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Strategy Implementation: Effect of Organizational Design on the Performance of Commercial Banks in Kenya

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Abstract:

A plethora of global and domestic forces have accentuated pressure on organization's strategic management practices. Strategy implementation failure rates in most organizations have been reported in the last two decades to be above 60% indicating that most organizations globally underperform in regard to alignment of organizational design to strategy. The purpose of this study, therefore, was to establish the effect of organizational design on the performance of commercial banks in Kenya. The study employed a descriptive research design. The study was conducted in five commercial banks operating in ten counties in the western part of Kenya. Stratified and simple random sampling technique was used to pick a sample size of 307 respondents from a target population of 463 heads of bank sections. Data was collected using structured questionnaires. Descriptive statistics was used to analyze data with the help of Statistical Package for Social Sciences version 22. Data was presented in form of tables, graphs, percentages, frequencies, mean and standard deviation. Pearson's product moment correlation analysis was used to test the strength of the relationship between the variables. The findings showed that there was a correlation between organizational design and the performance of commercial banks. The study concluded that organizational design has an effect on the performance of commercial banks in Kenya. The study recommended that a similar study can be carried in other regions to establish the relationship between organizational design and the performance of bank branches.

Keywords: Organizational design, strategy implementation, commercial banks, organizational performance

1. Introduction

Institutional managers keep searching for a missing link to optimize performance. Strategy implementation is one factor that need to be considered as an effective tool to organizational performance. However, there has been a mismatch between strategy formulation, strategy implementation and organizational performance. Though Andrews *et al.* (2011) found that there is little evidence from empirical literature that implementation led to organizational performance, they actually established that there exists a relationship between implementation styles (approaches) and organizational performance and that environmental (external and internal) factors had a value-creating role in the relationship. The approach that organizations adopt, when putting strategies into practice tend to become established and institutionalized over time (what they own as part of institutional strategy) what may be called organizational culture. Hence these approaches to strategy implementation and environmental factors are crucial to organizational performance as pointed out by scholars (Hristovet *al.*, 2021; Muathe&Mwangi, 2018).

These strategy implementation approaches or practices have been sought by managers for decades now without coming up with a framework on how best organizational strategies can be effectively implemented to sustain a competitive advantage. Organizational design is one element that drives organizational strategies despite environmental turbulences. A literature review conducted by Kahingo and Muchemi (2020) revealed that organizational capability includes designing the organization to accommodate strategic flexibility in order to manage environmental dynamism. On the same wavelength Zhang (2006) noted that for firms to be more strategic, there is need to develop organizational capabilities in managing strategic flexibility.

Hristovet *al.* (2021) noted that, difficulty still remains in the alignment of organizational strategy, organizational design and environmental changes. Further, sustaining strategy management practices for organizational performance is still a challenge to some organizations. Environmental dynamics stand out and seem to be introducing challenges and opportunities with time. New technology, new material, new ideas and globalization, has accelerated the adoption of specific organizational design that will remove the bottlenecks to organizational performance. Hence, a need to identify the missing concept, and develop an integration of effective approach and solution to sustain a competitive advantage for organizations (Hristovet *al.*, 2021). Similarly, as more companies move towards designing a strategic approach that

integrates environmental considerations, Andrews *et al.*, (2014) observed that strategic implementation approaches determine performance in service industry but only with the combination of appropriate strategic choices and strategic orientation.

1.1. Statement of the Problem

Several approaches, practices or management strategies to strategy implementation have been developed in most organizations including the banking sector. In any economy, the banking sector is the engine that drives economic growth through its strategic allocation of financial resources (Kimonge, 2018). Despite these efforts and even efforts from the government to align policies to organizational performance, strategy implementation seems to be dogging most organizations as evidenced by the closure and reforms in some bank branches (Musau, Muathe & Mwangi, 2018; Mwangi, 2018; Rostamiet *al.*, 2018). Difficulty still remains in the alignment of organizational strategy, organizational design and organizational performance. This is attributed to the fact that the technological environment is unstable and unpredictable and hence the flux triggers a strategic flexibility response.

This study sought to find out if organizational design leads to effective strategy implementation for organizational performance.

2. Literature Review

The basis of this study was anchored on the theory of Dynamic Capability (DCT). The Dynamic Capabilities Theory (DCT) was initially introduced by David Teece, Gary Pisano and Amy Shuen in their 1997 paper 'Dynamic capabilities and Strategic Management'. It draws its theoretical basis from two classic traditions within the strategy field namely, the Resource Based View of the firm (RBV) which views the firm's resources as key to superior performance, by Wernerfelt in 1984 and market positioning of Porter in 1996. The RBV theory and market positioning had failed to recognize the turbulence of the external environment in today's organizations and hence substituted with DCT which qualifies as a source of a sustained firm performance. The DCT is based on the concept that there is always an attempt by organizations to renew their tangible and intangible resources by integrating, building and reconfiguring their specific competencies to align with a turbulent or dynamic environment (Mutunga & Wainaina, 2019).

The main assumption of DCT was that an organization's basic competencies should be used to create short term competitive positions that can be developed into longer-term competitive advantage. Others are that resources are specific to firms and are not easily imitable and that firms differ in resource base hence a competitive advantage. Further, that a firm has an ability to renew its competencies to adapt to the changes in the business environment and use the competencies to match the requirements of the environment with that of the firm (Kitenga & Kuria, 2014). However, DCT has several limitations. First, the framework fails to achieve all types of competitive advantage at the same time. Some capabilities that are not imitable can be substituted by different capabilities. The more capable the firm identifies new markets, resources and combinations, the more it comes into competition with other firms with their own version of capabilities (Collis & Anand, 2019).

DCT is relevant to this study because it takes into account three major variables which may be broken down into the variables that this study is based on, namely: process, position and paths. Process, describes how operations are carried out in the firm, in particular the coordination and integration of strategic management activities within the firm, effectively and efficiently. For a firm to maintain a competitive position in a global market place, excellent managerial and production practices must be well designed and strategically implemented.

Position variable, represents the firm's current portfolio of assets (both internal and external) that are strategic to its performance. Internal assets relate to the organizations adapted technology and the cultivated culture. Paths variable refer to the strategic options and alternatives available to the firm its history and path dependencies. These variables (internal and external) require a well thought planned approach to strategy implementation for organizational performance.

The future of the firm depends on its current position in terms of attractiveness, the technological opportunities it has in the industry and the appropriate adaptation of organizational culture. These variables were broken down to organizational design, environmental dynamics and organizational performance and hence the basis of this study.

2.1. Organizational Design

Organizational design is a management and administrative tool for executing organizational strategic plans. This single tool determines the effectiveness of a strategic implementation process. Igwe, *et al.*, (2015), observed that for effective organizational performance, managers must embrace the critical element of organizational design and structure to execute strategy effectively.

Organizational design choices serve as the foundation on which organizational operations are organized. This includes departmentalizing and formal managerial hierarchy, thus creating a foundation for success, giving way to strong organizational culture, adapting changes in the market place and providing a clear map of managerial responsibility. Gamage and Imbulana (2013) strongly pointed out that there is a correlation between organizational design choices and strategy performance. In other words, organizational design influences effective implementation of strategies.

The success of strategy implementation is influenced by the planning and designing of various organizational activities. Colombo *et al.* (2012) noted that the internal organization of a firm displays its creative design, strategically intended, for efficiency and effectiveness in its daily operations. Organizational design includes the structuring of the hierarchical decision making, adoption of high-performance practices (commitment, flexibility, and innovativeness) and

the physical arrangements of equipment that enhances service delivery. The choice of what type of design to be adopted depends on the aims and goals of the firm, organizational policies and customer orientation strategies.

Effective organizational design motivates employees to easily work by moving from one place to another and easily using facilities and equipment for service delivery. However, it has been noted that even with the presence of the best organizational design like that of commercial banks and large companies like Safaricom, still strategy implementation has not effectively led to optimum performance (Joyce, 2017).

3. Research Methodology

Descriptive research design was employed to present the picture of phenomena under investigation. Primary data was collected from 307 heads of sections of five commercial banks sampled from a target of 463 heads of sections in the 90 bank branches in the Western Counties of Kenya.

The rationale to use descriptive research design is based on the fact that the study gathered quantitative data from commercial banks in Kenya. This was also in line with positivism philosophy. Further, the use of descriptive design was adopted due to its usefulness in testing the relationship between variables in a population and also very appropriate in collecting in depth information about variables under study. This enabled the researcher to provide recommendations that are specific and relevant. Inferential statistics techniques were used to test the hypotheses.

4. Descriptive Statistics

The respondents were asked to indicate the level of agreement to which commercial banks employ organizational design in an effort to improve the overall organizational performance. The results were presented in form of tables, minimum and maximum, mean, standard deviation, skewness and kurtosis. The study sought to ascertain the level of agreement with various aspects on organizational design. The findings were shown in table 1.

	N	Min.	Max.	Mean	Std. Deviation	Skewness		Std.	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Error	Statistic	Error
Banks' Structure Allows Decisions	227	1	5	4.30	.900	-1.462	.162	2.212	.322
Structure Hierarchical	227	2	5	4.33	.717	-.804	.162	.154	.322
Structure Eases Coordination	27	2	5	4.40	.666	-.837	.162	.367	.322
Customer Satisfaction	227	1	5	3.97	.986	-.728	.162	-.109	.322
Growth Of Customers.	227	2	5	4.23	.704	-.662	.162	.350	.322
Formal Procedures	227	2	5	4.46	.699	-1.145	.162	.874	.322
Bank Operations	227	2	5	4.53	.640	-1.141	.162	.646	.322
Culture Influences	227	1	5	4.52	.712	-1.796	.162	4.581	.322
Average Mean				4.34					

Table 1: Descriptive Statistics for Organizational Design

Source: Author, 2021

From the findings in table 1, it was agreed (mean =4.30; std. dev. = .900) that banks' structure allows easy decision making and contributes to growth in market share. It was also admitted (mean =4.33; std. dev. = .717) that the banks structure is hierarchical and influences positively the growth of new customers. A majority of respondents agreed to the statement; 'The manager strengthens the coordination of implementation operations for growth in market share'(mean =4.40; std. dev. = .666). Further, respondents admitted (mean =3.97; std. dev. = .986) that employees are responsible for customer satisfaction by making their own judgments. Similarly, respondents agreed to the statement that; 'The reporting design influences positively the growth of new customers' (mean =4.23; std. dev. =0.704). Respondents further admitted (mean =4.46; std. dev. = .699) that many activities are covered by formal procedures. In addition, respondents agreed (mean =4.53; std. dev. = .640) that job activities are formal for effective bank operations. On the same breadth, respondents were in agreement (mean =4.52; std. dev. = .712) that the bank's culture influences the design of the organization for organizational performance. From the average mean score of 4.34, the findings indicated that good organizational design and delegation of authority leads to better organizational performance. The negative skewness for organizational design was between -1 and -0.5 while kurtosis <3 implying that the distribution was approximately symmetric and no extreme values or outliers.

4.1. Organizational Performance

Organizational performance is based on the achievement of organizational objectives on which all activities of the organization are based on. Performing or successful organizations such as commercial banks represent a key ingredient for developing nations (Corinaet *al.*, 2011). The performance is measured by considering inputs, activities and outputs (products and services). The performance indicators can be either quantitative, qualitative or a hybrid of the two. The study sought to find out respondent's perception with regard to organizational performance of commercial banks operating in Western Kenya. The study results are shown in table 2.

	N	Min.	Max.	Mean	Std. Deviation	SkewnessStd.		Kurtosis Std.	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Error	Statistic	Error
Employee motivation	227	1	5	3.23	1.358	-.099	.162	-1.281	.322
Increase market share	227	1	5	4.07	.803	-1.016	.162	1.915	.322
Dividend increasing	227	1	5	3.75	.893	-.246	.162	-.176	.322
Shares in NSE	227	1	5	3.80	.874	-.074	.162	-.534	.322
Taxes paid promptly	227	3	5	4.65	.578	-1.447	.162	1.098	.322
Deposits secure	227	2	5	4.75	.525	-2.430	.162	6.978	.322
Offers credit facilities	227	1	5	4.74	.586	-2.802	.162	9.927	.322
Bank pay creditors	227	1	5	4.67	.654	-2.310	.162	6.337	.322
Corporate responsibility	227	3	5	4.66	.584	-1.521	.162	1.287	.322
Average Mean				4.26					

Table 2: Descriptive Statistics for Organizational Performance
Source: Author, 2021

The study findings in table 2 revealed that respondents were indifferent (mean =3.23; std. dev. =1.358) that employees are well motivated and feel secure. However, they admitted (mean =4.07; std. dev.= .803) that bank keeps on increasing their market share. Further, respondents admitted (mean =3.75; std. dev. = .893) that dividend payable to shareholders has been increasing and also bank's Share premium in Nairobi stock exchange keeps on increasing (mean =3.80; std. dev. =.874). Majority of respondent agreed (mean =4.65; std. dev. =.578) that their banks pay taxes to government promptly. Most respondents also admitted (mean =4.75; std. dev. =.525) that customers deposits are secure and also the bank has the capacity to offer other products e.g., credit facilities (mean =4.74; std. dev. =.586).

		Organizational Design	Organizational Performance
Organizational Design	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	227	
organizational performance	Pearson Correlation	.340**	1
	Sig. (2-tailed)	.000	
	N	227	227

Table 3: Correlation Matrix
Source: Author, 2021

The study results in Table 3 revealed a moderate positive correlation between organizational design and organizational performance of commercial banks operating in Western Kenya, ($r=.340$, $p<.01$). This implied that organizational design had a moderate effect on organizational performance. The study is at variance with the findings of Chokheli (2015) that organizational design positively correlates with organizational performance and that poor company performance was attributed to poor organizational design

4.1.1. Effect of Organizational Design on Organizational Performance

The objective of the study sought to evaluate the effect of organizational design on organizational performance of commercial banks operating in Western Kenya. The hypothesis was;

- H_{01} : Organizational design has no statistically significant effect on organizational performance of commercial banks operating in Western Kenya. The prediction equation was;

$$Y = \beta_0 + \beta_1 X_1 + e$$

Where

Y = Organizational performance

X_1 = Organizational design

e = Error Term

β_0 = Constant

β_1 = Regression coefficient for Organizational design

Table 4 shows the summary of organizational design and organizational performance.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.340 ^a	.116	.112	.36900

Table 4: Model Summary of Organizational Design and Organizational Performance

Source: Author, 2021

The findings in Table 4 shows that the correlation between organizational design and organizational performance is moderate, positive and significant ($r = .340$, $p < .05$). Regression analysis was also used to test if organizational design significantly predicted organizational performance. The R squared value indicated that organizational design explained up to 11.6% of the variance ($R^2 = .116$). The findings on the ANOVA results were presented in table 7 below.

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	4.011	1	4.011	29.456	.000 ^b
	Residual	30.636	225	.136		
	Total	34.647	226			

Table 5: Anova of Organizational Design and Organizational Performance

Source: Author, 2021

ANOVA findings ($F(1, 226) = 29.456$, $p = .000 < .05$) in table 5 shows that there is correlation between the predictor variable (organizational design) and dependent variable (organizational performance) hence the regression model is a good fit of the data. Given that the calculated $F = 29.456$, while the F Critical = 3.84; at $\alpha = 5\%$ (95% C.I), numerator degrees of freedom - $V1 = 1$ (226-225) and denominator degrees of freedom - $V2 = 225$ (226-1). Then $F \geq F$ critical at $\alpha = 5\%$. Since F calculated is more than F critical at a p value of $< .05$ the null hypothesis is rejected. This means organizational design has a statistically significant effect on organizational performance, hence an indication that organizational design is a significant predictor of commercial banks' strategic performance outcome.

These findings are in agreement with those of Mailuet *et al.*, (2018) who concluded that organizations should consider organizational design factor as a basic strategic tool for executing a business strategy. On the same wavelength, Burton and Obel (2018), Manar (2014) and Gamage and Imbulana (2013) concluded from their findings that organizational design of employee training and development contributes to the organization's high quality work productivity, enhanced environmental safety, vibrant teamwork, improved morals, motivated workforce, job satisfaction, exposure of hidden talents, reduced absenteeism and production of a disciplined workforce for effective strategy implementation and the ultimate organizational performance.

Further, these findings are in agreement with those of Chokheli (2015), who identified organizational structure, delegation of authority and span of management as gaps that hamper organizational activities of the company and concluded that companies should employ organizational design principle to remedy existing gaps for efficient organizational performance.

The regression coefficients in table 6 established the mean change in organizational performance for one unit of change in organizational design.

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.150	.205		15.341	.000
	Organizational Design	.255	.047	.340	5.427	.000

a. Dependent Variable: Organizational performance

Table 6: Coefficients of Organizational Design and Organizational Performance

Source: Author, 2021

The study findings showed that organizational design had coefficients of estimate which were significant basing on $\beta_4 = 0.340$ (p -value = .000 which is less than $\alpha = .05$). This means that a unit increases in organizational design yielded .340 changes in organizational performance. The effect of organizational design was stated by the t -test value = 5.427 which indicated that the effect of organizational design was over 5 times that of the error associated with it. The null hypothesis was therefore rejected. Based on the above results, simple linear regression model was derived as shown below.

$$Y = 3.150 + 0.255X_1 + e$$

5. Conclusion

Organizational design is an important approach to strategy implementation if effective organizational performance is to be achieved. A well-designed organizational structure leads to effective strategy implementation for organizational performance. Departmentalization, formalization, centralization and span of control are blocks or elements of an organizational design that enables an organization to navigate through the perceived environmental turbulence. Though determined by the strategic direction of the organization, organizational design leads to easy decision making. Effective coordination of implementation operations and employees taking responsibility for customer satisfaction is an indicator of a well-designed approach to organizational performance. From the findings it was clear that when employees make their own judgments to solve a problem and get committed to achieve targets, organizational performance becomes significant despite environmental dimension. Elements of organizational design, facilitates an organization to traverse through better performance.

From these findings the study recommended that managers should create the best fit between the strategic choices of the organization and organization setting. They should involve a young workforce that is able to navigate environmental turbulence during strategy implementation. The banking industry is so dynamic and competitive such that the management must keep maintaining a young workforce. This leads to organizations adapting the culture of creativity and commitment to new information and the development of new skills to solve new challenges. A similar study can also be conducted in other regions in Kenya to make conclusions.

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