non-core assets, outsourcing of key services, closed of non-profitable operations; change in executive management, defining, a set of core values, a mission statement and vision as well as by re-branding and restructuring of non-performing loans portfolio. This results are consistent with Bowman and Singh (1998) findings that organizational restructuring involves significant changes in the organizational structure of the firm, including redrawing of divisional boundaries, flattening of hierarchic levels, spreading of the span of control, reducing product diversification, revising compensation, reforming corporate governance and downsizing employment.

The study found out that restructuring in KCB was undertaken in order to respond to market changes and be competition. This findings are consistent with Amburgey et al., (1990) findings that a firm needs to reorganize its activities in order to remain competitive as well as retain existing customers and attract new ones. Perrow and Davy, (2008) in their study noted that organizational restructuring provides potential for better integration and improved performance of firms. Organizations with designs that facilitate information processing and accurate decision making should exhibit higher performance when faced with crises as well as in other situations. This was consistent with the findings of the study which established that restructuring has
facilitated information processing which reduced error rates and re-works impacting positively on customer service while empowerment at various management levels has promoted accuracy in decision making.

Organizational restructuring enhances the prospects for improved performance for firms. Bowman et al., (1999) found out that the intermediate effects of restructuring are emphasis on cash flows and changes in managerial incentives. In the case of organizational restructuring, these effects could be in form of greater employee satisfaction, reduced turnover, increased efficiencies and better communication. These findings were in tandem with the findings of the study which established that restructuring the performance of the bank has improved considerably year by year, reduction of operating costs, non-performing loans and growth in shareholder value (Profit & Return on Capital).

In order to perform effectively, restructuring is one of the strategies implemented by organizations. However, restructuring has its challenges that have to be dealt with in order to ensure successful implementation of the strategy. The study found out that restructuring in KCB encountered challenge emanating from employees resistance out of fear that they were going to lose their jobs and also on the planned sell of the banks headquarters. This is consistent with the findings of Stuart (1996) that, organizational change can be traumatic for many individuals since most employees believe that restructuring can create a stressful working environment and it can affect their motivation level. In order to deal with the challenges the bank ensured that there was effective communication and this was in tandem with Paton and James (2000) findings that effective communication that is designed to inform, consult and promote action will help in overcoming both resistance and ignorance amongst employees.
CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the findings and analysis of chapter four. It sets out to discuss the summary of the findings, draw conclusions, limitations of the study and make recommendations.

5.2 Summary

The study found out that the bank has undertaken organizational restructuring that involves disposal of non-core assets, outsourcing of key services, closed of non-profitable operations; staff rationalization; change in executive management, defining, a set of core values, a mission statement and vision as well as by re-branding and restructuring of non-performing loans portfolio. The employees of the bank were involved in the process in order to ensure that all they are aware of the changes in the bank. Communication with the employees is essential for effective implementation of restructuring and this was achieved by the bank through the restructuring idea being cascaded to the employees where they gave their ideas and each step being communicated to them. The message of restructuring was communicated to the employees through staff newsletters, memos, internal circulars and workshops.

The study further found out that restructuring has an effect on performance of the bank as it has increased year by year through reduction of operating costs, non-performing loans and growth in shareholder value (profit & return on capital). The changes in the banking sector were found to have driven the bank to be innovative and they have introduced several products such as mobile
banking, internet banking and agency banking. The study established that the market share of the company had increased as a result of restructuring which was attributed to aggressive marketing, opening of more branches across the region, use of technology in order to increase its market, improved brand image, more visibility, optimal staffing and improved customer service.

Communication is essential in order for restructuring to achieve its intended objectives and it is as a result of these that the management of the bank ensured that there was effective communication with all the employees in order to respond adequately to employees concerns. Restructuring in the bank was found to have facilitated processing and decision making but also reduced error rates and re-works impacting positively on customer service while empowerment at various management levels has promoted accuracy in decision making. The study found out that the bank has used information technology to improve their performance through quick processing of data to information while reports such as MIS are easily accessible hence hastening decision making process. The study found out that the bank encountered resistance from employees for fear of losing their jobs. At the same time employees and pensioners resisted management attempts to sale the bank headquarters. To counter the challenges the bank ensured that there was effective communication and also they trained employees in order to change their culture.

5.3 Conclusion

Corporates worldwide have been aggressively trying to build new competencies and capabilities, to remain competitive and grow profits. For an organization to become profitable it must put in place strategies that position itself in market dominance and improve the firm’s overall
performance. However, to be able to achieve this, the service delivery process need to be carefully defined, negotiated, and agreed upon considering involved parties' needs, wants and preferences. Organizational restructuring has been recognized as a vital tool to confront the competitive pressure in the market and also as a tool of improving the performance of these firms.

It can be concluded that restructuring has an effect on organizational performance through reduced operating costs, non-performing loans and growth in shareholder value (profit & return on capital). Restructuring increases the market share of the company through marketing, opening of more branches across the region, use of technology in order to increase its market, improved brand image, more visibility, optimal staffing and improved customer service. Communication was essential for effective implementation of restructuring process. The restructuring process has challenges emanating from employees resistance.

5.4 Limitations of the Study

This exploratory empirical investigation into restructuring strategy provides tentative avenues for increasing the probability of success of restructuring functions and raises many issues for further study of the restructuring phenomenon. This study was limited by its small sample within the same bank.

The study was undertaken at Kenya Commercial Bank alone and therefore there was no room for comparison of findings with other commercial banks. The interviewees were the top management employees at KCB and therefore there was no room to compare divergent views.
Some respondents were suspicious of the study although were assured on confidentiality of the information. Limited accessibility to information in the bank due to confidentiality being maintained which strained accessibility of data there was also a lack of cooperation from some staff during interviews as they had to go out of their work schedule to respond. The limitations however did not affect the data collected to undertake the study.

5.5 Recommendations

The competition in the banking industry has seen commercial banks undertake drastic decisions in the course of their business and it is recommended that the government and the central bank should come up with policies that will ensure that the commercial banks undertake business operations that are above board and also they should ensure that there is strict monitoring of their operations.

The study found out that the bank is the largest in the country in terms of assets and they have utilized the assets to expand its operations in order to increase its market share and this study has implication therefore for the resource based view theory which emphasizes that resources internal to the firm are the principal driver of a firm's profitability and strategic advantage.

Restructuring is aimed at increasing efficiency, enhancing competitive advantage, achieving synergy and improving firm value. 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. 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 and involve all the stakeholders in the restructuring process.

5.6 Suggestions for Further Study

The study was done on the Kenya Commercial Banks only. Every organization has its uniqueness on culture, staff, structure, resources and the environment it operates in is different from others. A similar study should therefore be done on other commercial banks operating in Kenya. This will shed more light on the effect of restructuring on performance of the commercial banks.

The 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.
5.7 Implication of the Study on Policy, Theory and Practice

The findings of the Study have several implications on policy, theory and practice for the CEOs and strategic planning teams. Firstly, it is apparent that organizations operating in Kenya depend on their operating environment for their survival and with changes in the operating environment, the business unit need to adapt to the same. The unpredictable environment brings about opportunities and threats to the firms operating environment. Consequently, successful restructuring process to adapt the firm to the demands of the market and faster decision making process will lead the business unit to align itself to the demands of the market. The leadership of the firm would be in the forefront in realizing the set objectives of restructuring strategy. Competent and sufficient CEOs would give organizations a distinctive advantage necessary for effective and efficient restructuring strategy.

The success of restructuring strategy will be determined by the support that the organizations staff will provide in the whole process. If the process is going to affect their operating conditions and their job positions, then the process is bound to elicit some resistance to its implementation. Consequently, the leadership of the firm should put in place elaborate training programs to enlighten the staff on the benefits that the restructuring strategy is going to have to the firm’s performance and consequently their general well being. If the restructuring strategy is doing to lead to some staff losing their jobs, then a commensurate send off package should be available to the staff.

Finally, the financial institutions should focus on the identified gaps on implementing restructuring strategy, especially in the applicability of restructuring theories and be more synthetical rather than analytical.
REFERENCES


APPENDIX I: INTERVIEW GUIDE

The interview guide will seek to achieve the following objectives;


2. To establish the challenges encountered by Kenya Commercial Bank in organizational restructuring.

Section A: Demographic Data

1. What is your designation in the bank?
2. For how long have you been holding the current position?
3. For how long have you worked in the bank?
4. What is the highest level of education you have achieved?

Section B: Organizational Restructuring

5. How did the bank undertake organizational restructuring?
6. Which restructuring strategy did the bank adopt?
7. How was restructuring to employees? Were all the employees involved in the process?
8. Was the implementation of restructuring effectively communicated to all employees?
9. Were all the employees aware of the impact of organizational restructuring on their current job?

Section C: Organizational Restructuring and performance

10. How is the performance of the company after restructuring?
11. How can you describe the change in market share of your firm after each restructuring effort was executed?
12. How is the competitiveness of the bank after each effort of restructuring?
13. Has organizational restructuring brought better integration in the bank?
14. Is there better communication after restructuring?
15. Has the restructuring facilitated information processing and accurate decision making?
16. How is the bank expansion after restructuring?
Section D: Challenges encountered in restructuring

17. Was there resistance from the employees on the restructuring process?
18. How was communication on organization restructuring to employees?
19. Was the organizational culture an hindrance to organizational restructuring?
20. Was the top management equipped with conflict handling techniques to enable them to effectively manage organizational restructuring?
21. Was there justice during the organizational restructuring process?