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The Strategic JOURNAL of Business & Change MANAGEMENT
ISSN: 2312-9492 www.strategicjournals.com
Vol. 9, Iss. 4, pp 42 – 54. October 5, 2022. www.strategicjournals.com, ©Strategic Journals

INFLUENCE OF CORPORATE RESTRUCTURING ON THE PERFORMANCE OF TIER THREE BANKS IN KENYA

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Accepted: September 27, 2022

ABSTRACT

This study established the influence of corporate restructuring on organizational performance of Tier three banks in Kenya. A descriptive research design was adopted where a census survey of all banks was conducted using a self-administered structured questionnaire to collect data. The respondent from each bank were purposively selected. Data collected was analyzed using descriptive statistics with the aid of statistical package for social sciences (SPSS) version 23. There was a statistical significance relationship between corporate restructuring, and performance. The results showed that corporate restructuring significantly influence performance. The null hypothesis was therefore rejected. It was concluded that corporate restructuring influences performance of Tier 3 banks in Kenya. Based on these findings, it was recommended that banks perform continuous review of corporate restructuring strategies to include other external and internal factors that may interfere with financial products in order to reassure their market share and satisfactory reevaluate and update their technology to produce new innovations or products that may increase their customer share, and tailor their organizations goals in a way that suits their leadership styles.

Key Words: *Corporate Restructuring, Banks in Kenya*

CITATION: Machini, K. W., Senaji, T. A., & Mbithi, M. (2022). Influence of corporate restructuring on the performance of tier three banks in Kenya. *The Strategic Journal of Business & Change Management,* 9 (4), 42 - 54.

INTRODUCTION

The global economy is quickly changing, and organizations must quickly find operating strategies that elevate their competencies from old ones to adapt to new ones or be eroded by the environmental changes (Atiyah, 2020). The difference is essential in every organization not just because it dictates its survival but also because it facilitates an organization's development. Traditional theories examined organizations as closed systems, but humanistic and holistic idealists have since established organizations as open systems influenced by external factors (Barkanian, 2020).

In Kenya, Njagi and Kombo (2014) cited a study that found that 57% of firms were unsuccessful at executing strategic initiatives in China. As per the white paper on the strategic implementation of Chinese corporations, strategic implementation is vital and essential in managing any obstacle faced by companies in different sectors. Change strategy management is inevitable for organizations that seek to be sustainable and have a competitive edge over their competitors.

According to Wachiuri (2017), organization performance is the actual outcome of a company deliberated by comparing the output utilized in producing goods and services. Organization performance metrics for how successful an act has been done or the outcome of a task undertaken and completed, guided by the organization's objectives. An organization's performance is founded on how it effectively and efficiently meets its goals and objectives.

Fieldler (2015) points out that the existence of an organization is based on its seeking to perform and grow. Burnes (2014) argues that three areas are specific to organization performance. These are financial performance, product market performance, and shareholder return. Davenport and Harris (2017) contend that to determine an organization's performance level, the organization must look at its overall performance. According to Joiner (2009), another way of measuring performance is by looking at the development of employees, the quality of products and services it offers, satisfaction of employees, their commitment and productivity and loyalty to the organization.

Various acts of law govern commercial banks in Kenya. One of them is the Banking Act (Cap 488). The banking act defines a bank as a company that carries or proposes to carry on “banking business” other than the central bank. The banking business is further elaborated and defined as accepting from members of the public deposits payable on demand or at the expiry of a fixed period, payment and acceptance of cheques, and employing the money deposited by lending or investing. In Kenya, the ranking of banks is; Tier I, Tier II, and Tier III. In the banking sector, Tier three commercial banks are among the few whose assets happen to be below 10 billion. Considering their performance may not be compared to other banks with more than 10 billion assets. Tier one banks are now receiving bulk deposits, while Tier two and Three are struggling and receiving support from the central bank of Kenya. Commercial banks need to adapt to relevant strategies to survive the aforementioned environmental hostilities. As cited by Cytonn Investments (CI, 2016) local Tier three banks face pressure to merge or sell to stay profitable. The Tier three banks: ABC Bank, Consolidated and Development Bank, Consolidated Bank, Credit Bank, Development Bank, Equatorial Commercial Bank, Fidelity Bank, First Community Bank, Giro Bank, Guardian Bank, Gulf Africa, Habib A.G Zurich Bank, Habib Bank, Jamii Bora Bank, Middle East Bank, M Oriental Commercial Bank, Paramount Universal, Paramount Universal Bank, Sidian Bank, Trans-National Bank, UBA Bank & Victoria Bank.,(CBK,2019).

Statement of the problem

An organization's growth, survival, and performance majorly depend on its ability to change the dynamic environment strategically. DeYoung, et al (2017) attribute these changes to the constant change in technology, information systems, marketplace, global economy, politics, social environment, and workforce demographics which have continued to shift the processes, products, and services that an organization produces. Organizations that are first to adapt to the changing environment have the upper hand in realizing growth in performance. And those who fail to adapt to the dynamic climate may lag in terms of competitive advantage and might fold or lose their businesses. In Kenya, organizations have been practicing strategic change management, yet there is very little knowledge on its role in the performance of Tier 3 commercial banks. The country has come up with various regulatory authorities, such as; the Central Bank of Kenya(CBK), Capital Markets Authority (CMA), and Central Depository Settlement Corporation (CDSC), for soundness financial well-being. However, the banking sector has been experiencing a downward trend (Muritthi & Louw, 2017). Tier three banks have been positing mixed waning performance; this has seen some banks placed under receivership (Cytonn, 2018). The study sought to determine the influence of; corporate restructuring on the performance of tier three banks in Kenya.

Studies have been done concerning the study area; Atiya (2020) investigated the effect of the dimensions of strategic change on organizational performance levels. The focus was the plastic and carpet industry in Iraq. Ayanda and Oyinlola (2014) studied the relationship between strategic management and firms' performance in the Nigerian banking industry. The study focused on strategic management in the banking sector in Nigeria. However, this study focuses on the effect of strategic change management practices on the performance of Tier three banks in Kenya.

Kamau (2018) investigated the effects of strategic change management practices on performance in Kenya's telecommunications industry. The focus was the telecommunication industry; however, the study's focus is Tier three banks in Kenya. Atieno and Kyongo (2017) examined the effects of strategic change on organizational performance. The study focused on Kenya's wildlife services. Wachira and Anyieni (2015) examined the effect of change management practices on the performance of the Teachers Service Commission. Okenda, et al (2017) examined the effects of change on organization management: A case of Ministry of environment, water, and natural resources.

All these studies focused on other sectors of the economy, such as the plastic and carpet industry, telecommunication, teacher's service commission, Kenya wildlife services, and the Ministry of environment, water, and natural resources. However, no study focused on the effect of strategic change management practices on the performance of tier three banks in Kenya. A knowledge gap exists that the study sought to bridge by conducting the study effect of corporate restructuring on the performance of tier three banks in Kenya. Therefore the study sought to answer the question, what is the impact of corporate restructuring on the performance of Tier three banks in Kenya.

Objective of the Study

The objective of the study was to determine the effect of corporate restructuring on the performance of tier three banks in Kenya. The study answered the hypothesis;

- **H_{01}**: Corporate restructuring does not significantly influences performance of tier three banks in Kenya

LITERATURE REVIEW

Theoretical Framework

Resource based theory

The resource-based theory, also recognized as the resource-based view, primarily surfaced from Barney (1991) through other scholars who have since revised it. The purpose of the idea was development is to understand best how organizations achieve sustainable practical edge. The theory conditions that firms with unique deliberate possessions that competitors cannot duplicate have competitive advantages over those who don't have them. The primary focus of the resource-based approach is to utilize the benefit of a strategic resource that is exceptional, treasured, not easy to mimic, and a resource that is unreplaceable for the betterment of the organization (Barney, 2013).

According to Makina and Oundo (2020), criticism research base theory is four. The first notes that a competitive edge is realizable if the resources align with the business environment. The business environment includes taxes through government interventions, political situations, and economic factors. If an organization fails to consider these factors and link them with its resources, it may be reduced to oblivion (Makina et al., 2020).

Another criticism is that an organization relying on its resource to have a competitive edge may be in trouble when the resources are depleted and our competitors develop innovations. It may lead to an organization being knocked out of business. Further, an organization that depends on its resources and forgets its objective of improving profitability or performance suffers other turbulences leading to the death of the company (Sabourin, 2020). For instance, factors such as leadership and culture are essential in organization development.

The last criticism is about resource-based theory forgetting other changes in the world that may affect the entire business environment. Issues such as COVID 19 pandemic outbreak became a surprise to many organizations that were caught by surprise. For organizations to have a competitive edge, they must develop competitive, sustainable strategies that enhance organization performance (Adnan, et al, 2018).

The theory is relevant for this study because it explains the importance of identifying the organization's resources before designing and implementing change. The help includes tangible and non-tangible resources. Also, it elaborates that strategic management, is the necessity foundation and driver for a company's aggressiveness in terms of having an edge and consistent revenue generation or outcome are mainly linked with the resources available and capacity, to produce goods and services that are unique to the company that expensive to imitate.

Therefore, the theory was essential for this study because it explained how an organization requires corporate restructuring. Competitive edge is every organization's objective over other competitors in the industry. Understanding how resources are managed strategically and efficiently is crucial to realizing profitability or performance (Ongeti & Machuki, 2018).

Empirical Review

Corporate restructuring and organization performance

Restructuring is a business concept or strategy widely used in developed and developing countries irrespective of the organization's size. The aspect of restructuring is includes changing the organization of a business (Bashar, et al, 2019). Organizations undertake restructuring to reorganize their legal, ownership, operations, and other forms of structures to make more profits and position the organization to meet better its present needs (Barker & Schmitt, 2017).

According to Okoye et al. (2020), corporate restructuring is a business plan that identifies three levels of reorganizing: the economic, sector, and enterprise levels. Therefore, an organization that has been effectively reorganized is learner, considered efficient, more prearranged, and focuses on its core purpose, with adjusted strategy and sound monetary scheme. Organizations are pursuing restructuring as a long-term process in pursuit of a turnaround of business prospects. Restructuring is no longer viewed as a business option but as a necessary growth and survival tactic.

In Nigeria, using a quantitative methodology and structured questionnaires, Obi, et al (2021) examined the effect of corporate restructuring on employee Morale; Evidence from Airtel Nigeria Limited. The result revealed company reorganizing reduces wastage, increases efficiency, and improves

The Strategic Journal of Business & Change Management. ISSN 2312-9492 (Online) 2414-8970 (Print). www.strategicjournals.com

return on investment, thus enhancing organizational performance. Reorganizing improves the staff's morale, efficiency, and promptness, which translates to organizational performance.

In exploring corporate restructuring in large and small financial institution .Okoye, et al (2020) found after restructuring, large banks' profitability is lower than small banks. The results links increased return on investment to corporate restructuring. The restricting include improved customer satisfaction, changes in the portfolio, and employee satisfaction. It depicts that it may take some time for the effectiveness to be felt in large banks as compared with small ones due to their operations and the risks levels involved .

Eby and Buch (2018) argue that there is proof that corporate restructuring has benefits beyond the lower cost of operation and enhancing strategy formulation and implementation. According to Kwaning, Churchill, and Opoku (2014), debt restructuring, which is a form of financial restructuring, allows the organization to cut down and renegotiate its persistent debt to improve or restore its liquidity, rehabilitating it that the organization's operations may continue.

Restructuring thus enables the organization to identify a variety of investment opportunities that can stir it to a path of profitability and growth. Through restructuring, organizations throughout the globe have quickly responded to emerging opportunities and changing environments, thereby acquiring a competitive advantage.

From the local perspective, Ingow and Opuodho (2019) paper employed capital restructuring, asset restructuring, and operational restructuring as measures for performance. The result revealed that capital restructuring is linked to organizational performance. However, other factors, assets, and operational restructuring did not influence organizational performance. From another perspective, company reorganization is about strategizing a portfolio such as letting go of assets it doesn't need or in excess and acquiring assets it prefers; financial restructuring. Financial restructuring aspect's intention is to improve areas that are not performing and increase on the areas that are performing effectively within the company, do away with wastage and reduce on cost.

Organization Performance

According to Wachiuri (2017) organization performance is the actual outcome of an organization measured against the output utilized in the production of goods and services. Organization performance refers to the metrics of measuring, how successful an act has been done or the outcome of a task undertaken and completed, guided by the objectives of the organization. An organizations performance is founded on the basis by which it effectively and efficiently meets its goals and objectives.

Fieldler (2015) points out that the existence of an organization is based on it seeking to perform and grow. Burnes (2014) argues that three areas are specific to organization performance. These are: financial performance, product market performance and shareholders return. Davenport and Harris (2017) contend that to determine the level of performance of an organization, the organization has to look at its overall performance. According to Joiner (2009) another way of measuring performance is by looking at the development of employees, the quality of products and services it offers, satisfaction of employees, their commitment and productivity and their loyalty to the organization.

There are many strategies that can be used to measure organization performance. In regard to the study phenomena, performance can be measured by non-financial and financial indicators. Non-financial indicators include, corporate restructuring, adoption of technology, leadership and reward system, (Muhammad, et al, 2019).The financial indicators on the other hand include, return on assets, return on investment and sales increase. In addition, cumulative abnormal returns, market to book ratios and excess value can be used to measure organization performance, (Richter, et al 2017).

Armstrong (2015) found that performance is a continuous and ongoing process where the managers and the other employees are involved. They take a role of partners in a system created to empower them accomplish the required outcomes. The best ways to measure or the metrics that can be used to assess if the performance has been realized, is utilizing the application of performance management systems, balance scorecard, business process reengineering, total quality management and benchmarking performance measurement, (Armstrong, 2015).Benchmarking performance measurement is about checking how effective and efficient the tasks have been undertaken or how has the system been doing.

Corporate Restructuring
- Financial restructuring
- Portfolio restructuring
- Organizational restructuring

→

Performance
- Profitability
- Increased number of clients
- Customer satisfaction
- Growth

Independent Variable **Dependent Variable**

Figure 1: Conceptual Framework

Source: Researcher (2022)

METHODOLOGY

This study adopted a descriptive research design. The methodology was selected since it genuinely explains the existence of events, making it proficient for simplifying truths. Target population was the twelve respondents in 21 tier three banks making it 252. The study targeted the Chief Executive Officer (CEO), departmental heads (Finance, Human Resource, Risk & Compliance, Credit Advance, Internal Audit, Central, Operations, Information Technology, Administration, Clearing, Service Delivery, Treasury/ Foreign Exchange). Purposive sampling method was selected for the study. A select sample of 252 people was adopted. It was drawn from 12 respondents (who were section heads) purposively selected from the 21 tier three banks in Kenya. The study used a set of standardized self-administered questionnaires. The collected data was physically analyzed, cleaned, coded and entered into a statistical software (Statistics Package for the Social Science – SPSS). Quantitative data was collected and there after cleaned in for the purpose of verifying unfinished, incorrect and or illogical data. Qualitative data was analyzed using descriptive statistics.

RESULTS AND DISCUSSION

Corporate restructuring

Corporate restructuring is a business concept or strategy widely used in developed and developing countries irrespective of the organization's size. Corporate restructuring is changing the organization's business process (Bashar, et al, 2019). Corporate restructuring enables the organization to identify various investment opportunities that can stir it to a path of profitability and growth. The study strived to find out the influence of corporate restructuring on the performance of Tier three banks. The findings were presented in table 1;

Table 1: Corporate restructuring

Item	N	Mean	Std. Deviation
Has the bank implemented changes in the past 1-5	210	3.8905	1.01303
What changes has the bank undertaken	210	2.1048	.82918
How satisfactory was the extent of restructuring	210	4.4952	.85419
How would you consider the change in the market share of the organization after the restructuring process	210	4.2571	.69899
How would you describe the level of competition after the restructuring efforts	210	4.3476	.89556
Grand Mean	210	3.82264	.085819

Source: Researcher (2022)

The respondents were asked to indicate if the bank implemented changes in the past 1-5; the result shows (M= 3.89, SD= 1.01), meaning the respondents agreed various banks implemented changes. In addition, the respondents were required to rate what changes the bank had done; the results show (M =2.12, SD = 0.829), implying the respondents were affirmative that the organization undertook organizational changes. The study also asked how satisfactory was the extent of restructuring; the result shows (M= 4.49, SD = 0.85), meaning the respondents were satisfied with the statement. Further, the study asked how you would consider the change in the organization's market share after the restructuring process; the results indicated (M = 4.25, SD = 0.69) the findings imply the market share has increased. In addition, the study asked how you would describe the level of competition after the restructuring efforts; the results show (M = 4.34, SD = 0.89) this means the competition has increased. In summary, findings indicate that the banks have done corporate restructuring in their institutions. It is shown by (M = 3.822, SD= 0.085), implying the respondents were affirmative.

The grand mean indicates that corporate restructuring affects organization performance. The end result conforms to Okoye et al. (2020), who noted that after restructuring, return on investment and market share increased. Large banks realized an increase in profits as compared to small banks. The corporate restructuring included customer satisfaction, changes in the portfolio, and employee satisfaction. It also includes debt restructuring, which a form of financing is restructuring. It allows an organization to cut down and renegotiate its persistent debt to improve or restore its liquidity, rehabilitating it so that its operations may continue (Kwaning et al., 2014).

The findings also correspond to Ingow and Opuodho (2019), who confirm that capital restructuring is linked to organizational competitive advantage. Restructuring in this sense involves asset and operational restructuring. Mwende et al. (2020) affirm that a well-planned form of corporate restructuring has a positive but modest effect on performance. The focus being financial restructurings to improve market share and economic performance.

Organization Performance

Organization performance is the outcome of accomplishment measured against the output utilized in producing goods and services (Wachiuri, 2017). Organization performance refers to measuring how successful an act has been done or the outcome of a task undertaken and completed, guided by the organization's objectives. An organization's performance is founded on how it effectively and efficiently meets its goals and objectives. The responses to specific organization performance measures were presented in Table 2;

Table 2: Organization Performance

Item	N	Mean	Std. Deviation
Do you think the bank's profitability has improved	210	3.9476	1.03161
How can you rate the bank's customer increase rate	210	4.1048	.60181
How can you rate the banks customers in terms of satisfaction	210	4.1095	.53794
Rate the extent the banks are witnessing growth	210	4.4238	.59214
Rate the extent the bank has posted improved performance	210	4.1810	.63819
Average	210	4.15334	.68034

Source: Researcher (2022)

The respondents were required to indicate if the bank's profitability had improved. The results show that (M= 3.94, SD=1.03); this implies that the respondents agreed that banks had experienced improved profits. Also, the study inquired if the respondents were satisfied with the bank's customer growth; the findings show (M = 4.10, SD = 0.60), it implies that the respondents, to a great extent, are satisfied with the bank's customer growth. Further, the respondents were required to rate the bank's customer satisfaction; the results were (M =4.12, SD = 0.53); this implied the respondents indicated the customers were satisfied. In addition, the respondents were asked to rate the extent the bank has witnessed growth, and the findings indicate (M=4.42, SD=0.59), implying that the banks have witnessed growth to a great extent. Lastly, the study inquired if the banks posted improved performance, and the results were (M = 4.18, SD = 0.63); the findings imply the respondents, to a great extent, are satisfied the banks posted improved performance.

The grand mean indicates that the performance has improved despite the banks experiencing other challenges. The findings agreed with Harris (2017), who contends that customer satisfaction, improved returns, and growth determines the comprehensive accomplishment of a company. Performance looks at the development of employees, the quality of products and services it offers, satisfaction of employees, their commitment and productivity, and their loyalty to the organization.

Employing management quality management and completing tasks on time enhances organizational performance. The management ensures a good relationship with subordinates, motivating the staff and enabling job satisfaction. It enhances organization performance in production and service delivery, leading to customer satisfaction and business growth (Rasul, Rogger &Williams, 2021).

The findings agree with Matui (2017), who asserts that employee productivity enhances organizational performance in the banking sector. Employee productivity, in this case, involves training programs that increase skills and organizational climate, which reduces cases of absenteeism promoting participation and commitment to the organization's service delivery.

Cross tabulation Chi-square

The study conducted an inferential analysis using cross-tabulation and chi-square to show the association between the independent and dependent variables, guided by the study objectives.

Corporate restructuring and Performance

Across tabulation analysis was conducted to show the degree of association between corporate restructuring and performance, the findings were presented in Table 3;

Table 3: Corporate restructuring and performance

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	58.068[a]	16	.000
Likelihood Ratio	35.999	16	.003
Linear-by-Linear Association	17.901	1	.000
N of Valid Cases	210		

a. 18 cells (72.0%) have expected count less than 5. The minimum expected count is .03.

The findings show (χ^2 = 58.06, df =16, P < 0.05), this means corporate restructuring explains 58.06% of the variation in performance of tier three banks and leaves 72.49. In testing the null hypothesis and alternative hypothesis; the conclusion is that the null hypothesis is rejected and the alternative hypothesis is accepted as follows;

H_0: Corporate restructuring has a significant effect on the performance of tier three banks in Kenya

The findings agreed with Wanjiru and Maina (2019), who affirm that corporates have a strong relationship with organization performance. For improved performance to be experienced by banks, banks must restructure their business to include other external and internal factors that are a hindrance.

Hypothesis Testing

The study sought to determine the influence of Corporate restructuring on the performance of tier three banks in Kenya. Findings from the paper showed that there was a statistically significant relationship between corporate restructuring and performance; meaning we rejected the null hypothesis and accepted the alternative hypothesis as follows;

H_0: *Corporate restructuring has a significant influence on the performance of tier three banks in Kenya*

The findings agree with Wanjiru and Maina (2019), who affirm that corporate restructuring has a strong relationship with organization performance.

CONCLUSION AND RECOMMENDATIONS

The study objective was to establish the influence of Corporate restructuring on the performance of tier three banks in Kenya. The respondents were required to indicate if the banks have implemented changes in the past 1-5 years. The findings revealed that banks had implemented changes. It was informed by respondents, who were affirmative implementation was done by various banks. In addition, inquired the type of change the bank undertook, the study found the banks have undertaken organizational change. Also, the study required the respondents to indicate their satisfaction with restructuring. The study found the respondents were satisfied with the extent of restructuring in tier three banks. Further, the study required the respondents to indicate if the organization's market share had changed after restructuring. The findings revealed a market share increase in the organization after restructuring. In addition, the respondents were required to describe the level of competition after restructuring. The findings revealed the bank's competition level increased after the restructuring efforts. In summary, the findings indicate that the banks have done corporate restructuring in their institutions. The findings correspond to Ingow and Opuodho (2019), who confirm that capital restructuring is linked to organizational competitive advantage. Restructuring in this sense involves asset and operational restructuring. Mwende et al. (2020) affirm that a well-planned form of corporate restructuring has a positive but modest effect on performance. The focus being financial restructurings to improve market share and economic performance

A cross-tabulation was conducted to determine the relationship between corporate restructuring on performance. The findings revealed a statistical relationship between corporate restructuring and performance; this infers that we reject the null

The Strategic Journal of Business & Change Management. **ISSN** 2312-9492 (Online) 2414-8970 (Print). www.strategicjournals.com

hypothesis and accept the alternative hypothesis. In addition, the inferential analysis revealed a statistical significance between corporate restructuring on performance. We infer that corporate restructuring strongly influences the organizational performance of tier three banks in Kenya. The study rejected the null hypothesis and accepted the alternative hypothesis. The findings agree with Wanjiru and Maina (2019), who affirm that corporate restructuring has a strong relationship with organizational performance.

It was concluded that Tier three banks have undertaken corporate restructuring. Furthermore, there was a market share increase in the organizations after the restructuring process. The bank's competition level increased after the restructuring efforts. Corporate restructuring significantly influenced the performance of Tier three banks. The conclusion agrees with Wanjiru and Maina (2019), who affirms that corporate restructuring has a strong relationship with organizational performance.

The study recommended that organizations should continuously review their corporate restructuring strategies to include other external and internal factors that may interfere with, their financial products, so as to reaffirm their market share. In addition the paper recommends the organizations should reevaluate and update their current technology to produce new innovations or products that may increase their customer share, expand their market share and have a sustainable competitive edge.

Suggestion for Further Studies

The study focused on the effects of corporate restructuring on the performance of tier 3 banks in Kenya. The study suggested that similar studies should be conducted to other sectors of the economy such as manufacturing industries. Further studies should be carried on performance of banks and non-financial institutions within East Africa region. And also further studies should be carried on performance of tier three banks using other variables such as operation environment, government regulations and economic conditions. The paper used primary data to measure the outcome of the banks, it suggest that time series secondary data should be used for more analysis on the outcome of the banks and the effectiveness of the restructuring.

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