Influence of post-merger restructuring on organizational development: A case of Stanbic Bank Kenya Limited

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ABSTRACT

Corporate mergers are important for organizations to position themselves for growth and development. Stanbic Bank was formed as a result of a merger between CFC Bank and Stanbic Bank. Anecdotal evidence suggests that the merger has led to positive outcomes, but specific aspects of the merger that have contributed towards the organizational development of Stanbic Bank remain unclear. The study investigated the influence of Post-Merger Restructuring on the organizational development of Stanbic Bank Kenya. It was guided by efficiency theory and collected data from 27 branch managers and 9 senior sectional heads using a semi-structured questionnaire where a 75% response rate was achieved. Data were analyzed using descriptive and inferential statistics. Results showed that post-merger restructuring has a positive and statistically significant influence on organizational development at Stanbic Bank. The researcher concluded that post-merger restructuring had a positive influence on the organizational development of banks. The study recommends that banks should retrain their workforce, inculcate new culture, and redesign their operations in the post-merger period so as to realize the intended benefits.

Introduction

Mergers are common phenomena in the business world where two or more firms merge to form one single entity (Ishwarya, 2019). Globally, the merging activities in the banking sectors have recorded over 500 activities annually since 1985 (Singh & Das, 2018). The Merger activities at the global level have seen the emergence of few but very large banks with operations in the major global economies across all the continents (Al-Sharkas, Hassan, & Lawrence, 2008). Such large institutions bring seamless operationalization of banks, increase banks revenues and operations but face local challenges related to the specific characteristics of each region. A study by (Moschieri, Ragozzino, & Campa, 2014) shows that the merger activities works well in the regions with economic, political and regional integrations that allow for free movement and unified legal approaches to the banks.

Within the African continent, merger activities have been influenced by the increasing opening of borders, the Trans African trade and the need to access large African markets (Daniya et al., 2016). The most recent complete trans-African merger occurred in 2019 when the largest African bank by customer base, NIC bank merged with the Commercial bank of Africa, CBA in Kenya and Tanzania. The merger saw the customer numbers increase to over 40 million with operation in Kenya, Uganda, Tanzania, Senegal and Rwanda (Wachira, 2019). In the recent times, the Equity bank of Kenya has also entered into a pan African merger process as an entry into the different African markets. In January 2021, Equity group holding Limited, the holding company for Equity bank, Kenya’s largest bank in size and customer base, received a nod from the Democratic republic of Congo regulatory authority for the merger of its Congolese subsidiary, Equity Bank Congo with Banque Commercial du Congo (BCDC) (Equity Group Holding, 2021). The approval
of the merger saw the Equity bank acquire controlling stake in BCDC. The merger saw the two entities crate the country’s second largest banking corporation on assets.

In Kenya, the liberalization of the banking sector and the increasing strategic location of the country has attracted Mergers and acquisitions (M&A) from both local and foreign banks. The decade between 2000 and 2010 saw 10 M&A transactions, and 6 in between 2011 and 2020 (Central Bank of Kenya, 2020). These M&A transaction are indicative of the efforts of the Kenyan banking sector to consolidate within the markets with the view of improving their performances. Stanbic Bank is a foreign owned commercial bank registered and regulated by the CBK. The bank is owned by Stanbic Holdings Plc, a subsidiary of the Standard Bank Limited, a South African based financial institution with operations across the African continent (Kenya Bankers Association, 2020). Stanbic’s operation in Kenya is laden with a series of mergers that are traced to pre-independent Kenya.

In 1992, the standard bank formed the Standard bank investment corporation (Stanbic), which acquired Grind lays Bank International (Kenya) Limited and renamed it to Stanbic Bank Kenya Limited in 1993. In 2007, Stanbic Bank Kenya Limited merged with CFC Bank Limited to form CFC Stanbic Bank Limited (Kanina, 2008). The new outfit was later renamed Stanbic Bank Kenya Limited in 2016. Before the merger, both banks ranked 9th and 10th respectively with an average asset of 350 million Kenyan shillings. However, the merger made the new bank become the fourth largest bank in 2007 based on assets base. The new outfit was put forward to meet the future increased levels of share capital, expand the network distribution and market share and benefit from best global practices among other reasons.

Mergers offer an opportunity to business entities to forge new relationships and status with the aim of ensuring and protecting their going concern (Sarala, Vaara, Junni, 2019). On paper, mergers are expected to contribute positively to the development of organizations by enhancing efficiency, increasing revenue base, managing competition, and enhancing economies of scale (Alimov, 2015). However, about 50% of mergers transactions fail to deliver the benefits that were originally intended despite the high hope that is often pegged on these transactions (Koi-Akrofi, 2016). In some cases, mergers results in counterproductive outcomes such as conflict in the workplace, inefficiency, and reduced productivity.

Most studies on mergers focus on the impact of these transactions on profitability and other business outcomes. However, they do not delve into specific elements within mergers that determine its impact on business outcomes. There is also a paucity of evidence regarding specific elements in the merger that determine the success or failure of these transactions in delivering positive results. This study sought to address this gap by examining how post-merger restructuring influences organizational development of banks. As Tan (2017) explain, mergers bring together organizations that had distinct internal and external resources, customers, culture, and process (Tran, 2017). Therefore, the merger process is not only a financial transaction but also an institutional wide occurrence that require a lot restructuring and reorganization.

Understanding how the process of restructuring various aspects of the organization in post-merger period influence the development of the organization will enrich future merger transactions. Given the complex nature of mergers that Stanbic has undergone, it was great choice for this study. The bank has also undergone impressive changes in the Kenyan market from an unknown bank to the current market force. Stanbic has also well recorded and documented organizational development that provided the necessary data for determination of specific aspects of the mergers that have contributed to the development of the bank.

**Literature Review**

**Theoretical Literature Review**

The study was guided by efficiency theory that was founded in the 20th century by Harrington Emerson (Bai, Zeng & Chiu, 2019). Proponents of the theory opine that improving efficiency is the primary goal of mergers and the main mechanism through which merger transaction translate to positive organizational outcomes (Martin, Bachiller & Bachiller, 2018). In the pursuit of efficiency, organizations must also be efficient in the management of the merger process as to ensure that the process is beneficial to the merging entities and that there are minimal wastages during the process.

The theory holds that mergers are only planned and executed when they have the potential to realize the desired synergies and can make the deal beneficial to the parties involved (Daniya et al., 2016). Organizations will only engages in the merger process if they can correctly and clearly see an efficient utilization of the existing resources and the potentially new set of resources that comes with the mergers. The theory suggests that the main aim behind mergers is to achieve synergies such as the operating and financial synergies that would make it easier to reduce costs, increase the revenues and help the entities achieve other market related objectives (Wadhwa & Syamala, 2015). With such a move, the merger is seen as a prudent use of the organizational resources to help it acquire more resource and be accorded new opportunities that would increase the organization’s performance.

Given that the different business have different specialties and competences in the market, the merging business will seek to build on the positive elements of each entity and create a better and more superior entity that embodies the positive features and characteristics of the merging entities (Hellgren, Löwstedt, & Werr, 2011). To realize the synergy and; consequently, the desired improvement in efficiency, the merging entities must thus integrate various aspects of the previous operations including their resources, routines and symbols, and systems (Bai et al., 2019). The merging entity must restructure their operations in a way that capitalizes on the strength offered by each entity as well as in a way that covers the weaknesses of each entity (Martin et al., 2018).
Under this theory, mergers would only be initiated, executed and concluded when the parties to the transaction can visualize the mutual benefits the transaction will accord both.

**Empirical Review**

The restructuring of an organization is a process where the resources held by the organization are reoriented to the different locations and redirected to the new organizational requirements and need. It is an ongoing process that is meant to achieve synergies, efficiency and effectiveness in the business operations. A study by Kurgat (2016) found out that when mergers occur, there is always the need for the merged entities to reorganize the resources to help achieve the new goals and objectives. After the merger, there is usually a clash between the cultures and the operational view of the human resources from the different entities. The new organization formed needs to undertake an in-depth restructuring of its human resources and the cultural aspect to be in tune with the new organizational goals and culture.

According to (Gilson, 2010), the restructuring process entail the replacement of human resources who may have left the organization as the result of the merger or replacing the existing ones with new ones who are deemed to have the right set of skill and competencies to move the new entity forward. The merging entities need to ensure that the core resources are well organized to achieve the desired results while the non-core resources, which may also be strategic in the near future have to be reorganized to ensure they achieve the desired strategic fit for the organization as well as ensure they do not add additional holding costs for the organization. This process is likely to help in the development of a new organizational culture. However, since the replacement of human resources is guided by various human resources and employment laws and regulations, the process may be costly and may result in loss of vital human resources who had close interactions with key stakeholders.

To avoid incurring these huge costs and running into legal ramifications, entities may restructure the human resources through retraining of the human resources or deployment to the new or different areas of the organization. The training may cover a wide range of areas but must be based on training needs of the new entity. This potion is often seen as the most viable since it may have little or no negative impact on the profitability and the market share of the organization. Instead, it may help boost productivity and efficiency faster than hiring new staff as the existing staff already have the technical knowledge and understanding of the organizational operation of the new merged entity having worked with the merging entities.

Additionally, the restructuring of the organization entails having or introducing a new organizational culture (Hirsch & Soucey, 2006). The merged entities often entail the merger of different organizational cultures which may not necessarily fit in the newly made entity. Since the merging entails the creation of new entity, there may be cases where the most dominant culture will prevail. The changes in the organizational culture is a very critical element in the organization as it requires changing the social aspect of the organization, its employees and a new way of ensuring that there is an alignment between the cultures, the organizational strategy and the employees. It is however advisable that the new organization must create a new set of values, goals, symbols and set of acceptable behaviors that will be in line with the new entity. The new organizational culture may also affect the interactions between the organization and its external stakeholders.

The reorganization plays a crucial role in the organizational development of the merger entities (Kroon & Noorderhaven, 2018). It fine tunes and reorients the human resources approach and view of the organization’s bottom line and the market operation. The restructuring is seen as an effort towards efficiency and improvement of the organizational development. Bodner and Capron (2018) also observed that mergers are more likely to be beneficial to organization when the joining entities design a structure that create and exploit synergies. The new organizational design should balance between maintaining the autonomy of the merging entities and integrating their operations with the view of reaping the economic benefits of the merger. The organization design created post-merger is bound to have an impact on the identity of the employees of the merged entity, communication and coordination within the organization, and the processes of the organization.

**Conceptual Framework**

Figure 1 presents the conceptual framework that illustrates the presumed relationship between corporate mergers and the development of organizations. It also exemplifies how each variable was operationalized.
As Figure 1 elucidates, independent variable of the study was post-merger restructuring was gauged using four parameters including replacement of human resource, retraining of human resource, introduction of new culture, and new organizational design. The study presumed that these restructuring parameters influence the organizational development of Stanbic Bank. The development of the bank was appraised by looking at the change in the bank market share as well as profitability in the post-merger period.

Research and Methodology

The study adopted a descriptive research design, which according to Gravetter and Forzano (2015) focus on assessing phenomena and the relationship between them as they exist in their natural setup. The target population was 36 management employees of Stanbic Bank Kenya Limited comprising of 27 branch managers and the nine key heads of departments that were involved in the merger activities. A census approach was used due to the small population. Data was collected from the targeted individuals using semi-structured questionnaires. A pilot study was carried out at the most recent corporate merger of NCBD Bank Kenya that was born after the merger between National Industrial Credit and Commercial Bank of Africa. The pilot study involved 5 staff with the view of assessing the reliability and validity of the research semi-structured questionnaire. The validity semi-structured questionnaire was assessed through the expert judgment method while reliability was determined using the Cronbach alpha method. The questionnaires were administered through the drop-off and pick method as well as through email. The data was analyzed using SPSS based on the research questions and the objectives. Descriptive statistics were used to elucidate the existing situation in the bank in regard to restructuring and organizational development. The study used regression analysis to find out how these variables influenced each other. The identified regression model is stated as follows;

\[ Y = \beta_0 + \beta_1 X_1 + e \]

Whereby;

\[ Y = \text{Organizational Development} \]
\[ \beta_1 = \text{Beta coefficient} \]
\[ \beta_0 = \text{Constant} \]
\[ X_1 = \text{Restructuring} \]

Results

A total of 36 questionnaires were sent out, and 27 were returned having been filled with data as per the understanding of the respondents, whereas two were rejected as they were not filled. The response rate therefore was 75%, higher than the 70% which is an excellent score as indicated by (Mugenda & Mugenda, 2003).

Restructuring at Stanbic Following the Merger

The study measured the restructuring through four main areas: the replacement and retraining of the human resources, the corporate design, and introduction of a new culture. Respondent were asked to rate the level of restructuring that took place in each of these four areas after the merger at Stanbic. The mean was used to conduct the descriptive analyses. The ranking was on a Likert scale with a score of 3 and 4 indicating positive while lower than 2 indicates a negative score. Results are summarized in Table 1

<table>
<thead>
<tr>
<th>Table 1: Restructuring Descriptive Statistics</th>
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</thead>
<tbody>
<tr>
<td>N</td>
</tr>
<tr>
<td>----</td>
</tr>
<tr>
<td>Replacement of HR</td>
</tr>
<tr>
<td>Retraining HR</td>
</tr>
<tr>
<td>Introduction of a new culture</td>
</tr>
<tr>
<td>Organizational design</td>
</tr>
<tr>
<td>Valid N (list wise)</td>
</tr>
</tbody>
</table>

The average mean for the four factors is a positive measure of 3.4, showing a marginally positive impact of resources downsizing on the organizational development as measured by profitability and market share. Of the four resources restructuring, corporate design has a more significant effect at a mean score of 3.59 and a lower standard deviation at 0.57. The findings is consistent with Bodner and Capron (2018) who observed that the change in organization design following a merger has major implications on many aspects of the organization including the identity of the employees, coordination and communication with the merged entity, and organizational processes. The human resources’ retraining had the most insufficient effect, at 3.33, though it was a marginal increase with a high variation of .733. Given the close score of the means for the various restructuring elements, it is not expected that there is a significant difference across restructuring the organizational development at Stanbic bank Kenya.
The merger process comes with a range of restructuring as a way of improving efficiency in the organization. These levels of restructuring have effects on the various aspects of the organization and may also impact the profitability and market share differently. The areas of restructuring that were the focus of this study involved the human resources aspects as well as the physical aspect. The human resources aspects covered the retraining of the staff and the reduction of the HR staff in their physical numbers. Usually, the uncertainties of the merger process could have an unhealthy toll on the existing staff as they may be unsure of their place in the new formation. The retained staff would also face a myriad of difficulties in the new organization due to various issues such as new staff, new structures and new operational views (Agwu, Carter, & Murray, 2014).

The replacement in the number of HR staff in the organization was attributed with having a marginally positive impact on the organizational development. The chances could be attributed to the replacing of the existing staff with more qualified, motivated and more focused staff than they were in the previous organization. The other aspect of the merger such as the creation of a new organization with new management and structures could be attributed with the recorded improvement as a result of the replacement of the employees. The retraining of the retained staff is a crucial element in the organizational development. It equips the staff with a new set of knowledge and a reorientation towards the new organization. The respondents recorded a marginally positive influence of retraining on the organizational development. Clearly, the retraining of the staff has had the desired outcome on the employee’s performance. The aspects included on the training have had a positive contribution on the organization.

Influence of Restructuring on Organizational Development

The researcher conducted a simple linear regression to evaluate the nature of relationships between restructuring and organizational development. A model comprising restructuring as the predictor variable and organizational development as the criterion variable was formulated. Table 2 presents a summary of the predictive power of the model.

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted Square</th>
<th>R</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.569a</td>
<td>.323</td>
<td>.291</td>
<td>.37330</td>
<td></td>
</tr>
</tbody>
</table>

The model summary shows a coefficient of correlation (R) of .569, indicating a moderate correlation between restructuring and organizational development at Stanbic Bank. The coefficient of determination (R squared) is 0.323, meaning that the model can only explain 32.3% of organizational development variation and the independent variables. According to Mooi and Sarstedt (2011), an r-square that falls between 0.25 and 0.5 indicates that the model has weak effect size. However, authors explained that r-square that fall within this range are common in cross-sectional social science studies and thus should not be interpreted to mean that the model does not provide satisfactory explanation for the criterion variable. The low r-square value just indicates that that there are other factors besides the three merger variables that also contribute to major variations in the organization development at Stanbic Bank.

The standard error of the estimate is 0.3733. According to Hanley (2016), this value signifies the average distance between values observed and the regression line. A smaller standard error estimate value indicates that the values observed are closely fitted to the regression line. Hanley (2016) further explain that for a model to be considered to be a good predictor of the criterion variable, the standard error estimate should not be greater than 2. The standard error estimate in Table 2 thus indicates that the model formulated in the study provides a good prediction of organizational development at Stanbic Bank. The significance and direction of the relationship between restructuring and organizational development as assessed using the beta coefficients presented in Table 3

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>3.852</td>
<td>.072</td>
<td>53.616</td>
</tr>
<tr>
<td>Restructuring</td>
<td>.386</td>
<td>.073</td>
<td>.371</td>
<td>5.288</td>
</tr>
</tbody>
</table>

Table 3 indicates that restructuring had a beta coefficient of 0.386. This coefficient indicates that restructuring during mergers had a positive influence on organizational development at Stanbic Bank. Specifically, the value means that if the level of restructuring is increased by 1 unit, the level of organizational development would increase by 0.386 units. The t-tests gave a p-value of less than 0.05, which indicate that the beta coefficient for restructuring is statistically different from zero. These results lead to the conclusion that restructuring has a positive and statistically significant influence on organizational development at Stanbic Bank.
The merger of the entities that formed Stanbic bank resulted in the formation of a new organization with new organizational structures and a new set of culture. These changes in the organization structure had a marginally positive influence on the organizational development. This change is in line with (Rondeau & Wagar, 2014) and (Kurgat, 2016) who held that the restructuring has a great impact on the performance when it resulted into a more efficient and responsive organizational structures. The structuring of an organization has a crucial role in how the personal interact, share and work in any given organization an achieving the correct alignment is critical to any organization achieving efficient operations. The introduction of new staff and the change in the organizational structure inevitably brings about a new culture to the organization. Since the merging entities were distinct and different, they will inevitably bring about a new culture in the new organization. The change process in the creation of the new culture should be crucially handled to ensure that it does not bring about negative changes in the process. It appears that Stanbic handled the new culture introduction very well and carefully as it is attributed to having a marginally positive influence on the organization development. The new organizational culture introduced after the merger has empowered the people, customer and the bank to work better and achieve better results in the market. It has improved the market share of the bank and improved the profitability of the bank. Overall, the organizational restructuring process has had a positive impact on the organization development. The replacement of the employees, the retaining, new culture and a new organizational structure are attracted with better market share and an improved profitability in the bank.

Conclusions

Restructuring occurs as a result of the changes that take place during mergers. When entities merge, there is almost a surety that several issues will be restructured. The research sought to analyze the extent and direction of the influence that replacement of Human resources, the retraining of human resources, introduction of a new culture, and the restructuring of the organizational design on the organizational development. The respondents believed that all these factors, individually and combined, positively influence corporate structure. The restructuring of the four aspects after the merger would be expected to increase profitability and a marginal increase in the bank's market share in the industry. The regression results revealed that restructuring has a positive and statistically significant influence on organizational development. These results imply that to guarantee remarkable growth, bank managers should prioritize the restructuring process in the post-merger period. In particular, they should focus on developing organizational designs that optimizes the strengths of the employees and other resources and that covers weaknesses. Specifically, banks conducting restructuring in the wake of a merger should ensure full retraining of the human resources to ensure that they fit into their new roles. They should also focus on creating a new culture and new organizational configuration that optimizes the strength of the merging entities and cover their weaknesses.

References


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