

Journal of Finance and Accounting

ISSN Online: 2616-4965



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ISSN: 2616-4965

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How to cite this article: Kariuki N. & Njuguna R. (2024). The Influence of Financial Restructuring on Organizational Performance at Equity Bank Kenya Limited. *Journal of Finance and Accounting*. Vol 8(9) pp. 69-79. <https://doi.org/10.53819/81018102t2443>

Abstract

Financial institutions have continued to face performance challenges, including the collapse or liquidation due to inability to achieve the desired outcomes. This study evaluated the influence of financial restructuring on the organizational performance of the banking industry in Kenya using a case of Equity Bank Kenya Limited at Nairobi Headquarters. The research applied agency theory. A causal research design was adopted. The target population for the study was the 87 supervisory middle management, senior management, and executive staff at Equity Bank Kenya Limited headquarters. Primary data was collected by application of a structured questionnaire. Secondary data was obtained from the financial annual reports of Equity Bank. The validity of the instruments for data was assessed by the supervisor and subject experts. The reliability of this study was determined using the Cronbach alpha analysis conducted from pilot study data. The internal accuracy of data instruments using Cronbach's alpha value. The administration of the questionnaire was done using Google Forms. Data collected was coded and entered into the Statistical Package for Social Sciences to permit statistical analysis. Data analysis applied descriptive statistics including mean, and standard deviation as well as inferential statistics particularly multiple linear regression. The study results revealed that financial restructuring ($p = 0.037$) has a statistically significant influence on organizational performance of Equity Bank Limited. The study recommends that banks prioritize financial restructuring and align it with long-term objectives to enhance organizational performance.

Keywords: Financial Restructuring, Equity Bank, Organizational Performance, Banking Industry.

1. Introduction

Organizations operate in a highly dynamic environment, requiring firms to constantly adapt and refine their strategies to attain their desired performance levels (Ingow & Oluoch, 2020). Various financial institutions worldwide resort to restructuring to re-establish their competitiveness by enhancing their ability to respond to emerging opportunities and manage emerging challenges (Machini et al., 2022). Based on the assertion the banking industry has been characterized by unprecedented environmental turbulence occasioned by emerging realities in the global business environment. Globally, various financial institutions have adopted restructuring before to mitigate the economic crisis (Morrow, 2017). Moreover, Bushe (2019) asserts that restructuring as an industry and market science is at a grassroots stage in Africa as there are limited body of expertise in the region.

The concept of restructuring is increasingly gaining attention in Kenya especially because many banks are facing a financial. In Kenya, commercial banks play a significant role in the financial landscape of the country by virtue of their service The banks in Kenya incur various risks and a failure to mitigate challenges in time has seen occasional systemic crises. Some of the dangers faced by financial institutions include credit risk, liquidity risk, and interest rate risk (CBK, 2020). The competitiveness of the banking industry spans from efforts by the banks to update their business models to fit the dynamics in the industry as well as the efforts of firms to adopt best practices and internal processes which end up notching banking standards even higher (Machini et al., 2022). These activities by banks eventually actualize the firms inert to promptly adjust in adversities and set themselves up for rapid competition with competitors. Kipelian (2019) further augments that firm restructuring is no longer a mere means to corporate strategizing but also an engender to business opportunities.

Financial restructuring involves the introduction of a considerable number of modifications to the capital structure of the firm. Its purpose is to find financial resources so that the firm is able to go beyond the deficit of liquidity and be able to relaunch into the market with the end goal of achieving improved organizational performance (Kwaning et al., 2019). The concept of organizational performance entails value creation in an organization meant to effect positive change in the financial status of the firm through improving the Return on Investment (ROI). The improvement of ROI is a factor of better application of labor, raw materials, and capital as well as proper management of resources (Alchian & Demsetz, 2017). Armstrong (2019) defined organization performance as the behavior and results that are the fundamental interest of every business manager. Just like other firms, performance improvement is the most urgent objective of a commercial bank, such as Equity Bank Limited (Mwangi & Maina, 2021). Hence, financial restructuring is one of the strategic approaches directed towards the realization of this grand objective.

Problem

The financial sector is an integral driver of the economy in any nation. However, the industry's performance in Kenya has been slacking off and experiencing tremendous changes during the COVID-19 pandemic. During the period between 2009 and 2020, at least ten financial institutions either collapsed or liquidated or were placed under receivership by the Deposit Protection Fund Board in Kenya (CBK, 2021). This is indicative that on average, more than one financial institution collapsed annually over the eleven-year period. Moreover, the number of strong-rated

financial institutions decreased from 22 in 2014 to 11 banks in 2020 (CBK, 2021). This analysis is a manifestation of a worrying decline trend in banking industry performance in Kenya. Studies that have investigated the influence of restructuring on firm performance (Purnamawati & Yuniarta, 2021; Nopiyani et al., 2021; Mwangi & Maina, 2021; Duong et al., 2020; Ingow & Oluoch, 2020; Kanayagia, 2020; Idowu & Wekesa, 2019; Kwaning et al., 2019) have focused on capital restructuring, credit restricting and organizational restructuring with little attention to financial restructuring. In addition, these studies were done in contexts whose social and economic contexts that are quite diverse from the one at Equity bank Kenya limited and therefore their findings cannot be generalized. Little is known about the influence of impact financial restructuring that can affect organizational performance at Equity Bank Kenya. It is in this regard that the researcher sought to address the existing gap by tackling the question regarding the influence of financial restructuring on performance at Equity Bank Kenya.

Aim

To evaluate the influence of financial restructuring on organizational performance at Equity Bank Kenya Limited.

Significance

The research will be significant since it will develop statistics that are relevant to various stakeholders including commercial business, management, regulatory bodies, and banking research workers. To the government and policymakers, this research will promote the formulation of policies and procedures that would facilitate the adoption of financial restructuring strategies among commercial banks and other firms in the sector hence instigating the improvement of the sector's performance. The findings of the study will be instrumental to future scholars and researchers. The study cannot only be used as a point of reference but will also help in the identification of research gaps on the related topics of the study.

2. Literature Review

Theoretical Review

The main theory underpinning this study is the agency theory. The theory was developed by Jensen and Meckling (1976). It is a branch of economics which focuses on association between principals (such as owners or shareholders) and agents (such as managers) within an organization. It postulates that conflicts of interests between these two groups are likely to occur; and that there are various mechanisms that can be applied to align the interests of agents with those of the principals, such as performance-based compensation and monitoring. The theory is used to explain how firms can mitigate the problem of "moral hazard" (when an agent's action is in their own self-interest and not the interest of the firm) (Freeman et al., 2004). This theory suggests that financial restructuring promotes the alignment of the interests of managers and shareholders, leading to improved performance by reducing the agency costs associated with conflicts of interest (Jensen & Smith, 2000).

Agency theory has been critiqued for assuming that individuals are solely motivated by self-interest, ignoring the impact of social and ethical considerations on human behavior. Agency theory also disregards the role of contextual factors, including market conditions, legal and regulatory framework, and organizational culture, in shaping the agency relationship. Further, agency theory alludes that contractual solutions such as monitoring mechanisms and performance-based incentives can alienate the agency problems; however, in real-life applications, these solutions may not be feasible (Mario, 2019; International Monetary Fund, 2018). Despite these criticisms, the contribution of agency theory in understanding the conflicts of interest that arise between managers and shareholders in corporate settings, cannot be understated, especially in the context of financial restructuring. The solutions proposed in the theory have been instrumental in mitigating conflict and enhancing organizational performance (Boateng et al., 2015; Bonin et al., 2004). Applied to current research, Agency theory lends to the understanding of how aligning the interests of managers with those of shareholders will lead to the maximization of the goal of the firm. In essence, managers may undertake financial restructuring decisions meant to maximize firm performance.

Empirical Review

Yusuf and Ichsan (2021) investigated the effect of merging the Bank of Syariah Indonesia on the bank's performance. the researcher applied census on all Syaria commercial banks in Indonesia between 2011 and 2020. Quantitative analysis on secondary data. The study found that restructuring had significant positive influence on the financial performance of financial performance of Sharia banks in Indonesia. The study also established the role of Covid-19 pandemic in influencing the merger. While the study focused on study focused on restructuring, it did not elaborate on the role of financial structuring through cost reduction and loan restructuring on organizational performance hence the need to conduct another study.

Mwangi and Rugami (2021) inquired into the commercial banks in Mombasa County to determine the influence of firm reform on performance. The study applied survey design to highlight the complex concepts on restructuring based on the informants. A structured questionnaire was adopted to collect primary data from all banks in the county of Mombasa. Data was analyzed using descriptive statistics. The study showed that banks had implemented several restructuring plans including decentralization of processes, human resource restructuring, departmentization, as well as a few cases of merger and acquisitions. The study also found that, following the reforms, the banks were beginning to witness better performance.

Duong et al. (2020) conducted a study on commercial banks in Vietnam to assess how financial restructuring affects bank performance. The research analyzed data from 28 commercial banks, including audited financial statements from 2008 to 2018. The study utilized an econometric regression model, with Return on Assets (ROA) and Return on Equity (ROE) as indicators of financial performance. Various models, including the pooled ordinary least squares, Generalized Method of Moments, Fixed Effects, and Random Effects models, were applied. The findings indicated that restructuring both owners' equity and accounts payable was crucial. Financial performance improvements were linked to reducing accounts payable, increasing owners' equity, and restructuring bad debts to eliminate non-performing loans. However, the financial restructuring during 2012-2015 and 2016-2018 had no significant impact on financial performance

for those periods. It’s important to note that this study was conducted under conditions specific to Vietnam, and did not focus on financial restructuring through cost reduction or loan restructuring, which may influence organizational performance in different contexts, such as Kenya.

Conceptual Framework

The figure below presents the conceptual framework for this study.



Figure 1: Conceptual Framework

The conceptual framework presents a hypothesized influence of financial restructuring on organizational performance.

3. Methodology

Research Design

The study used a causal research design to examine the cause-effect relationship between financial restructuring and organizational performance. According to Creswell (2013), causal research is suited for situations where researchers aim to determine if changes in an independent variable lead to changes in a dependent variable. This study focused on how financial restructuring influences performance, with financial restructuring as the independent variable and organizational performance as the dependent variable.

Target Population

The target population for this study comprised 87 employees from various management levels at Equity Bank Kenya's headquarters in Nairobi. These included executive-level staff, senior management, middle management, and supervisors. The study's focus on this particular population ensures a comprehensive view of the bank’s restructuring process from those directly involved.

Sample Size and Sampling Design

Given the small size of the target population, a census approach was adopted, which involved surveying all 87 employees. This method was chosen to ensure that the results reflect the views of the entire target group.

Data Sources and Collection Instruments

Both primary and secondary data were used. Primary data was gathered using a structured questionnaire distributed through Google Forms, which included closed-ended questions based on a Likert scale. The questionnaire was divided into three sections: general information about the participants, financial restructuring variable, and organizational performance.

Pilot Test

A pilot study was conducted on 10% of the population to test the accuracy and reliability of the research instruments. The pilot group was selected from different branches to prevent bias. Reliability was assessed using Cronbach’s alpha, and all variables scored above 0.7, indicating that the instruments were reliable.

Data Collection Procedure

The researcher obtained necessary approvals before distributing the questionnaire via Google Forms. A contact person at the bank assisted with questionnaire distribution, ensuring that responses were collected anonymously.

Data Analysis Methods

The data was analyzed using SPSS Version 24, employing both descriptive statistics and multiple linear regression to evaluate relationships between financial restructuring and organizational performance. Regression analysis helped determine the strength and direction of the variables' association.

Ethical Considerations

All ethical guidelines were followed, including obtaining necessary permits and ensuring confidentiality. Data was used only for academic purposes, and all sources were properly cited.

4. Findings

Response Rate and Reliability

The study targeted a sample size of 87 participants. Only 79 of the successfully participated in the study successfully. This translated to 90.8% response rate, as shown in Table 4.1.

Table 1. Response Rate

Particulars	Frequency	Percentage
Number of questionnaires administered	87	100%
Number of questionnaires returned	79	90.8%
Number of questionnaires not returned	8	9.20%
Valid Responses	79	90.8%

The data shows the results of administering 87 questionnaires in a study. All 87 questionnaires were distributed, accounting for 100%. Out of these, 79 were returned, representing a 90.8% response rate, while 8 were not returned, making up 9.2% of the total. The 79 returned questionnaires were valid for analysis, equating to 90.8% of the administered questionnaires. This high response rate suggests good engagement from participants, with a minimal number of unreturned questionnaires. The data provides a solid foundation for analysis, as a significant majority of the questionnaires were successfully completed and returned. For reliability analysis Cronbach's Alpha value financial restructuring 0.81, which indicates that the research tool was reliable.

Demographic Characteristics

The gender distribution of the population shows that males represent 49.40% and females make up 50.60%. Among the 79 respondents, age groups are diverse: 3.8% are under 30, 15.2% are aged 31-35, 26.6% are between 36-40, and the largest group, 29.1%, is aged 41-45. Those aged 46-50 represent 21.5%, while 3.8% are over 50. By the 41-45 age group, 74.7% of respondents are accounted for, and by 46-50, 96.2%. Educational qualifications show that 49.4% hold a Master's degree, 20.3% have a PhD, 12.7% possess a Bachelor's degree, 8.9% have a diploma, and another 8.9% fall under "Other" qualifications. In terms of experience, 19.0% have 8 or more years of experience, while only 6.3% have less than a year, indicating that more than half have significant professional experience. Supervisors make up 49.4% of the sample, middle management 30.4%, senior management 13.9%, and executives 6.3%. Furthermore, 49.4% of respondents have held their positions for 4-7 years, 32.9% for 1-3 years, 12.6% for 8 or more years, and only 5.1% have less than a year in their current roles.

Descriptive Analysis for Inspirational motivation

Descriptive analysis focused on computing the mean and standard deviation (STD) for financial restructuring. The mean and standard deviation for the variable, ‘financial restructuring’, was computed and the results presented, as detailed in Table 2.

Table 2: Descriptive analysis for the variable ‘financial restructuring’.

Statement	Mean	STD
Equity bank allows customers to increase the term of repaying loans to reduce on defaults.	4.1013	0.29689
Equity bank allows customers to reduce monthly loan repayment amounts to reduce on defaults.	4.9241	0.24830
Equity bank reduces loan interest rates for customers to reduce on loan defaults.	4.1013	0.21523
Equity bank writes off loans that are considered as bad debts.	4.9367	0.28444
Equity bank redesigns long-term borrowings on a continuous basis.	3.0380	0.14850
Equity bank restructures short-term borrowings on a continuous basis.	3.8481	0.24126

Statement	Mean	STD
Equity bank is continually looking for sources to provide capital needed for structural improvements	4.8861	0.24022
Equity bank implements cost reductions to make loans more affordable compared to other banks.	4.1519	0.35011
Through loan restructuring and cost reduction, the Bank has increased its profits before tax.	3.9557	0.19612
Through loan restructuring and cost reduction, the Bank has increased its total assets.	3.9620	0.29539
Aggregate mean	4.1905	0.2516

The aggregate mean for the variable is 4.1905 and the standard deviation is 0.2516. The aggregate mean implies that majority of the participants agreed with the statements depicting financial restructuring, which indicates that the bank is actively involved in portfolio restructuring. The low standard deviation (STD = 0.2516) indicates that the participants’ responses were closely clustered around the mean, hence, most of the participants held similar opinions about the current state of financial restructuring at the bank. Similarly, past studies such as Broccardo et al. (2022) and Cascio et al. (2020) revealed commercial banks and other financial institutions execute financial restructuring to enhance performance.

Inferential Analysis

Correlation analysis was used to determine the association between each independent variable and the dependent variable. Financial restructuring shows a high correlation with organizational performance, with $r=0.898$. which is significant at the 0.01 level. This strong positive association suggests that financial restructuring, such as the reorganization of a company’s capital structure plays a critical role in improving organizational outcomes. Current studies affirm that financial restructuring enhances liquidity and solvency, contributing to the financial health and sustainability of firms, which, in turn, boosts overall performance (Broccardo et al., 2022; Cascio et al., 2020).

Regression was conducted to determine the significance of the relationship between the independent and dependent variables. The R Square (Coefficient of Determination) value of 0.888 indicates that approximately 88.8% of the variance in organizational performance is explained by financial restructuring. The constant value ($B = 0.393$) represents the baseline level of organizational performance when the independent variable, financial restructuring, is zero. The p-value for the constant is 0.000, indicating that this baseline level of performance is statistically significant. The coefficient for financial restructuring ($B = 0.153$) suggests that for every unit increase in financial restructuring, organizational performance increases by 0.153 units, holding other factors constant.

Based on the results, it is possible to create a regression model in the form:

$$Y=\beta_0 + \beta_1X_1+\epsilon$$

Fitting the values, the model becomes:

$$Y = 0.393 + 0.153 X_1 + \varepsilon$$

Where Y is the organizational performance and X_1 is the independent variables.

The p-value for financial restructuring is 0.037, which is also less than 0.05, indicating a statistically significant effect. This suggests that financial restructuring, such as changes in the capital structure or debt management, positively influences organizational performance. Recent studies have shown that financial restructuring can improve a company's liquidity and capital efficiency, leading to enhanced overall performance (Broccardo et al., 2022).

5. Conclusions

Financial restructuring has a significant positive influence on organizational performance of Equity Bank Limited. The mean score for financial restructuring was 4.1905, indicating strong agreement among respondents on the positive impact of financial restructuring actions such as loan term adjustments and cost reductions. Correlation analysis showed a very strong positive relationship ($r = 0.898$), signifying that financial restructuring significantly influences organizational performance. The regression analysis generated a p-value of 0.037 ($p < 0.05$), indicating that financial restructuring has a significant positive influence on the performance of Equity Bank Limited. Financial restructuring, while slightly less impactful than organizational restructuring, also plays a crucial role in improving performance. Efficient management of financial resources, such as optimizing debt levels and capital structure, leads to better financial health, enabling banks to sustain growth even in turbulent economic times.

6. Recommendations

Commercial banks should continue to focus on financial restructuring, particularly in managing debt and optimizing their capital structures. By doing so, they can improve liquidity and ensure long-term sustainability, even in periods of financial uncertainty. Cost reduction strategies and loan restructuring should also be emphasized to safeguard the bank's financial stability.

7. Suggestions for Future Research

Future researchers could expand the scope of the study to include multiple banks or financial institutions, allowing for a more comprehensive analysis of how restructuring affects performance across different contexts. A comparative study between different regions or countries could also provide valuable insights into the role of socioeconomic and regulatory environments in shaping the outcomes of restructuring strategies. Additionally, future research could adopt a mixed-methods approach, incorporating both qualitative and quantitative data to provide a more nuanced understanding of the restructuring process. Interviews with key decision-makers involved in restructuring efforts could yield deeper insights into the challenges and successes of implementing these strategies. Finally, future studies should explore the impact of external factors such as market volatility, technological disruption, and regulatory reforms on the success of restructuring initiatives. Understanding how these external forces interact with internal restructuring efforts will provide a more holistic view of the factors influencing organizational performance.

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