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EFFECT OF CORPORATE RESTRUCTURING ON FINANCIAL PERFORMANCE OF SACCOs IN KENYA

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Abstract: **The general objective of this study was to evaluate the effect of corporate restructuring on financial performance of Saccos in Kenya.The study was limited to the following specific objevtives:to find out the effect of capital restructuring on the financial performance of Sacco's n Kenya;to establish how asset restructuring affect the financial performance of Sacco's in Kenya and finally to find out how operational affect the financial performance of Sacco's in Kenya.The target population for this study consisted of all SACCOS in Kiambu County licensed as at December, 2015 by Ministry of Trade, industry and Co-operatives and the Sacco Societies Regulatory Authority (SASRA). A total population of 35 SACCOS was studied. Using descriptive research design, a total of 35 managerial staff members from the 35 SACCOswere targeted by way of completing a structured questionnaire. Primary and secondary data was collected. Secondary data was collected from SACCOS' financial statements and other financial records using document review guide. Data was processed and then analyzed using descriptive statistics and correlation analysis.The study concluded that capital restructuring had a positive but significant effect on financial performance of SACCOS in Kenya.The study further concluded that Asset restructuring had a negative but significant effect on financial performance of SACCOS in Kenya.The study also concluded that asset restructuring had a negative but significant effect on financial performance of SACCOS in Kenya.The study recommends that for SACCOS in Kiambu County to continuously improve financial performance, SACCOS need to continuously restructure their operations by increasing their branches, widening their ATM network and emphasis on agency and mobile banking.The study also recommends that SACCOS in Kiambu County should reduce their increase collection period in order to improve their financial performance.The study finally recommends that for SACCOS in Kiambu County to improve their financial performance, they is need to improve their operations through improved processes, institutional capacity building and institutional innovation, as well as coming up with new products and services to increase their market share and therefore capture a wider customer base. This only explains outreach but also enhances financial inclusion.**

Keywords: **capital restructuring, asset restructuring and operational restructuring.**

1. INTRODUCTION

Restructuring generally refers to the reorganization of the corporate operations to achieve higher levels of the operating efficiency. Pearce and Robinson (2010) viewed restructuring as a stage in strategy implementation where managers attempt to recast their organizational structure, leadership, culture and reward systems may all be changed to ensure cost competitiveness and quality demanded by the unique requirements of its strategies. Restructuring involves the elimination of non-core business and business processes, the consolidation of related operations and business functions and to a great extent, reengineering of existing processes. According to Mintzberg and Quinn (1991), restructuring involves frequently changing organizational management team, shifting strategy, or infusing the organization with new technology that the company may follow up on new acquisitions or business in order to build a critical mass, and selling off unneeded or unconnected parts and hereby reduce the effective acquisition cost.

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Statement of the problem

Restructuring has enabled organizations to globally respond more quickly and effectively to new opportunities and unexpected pressures, thereby re-establishing their competitive advantage. Organization restructuring strategies help an organization to get the most from its workforce when the business significantly changes by developing a plan for corporate restructuring, layoffs and mergers (McKinley, Zhao & Rust, 2000).Ikhide and Alawode (2010) point out organizations must restructure to improve efficiency and sharpen their competitive edge if they hope to prosper in the fiercely competitive industry. For organization to compete and profitably survive in the local industry, they need to evaluate their performance and where possible restructure their organizations to minimize costs and increase efficiency (Asika, 2012).

A number of studies have been conducted on the restructuring .Ayoo (2011) studied effects of corporate restructuring on employee job satisfaction in KCB Nairobi region. Nadwa (2010), focused on the factors that influence the implementation of strategic change at Development Bank of Kenya. Airo (2009) studied impact of restructuring on performance of development financial institutions and Ochira (2009) conducted the study on the influence of restructuring on employee job satisfaction and empowerment.Riany (2012) studied the impact of restructuring on the performance of mobile phone service providers. Oluoch (2007) conducted a survey of the relationship between performance appraisal practices, motivation and job satisfaction of employees of commercials banks in Kenya and Butilia (2006) did a survey of supervision styles and employee job satisfaction in Commercial Banks in Kenya among others.

Most of the above mentioned studies done locally have concentrated on the effects of restructuring on employee satisfaction ignoring the relationship between restructuring and financial performance appraisal. Additionally the past studies have gathered mixed and inconclusive results recommending for further studied to be undertaken. This has given only a partial understanding of the subject of corporate restructuring and financial performance appraisal. It is against this background that this study sought to determine the effect of corporate restructuring on the financial performance of Saccos in Kenya.

Objectives

i. To find out the effect of capital restructuring on the financial performance of Sacco's in Kenya

ii. To establish how asset restructuring affect the financial performance of Sacco's in Kenya

iii. To find out how operational affect the financial performance of Sacco's in Kenya

Pecking Order Theory

Myers & Majluf (1984) noted that, when supporting new investments firms favor internal funds as compared to external funds. If a case arises where the internal funds are not enough for a particular investment opportunity, a firm may seek other alternatives like the external fund. If it does, they will pick among the numerous outside funds in such a way as to ensure that they don't incur any additional costs regarding asymmetric information.In addition, Myers (1984) indicated that safest securities will be given first priority when the necessity of external financing comes up, firms will most likely follow an order so as to achieve this by safest security which will be debt, then possibly convertible debt and then equity comes as a last resort. Myer's proposition was that business follows a hierarchy when it comes to determining the financing sources and internal financing is preferred choice and should external financing be needed, debt would be at the top as compared to equity. This argument was also supported by Pandey (2005).

Agency Theory

Don Goldstein (2010) argues that there is a variety of basically neoclassical theories of the firm, in that they utilize a well-defined production function, and envisage decision makers' maximizing choices leading firms to equilibrium in key variables. In Financial restructuring, Agency theory features greatly, and was widely accepted in the 1980s. The agency theory focuses on the firm as a profit-maximizing one. Separation of ownership and control in the corporation is therefore key.

Cash Management theory

The purpose of cash management is to determine and achieve the appropriate level and structure of cash, and marketable securities, consistent with the nature of the business's operations and objectives (Brigham, 1999). Models on cash balance management have been proposed by (Baumol, 1952; Archer, 1966; Beranek, 1963; Miller & Orr, 1966; Pigou, 1970;

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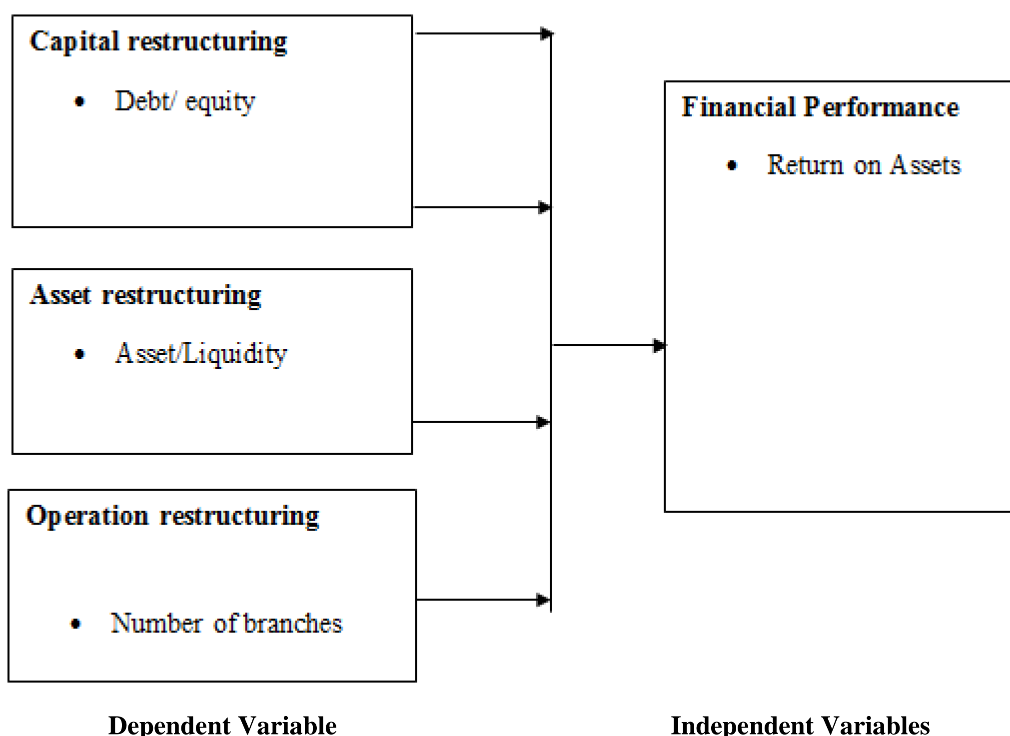
Lockyer, 1973; & Gibbs, 1976) among others. William Baumol (1952), was the first person to provide a formal model of cash management. Erkki (2004), states that this model applied the economic order quantity (EOQ) to cash. Brokerage fees and clerical work form order costs while foregone interest and cash out costs from the costs of holding cash.

Lifecycle Theory

A firm grows and eventually matures while moving through different stages of the corporate lifecycle (Miller & Friesen, 1984). Each of the stages differs from the other in terms of characteristics and firm structure. Lifecycle theory suggests the unique firm lifecycle characteristics of birth, growth, maturity, and decline and how these characteristics affect the decisions a firm makes, especially in situations such as financial distress and the threat of bankruptcy (Koh, Dai, & Chang, 2012).

2. CONCEPTUAL FRAMEWORK



Dependent Variable **Independent Variables**

Research Gaps

Critique of Existing Literature and Research Gaps

Padachi K (2006) researched the effect of corporate restructuring on financial performance. Multi linear regression was utilized to gauge the connection between the proportions of corporate restructuring and performance the examination discoveries set up that financial performance adversely affected profit. However, the critique laments that the study did not optimize on all the variables that are related to the working capital.

Gul et al. (2013) performed an examination of the impact of corporate restructuringon execution of little medium undertakings (SMEs) in Pakistan. The length of the examination was seven years from 2006 to 2012. The information utilized in this examination was taken from Indian Stock Exchange, reliant variable of the examination was Return on Assets (ROA) which was utilized as an intermediary for profitability. However, the critique laments that the study was limited to the Pakistan which is one of the developed country.

Muchiri (2012) performed a study on the association between corporate restructuringand profitability in Kenyan dairy industry with specificity towards the New Kenya Co- operative Creameries Ltd. Her investigation was of period of four years (4) years from 2008 to 2011. However, the critique laments that the study was only limited to the Kenyan dairy industry.

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Mathuva (2010) explored the impact of essential components of corporate restructuring on corporate performance by utilizing a sample of 30 organizations recorded on the Nairobi Stock Exchange (NSE) from 1993 to 2008. Regression model was developed together with spearman and Pearson correlation calculated. In his investigation he found that is a negative connection between corporate restructuringand corporate performance. However, the critique laments that the study was based to the entire corporate performance and it did not narrow to the specific sector

3. METHODOLOGY

The researcher used descriptive research design. The population was all SACCOS in Kiambu County by State department in the Ministry of Trade, Industry and Co-operatives Developmentand the Sacco Societies Regulatory Authority (SASRA).The sampling frame consisted of all licensed SACCOS in Kiambu County as at December, 2015; and has been operating on or before 2015. That is, those SACCOS that have been in operation between 2015 and 2018. This study used census sampling since the population also constitute the sample that is the 35 urban SACCOs. The data that was used was dated from year 2015 January to 2018 December. The study used the annual financial reports of all SACCOs in Kiambu County. This data was authentic since it was secondary data that has been collected by credible agents and published by the Republic of Kenya. The researcher was used both secondary data as well as data survey sheet as the research instrument to gather the relevant information needed related to the study.The Data survey sheet was administered to the respondents through drop and pick method. The researcher contracted two research assistants to collect data. The collected data from the questionnaire was be been given codes, keyed in the computer and eventually edited for completeness. Statistical Package for the Social Sciences (SPSS) and Microsoft Excel was used data analysis

Model

Analysis of data used multiple regressions to test the research questions

$Y=\beta_0+\beta_1X_1+\beta_2X_2+\beta_3X_3+\varepsilon$

Where,

Y= Financial performance

X*1*: Capital restructuring

X*2*: Asset restructuring

X*3*: Operational restructuring

4. REGRESSION RESULTS

Table 4.1: Significance of Independent Variables

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.769	.279		2.759	.002
	Capital restructuring	.389	.123	.407	3.157	.002
	Asset restructuring	-.221	.125	-.213	1.758	.003
	Account Payable	.149	.123	.151	1.210	.002

$Y=0.769+389_{X1}-.221_{X2}-.149_{X3}+\varepsilon$

The results in Table 4.5 show that capital restructuring had a positive but significant effect on financial performance of SACCOS in Kenya.The finding on capital restructuring conflicts with the study by Kwaning (2014) who found that restructuring of government owned banks lead to a decrease in profitability. However, the findings on asset restructuring support those of Anandarajan, Hasan and Lozano-Vivas (2005) who discovered that restructuring assets reduces profitability of commercial banks according to this study.

The regression results also shows that Asset restructuring had a negative but significant effect on financial performance of SACCOS in Kenya.The revelation conflicts with that by Nor *et. al.* (2008) who found that asset restructuring was not found to be justifiable because restructured banks in term of assets ended up being less focused had weak corporate governance, reported poor management debt ratios and poor profitability. However, the study conflict with that by Rose (1994) who found out that asset restructuring increases bank profitability.

The regression results shows that asset restructuring had a negative but significant effect on financial performance of SACCOS in Kenya.The study agree with the findings by Rose (1994) that operational restructuring increases profitability of banks. This revelation also agree with those by Osoro (2014) who found out that there exists a positive effect of operational restructuring on the financial performance of commercial banks in Kenya. Osoro however relied on only 11 commercial banks listed at the Nairobi Securities Exchange (NSE) operating in Kenya for the period of between 2008 and 2013 which was a smaller population.

5. CONCLUSION

The study concluded that capital restructuring had a positive but significant effect on financial performance of SACCOS in Kenya.The study also concluded that Asset restructuring had a negative but significant effect on financial performance of SACCOS in Kenya.The study further concluded that asset restructuring had a negative but significant effect on financial performance of SACCOS in Kenya.The study recommends that for SACCOS in Kiambu County to continuously improve financial performance, SACCOS need to continuously restructure their operations by increasing their branches, widening their ATM network and emphasis on agency and mobile banking.The study also recommends that SACCOS in Kiambu County should reduce their increase collection period in order to improve their financial performance.The study finally recommends that for SACCOS in Kiambu County to improve their financial performance, they is need to improve their operations through improved processes, institutional capacity building and institutional innovation, as well as coming up with new products and services to increase their market share and therefore capture a wider customer base. This only explains outreach but also enhances financial inclusion.

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