



**EFFECTS OF STRATEGIC CHANGE MANAGEMENT PRACTICES ON THE
PERFORMANCE OF CO-OPERATIVE BANK OF KENYA**

^{1*} **Magdalyne Akello**

Jomo Kenyatta University of Agriculture and Technology
akello.magdalne@gmail.com

^{2**} **Dr. Wallace Atambo**

Jomo Kenyatta University of Agriculture and Technology
atambowa@yahoo.com

Successful organizations recognize the importance of strategy as a tool in management and realize that their survival is dependent on a how well they adopt new strategies or enhance existing strategies in an attempt to respond to changes brought about by the environment. This study sought to examine the effects of strategic change management practices on the performance of Co-operative bank of Kenya. The study was guided by three specific objectives, namely; organizational restructuring, cost benefit optimization and business process reengineering. The findings of this study were that aspects of organization restructuring affect performance of organizations with those in agreement being the majority as indicated by operational cost aspect with 89.3% of the respondents, size of the work force aspect with 69.9%, management style with 62.1%, and organization structure with 53.4%. Additionally, as shown by 69.9% of the respondents, cost benefit optimization affects performance of Cooperative Bank. Finally, from the findings on the impact of Business Process Reengineering (BPR) on the performance of Cooperative Bank, the study found that banking institution has made major improvement on its process and has a system that is open to change in its methods of operation in order to improve its performance.

Keywords: Strategic Change Management practices, Performance, Co-operative Bank of Kenya

I. Introduction

In Kenya the banking industry is governed by three main acts of parliament; Companies Act, Banking Act and the Central Bank of Kenya Act besides Regulations and Prudential guidelines issued by the Central Bank of Kenya (CBK). The CBK, which is under the Ministry of Finance and Treasury, is mandated with the task of formulating and implementing monetary policies and fostering the liquidity, solvency and proper functioning of the financial system. The Kenyan financial sector is dominated by commercial banks. Any failure in such a sector has an immense implication on the economic growth of the country. This therefore prompts the need to take measures that are precautionary and mitigate in nature to ensure survival and profitability of these banks. Despite the overall good financial performance of many banks, others still declare loss or reduced profitability or remain stagnant (Oloo, 2011).

Cooperative bank of Kenya is a commercial bank licensed by the Central bank of Kenya to offer financial services. The bank was established in 1965 as a cooperative society with the banking license being granted in 1968. 65% of the shares is owned by cooperative societies in Kenya. The bank serves a large clientele base, that is, individuals, small and medium enterprises, corporations and cooperative societies. The bank opened its first subsidiary in 1977, Cooperative finance limited. The institution became a fully-fledged commercial bank in 1989. In 2008 the bank listed on the Nairobi securities exchange. 65% of the shareholding is by co-op holdings co-op society, which is made up of cooperative societies in Kenya. It is the 3rd largest bank by asset size of Kshs. 325 billion and has a unique wholesale banking model to 15000 + cooperative societies.

As of June 2015, Co-operative bank had a customer base of 5.4 million and a branch network of 143 branches as of September 2015, the banks total assets was valued at kshs.332.9 billion. To sustain and put the bank on a new trajectory for growth, the bank in 2014 embarked on a transformation journey dubbed the soaring eagle transformation agenda. as of 30th September 2015; Cooperative bank posted a 12.16 billion profit before tax, an impressive 33% rise, which was the highest growth rate in profitability among the tier 1 banks in Kenya. This growth has been seen as affirmation to the successful implementation of the strategic changes taking place through the transformation agenda. The transformation agenda was rolled out in different phases or waves with the last wave expected to be through by June 2016.

Some of the changes that have been implemented include innovative customer delivery platforms through use of multichannel strategy i.e., 143 branches, 8765 coop kwa jirani banking agents and over 567 ATMS; the versatile M-coop cash mobile banking platform boasting of over 2.5 million active customers. The main goal of change management is to increase productivity, cost rationalization, improve efficiency and effectiveness, increase sales and enhance the value of stakeholders

II. Objectives of the Study

The main objective of this study was to examine the effects of strategic change management practices on the performance of Co-operative bank of Kenya. The specific objectives were to;

- i. Establish the effect of restructuring as a practice on the performance of Cooperative bank of Kenya.
- ii. Determine the effect of cost benefit optimization on the performance of Co-operative bank of Kenya.
- iii. Evaluate the impact of business process reengineering on the performance of Cooperative bank of Kenya

III. Research Methodology

The study relied on primary data which was obtained through a structured questionnaire. The study adopted a case study research design involving both qualitative and quantitative approaches. The study sample size was 120 respondents selected by census sampling technique. Data collected was analyzed through content analysis which is the best suited method as it makes inferences by systematically and objectively identifying unique characteristics of messages and using the same approach to relate trends.

IV. Results and discussion of findings

The effect of restructuring as a practice on the performance of Cooperative Bank of Kenya

This study was set to find out the effect of restructuring as a practice on the performance of Cooperative Bank of Kenya. To have a deeper understanding of the effect of restructuring as a practice on the performance of Cooperative Bank, the employees were asked to indicate their extent of agreement regarding the various statements on aspects of organization restructuring. The table below summarizes their response.

Table 1: Distribution of aspects of organization restructuring

	To a greater extent		To some extent		Not at all		Not sure	
	(F)	(%)	(F)	(%)	(F)	(%)	(F)	(%)
Operational cost	92	89.3	11	10.7	-	-	-	-
Size of the work force	72	69.9	26	25.3	2	1.9	3	2.9
Management style	64	62.1	29	28.2	2	1.9	8	7.8
Organization structure	55	53.4	36	35.0	4	3.8	8	7.8

From the above table it is clear that an overwhelming majority (89.3%) indicated that operational cost aspect affect organization performance at Cooperative Bank to a greater extent. This was further supported by the rest of the respondents who indicated that it affect organization performance to some extent.

Majority of the employees (69. 9%) indicate that size of the work force aspect affect organization performance at Cooperative Bank to a greater extent. Yet, slightly more than a quarter of them (25.3%) stated that the size of the work force aspect affect organization performance at Cooperative Bank to some extent.

In regards to the aspect of management style, majority of the respondents (62.1%) stated that it affects the organization performance at Cooperative Bank to a greater extent while 28.2% of them indicated that it affects the organization performance at Cooperative Bank to some extent. However, 7.8% of the respondents were not sure with the latter question.

Slightly more than a half of the respondents (53.4%) stated that the aspect of organization structure affects the organization performance at Cooperative Bank to a greater extent. On the other hand, slightly more than a third of them (35%) stated that the size of the organization structure aspect affect organization performance at Cooperative Bank to some extent.

The respondents were further asked to point out which do they consider the main drivers for restructuring. This was categorized into new company strategy, change in government policy, public pressure, budgetary cuts and competition. The table below summarizes their response.

Table 2: Main drivers of restructuring

Main drivers	Frequency (F)	Percentage (%)
New company strategy	89	86.4
Change in government policy	53	51.5
Public pressure	72	69.9
Competition	91	88.3
Budgetary cuts	69	67.0

From the findings on the main drivers for restructuring, the study revealed that these were competition as shown by 88.3% , new company strategy as shown by 86.4% , public pressure as shown by 69.9% , budgetary cuts as shown by 67.0% and change in government policy as shown by 51.1% .

The respondents were then asked to indicate Yes or No if they receive sufficient information about the future status/directions of their department/work group following the restructure. They were further expected to qualify their answer.

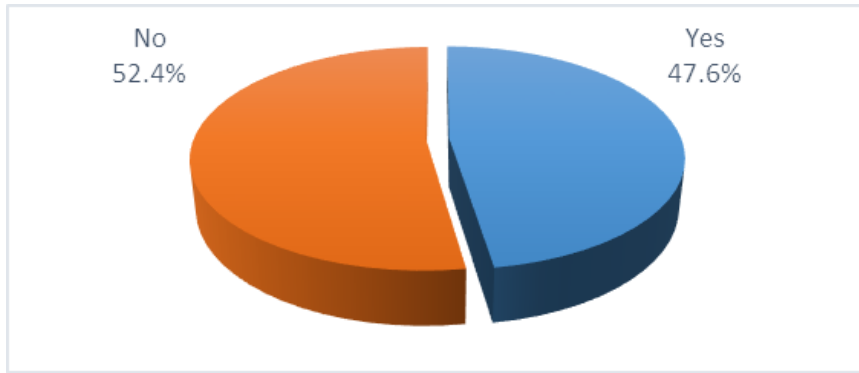


Figure 1: Distribution of whether respondents receive sufficient information about the future status/directions

It is evident from the figure above that slightly more than a half of the respondents (52.4%) affirmed that they don't receive sufficient information about the future status/directions of their department/work group following the restructure, although the rest (47.6% confirmed they do receive sufficient information about the future status/directions of their department/work group following the restructure. Given that in most cases staff were not aware that their position would change until completion of the consultation process, this might indicate that staff who found their roles untouched on reflection believed that more information was provided than actually was, or that because they were "safe" found the need for such detailed information and consultation unnecessary.

Having the knowledge that slightly more than a half of the respondents (52.4%) affirmed that they don't receive sufficient information about the future status/directions of their department/work group following the restructure, the respondents were further asked to indicate how would they rate their level of commitment to the organization prior to restructuring?

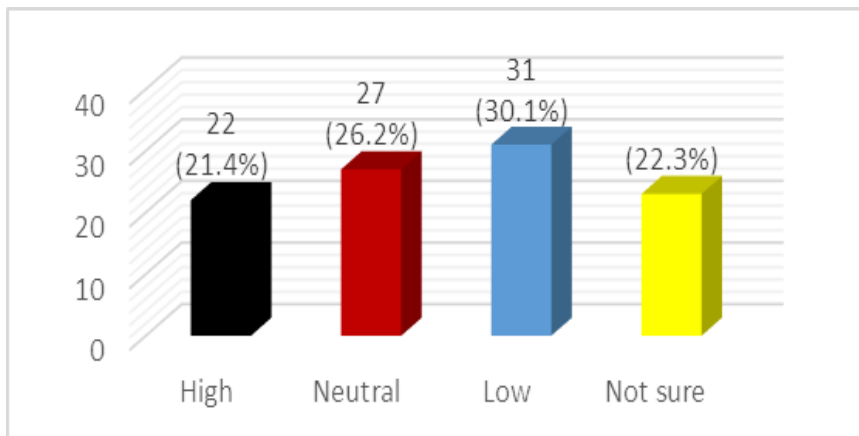


Figure 2: Rate of level of commitment to the organization prior to restructuring

Almost a third of the respondents (30.1%) rated their level of commitment to the organization prior to restructuring as low while slightly more than a quarter of them (26.2%) stated it was neutral. However, 21% of the respondents affirmed that their level of commitment to the organization was high prior restructuring. The rest (22.3%) were not sure.

The researcher further sought to know how the respondents at the present time would rate their level of commitment to their organization.

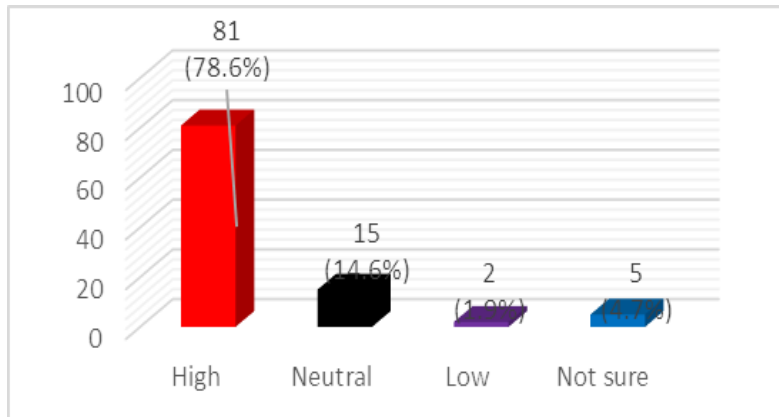


Figure 3: Rate of level of commitment to the organization now after restructuring

It is apparent from the figure above that majority of the respondents 81 (78.6%) rated their level of commitment now after restructuring to the organization as high.

The researcher intended to find out further the level of agreement on various statements relating to organization and restructuring. The table below summarizes their response.

Key: SA-Strongly Agree, A- Agree, UD- Undecided, D- disagree and SD- Strongly Disagree.

Table 3: Distribution of how restructuring as a practice affects performance of cooperative bank

	SA		A		UD		D		SD	
	F	(%)	F	(%)	F	(%)	F	(%)	F	(%)
The organization structure is tall	42	40.8	48	46.6	11	10.7	2	1.9	-	-
Organization provides the necessary facilities to all employees for effective delivery	51	49.5	47	45.6	5	4.9	-	-	-	-
There is lateral communication in the organization	33	32.0	48	46.6	19	18.5	3	2.9	-	-
The organization supports staff with welfare activities	36	35.0	45	43.7	15	14.6	4	3.9	3	2.9
Workers are recognized for initiative and creativity	45	43.6	48	46.6	8	7.9	.	-	2	1.9

From the findings on the respondent level of agreement on various statements relating to organization and restructuring, the study found that an overwhelming majority of the respondent either strongly agreed or agreed that the organization structure is tall as shown by 87.4% of the respondents, organization provides the necessary facilities to all employees for effective delivery as shown by 95.1 % of the respondents, there is lateral communication in the organization as shown by 78.6% of the respondents, the organization supports staff with welfare activities as shown by 78.7% of the respondents, workers are recognized for initiative and creativity as shown by 90.2% of the respondents.

The effect of cost benefit optimization on performance of Cooperative Bank of Kenya

In general, this study was set to find out the effect of cost benefit optimization on performance of Cooperative Bank of Kenya. First, the respondents were asked to indicate whether cost benefit optimization affects performance of Cooperative Bank of Kenya.

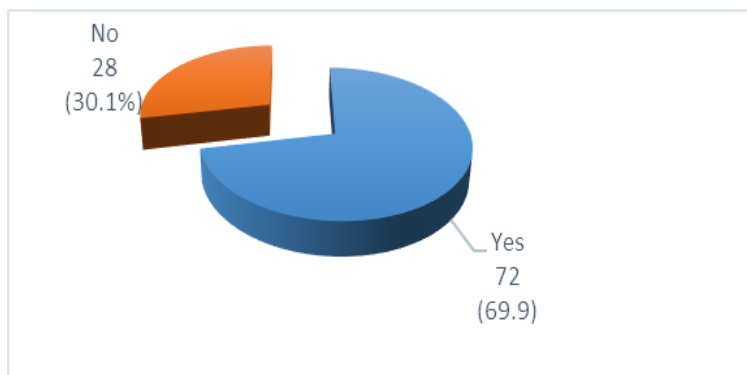


Figure 4: Distribution of whether cost benefit optimization affects performance of Cooperative Bank

As shown by 69.9% of the respondents, cost benefit optimization affects performance of Cooperative Bank.

Furthermore, it was important for the researcher to find out from the respondents, how often the following forces affects banking landscape at Cooperative Bank. The table below summarizes their response.

Table 4: Distribution of how often various forces affects banking landscape

	All the times		Sometime		Not at all		Not sure	
	(F)	(%)	(F)	(%)	(F)	(%)	(F)	(%)
Globalization of banks	37	35.9	42	40.8	17	16.5	7	6.8
More demanding customers	66	64.1	28	27.2	4	3.9	5	4.8
Increasing prudential standards	35	34.0	44	42.7	7	6.8	17	16.5
Organization structure	22	21.4	56	54.4	14	13.6	11	10.6

From the findings on how often the various forces affects banking landscape at Cooperative Bank of Kenya, the study found that majority of the respondent indicated that either all the times or sometimes globalization of banks affects banking landscape as shown by 76.7% of the respondent, more demanding customers affects banking landscape as shown by 92.1% of the respondents, increasing prudential standards affects banking landscape as shown by 76.7% of the respondents, organization structure affects banking landscape as shown by 75.8% of the respondents.

The researcher needed to know the extent to which the following components help to optimize costs at Cooperative Bank.

Table 5: Distribution of the extent of which various components help to optimize costs

	To a greater extent		To some extent		Not at all	
	(F)	(%)	(F)	(%)	(F)	(%)
Asset leverage	36	35.0	40	38.8	27	26.2
Balance sheet management	34	33.0	47	45.6	22	21.4
Cross-selling	27	26.2	40	38.8	36	35.0
Cost structure	42	40.8	39	37.8	22	21.4
Cost of risk	47	45.6	31	30.1	25	24.3

A considerable number of the respondents (38.8%) indicated that asset leverage help to optimize costs at Cooperative Bank to some extent while 35% of them indicated it help to optimize costs at Cooperative Bank to a greater extent. However, 26.2% of felt it doesn't at all help optimize costs.

In regards to balance sheet management, 45.6% of the respondents indicated that it helps to optimize costs to some extent, a third of them (33%) indicated help to optimize costs at Cooperative Bank to a greater extent.

Cross-selling helps to optimize costs to some extent as shown by 40.8% of the respondents, to a greater extent as shown by 26.2% of the respondents. However, 35% of the respondents indicated it doesn't help optimize costs at all.

Cost structure helps to optimize costs to a greater extent as shown by 38.8% of the respondents, to some extent as shown by 37.8% of the respondents.

A good number of the respondents (45.6%) indicated that cost of risks help to optimize costs at Cooperative Bank to a greater extent while 33.1% of them indicated it help to optimize costs at Cooperative Bank to some extent.

Furthermore, this study also required the respondents to indicate the extent of agreement regarding the following statements on the effect of cost benefit optimization on performance of Cooperative Bank.

Key: SA-Strongly Agree, A- Agree, UD- Undecided, D- disagree and SD- Strongly Disagree.

Table 6: Distribution on statements on the effect of cost benefit optimization on performance

	SA		A		UD		D		SD	
	F	(%)	F	(%)	F	(%)	F	(%)	F	(%)
Our organization hedges against risk to receive tax benefits	28	27.2	33	32.0	14	13.6	25	24.3	3	2.9
Our organization hedges against risk to better investment decisions	23	22.3	25	24.3	35	34.0	14	13.6	6	5.8
Our organization protect itself against risks that may cause distress by hedging against them	26	25.2	29	28.2	35	34.0	10	9.7	3	2.9
Our organization borrow more money in order to have lower cost of capital	14	13.6	13	12.6	21	20.4	32	31.1	23	22.3
Our organization make financial statements more informative to attract investors	36	35.0	29	28.1	18	17.5	12	11.6	8	7.8

Majority of the respondents (59.2%) either strongly agreed or agreed to the statement that: our organization hedges against risk to receive tax benefits.

A considerable number of the respondents (46.6%) strongly agreed or agreed that their organization hedges against risk to better investment decisions. However, slightly more than a third of them (34.0%) were undecided to the latter.

In regards to the statement that supposed that ‘our organization protect itself against risks that may cause distress by hedging against them’, slightly more than a half (53.4%) of the respondents who participated in the study either strongly agreed or agreed to the statement. However, slightly more than a third of them (34.0%) were undecided to the latter.

When asked to indicate their status of agreement on whether their organization borrow more money in order to have lower cost of capital, slightly more than half of the respondents (51.5%) who participated in the study strongly disagreed or disagreed to the statement. Nevertheless, 26.2% of them either strongly agreed or agreed to the statement.

Majority of the respondents (63.1%) either strongly agreed or agreed to the statement that their organization make financial statements more informative to attract investors.

The impact of Business Process Reengineering (BPR) on the performance of Cooperative Bank of Kenya

This study also sought to know the impact of Business Process Reengineering (BPR) on the performance of Cooperative Bank. The respondents were asked to indicate their level of agreement on statements relating to how the BPR initiatives implementation impacted on the performance of Cooperative Bank of Kenya. The table below summarizes the results.

Key: SA-Strongly Agree, A- Agree, UD- Undecided, D- disagree and SD- Strongly Disagree.

Table 7: Distribution of BPR initiatives implementation impacted on the performance of Cooperative Bank

	SA		A		UD		D		SD	
	F	(%)	F	(%)	F	(%)	F	(%)	F	(%)
My organization has made improvement on its process	32	31.1	36	35.0	16	15.5	15	14.5	4	3.9
My organization has a system that is open to change in its methods of operation	24	23.3	37	35.9	21	20.4	17	16.5	4	3.9

My organization adopts process that adds value to their products	28	27.2	31	30.1	18	17.5	16	15.5	10	9.7
My organization has changed our operations in order to address “work related” problems	23	22.3	32	31.1	21	20.4	13	31.1	14	13.6
My organization has been able to simplify its methods towards ensuring that results are achieved	29	28.2	36	35.0	32	31.1	5	4.8	1	0.9
I enjoy performing my work in my organization	26	25.2	29	28.2	35	34.0	10	9.7	3	2.9
Improvement in our work processes has resulted to an increase in our customer`s patronage	32	31.1	23	22.3	21	20.4	14	13.6	13	12.6
We have been able to increase the value of our products by changing our methods	36	35.0	45	43.7	15	14.6	4	3.9	3	2.9
Improvement in the	26	25.2	40	38.8	22	21.4	9	8.7	6	5.9

general business process of our organization has increased the speed of our delivery											
Government patronage has been an encouragement to my organization	18	17.5	23	22.3	35	34.0	19	18.4	8	7.8	
My organization has made improvement on its process	36	35.0	29	28.1	18	17.5	12	11.6	8	7.8	

From the findings on the respondent level of agreement on various statements relating to how the Business Process Reengineering (BPR) initiatives implementation impacted on the performance of Cooperative Bank of Kenya, the study found that an majority of the respondent either strongly agreed or agreed that the organization the organization has made improvement on its process as shown by 66.1% of the respondents, my organization has a system that is open to change in its methods of operation as shown by 59.2% of the respondents, my organization adopts process that adds value to their products as indicated by 57.3% of the respondents, my organization has changed our operations in order to address ‘‘work related’’ problems as shown by 53.4% of the respondents, my organization has been able to simplify its methods towards ensuring that results are achieved as indicated by 36.2% of the respondents, I enjoy performing my work in my organization as stated by 53.4% of the respondents, improvement in our work processes has resulted to an increase in our customer`s patronage as shown by 53.4% of the respondents, we have been able to increase the value of our products by changing our methods as indicated by 78.7% of the respondents, my organization has made improvement on its process as shown by 63.1% of the respondents.

However, slightly more than a half of the respondents (52.2%) either strongly disagreed or disagreed to the statement that government patronage has been an encouragement to my organization. Although, 39.8% of the respondents either strongly agreed or agreed to the statement.

V. Summary of the findings

The main purpose of this study was to investigate the effects of strategic change management practices on the performance of Co-operative bank of Kenya. The study was guided by the following research objectives: To establish the effect of restructuring as a practice on the

performance of Cooperative bank of Kenya; To determine the effect of cost benefit optimization on the performance of Co-operative bank of Kenya; and To evaluate the impact of business process reengineering on the performance of Cooperative bank of Kenya.

The research design used in this study was a case study research design involving both qualitative and quantitative approaches. The sample of this study consisted of 120 questionnaires to Cooperative Bank of Kenya head office and 40 branches that have undergone transformation changes in the first two waves. However, one hundred and three (103) staff responded back to the data collection instruments. The key data collection instrument that was used in this study was the questionnaire. The collected data was analyzed using both quantitative and qualitative data analysis approach.

From the analysis, the following key findings were made:

An overwhelming majority (89.3%) indicated that operational cost aspect affect organization performance at Cooperative Bank to a greater extent.

In regards to the aspect of management style, majority of the respondents (62.1%) stated that it affects the organization performance at Cooperative Bank to a greater extent

Majority of the employees (69.9%) indicate that size of the work force aspect affect organization performance at Cooperative Bank to a greater extent.

From the findings on the main drivers for restructuring, the study revealed that these were competition as shown by 88.3% , new company strategy as shown by 86.4% , public pressure as shown by 69.9% , budgetary cuts as shown by 67.0% and change in government policy as shown by 51.1% of the respondents.

Slightly more than a half of the respondents (52.4%) affirmed that they don't receive sufficient information about the future status/directions of their department/work group following the restructure.

Majority of the respondents 81 (78.6%) rated their level of commitment now after restructuring to the organization as high.

From the findings on the respondent level of agreement on various statements relating to organization and restructuring, the study found that an overwhelming majority of the respondent either strongly agreed or agreed that the organization structure is tall as shown by 87.4% of the respondents, organization provides the necessary facilities to all employees for effective delivery as shown by 95.1 % of the respondents, there is lateral communication in the organization as shown by 78.6% of the respondents, the organization supports staff with welfare activities as shown by 78.7% of the respondents, workers are recognized for initiative and creativity as shown by 90.2% of the respondents.

As shown by 69.9% of the respondents, cost benefit optimization affects performance of Cooperative Bank.

The study found that majority of the respondent indicated that either all the times or sometimes globalization of banks affects banking landscape as shown by 76.7% of the respondent, more

demanding customers affects banking landscape as shown by 92.1% of the respondents, increasing prudential standards affects banking landscape as shown by 76.7% of the respondents, organization structure affects banking landscape as shown by 75.8% of the respondents.

Majority of the respondents (63.1%) either strongly agreed or agreed to the statement that their organization make financial statements more informative to attract investors.

Majority of the respondent either strongly agreed or agreed that the organization the organization has made improvement on its process as shown by 66.1% of the respondents, we have been able to increase the value of our products by changing our methods as indicated by 78.7% of the respondents, my organization has made improvement on its process as shown by 63.1% of the respondents.

VI. Conclusions

The responses to the three research questions that were outlined for investigations in this study have been adequately answered. The researcher concluded that restructuring as a practice affects performance of Cooperative bank of Kenya. The study findings indicate that operation cost, size of the work force, management style and organization structure in the process of implementing the performance system affects the process of strategic change implementation to a great extent.

The study also found that the main the main drivers for restructuring were competition, new company strategy, budgetary cuts, public pressure and change in government policy. According to Cascio (2002) it is more difficult to quantify the intangible benefits to be derived from the re-structured organization. Beyond cost reductions and productivity improvements, restructuring potentially and fundamentally affects revenue channels.

From the research it is evident that various forces that include globalization of banks, more demanding customers, increasing prudential standards and organization structure affects banking landscape should be observed in order to improve implementation process of cost benefit optimization. Following strategy implementation, various components that involve asset leverage, balance sheet management, cross-selling, cost structure and cost of risk must be reviewed in order to identify areas of development during optimization process.

From the findings on the impact of Business Process Reengineering (BPR) on the performance of Cooperative Bank, the study found that banking institution has made major improvement on its process and has a system that is open to change in its methods of operation in order to improve its performance. Therefore, the study concluded that every single approach to strategic management and practices are very important. Hence, it is the obligation of the organization to come up with unique strategies tailor made to the organizations requirements so as to gain a competitive advantage over competition and in so doing maintain or increase its profitability.

VII. Recommendations

In order to provide maximum effect of restructuring on the performance of commercial banks in Kenya, stakeholders in this industry should therefore endeavor in researches into other areas or variables in order to identify those that could be major factors in presenting significant effect on

the financial performance of this industry. Such studies and or findings will enable the stakeholders to control these factors and ensure maximum profitability is achieved and therefore see sustained growth of the industry.

The study further shows that, the effect of cost benefit optimization restructuring on the performance of commercial banks is very minimal and therefore, it is recommended that concentration should be on other areas which have major effects on their performance. These areas may include new products offerings or increased prudential standards.

For successful implementation of BPR the research recommends employees to be encouraged to rapidly adapt to the new IT, assimilate IT knowledge and apply it in their daily routines, which is beneficial for the improvement of organization performance. According to Knowledge based view (KBV) systems of knowing refers to structures of interaction among team members for sharing their perspectives, pooling of knowledge, and development of shared understanding. It is suggested that systems of knowing provides forums for top management team members that exchange their strategic IT and business knowledge, and blend them together to foster higher levels of IT diffusion within the organization. For managers, a frequent interaction between other top management team members enables them to achieve timely information with regards to organizational business, thus to plan and deployment IT to align with organizational business process, improve firm performance through the investments in IT. It is found that IT-related information could be disseminated more effectively between the manager and the top management (CEO) through richer channels of communications, and this greater interactions in different IT forums is proved to have favorable influence on firms IT success.

Having observed however that all the variables under consideration in this study, namely the restructuring, cost benefit optimization and business process reengineering all have a positive effect on the performance of commercial banks in Kenya; it is recommended that managers of commercial banks should use either or all of the said variables to help them improve on the profitability of their firms. The managers should consider enhancing any of the said practices as doing so would result into increased organization performance.

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