# Organizational Restructuring as a Strategic Approach to Performance by Safaricom Limited

By

## Beverlyne Omusula Amboka

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# DECLARATION

This is my original work and has not been presented for a degree in any other university.

Signature ............................ Date ............................

**Amboka, Beverlyne Omusula**

This project has been submitted for examination with my approval as University Supervisor

Signature ............................ Date ............................

Eliud O. Mududa

Lecturer

School of Business

University of Nairobi

I

## DEDICATION

To the most important people in my life – my mum Violet and dad Harrison for all the
support they gave towards my education.

# ACKNOWLEDGEMENTS

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| | |
|---|---|
| **KPLC** | Kenya Power and Lighting Company |
| **SLA** | Service Level Agreement |
| **SBU** | Strategic Business Unit |
| **BPO** | Business Process Outsourcing |
| **SMS** | Short Message Service |
| **MBPS** | Mega Bits Per Second |
| **EBITDA** | Earnings Before Interest, Tax, Depreciation and Amortization |
| **EPS** | Earnings Per Share |
| **ROE** | Return On Equity |
| **ROI** | Return On Investment |

# ABSTRACT

This was a case study of Safaricom limited, analyzing the restructuring process adopted, objectives, challenges and its impact on organizational performance. The objectives of the study were to determine the organizational restructuring process undertaken by Safaricom and whether such restructuring process contributed to Safaricom's performance. The study adopted a case study design so as to undertake an in-depth and comprehensive inquiry. The study interviewed ten senior managers. Content analysis was used to analyze the data and generate relevant results.

The key findings from the study were that Safaricom underwent an organizational restructuring process. Some of the notable impacts of the process include 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. Had the company not engaged in organizational restructuring and operations streamlining, it would not have gained the 65% market share and the market leadership that it currently has.

The study therefore concluded that Safaricom had considerable performance improvements as a result of the restructuring exercise. Had the company not engaged in the restructuring process, it would not have maintained its current market leadership. The recommendations of the study is that similar studies be replicated across all other mobile telephony providers in order to be able to access whether organizational restructuring can lead to improved operational and financial performance to the telecommunications industry in Kenya as a whole. Another recommendation was to have a similar study but for a longer period of time so as to evaluate if the firms that have undergone the restructuring process like Safaricom will continue to have performance improvements sustained over the years.

# CHAPTER ONE: INTRODUCTION

## 1.1. Background of the study

In today's era of stiff competition, raised stakeholder expectations and the need to maximize utilization of organizational resources by operating more efficiently, one of the crucial challenges facing organizations is to build sustainable competitive organizations. Changing environment necessitates a change in strategic initiatives. The change in strategic initiatives like mergers and acquisitions, new product and market strategy, joint ventures, strategic alliances, diversification, and outsourcing calls for organizational restructuring and emplace an integrative mechanism that cements this changes.

A prominent view of organization structures suggest that structures follow strategy, as structural designs pulls together key activities and resources of the firm implying that successful strategy implementation depend largely on a firm's primary organization structure. For the restructuring firm, the structure helps it to identify key activities and how they will be coordinated in order to achieve strategic purposes and hence improve its performance. Changes in environment like liberalization and globalization necessitates a change in the organizational restructuring process for sustainable performance (Som, 2002). A mismatch between strategy and the structure will lead to inefficiency in all cases meaning a less than optimal input/output ratio and therefore affect performance (Chandler, 1962; Child, 1975).

## 1.1.1. Concept of organizational restructuring

Different definitions have been coined for organizational restructuring by various authors. (Cascio, 2002) defines organizational restructuring as "planned changes in a firm's organizational structure that affect its use of people". (Greenberg and Baron, 1995), on the other hand, define organizational restructuring as the "altering of size and basic configuration of the organizational chart". Organizational restructuring can also be defined as "fundamental rethinking and radical redesigning of organizational structures, business processes and procedures and functional structures"

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According to Hill (2008) restructuring takes on an internal focus with an aim of getting the work of the business done effectively and efficiently so as to make the strategy work. It reflects the critical stage in strategy implementation wherein managers attempt to rationalize and recast their organization structure, leadership, culture and reward systems to ensure a basic level of cost competitiveness, capacity for responsive quality and need to shape each one in order to accommodate unique requirements of the strategies. "At the heart of the restructuring process is the notion that some activities within the business value chain are more critical to the success of the business strategy than others". (Bryars, 1992) contends that the restructuring or reorganizing of the organization involves making strategic changes when the organization faces environmental challenges.

It is clear from all these definitions that organizational restructuring is a process that involves fundamental structural changes in an organization that may have serious implications on its performance. Studies have reported mixed results on the impact of organization restructuring on organizational performance with some studies reporting positive while others reporting none or even negative impacts. It is therefore important to manage this change effectively for organizational restructuring to be successful in achieved the envisioned objectives.

Many organizations nowadays are constantly involved in activities that are designed to enhance their organizational effectiveness. This phenomenon invariably creates a need for the organizations to restructure. Of the three modes of restructuring strategies described by Bowman, et al, 1999 (Portfolio Restructuring strategies, Financial Restructuring strategies, and Organizational Restructuring strategies), the type that captures most researchers is Organizational Restructuring. Organizational restructuring may assume different forms ranging from mergers, acquisitions, and the addition of new product lines or markets, to cost reduction exercises. The most common challenge of these various forms of restructuring is that they require workflows (spans of control) to be reorganized and appropriately aligned. 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 i.e. it is the matching of the right person to the right job. It aims at changing the design of how business is done to improve profitability.

Companies and economies are restructuring to achieve a higher level of performance or to survive when the given structure becomes dysfunctional. "The word structure used in an economic context implies a specific, stable relationship among the key elements of a particular function or process (Sander et al, 1996). It is not simply an organization chart. Structure is all the people, positions, procedures, culture, technology and related elements that comprise the organization. This structure defines the constraints under which institutions function in their day-to-day operations and their pursuit of better economic performance. Restructuring can therefore be interpreted as the attempt to change the structure of an institution in order to relax some or all of the short-run constraints. The structure must be totally integrated with strategy for the organization to achieve its mission and goals.

### 1.1.2. Organizational restructuring as a strategic approach

Strategy as a concept is the core concept of strategic management. A clear understanding of the term strategy is thereafter very important before one can try to understand the concept itself. (Quinn, 1980) describes strategy as the pattern or plan that integrates the organization's major goals, policies and action sequences into a cohesive whole. This is in line with (Mintzberg, 1994) who also views strategy as a plan for achieving objectives.

Modern organizations are open systems. They are in constant interaction with the external environment. As such, any change that takes place in the environment — social, political, technical, economic, legal — have implications for the organizations strategic decisions. In order to remain competitive, organizations respond to the pressures exerted by the environmental factors. Normally, organizations respond by formulating new business strategies when the degree of pressure is high. Changes in strategies often necessitate changes in organization design. Thus, restructuring of

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organization design becomes inevitable when the environment for the organization becomes turbulent and unstable.

It was contended by Pearce & Robinson (2008) that under the strategic management process, "once strategies have been formulated implementation begins through action plans and functional tactics. The process takes an internal focus – getting the work of the business done efficiently and effectively so as to make the strategy successful. What is the best way to organize ourselves to accomplish the mission?" Organization design as defined by Burton and Thakur (1995) is the total pattern of structural elements and patterns used to manage the overall organization. Organization design should be seen as a tool for implementation of organizational strategies and the attainment of strategic objectives. It reflects the critical stage in strategy implementation wherein managers attempt to recast their organization. Pearce & Robinson (2009) notes that the company's structure, leadership, culture, and reward systems may all be changed to ensure cost competitiveness and quality demanded by unique requirements of its strategies.

The definition of strategy as coined by (Johnson and Scholes, 2008) is the direction and scope of an organization over the long-term, which achieves advantage for the organization through its configuration of resources within a challenging environment with an aim to meet the needs of markets and to fulfill stakeholder expectations. Corporate Strategy is concerned with the overall purpose and scope of the business to meet stakeholder expectations and is often stated explicitly in the organization's mission statement. Today's environment has not only become increasingly competitive but uncertain, complex, interconnected and fast changing. Organizations are therefore required to think and plan in advance, yet be flexible enough to incorporate changes as they operate in the ever changing environment. The strategy an organization chooses to adopt will be influenced by its environment. (Bryars, 1992) contends that the restructuring or reorganizing of the organization involves making strategic changes when the organization faces environmental challenges.

Organizations need to build sustainable effectiveness and efficiency by constantly reviewing and adopting new internal and external strategic focus. If an organization

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adopts a short term perspective, these factors are taken as given, and management will tend to adopt an inward looking strategy which focuses on cost minimization and deferral of capital outlays in order to maximize profits (Banks & Wheelwright, 1979). O'Mara et al (1998) notes that as "external factors change in the longer term, such inward looking organizations will rapidly lose touch with their markets and suffer the consequences such as loss of market share, industry shake-outs, and falling employment levels". Phan and Hill (1995) in their findings observe that "change in governance structure does affect firm goals, strategy and structure. Efficiency receives more emphasis and growth less emphasis. Hierarchical complexity diminishes and decentralization increases. The changes in goals, strategy and structure foster greater efficiency as demonstrated by increases in productivity and profitability".

Restructuring strategy can be implemented from a broad range of perspectives and (Gibbs, 1993) summarizes them into three major categories: Financial restructuring including recapitalizations, stock repurchases and changes in capital structure; portfolio restructuring involving divesting, acquisitions & refocusing on core business and lastly operational restructuring including retrenchment, re-organization and changes in business level strategies. Byars (1992) also suggest that perspectives of restructuring are as varied as the objectives and they include: process innovation; revenue enhancement; cost reduction; asset reduction; re-organization and strategic repositioning. Pinprayong and Sienghthai (2011) concluded that "the objectives of organizational restructuring as a strategy can be concluded that it could: change work process, organizational structure and organizational culture, reduce expenses, enhance competition in the business world, and develop organization in short period of time and for rapid organizational development as well as to motivate employees".

### 1.1.3. Organizational performance

As part of the strategy implementation process, once strategies have been formulated and implemented, strategy evaluation and control phase commences. This helps the operational managers to correct the activities and incase undesired performance results occurred due to inappropriate use of strategic management processes.

Organizational performance is the ability of the organization to achieve its goals and objectives by using resources in an efficient and effective manner (Ricardo, 2001; Daft, 2000). Performance is the end result of an activity (Thomas, 2008). The term *performance* is sometimes confused with productivity. According to Ricardo (2001), there was a difference between performance and productivity. Productivity was a ratio depicting the volume of work completed in a given amount of time. Performance was a broader indicator that could include productivity as well as quality, consistency and other factors. Only actions which can be scaled, i.e., measured, are considered to constitute performance (Campbell et al., 1993).

A key component of any integrated strategy will be the use of an appropriate performance measurement system (Nanni, et al., 1992). Thomas (2008) notes that the measures to select while assessing performance depend on the organization unit under review and the objectives being appraised. The objectives that were established earlier in the strategy formulation part of the strategic management process should be used to measure corporate performance once the strategies have been implemented (Thomas, 2008). Although, many studies have found that different companies in different countries tend to emphasize on different performance measurement, the literature suggests financial profitability and growth to be the most common measures of organizational performance. For example Nash (1993) claimed that profitability is the best indicator to identify whether an organization is doing things right and hence profitability can be used as the primary measure of organization success.

Traditional performance measurement systems such as ROI, EPS, ROE, Operating cash flow etc. that were used to assess overall corporate performance are coming to an end for a number of reasons. Dixon, Nanni, and Vollmann, (1990), note that such measures are "typically too irrelevant due to allocations, too vague due to "dollarization", too late due to the accounting period delay, and too summarized due to the length of the accounting period." (Dixon, et al., 1990). Further, Hayes & Abernathy, (1980) argue that traditional financial performance measures encourage a short-term outlook by management. As a consequence of the recognition of the inadequacies of traditional performance measurement systems, the need to adopt financial and non-financial performance measures has emerged (Thomas, 2008).

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Analysts now recommend a broad range of methods to evaluate the success or failure of a strategy e.g. stakeholder measures, shareholder value, and the balanced score card approach. The trend is more towards use of both financial and non-financial measures of corporate performance such as stakeholder measures and shareholder value (Thomas, 2008).

### 1.1.4. Safaricom Limited

The Kenya Telecommunications industry is quickly evolving, now having a total of four players in about 13 years. These telecommunication companies are Safaricom Kenya Limited, Airtel Networks Kenya Limited, Essar Telecom Kenya Limited Mobile, and Telkom Kenya Limited (Orange). Safaricom Ltd is the leading telecommunications company operating in Kenya. The Mobile subscriber base for Safaricom has grown steadily to a record high of 19 Million which represents 65.3% of the total market share.

In order to continue thriving in the highly competitive telecommunications industry of Kenya, the players have had to implement their strategic plans. Implementation of these plans have helped the companies gain a competitive advantage in the market by taking advantage of advancements in ICT (Information and Communications Technology), fiber technology, mobile banking and other avenues. During its past 10 years of operation, Safaricom Limited has led the telecommunications industry in Kenya in the arena of innovativeness.

Safaricom has implemented state of the art telecommunications infrastructure and systems which have enhanced the communication and service experience that it delivers to its customers. Through the same innovative spirit, Safaricom was also the first in the world to set up the now famous M-Pesa money transfer system which has helped the company bag billions of shillings in profit as well as providing banking services to the majority of Kenyans who don't have access to banks. Safaricom is considered a force to reckon with in the telecommunications industry in Kenya today.

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## 1.2.    Research problem

In today's era of hyper competition and change, one of the crucial challenges facing organizations is to build sustainable competitive organizations. Changing environment necessitates a change in strategic initiatives. They need to, amongst other things, decrease operating costs, enhance the quality of both products and services as well as increase their reactive capacity to respond to new opportunities in the market place. The change in strategic initiatives like mergers and acquisitions, new product and market strategy, joint ventures, strategic alliances, diversification, and outsourcing calls for organizational restructuring.

The restructuring process itself poses serious challenges for these companies as it has the potential to create a lot of uncertainty amongst staff if it is not properly managed. Organizational restructuring, by definition, involves fundamental changes in the organization and naturally leads to suspicions and uncertainty amongst workers. Companies need to manage this process very carefully with minimum pain and disruptions that may adversely affect the business.

In Kenya telecommunications sector was liberalized in the late 1990s when two mobile phone operators (Safaricom and Kencell, now Airtel) were licensed. With several other new entrants being licensed, developments in the Kenyan telecoms sector have enhanced the competitive threat posed by new entrants, increased innovativeness demanded by the consumers among have threatened to erode the market base of traditional network carriers like Safaricom. With this turn of events it is crucial to identify structural features determining the nature of competition in its industry and restructure the company so as to survive. Pearce and Robinson (1997) observe that designing viable strategies for a firm requires a thorough understanding of the firm's industry and competition. The concept of industry environment was propelled into the foreground of strategic thought and business planning by Porter. His well-defined analytic framework "the Five Forces Model" helps strategic managers to link remote factors to their effects on a firm's operating environment.

An organizational culture that supports strategy has always played a key role in enabling Safaricom implement its key strategies as it enables the organization members to be united and guided by similar values and beliefs. However, will

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Safaricom previous rampant expansion and growth strategies help Safaricom boldly step into the future? Given the prevailing economic environment and stiff competitive environment, Safaricom had to relook at how to effectively and efficiently manage its operations in order to continue meeting its customer and shareholder's expectations amid the new challenges in its external operating environment. The exit of the then CEO Michael Joseph and the incoming of a new CEO Bob Collymore, saw the restructuring exercise that sculpted a paradigm shift in the internal strategy – from a technical orientated to a customer focused organization. The questions that then emerge are what restructuring process Safaricom Limited engaged in and whether the restructuring process does contribute in any way to Safaricom Limited's performance.

Researchers have frequently analyzed issues related to strategic activities in the telecommunications industry, with a focus on specific cases of inter-firm relationships. Other scholars have also studied the regulatory environment of the industry in specific countries and areas (e.g., Hudson, 2004). These researchers concentrated on strategies conducted by telecommunications firms. Further, studies that investigate how organizations have performed when both organizational restructuring and downsizing are used, and the impact of downsizing on employee morale or productivity concurrently exist, however, little is known on the aspect of restructuring without downsizing and the effect of this change process on organizational performance. In this research, I will seek to determine the restructuring process that Safaricom undertook and whether it has so far contributed in any way to Safaricom's performance.

### 1.3. Objectives of the Study

The objectives of the study were:

i.    To determine the organizational restructuring process undertaken by Safaricom Limited

ii.   To determine whether such restructuring process contributes to Safaricom Limited's performance.

## 1.4. Value of the study

The research will be of use especially to the telecommunications industry in Kenya; to understand the importance of adopting the restructuring especially in mobile telephony sector. It will be of use to the government especially the ministry of information and communication, in understanding how its policies have affected the mobile telephone companies in their quest to adopt restructuring in their core operations. This is important especially the application in the downsizing of employees.

To the policymakers, the study will act as guide for establishing the best policies to effect on restructuring so as to enable the growth of the telecommunications industry in Kenya. The study is important to the government in the determination and establishment of a regulatory/legal framework for the telecommunications industry in Kenya. The study will also help to highlight and enlighten the readers on matters concerning restructuring. Increased knowledge obtained on the relationship between structure and performance can be applied in making policy or management decisions regarding Telecommunications performance or organizational change. The results could usefully inform policy makers in their policy considerations on how to improve efficiency and effectiveness in Telecommunications organizations in Kenya and elsewhere in the world.

# CHAPTER TWO: LITERATURE REVIEW

## 2.1.    Introduction

This chapter begins by describing the various organization structures that exist in various literatures. An overview of the organizational restructuring concept as provided by other researchers, the restructuring process, and various motives behind organizations going through a restructuring process are discussed. At the end, the chapter provides insights into the relationship between restructuring and organization performance.

## 2.2.    Organizational Restructuring

It was noted by Johnson, Sholes & Whittington (2008) that "the most important resource of an organization is its people, as the structural roles people play, the processes through which they interact and the relationships that they build are crucial to the success of any strategy". Organizational theorists have defined structure as the configuration of relationships with respect to the allocation of tasks, responsibilities, and authority (Greenberg & Baron, 1997). Organizational structure institutionalizes how people interact with each other, how communication flows, and how power relationships are defined.

The structure of an organization reflects the value-based choices made by the company (Zammuto & O'Connor, 1992); it refers to how tasks are formally divided, grouped, and coordinated. (Quinn R. , 1988) competing values model shows how different value orientations of organizations can influence structure. A mismatch between strategy and the structure will lead to inefficiency in all cases meaning a less than optimal input/output ratio and therefore affect performance (Chandler, 1962; Child, 1975).

Different organizational structures exist in order to fit specific strategies. There are essentially five strategy-related approaches to organization: (1) functional specialization, (2) Geographical structures (3) multidivisional structures, (4) strategic business units, and (5) matrix structures Each form relates structure to strategy in a unique way and, consequently, has its own set of strategy-related pros and cons.

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A functional structure for instance divides responsibilities according to the organization's primary roles such as Sales and marketing, IT, Finance, HR, Accounting and so forth. This provides an in-depth specialization and focused concentration on performing functional area tasks that can enhance both operating efficiency and the development of a distinctive competence, clear definition of roles and tasks hence increasing accountability, and it gives senior managers direct hands on involvement in operations and allows greater operational control from the top. The downside is that senior managers focus on their functional responsibilities they fail to take a strategic view of the organization as a whole or to manage coordinated responses quickly. A functional structure can also be inflexible, as separate functional departments tend to be inward looking (functional silos) making it difficult to integrate the knowledge of different functional specialists.

Multidivisional structures consist of separate divisions on the basis of products or services. Each division can respond to the specific requirements of its product/market strategy, using its own set of functional departments. They are flexible in that organizations can add, close or merge divisions as circumstances change. As self-standing business units, it is possible to control divisions from a distance by monitoring business performance. Divisional managers have greater personal ownership for their own divisional strategies.

Geographic structures are a means of managing internationally which is particularly effective in exploiting knowledge across borders. This is greatly adopted by enterprises with operations in either various countries around the world or with geographically scattered organization units within a country. Strategic Business Units are a grouping of business units based on some important strategic elements common to each while Matrix structures feature dual lines of authority and strategic priority. These are flexible because they allow different dimensions of organizations to be mixed together. However, since they replace formal lines of authority with relationships (cross matrix) this often brings problems – taking longer to reach decisions because of bargaining between the managers of different dimensions. Conflicts may also arise because staff finds themselves responsible to managers from two structural dimensions thus generally they are hard to control.

## 2.3.    The Concept of Restructuring

Restructuring is redesigning an organizational structure with the intent of emphasizing and enabling activities most critical to the firm's strategy to function at maximum effectiveness (Pearce & Robinson 2009). Thus, restructuring entails two elements: an organization's structure and an organization's strategy.    According to Robbins (1990), "Organizational structure defines how tasks are to be allocated, who reports to whom, and the formal coordinating mechanisms and interaction patterns to be followed." Each organization's structure can be reduced into three basic components: complexity, formalization, and centralization (Robbins, 1990). It is within one or all of these components that an organization tries to make changes to improve specific new goals.

The second element in organizational restructuring is the strategy to be used. Strategy is "the determination of the basic long-term goals and objectives of an enterprise and the adoption of courses of action and allocation of resources necessary to carry out these goals" (Johnson, Scholes & Whittington, 2008). It is the direction and scope of an organization over the long term which achieves advantage in a changing environment through its configuration of resources and competencies with the aim of fulfilling stakeholder expectations. Restructuring strategies looks at any change an organization has made in their long-term goals or objectives and how it applies to these three base components of the organizational structure.

According to Greenberg and Baron (1995) organizational restructuring refers to the "altering of size and basic configuration of the organizational chart". It may involve downsizing that entails reducing the number of employees needed for the organization to function effectively, or rightsizing that includes adjusting the number of employees needed to work in newly designed organizations. It can also include outsourcing, wherein a company hires the services of an outside firm to carry out its non-core business functions (Greenberg & Baron, 1995). Byars (1992) contends that the restructuring or reorganizing of the organization involves making strategic changes when the organization faces environmental challenges. Normally, it becomes 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.

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Changes in business operating environment necessitates change in strategic focus which in turn force organizations to restructure their businesses. Given the dynamic nature of business environments today, Organizational restructuring is therefore inevitable for any learning organization. These changes, however, do affect organizations and employees. To achieve a success in any restructuring process, it is thus paramount that managers get to fully understand the drivers of change, the possible consequences of change at both organizational and individual employee levels. Company executives often restructure their companies for enhancing productivity, reducing costs or increasing shareholder wealth. (Bowman, et al 1999) described three categories of restructuring activities - portfolio restructuring, financial restructuring and organizational restructuring.

Portfolio restructuring includes significant changes in the mix of assets owned by a firm or the lines of business in which a firm operates, including liquidation, divestitures, asset sales and spin-offs. Company management may restructure its business in order to sharpen focus on its core business and in order to raise capital or rid itself of a non performing operation by selling off a division. Financial restructuring includes changes in the firm's capital structure. Changes can include debt for equity swaps, leverage buyouts, or some form of recapitalization Organizational restructuring includes 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, streamlining processes, reforming governance and downsizing employment. Organizational restructuring will normally change the levels of management in the company, affect the span of control or shift product boundaries. There is also a change in production procedures and compensation associated with this strategy

Many studies have been undertaken, particularly in the United States, on the effects of restructuring on both individuals and organizations as well as how best to manage this change. Individuals associate change with loss of jobs, whilst organizations see change as carrying costs and risk to them. They subsequently respond to change in ways that are not suitable that eventually lead to counter productivity (Gowing, Kraft & Quick, 1997). According to Gowing et al., (1997) stressors and attendant symptoms

of strain are some of the many consequences of organizational restructuring on individuals. 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.

## 2.4. The Process of Restructuring

Given that organizations strategies are not static, it implies that organization structures should also change in order to facilitate for successful strategy implementation. It is important to have in place a structure that befits a strategy so as to realize the identified organization goals. For every combination of goals, technology, people and circumstances, there is a formal structure that will work. The challenge therefore is that of identifying the perfect structure.

Four steps of restructuring are suggested by Bolman and Terrence (1991). First, the management should develop a new conception of the organization's goals and strategies. Followed by a study of the existing structure to understand how it works. Then a new structure is designed in light of changes in goals, technology and environment before piecemeal implementation, creating room for improvements. According to Byars (1992), the active participation of all management levels should be encouraged throughout the restructuring process for best results. Participation, he says, creates a feeling of "ownership" and leads to greater acceptance of the new structure when it is implemented. Top management should inform all levels of management why it feels restructuring is necessary and encourage open discussion of those reasons. Management should also attempt to explain how restructuring will benefit not only the organization but also the individuals affected by the changes.

## 2.5. Motives for Restructuring

Restructuring provides the necessary objectivity and methodical support to bring a company back on the road to success. The hope is that through restructuring, a company can eliminate financial harm and improve the business.

A company tries to redesign the organization for one of two major reasons: (1) either they have changed the strategic thrust of the company, or (2) the organization has drifted away from the original design of the company. Organizational restructuring will normally change the levels of management in the company, affect the span of

control or shift product boundaries, change in production procedures all this with an aim of changing the design of how business is done to improve profitability.

According to Byars (1992) restructuring may be needed to deal with increases in company's size; diversity in products or customer base; Acquisitions to broaden product lines or joint ventures to enter larger and broader field of business. Byars (1992) further refers to a study, which found that of the fortune 500 companies are, or were at one time involved in some form of restructuring for the following reasons: To improve profitability; to improve productivity to meet competition; to refocus strategically; to improve balance sheet ratios and to enhance growth rates.

Friesen and Miller (1984) argue that organizations typically go for fairly long periods of time with relatively little structural change but then experience intervals of major restructuring. Organizations try to retain their existing form as long as possible in order to maintain internal consistency and to avoid upsetting the existing equilibrium. But if the environment changes while the organization remains static, the structure gets more and more out of touch with the environment. Eventually, the gap becomes so wide that the organization is forced to do a major overhaul. Restructuring in this view is like spring cleaning; we accumulate debris over months or years, and finally we have to face up to the mess.

Factors that can lead to restructuring as indicated by Friesen and Miller (1984) include: Economic changes; technological changes; organizations growth; political climate changes and leadership changes. It is important to note that many forces interact to influence organizational structure and the structure cannot be changed every time one of these forces change. If it did, the organization would be in a continuous state of reorganization. Unfortunately, some organizations do seem to be in such a state, which generally results in confusion and chaos. Changes in organizational structure only, cannot offset a bad strategy, poor product offerings or having the wrong people in key positions.

Emshoff as cited by Bowman and Singh (1993) states that several factors converge to make restructuring the dominant concern of top management today. First is the ongoing conversion of the economy to a service orientation, secondly international competition is forcing firms to downsize their operations to keep their costs low,

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thirdly the integration of organizations occurring because of the rise of networking relationships between affiliates and lastly he argues that in many service industries restructuring has been very prevalent due to the delayering of organizations. He concludes by emphasizing that as a result of pervasiveness by restructuring in service industries, firms which are better prepared to take restructuring in their stride will be better off than those which are forced into it by crises.

## 2.6. Relationship between Organizational Restructuring and Performance

Restructuring is mainly aimed at improving performance. It may occur due to occurrence of unforeseen changes in the business environment, a shift in technology that may make a company's product obsolete, worldwide recession that leads to reduced demand for a company's products, an organization having grown excessively tall and bureaucratic, operating costs skyrocketing or it could be to enable the company to simply improve or build their competitive advantage and stay on top.

Restructuring is the process of reorganizing the legal, ownership, operational or other structures of a company for purposes of making it more profitable or better organized for its present needs. According to Hill (2008) restructuring takes on an internal focus with an aim of getting the work of the business done effectively and efficiently so as to make the strategy work. It reflects the critical stage in strategy implementation where in managers attempt to rationalize and recast their organization structure, leadership, culture and reward systems to ensure a basic level of cost competitiveness, capacity for responsive quality and need to shape each one in order to accommodate unique requirements of the strategies. "At the heart of the restructuring process is the notion that some activities within the business value chain are more critical to the success of the business strategy than others' (Hill, 2008)

A study by (Miller 1987) noted that organizational structures and strategy-making processes are highly interdependent and must be complementary in many ways to ensure good performance under challenging conditions. In the current dynamic business environment globally, organization structures cannot afford to remain static. Organizations constantly have to reorganize themselves in response to changing

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conditions. Further. (Thompson Strickland & Gamble 2010) observes that "some activities in the value chain are always more critical to strategic success and competitive advantage than others". They recommend that "it is important for management to build its organization structure around proficient performance of the key activities. making them centerpieces or main building blocks on the organization chart. The rationale of making strategy-critical activities the main building blocks in structuring a business being the fact that since the activities are crucial to strategic success. they need to have resources. decision-making influence. and organizational impact they need. Thus implementing a new or changed strategy is likely to entail new or different key activities. competencies, or capabilities and therefore to require new or different organizational arrangements. else the resulting mismatch between strategy and structure can lead to performance problems."

The study by (Miller. 1987) further noted that structural formalization and integration were related to the levels of integration and reactiveness among decision makers and to four aspects of rationality in decision making: - analysis of decisions. planning, systematic scanning of environments and explicitness of strategies. This therefore indicates that restructuring generates value for stakeholders. and empirical evidence points to improvements in operating performance as a primary source of these gains. According to (Miller. 1987) relationships between strategy making and structure were usually strongest among successful and innovative firms and seemed to contribute the most to performance in sizeable and innovative firms. This is because the structure of an organization importantly influences the flow of information and the context and nature of human interactions. Smart Scott & Waldfogel (1994) measured the effect of restructuring on corporate performance focusing on management buyouts and concluded that these buyouts improve corporate performance. They further cite Kaplan (1989) and Lichtenberg & Siegel (1989) who studied firms taken private in management buyouts and found that both financial and real performance measures improved after the buyouts.

# CHAPTER THREE: RESEARCH METHODOLOGY

## 3.1. Introduction

This section details the research methodology that was adopted to meet the objectives stated in chapter one of this research study. The research design, data collection, data analysis and presentation techniques are discussed.

## 3.2. Research Design

This research was a case study. As a research method, the Case Study is used to bring to an understanding an issue under review and to extend existing knowledge by adding to what is already known through previous research. Case studies emphasize detailed contextual analysis of a limited number of events or conditions and their relationships. They provide much more detailed information on the subject under study. They are a common research strategy in social and political science, but have found usage in business and economics where for instance, the structure of a given industry is investigated. Case studies have been used to develop critical thinking (Alvarez, et al., 1990)

Researcher Robert K. Yin defines the case study research method as an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used (Yin, 1984, p. 23). Each individual case study consists of a whole study, in which facts are gathered from various sources and conclusions drawn on those facts. For this research, a case study of Safaricom was carried out in order to determine the restructuring process that was undertaken and how the restructuring contributed to Safaricom Limited's performance.

## 3.3. Data Collection

In order to investigate the relationship between restructuring and its contribution to performance at Safaricom, the researcher interviewed senior managers in the Company. This is because these are the people charged with formulation and implementation of strategic decisions within the company, and are the ones who also keep track of organizational performance. They were therefore be very resourceful in their responses to issues under investigation

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An interview guide was more appropriate in this study for the purposes of getting detailed and consistent information on the area under investigation. Interview guides are useful when one wants to get detailed information about thoughts and behaviors or want to explore new issues in depth. They are used to provide context to other data such as outcome data, offering a more complete picture of what happened in the program and why. They are also useful when you want to distinguish individual (as opposed to group) opinions about a program. Open ended questions used in intensive interviews help measure sensitivity or disapproval behavior, discovers salience and encourages natural modes of expression. The kind of documents that were used as sources of data for this study will include existing case reports, administrative documents, and multimedia online resources. In the interest of triangulation the documents served to confirm the evidence from other sources.

## 3.4.    Data Analysis and Presentation

Before processing the responses, the completed interview schedules were edited for completeness and consistency. A content analysis and descriptive analysis was employed. The content analysis was used to analyze the respondents' views about restructuring and its contribution to performance at Safaricom. The data was first checked for accuracy and completeness by recording of the responses, it was then be coded and checked for coding errors and omissions. Coding of the data enabled the responses to be grouped into various categories. The analyses of quantitative indicators were presented first, followed by the analyses of qualitative indicators. The latter was provided in order to add texture and enrich the findings of the above quantitative data.

After the responses were arranged, different positions or opinions were identified through descriptive statistics. Tables, percentages, discussions and other appropriate graphical presentations were used to present the data collected for ease of understanding and analysis. The researcher analyzed and summarized the various opinions, assess the degree of consensus or differences expressed by the respondents and synthesize the themes or patterns that emerged. Noting exact quotes was important as they were powerful elements of the report.

# CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSION

## 4.1. Introduction

The research objectives were to establish the restructuring process that Safaricom undertook and whether it has so far contributed in any way to Safaricom performance. This chapter presents the analysis and findings with regard to the objectives and discussions of the same. The data was collected from seven senior managers from various divisions in the company. The findings were presented in percentages, discussions and tables.

## 4.2. Demographic Information

Demographic information sought insights into the various departments the interviewee's work their position in the department and the duration they have worked at Safaricom. The length of service and the interviewee's position in the organization determined the reliability of the information given by the interviewees.

Of the total representative sample of 10 interviewees, 6 were interviewed translating to 60 per cent response rate. Those who were not interviewed thus constituted only 40 percent of the sample. The overall interview rate is depicted in Table 4.2.1 and Figure 4.2.1 below.

**Table 4.2.1: Overall Interview Response**

| Responses | Response Frequency | Percentage |
|---|---|---|
| Successful Interviews | 6 | 60% |
| Outstanding Interviews | 4 | 40% |
| **Total** | 10 | 100% |

**Source: From interview results.**

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Figure 4.2.1 Overall Interview Rate

# Interview Response Rate
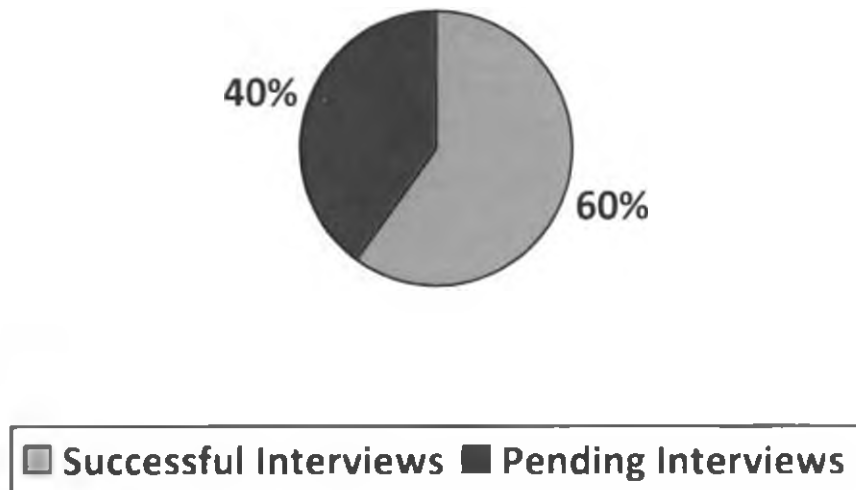


Source: Table 4.2.1 converted to a Pie Chart

The interviews were conducted between the dates of 3$^{rd}$ September 2012 to 10$^{th}$ October 2012. It was possible to interview targeted staff members in the technical and service operations departments. On the other hand, two of five interviews were obtained from the retail and customer service divisions translating to 20 % of the response rate. This is illustrated in table 4.2.2 below

Table 4.2.2: Interviewees by division

| Division | Response Frequency | Percentage |
|----------|-------------------|------------|
| Technical | 2 | 20 |
| Service Assurance | 2 | 20 |
| Retail | 1 | 10 |
| Customer Service | 1 | 10 |
| Total | 6 | 60 |

Source: Results from interview results by division

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All the interviewees who took part in this project were Safaricom employees. They were asked to indicate the length of service. The results are as shown in table 4.2.3 below.

**Table 4.2.3 Respondents Length of Service**

| Years of Service | Number of Respondents |
|---|---|
| 0 | 0 |
| 1 | 0 |
| 2 | 0 |
| 3 | 1 |
| 4 | 1 |
| Above 4 | 4 |
| **Total** | |

**Source:** Results obtained from interviewees analysis by years of service

The findings presented in table 4.2.3 shows that all the respondents have worked at Safaricom for a period of three years and above. This shows that the information obtained from the interviewees is reliable as they are distributed among the various key divisions in the organization and also they are based on employees who have had a long term of service with the organization.

### 4.3.    Organization Restructuring

This section covers findings from the specific questions that were asked in order to determine the restructuring process that the company underwent and the impact to performance that the process had to Safaricom. The motives, benefits and challenges faced by the company during the restructuring process were also identified. The findings indicate that Safaricom underwent an organizational restructuring process that involved organizational redesign and structural changes. The company engaged in these forms of restructuring because the restructuring would help it realize its new

strategic focus of being more customer focused in order to meet the changes in their business environment.

Restructuring was as a result of the needs of the company, specifically as a result of business analysis that showed a need for greater efficiency in the way business departments communicated and completed tasks. For the case of Safaricom, the business had expanded too much, and there was a need to refocus on its core abilities of service provision – delivering excellent customer service for the various innovations that they had come up with during its past decade of operations. The restructuring plans were necessary simply to meet the competitive and dynamic nature of business environment.

Restructuring the organization was used by Safaricom as a means of imparting a cultural change aimed at guiding staff through the next decade of operations given the changes in the operating environment. Previously, Safaricom had not faced intense competition from its competitors and had dwelt so much on expansion, innovation and growth strategies. The restructuring changes were to help develop an organization structure and procedures that support the business strategy and requirements that were to ensure that the entire organisation was driven towards meeting customer needs and maintaining a vibrant ecosystem.

### 4.3.1. The Old Structure

Before the restructuring exercise, Safaricom had a functional organization form of structure that divided responsibilities according to the division's primary roles. These were Human Resources, New products and Services, Finance, Corporate and Regulatory services, Risk and Strategy, Technical, IT, Supply chain and administration, investor relations, Commercial, marketing and communication, and customer care. All the functions reported to the Chief Executive Officer. The organization chart was as depicted in the figure below.

**Figure 4.3.1 The Old Organizational Structure**

```
                                    ┌──────────────────┐
                                    │       CEO        │
                                    └──────────────────┘
                                             │
  ┌──────────────────────────────┐           │
  │   NEW PRODUCTS AND SERVICES   │───────────┤
  └──────────────────────────────┘           │
  ┌──────────────────────────────┐           │
  │           FINANCE             │───────────┤
  └──────────────────────────────┘           │
  ┌──────────────────────────────┐           │
  │ CORPORATE AND REGULATORY OFFICER │────────┤
  └──────────────────────────────┘           │
  ┌──────────────────────────────┐           │
  │      RISK AND STRATEBY        │───────────┤
  └──────────────────────────────┘           │
  ┌──────────────────────────────┐           │
  │ SUPPLY CHAIN AND ADMINISTRATION │─────────┤
  └──────────────────────────────┘           │
  ┌──────────────────────────────┐           │
  │          TECHNICAL            │───────────┤
  └──────────────────────────────┘           │
  ┌──────────────────────────────┐           │
  │              IT               │───────────┤
  └──────────────────────────────┘           │
  ┌──────────────────────────────┐           │
  │              HR               │───────────┤
  └──────────────────────────────┘           │
  ┌──────────────────────────────┐           │
  │      INVESTOR RELATIONS       │───────────┤
  └──────────────────────────────┘           │
  ┌──────────────────────────────┐           │
  │        CUSTOMER CARE          │───────────┤
  └──────────────────────────────┘           │
  ┌──────────────────────────────┐           │
  │          COMMERCIAL           │───────────┤
  └──────────────────────────────┘           │
  ┌──────────────────────────────┐           │
  │ MARKETING AND COMMUNICATION   │───────────┘
  └──────────────────────────────┘
```
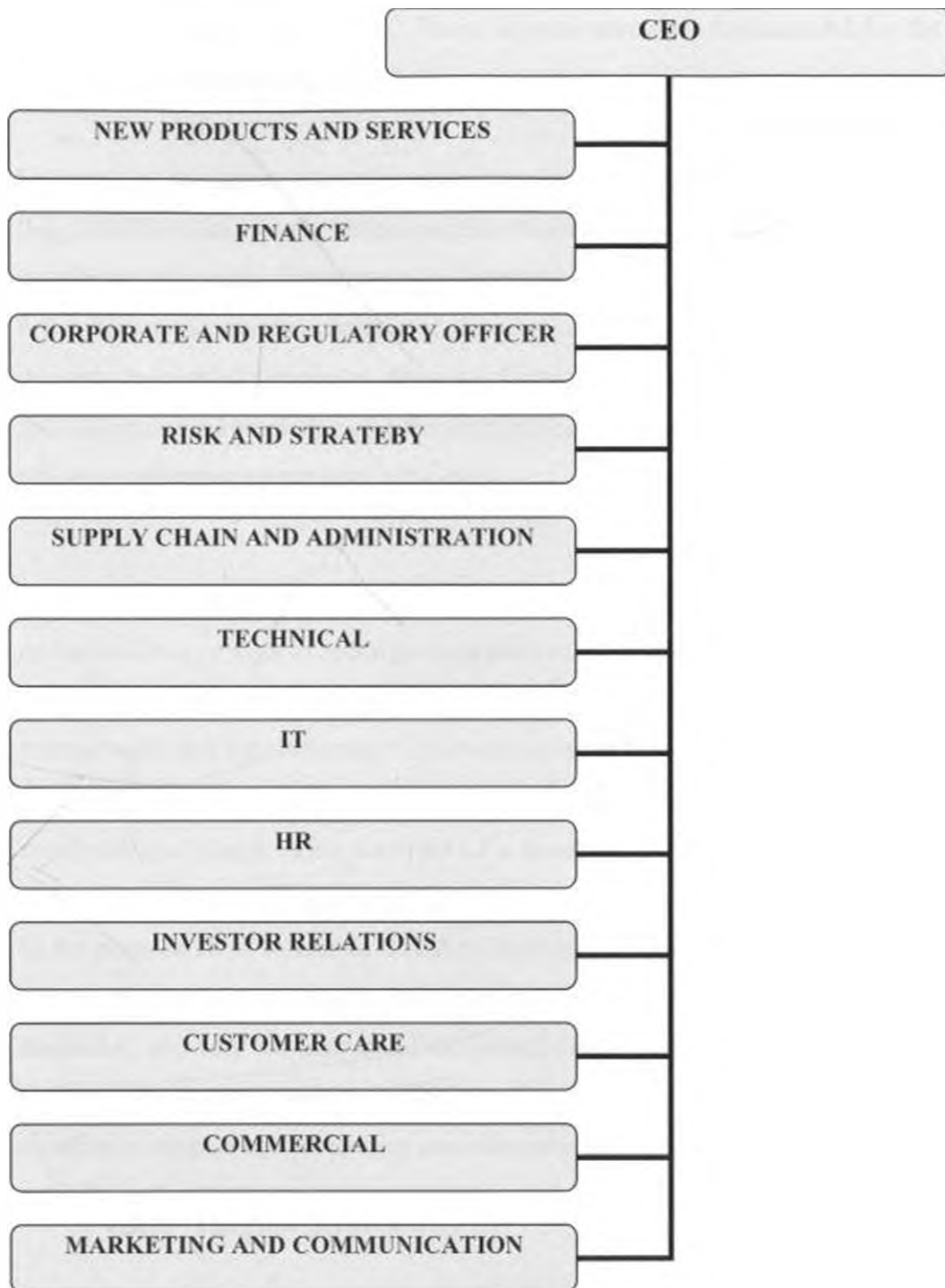
**Source:** Safaricom Limited 2009 Annual Report

This structure provided Safaricom with an in-depth specialization and focused concentration on performing functional area tasks and activities that enhanced both operational efficiencies and the development of distinctive competence. It gave senior managers direct hands on involvement in operations and allowed greater

operational control from the top. These aspects were very fundamental for the onset and expansion of the company.

However, as the senior managers gave more focus on their functional responsibilities, they failed to focus on the entire business strategies as a whole. It became harder to coordinate responses, bureaucracies increased, and the functional structure became inflexible as the separate functional departments tended to be more inward looking through creation of functional silos and kingdoms, making it difficult to coordinate and integrate the knowledge of different functional specialties with an aim of attaining whole organization operational efficiency.

With the changes in the business environment and increased competition, Safaricom embarked on a process to redesign its organization structure in order to select one that would be fundamentally aligned to its strategic direction – one that would lead to a nimble, agile and light structure. This was aimed at accelerating growth and changing focus on customers with an aim of creating more value to the customers and the stakeholders at large. This was part of a transformational journey that was dubbed "Safaricom 2.0". The organization redesign was thus to ensure that the company was fit for purpose so as to enable it realize its strategic objectives. The main objectives for the new structure was to help the organization provide more focus on the customer, provide for clarity of accountabilities, manage the spans of control, facilitate for speedy decision making and execution, provide for organic business expansion, support cost efficiency and eliminate duplication of roles and functions.

### 4.3.2. The New Structure

Emanating from the new company strategic focus of excellence in customer experience, sustained revenue generation, driving operational excellence, and social responsibility, a consultancy firm that specializes in organizational design was engaged, to help Safaricom come up with a leaner structure that separated revenue generating and support centres. These constituted three Strategic Business Units (revenue centres): Financial Services, Enterprise and Consumer business, and six functional (support) centres. The Strategic Business Units (SBUs segmented by their

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target customer) would focus on driving the business, generating revenue and are the customers facing units. The SBUs are staffed with commercially driven staff led by General Managers, while the Corporate Centre consists of lean teams of strategic functional experts dispensing thought leadership and managing shared transactional processes to support the SBU functions. This is as depicted in the figure below.

**Figure 4.3.2 The New Organizational Structure**



**Support Functions**

**Revenue Generating Functions**
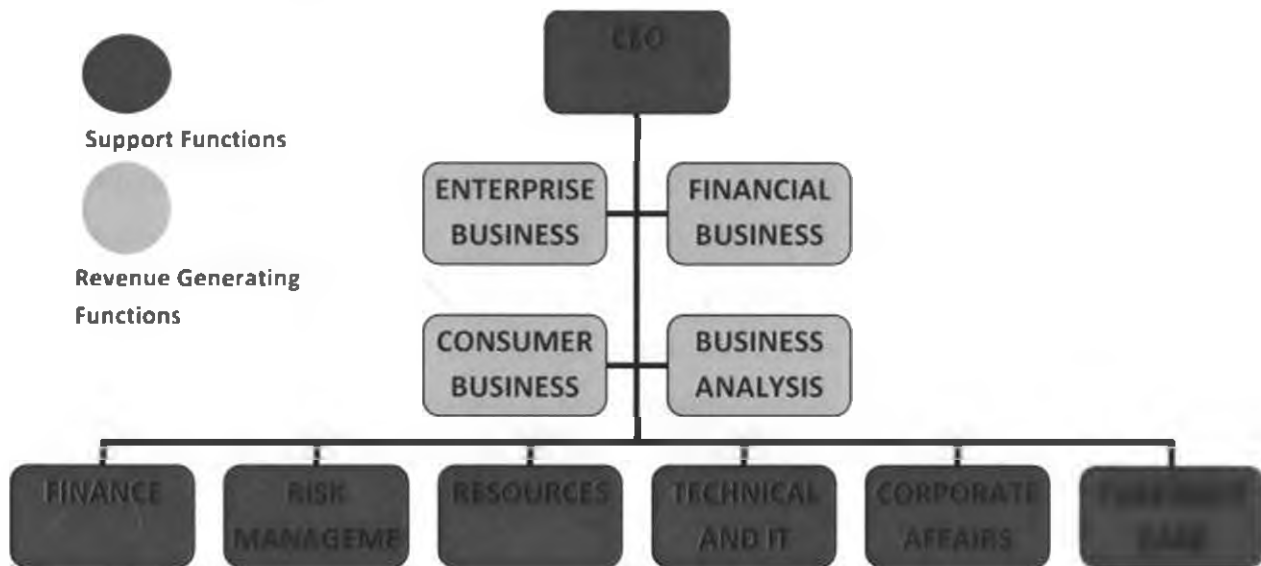
**Source**: Safaricom Limited. 2012 Annual Report

This new organisation structure brought about an organisation that is focused on providing quality service to the customer and one which is fundamentally aligned to Safaricom strategic direction, a structure that focused on ensuring that the Strategic Business Units are supported by the Corporate Centre functions, creation of opportunities for career growth across the business. It also created an environment for clearly defined of roles and tasks hence increased accountability that would then aid in driving performance and operational efficiency.

The new structure was to the determination of committing more fully to customers, eliminating unnecessary duplication and decentralizing decisions. The major noted change was the division of the organization into profit making business units that directly support the customers and business support functions in the corporate center that directly support the business units. The clarity in roles and responsibilities within the organization would allow the company to be more efficient and effective going forward.

### 4.4. Motives for Organizational Restructuring

Given the current increasingly tough environment that Safaricom operates, characterized by low voice tariffs, intense inflationary pressure, high borrowing costs and foreign exchange fluctuations, there was a need to refocus on the organization's operations. From the interviews, it was realized that Safaricom worked on improving its processes so as to achieve its strategic priorities of providing excellent customer service, sustained revenue generation and driving operational excellence.

Before embarking on the restructuring journey, it was learnt from the reviews that there were a lot of inefficiencies in how the organization operated. There was lack of harmonization and coordination among the various divisions of the organization. Efforts were not geared towards attaining a shared business goal among the various divisions, and rather, teams were working towards showing how great or important they were compared to others. Parts of the organization were significantly over or under staffed, with duplicated roles and responsibilities across the various business divisions. Organizational communications were inconsistent, fragmented, and inefficient. Accountability for results were not clearly communicated and measurable resulting in subjective and biased performance appraisals. Personnel retention and turnover became a significant problem as their morale was deteriorating. There was a need to change how things worked.

The main objectives for the new structure was to help the organization provide more focus on the customer, provide for clarity of accountabilities, manage the spans of control, facilitate for speedy decision making and execution, provide for organic business expansion, support cost efficiency and eliminate duplication of roles and functions.

The restructuring process would help Safaricom to define and implement the best way to deliver on its objectives and find ways on how the entire organization could work more for purposes of effectiveness and efficiency in order to best deliver on company objectives and achieve the company strategy. The focus was more on creation of a structure that would provide for harmonization, accountantability; provide

opportunities for career growth across the business and on improving process and procedures to ensure that it became possible to provide quality services and to serve customers efficiently and faster.

Furthermore, the new organization structure was to promote governance across all our functions, for strategy, planning, budget and quality the ultimate aim being to the customers experience. This is because by providing exceptional service Safaricom would enjoy trusted long term relationships with the customers that would then lead to sustained market leadership. The structure and the processes would therefore focus on continuously addressing the customer demand for Safaricom services through increasing the choice of alternative channels of contacts, building robust knowledge management system and addressing of all customer feedback.

Emanating from the new company strategic focus of excellence in customer experience, sustained revenue generation, driving operational excellence, and social responsibility, the restructuring process helped Safaricom achieve a leaner organizational structure that enabled streamlining of operations through aspects such as centralized projects management, de-duplication of roles and responsibilities of staff in various divisions, resource optimization, increased transparency of processes, placing of the right talents on the right job functions, increased quality of services and containment of operating costs by providing quality of service at lower costs through various initiatives and shared processes.

### 4.5. The Organizational Restructuring Process

Safaricom underwent a major restructuring in 2011 when Mr. Robert Collymore and his team of senior management sculpted a paradigm shift in the internal strategy to become a more customer focused organization.

Before the restructuring process started, there were good preparations made. There was a project group that steered the restructuring process led by external consultants. A consultations process was followed involving members of staff and external

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consultants hired at some stages. This aimed at ensuring inclusion of various stakeholders in the restructuring process in order for people to take ownership of the process. Further to this, the restructuring process was implemented in stages with key stages focusing on the different aspects of the process. Constant communications with staff and stakeholders were made at every stage upon achievement of specifically set milestones so as to reduce anxieties and rumors that are known to go with such restructuring efforts. .

During the restructuring process various staff appointments were made across the business units and functional realignments were made. Staff appointments and redeployments where appropriate within and across functions in line with the business realignment were made. Further, consolidation of functions in order to enhance efficiency and speed of decision making was done. Changes in reporting lines for some roles and in some areas were seen, while some of the functions remained largely unchanged. Therefore, some positions remained the same while others became completely new. Some positions no longer exist while others changed in terms of reporting lines, scope and size. To achieve the goal of placing the right talent on the right job, job placements for the changed and new roles were done through competitive interviewing of staff. Where roles did not significantly change in size or scope, there were no assessment process required and incumbents simply remained in their roles even though reporting lines could have moved. Unlike other restructuring exercises that are known to involve downsizing of staff, the re-design process underwent by Safaricom did not purpose to downsize or retrench staff but to have in place a structure that supported the delivery of business strategy by ensuring that the right people were placed in the right roles.

For the departmental specific minor restructuring/realignment processes, sessions were held with various departments to which they offered services e.g. the revenue generating SBUs in order to align identified functions and processes and to come up with Service Level Agreements (SLA) for service delivery for purposes of efficiency in operations and accountability. Various operating models were discussed and agreed between the SBUs and the functional support centers that led to the creation of the necessary accountabilities and clear responsibilities to allow better service to the

customers. The focus was in attaining efficiencies in the way work was done, creating flatter structures within the corporate support functions, expansion of the scope of certain functions to create centers of expertise, creation of new responsibilities to align the service centers better to the business, integration of best practice within the functional support centers borrowing from agreed standards and certifications e.g. ISO. This led to achievement of Customer focused; process oriented and service oriented structures that enforced a spirit of true ownership of responsibilities while guaranteeing appropriate segregation of duties.

Therefore, the outcome of the entire process was a newly redesigned organization that aimed at allowing the organization to address priorities in customer issues – both internal (inter-departmental) and external. The new structure is also very clear in terms of segregation of duties between the profit centers and the support centers which was strongly needed, with strong management processes, in order to stabilize operations and deliver adequate quality of service to our customers.

During the restructuring process, stakeholders in favor of the process were mainly the management the reason given being that it is their job, to strengthen their organization as a whole and make its standing more secure, reduce costs and increase efficiency of the Company. Employee's also supported the process as they saw the opportunities that would come with the removal of bureaucracies, clarity of operating procedures and growth opportunities in their careers by introduction of aspects of center of expertise - specializations. However, before staff were briefed and clear communications about the restructuring process shared with them, the employees were initially against the process as they had fear of losing job, fear of changes and were skeptical of what else the changes would bring such as staff reductions or becoming redundant through change in processes and introduction of aspects of outsourcing and Business Process Outsourcing (BPO), as these had been rumored to be part of the organizational redesign process – especially for the support functions. The major learning point during the entire organizational redesign process was the need to involve all stakeholders in the process early enough into the process and continuously communicating during the entire restructuring process so as to alleviate anxieties that come with lack of clear information.

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Therefore, in as much as restructuring seems to be an unavoidable and inevitable part of doing business today, too often, companies focus on reducing head count and fail to consider the qualifications and morale of the employees who remain after the restructuring. This study has shown how can a company can restructure and develop a revitalized organization that is positioned for the future and staffed with the best qualified people. It has been shown that it is possible during a restructuring exercise to redeploy people in a positive way through competitive interviewing. Communication to all the stakeholders with regards to the process to be followed during the organization redesign is key in-order to avoid disruptions to business operations during the restructuring period and also for the people to feel part of the entire process.

## 4.6.     Organizational restructuring and organizational performance

The study found out that in line with Safaricom focus on quality, product differentiation, value addition and unmatched customer experience, Safaricom had identified key performance indicators that gave the firm an indication of the outcome and impact of the restructuring exercise. These were termed "the strategic priorities" and they included provision of excellent customer experience, sustained revenue growth and improved operational experience. Other key performance indicators were the various revenue streams for Safaricom. These are M-PESA, Voice, SMS, mobile and fixed data services. They indicated a continued market leadership and an upward trajectory growth in profitability for Safaricom for the period under review.

Safaricom's M-PESA has been a key performance indicator for the company. Specifically, 15 million registered users compared to 10 Million registered users as at 31st March 2010 the service is now contributing close to 17 billion shillings of the overall revenue collection by the company. This was attributed to improved quality of service experienced by its users on services such as KPLC, Old Mutual, Nairobi Water Company, commercial banks, Micro finance Institutions, fuelling stations and the Youth Enterprise Development Fund as they could now get support on their issues instantly online e.g. through tweeter, Facebook or online self-service. The number of fixed data connections also improved to 6 Million up from 4.483 Million the previous year. This was attributed to 8% network expansion to 2.690 sites. The service

profitability grew at an average rate of 34.29% during the year under review and was deemed to be one of the biggest revenue streams for Safaricom.

The study found out that the firm has continued to experience a strong subscriber growth of 11% per year fuelled by quality of services, product innovation and improved customer focus. The subscriber base stands at 19.07 million subscribers which represented a market share of 65.3% in 2012, against the closest rival Airtel Kenya at 15.3%.

As part of Safaricom's commitment to offer a best in class service, the 3G network was upgraded to the latest available technology that enables speeds of 21 and 42 Mbps. There was also a deliberate effort to continue invest in the capacity and reach of 3G network with 1.439 3G enabled sites and 187 Wimax sites. With over 75% of the market using Safaricom connected mobile devices to access the internet, Safaricom is now the undisputed market leader in Data, increasing data revenue collection to a massive 6.59 Billion compared to the previous year's 5.37 Billion Kenya Shillings.

The focus on customer experience saw introduction of initiatives that focus on the retention of high value customers. All this was aimed at recognizing, rewarding and retaining loyal customers. Safaricom was also on track with regards to delivering on cost initiatives aimed at improving margins. Early results of these efforts are evidenced in this financial year's performance especially in the second half of the 2011/2012 financial year results performance whereby direct costs were held constantly.

Safaricom's success was totally attributable to the company's focus on quality, product differentiation, value addition and unmatched customer experience. Safaricom's successful performance agrees with Byars (1992) findings that companies do some form of restructuring to improve profitability, to improve productivity, to meet competition, to refocus strategically and to enhance growth rates.

# CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

## 5.1.    Introduction

This chapter provides a summary of the motives of the organizational restructuring process by Safaricom and its impact on performance thereof. Recommendations to various stakeholders and limitations of the study are discussed.

## 5.2.    Summary of Findings

The ultimate purpose of every business should be to satisfy the customer expectations. Increased levels of competition require greater strategies to gain competitive advantage. The study shows that Safaricom was involved in organizational restructuring.

The study noted that some of the factors that led Safaricom into organizational restructuring included; to develop an organization structure and procedures that supported the business strategies, help the organization provide more focus to the customer, provide for clarity of accountabilities, manage spans of control, facilitate for speedy decision making and execution, support cost efficiency and eliminate duplication of roles and functions. The study therefore agrees with Hill (2008) on the motivations which lead any firm into organizational restructuring. It was further noted that restructuring contributed to Safaricom's achievement of strategic priorities and financial performance improvement through provision of unmatched customer service, initiatives to retain high value customers, delivery on cost initiatives aimed at improving margins, focus on quality, product differentiation and value creation.

The research found out that Safaricom had improved on its customer service provision, improved operational and financial efficiencies as a result of contained operating costs and clearer responsibilities and accountabilities that eliminated bureaucracies and speed of decision making. The EBITDA continued to increase in the second half compared first half due to increased revenue with relatively flat direct and operating costs. Safaricom has also been able to generate huge revenue streams as

a result of continued customer growth, with cost control combating an inflationary market.

### 5.3. Conclusion

The study found out that Safaricom had gained improved operational and financial performance as a result of an organizational restructuring exercise and therefore, telecommunication firms in Kenya should engage in organizational restructuring because this exercise realigns and helps an organization gain operational efficiencies and competencies that in turn lead to improved financial performance.

These advantages were derived from the benefits such as: unmatched customer service by performing network upgrades and installation of knowledge management systems, initiatives to retain high value customers through enhanced customer loyalty programs that recognize and reward their loyal customers, delivery on cost initiatives aimed at improving margins, focus on quality, product differentiation and value. Had the company not engaged in organizational restructuring and operations streamlining, it would not have gained the 65% market share and the market leadership that it currently has. These findings are in line with the literature that exists on organizational restructuring. Bryars (2001), argue that companies involve in some form of restructuring for reasons such as to improve profitability to meet competition, refocus strategically, and improve balance sheet ratios and to enhance growth rates.

### 5.4. Recommendations for Policy Makers and for Further Research

The study drew various recommendations both to policy makers and researchers. It was recommended that regulators and players in the telecommunications industry should embrace organizational restructuring because not only do such restructuring help a firm get an improved performance, but they also impact positively on the productivity and effectiveness of their manpower.

The study confined itself to Safaricom. This research therefore should be replicated in other mobile phone service providers in the country and the results of the findings be compared for more accurate generalization. A study should be conducted in order to

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find out other forms of restructuring efforts that other mobile telephony service providers have engaged in and whether they have also been a source of any performance improvements.

## 5.5. Limitations of the Study

One of the major limitations was lack of adequate co-operation from the respondents. This research was carried out at a time when there was serious competition in the telecommunications industry, and therefore, industry players were repositioning themselves in order to make appropriate strategic moves. The respondents, who were in the senior management team of Safaricom, were therefore very cautious with the information they gave. The interviewer felt that some information was being withheld.

It was also difficult to collect and analyze information on the detailed planning and motivations for the restructuring process that Safaricom had underwent due to strategic details that such information could carry. Another limitation of the study is the time allocated to the entire project. The time allocated for the completion was little in relative comparison to the amount of research work that had to be done.

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# APPENDIX ONE: INTERVIEW GUIDE

**Instructions**

Please provide the answers as correctly and honestly as possible.

### Section 1: Demographic Information

    i)       In which department/division do you work?

    ii)      What is your position in the department/division?

    iii)     How long have you worked with Safaricom.

### Section 2: Organizational Restructuring

    i)       Has Safaricom Limited been involved in Organizational Restructuring?

    ii)      Which forms of Organizational Restructuring has Safaricom Limited been involved in (Examples – Financial, Organizational structure, strategy, customer service, marketing)

    iii)     Why did Safaricom undertake the form of restructuring that you have indicated?

    iv)     What would you consider as the main drivers, motives or pressures for restructuring? (E.g. new company strategy, budgetary cuts, competition, change in government/regulatory policy

    v)      Which stakeholders (employees, shareholders, management) were in favour of restructuring and why?

    vi)     Were any stakeholders against the restructuring process?  Why?

    vii)    What were the specific aims or objectives of the restructuring plan?

    viii)   Was the outcome of the restructuring process successful in your opinion? If yes, how was that measured

    ix)     Could you please comment on the restructuring process that was followed?

    x)      What were the main challenges or barriers that Safaricom encountered in during the restructuring process?

    xi)     Were there any changes in the organization mission, goals statement before or after the restructuring process?

    xii)    Was there a consultation process with all involved stakeholders before the implementation of the restructuring plan?

xiii) Was the whole restructuring process done internally or Safaricom outsourced to a consultancy firm for the preparation and implementation of the restructuring plan?

xiv) How was the restructuring process carried out? (the plan)

xv) If the restructuring process was to be done again, what would you do differently? (lessons learnt)

xvi) During the restructuring process, was there an issue of overstaffing? If yes, how was that dealt with?

xvii) What is your customer's attitude towards your service provision? Has this changed with the restructuring exercise? Is yes, what are the measures/indicators for the change?

## Section 3: Performance Impact as a result of the Restructuring process

i) In your opinion, has the restructuring process by Safaricom impacted on financial performance? (EPS, Stock price, ROE, ROI). Explain how.

ii) How has Safaricom's profitability changed after the restructuring exercise? Would you attribute this to the restructuring process? Why?

iii) How has the restructuring exercise affected internal business processes in your opinion? (Clarity, red tapes, bureaucracy,). If yes, how would you say the impact was on organization performance?

iv) In which other ways do you feel that the restructuring process impacted on performance at Safaricom?

v) Of all the factors that led the organization to restructure, name and explain the factors that have helped the company get tangible benefits and hence impacted on performance. Please give illustrations where possible.