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Research article

Motivations behind Restructuring in Ghanaian Banking Sector: An Empirical Assessment of Agricultural Development Bank, Ghana

***Collins Owusu Kwaning[1], Henry Kwame Afriyie[2], Halidu Babamu Osman[3]**

[1]School of Business and Management studies, Accra Polytechnic, Ghana.

[2]Department of Accounting and finance, Christ Apostolic University College, Ghana

[3]Department of Accountancy, Kumasi Polytechnic, Ghana

E-mail: *collioggie2009@yahoo.com

Tel. +2330243208622

Abstract

Contemporary literature reveals various reasons for organizations to reorganize their operations through a restructuring process. According to Anderson & Anderson (2001) organizational restructuring is often set in motion by certain signals of change that take place in the organization's environment or marketplace. Such warnings entail invention of new technology, changes in government regulations and adventurous actions by competitors. The theoretical background and its implication on the banking sector have been explained and end extensive literature reviewed. The study reviewed the motivation behind restructuring in Ghanaian banking sector and used ADB as the case study. This bank is one of the biggest state-owned banks in Ghana. Both primary and secondary data were used. Interview was used as an instrument for collecting primary data from top management and branch managers. Also, annual reports, bank's website and so on were used as the secondary source for data analysis. The study revealed that the restructuring was influenced by the government who appointed new management. Two reasons were identified as the motivations behind the exercise. These were; the bank's poor financial performance as a result the increased level of the non-performing loans due to inefficient management; and technological changes in the banking environment it is hoped that other state-owned banks will realised the need to restructure when the positive effects are uncovered.

Keywords: Restructuring; Ghanaian banking sector; Motivation behind, Business environment

1. Introduction

Restructuring is a common phenomenon, undertaken by many organizations on a regular basis (Whittington, 2006). Organizations are nowadays constantly involved in activities that are designed to enhance their organizational effectiveness. A study conducted by Dadhwal and Dange (2012) revealed that modern organizations are increasingly encountering fierce competitions from competitors and facing customers that are sophisticated and enlightened and therefore, demand services that best satisfy their needs and quality customer care. Organizations need to devise strategies to effectively counteract the potentially negative effects of these situations. They need to, amongst other things, decrease operating costs, enhance the quality of both products and services as well as increase their reactive capacity to respond to new opportunities in the market place. Consequently most organizations find themselves having to restructure in order to deal effectively with these challenges.

Since the deregulation of the Ghana's financial market, many foreign banks locate themselves in this environment. This has established keen competition in Ghanaian banking sector. This is because these foreign banks are well equipped with sophisticated gadgets, advanced technologies and strategies that will make them achieve competitive advantage over the domestic rivals. In view of this pressure is being mounted on Ghanaian local banks to restructure and restrategise in order to cope with the ever-growing banking sector. As in most strategic decisions, the common driver has been the assumption that such actions spur company performance (Gowing et al., 1998). This exercise is important when Agricultural Development Bank(ADB) is perceived by Ghanaians as 'farmers' bank' most especially 'state-owned enterprise where much attention is not paid in terms of growth and expansion.

As the competition grows significantly new banks emerge with modern techniques and as such the new management of ADB sought to place the bank among the top three in Ghana. This necessitated the bank to embark on a three year restructuring from 2010-2012. This exercise was undertaken in all areas of the bank to address operational challenges, customer relations and profitability inefficiencies. The bank is currently undertaking the second phase of restructuring (2013-2015), it is important to conduct an empirical assessment of the motivation behind this restructuring.

2. Literature Review

Alternative spheres of corporate restructuring

Norley et al. (2008) defined restructuring as the act of reorganizing the legal, ownership, operational or other structures of a company for the purpose of making it more profitable and better organized for its present needs. They noted that a company that has been restructured effectively will theoretically be leaner, more efficient, better organized and focused on its core business with a revised strategic and financial plan

The changes which are realized in organizations during restructuring can be oriented to various spheres of the organization's activities. It is necessary to take into account that these changes do not affect separately but they are mutually connected and influenced. Jirasek (2001) believes that an organization needs to pay attention to the following spheres during the process of restructuring: financial turnaround; designing, product development, technologies; production, running of the business, maintenance and repairs; purchase and logistics; controlling; informatics; human resources management; ecology, social responsibility, ethics, aesthetics and business culture and quality management. Vodacek (1998) supposes that the necessary part of the processes of organizational restructuring are; changes of the production program, innovations, changes of production and technology basis, functional changes, information, organization, staff and financial changes. Trunecek (2000) distinguishes two components of organizational restructuring, which are financial restructuring and restructuring of organization management system. He defines the concept of a financial restructuring as changing owners of an organization followed by targeted investments into the development of an organization, mostly sourcing a foreign capital. An organization management system restructuring is defined by him as a redesign of processes carried on within a firm.

It can be drawn that, the successful restructuring process requires the realization of restructuring measures in all spheres of business activities. It means some measures in the sphere of finance, properties, production, business, organization, information and personnel. (Trunecek, 2000).

Motivation for Organizational Restructuring

Organizational restructuring has become a very common practice amongst firms in order to match the growing competition of markets. This makes firm change the organizational structure of the company for the betterment of the business.

Contemporary literature reveals various reasons for organizations to reorganize their operations through a restructuring process. These range from business and economic factors, changes in the environment, and political factors to globalization, to name just a few. The work of Bowman et al. (1999) indicate that organizational restructuring emanate from the changes in human resources policies. The current human resources policies of the organization may need to be changed in accordance with the changing scenario. The human resources department needs to enable change management. Burnes (2009) indicates that rationalization of the present pay structure should be accomplished in order to maintain the internal and external equity among the employees.

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There are symptoms that may indicate the need for organizational restructuring (Hane, 2000). He identified that such symptoms include: parts of the organization are significantly over or under staffed; organizational communications are inconsistent, fragmented, and inefficient; technology and/or innovation are creating changes in workflow and production processes; significant staffing increases or decreases are contemplated; new skills and capabilities are needed to meet current or expected operational requirements; accountability for results are not clearly communicated and measurable resulting in subjective and biased performance appraisals; personnel retention and turnover becomes a significant problem; stagnant workforce productivity or deteriorating morale.

Gowing et al. (1998) discussed that rising global competition, the influence of information technology, reengineering of business processes, and the changing perception of a job as constant collection of activities, are some of the factors that impact on work and organizations. These factors require leaner and meaner organizations that focus more on core abilities, thus inducing them to outsource all the non-core activities of their businesses. These changes invariably lead to some serious consequences for both employees and organizations.

Gilson (2011) explained that innovations in technology, work processes, materials and other factors that influence the business, may require restructuring to keep up with the times. For instance, enterprise resource planning that links all systems and procedures of an organizational by leveraging the power of information technology may initially require a complete overhaul of the systems and procedures first. He revealed that such technology-centric change may be part of a business process engineering exercise that involves redesigning the business processes to maximize potential and value added, while minimizing everything else. Failure to do so may result in the company systems and procedures turning obsolete and discordant with the times. Organizations with designs that facilitate information processing and accurate decision making would exhibit higher performance when faced with crises as well as in other situations (Perrow & Davy, 2008).

Cascarino (2007) discussed that in today's business environment, the only constant is change. Therefore, companies that refuse to change with the times face the risk of their product line becoming obsolete. Because of this, businesses experiment with new products, explore new markets, and reach out to new groups of customers on a continuous basis. Businesses seek to diversify into new areas to increase sales, optimize their capacity, and conversely shed off divisions that do not add much value, to concentrate on core competencies instead. All such initiatives require restructuring. Cascarino (2007) explained that, for instance, expansion to an overseas market may require changes in the staff profile to better connect with the international market, and changes in work policies and routines to ensure compliance with export regulations. He said starting a new product line may also require changes in the system of work, hiring new experts familiar in the business line and placing them in positions of authority, and other interventions. Moreover, hiving off unprofitable or unneeded business lines may require changes to retain specific components of such divisions that the main business may wish to retain.

According to Anderson & Anderson (2001) organizational restructuring is often set in motion by certain signals of change that take place in the organization's environment or marketplace. Such warnings entail invention of new technology, changes in government regulations and adventurous actions by competitors. They explained that the need for organizational restructure may also be triggered by the failures in the leader's own organization. Organizations need to craft strategies to deal effectively with these events irrespective of what triggered them. The challenge is for management to be aware of and fully understand these signals and take action to respond appropriately. Dadhwal and Dange (2012) identified that the key strategic objectives of restructuring the organization may include the following:

- Improve profits;
- Refocus efforts on changing markets and strategic directions;
- Incorporate new markets, products, services, and production facilities;
- Accommodate new growth areas and opportunities;
- Enhance communication and cooperation within the organization;
- Redistribute management skills;
- Enhance customer service;
- Make better use of limited resources;
- Streamline operations and reduce costs; and
- Focus effort by grouping related tasks into organizational units, thus replacing duplication with synergy.

Byars (1992) also contends that an organization can restructure during both good and bad times. The need to restructure may be triggered by various forces such as the business expansion of the organization, products or customer base diversity, expansion of product lines through acquisitions, or entering into a joint venture with another company in a bid to access bigger markets. According to Byars (1992), the following are the reasons generally given by most organizations for reorganizing:

- To enhance profitability of the company;
- To enhance productivity;
- To compete effectively in the market;
- To enhance the ratios of the balance sheet;
- To improve growth rates; and
- To strategically change the direction and focus.

Byars (1992) further postulates that there are many factors that affect the structure of the organization, but the structure of the organization cannot be altered every time one of these factors changes. Perpetual restructuring will engender a state of chaos and confusion within the organization. The organizational restructuring is also not a panacea to poor product offering, bad strategy or filling of positions with unsuitable individuals.

3. Methodology of the Research

The research design used was descriptive survey. Descriptive research is directed towards the determining of nature of a situation, as it exists at the time of study. Descriptive research is to describe things, portray an accurate profile of persons, events, or situations (Robson, 2002).

Agricultural Development Bank, Ghana (ADB) was selected as population for the study. Purposive sampling was used to select top level management, namely heads of finance and planning, retail banking, research and marketing and estate departments and some branch managers of the Agricultural Development Bank. These respondents would give direct information relevant to the research that will ensure validity and reliability. The two sources of data collection such as primary and secondary were used.

In this research interview was used as a tool for obtaining primary information from the heads of department. The interview was semi-structured to allow for favourable discussion. The purpose of the semi-structured interview was to generate qualitative data in order to obtain enough information. In order to ensure reliability and validity of results the responses from respondents were re-examined. The data was edited for consistency. All the responses were coded in the definite categories for easy and adequate analysis. SPSS (19.0) was used as the statistical tool for data generation.

Secondary data were also obtained from annual reports, ADB website and other manuals.

Data retrieved from the secondary sources included financial performance indicators such as return on equity (ROE), return on assets (ROA), capital adequacy ratio (CAR), etc. Return on equity (ROE) measures how well a company uses reinvested earnings to generate additional earnings, giving a general indication of the company's efficiency (Bodie, *et al,* 2002). It measures the firms overall profitability relative to the equity base which it has available. In other words, it tells how much is earned by the firm based upon the amount of equity the owners have invested in the business. For firms in the commercial banking sector an ROE of 12.5% or greater is desirable.

4. Data Results and Discussions

With the top management and the branch managers interviewed, about 85% have worked with the bank for five years and above. This gave an indication of their maximum involvement in the bank's restructuring process.

Motivation behind ADB's Restructuring

The major motivation behind ADB's 3-year restructuring program was ascertained. It was principally aimed at moving the bank to the top three performing banks in Ghana by 2012. It was to align the bank's structure to its function and enhance performance and make the bank competitive in the marketplace. This supports the study by Anderson & Anderson (2001) that organizational restructuring is often set in motion by certain signals of change that take place in the organization's environment or marketplace.

Poor performance

The study found poor performance as the major reason why the new management of ADB embarked on the three-year restructuring plan. During 2008 and 2009, ADB suffered poor performance in operation. Firstly, ADB experienced poor performance in terms of profitability during 2009. As Table 4.1 indicates, ADB's operating profit dropped from GH¢14,935,000 in 2008 to GH¢12,667,370 in 2009 showing a decrease of 15.18% in profit.

Table 4.1: Performance indicators of ADB 2008 and 2009

Indicators	**2008**	**2009**
Profit for the year (GH¢'000)	14,935.00	12,667.37
Return on Equity (%)	13.70	10.41
Return on Asset (%)	2.39	1.72
Capital Adequacy Ratio (%)	16.0	15.85

Source: 2009 ADB Annual Report

Again, from the table, the return on asset (ROA) ratio, which is an important indicator of profitability in the banking sector also declined from 2.39% in 2008 to 1.72% in 2009.

ADB's poor performance appeared to be due to the high levels of non-performing loans (NPLs). As an indicator of performance, the NPLs ratio reflects the stability of a bank. The management of loans and advances was seen to be very poor. A more efficient way was to be instituted to ensure that large percentages of loans and advances are recovered. The creation of Credit Risk Management Department would ensure prudent management of the bank's credit portfolio. It was revealed that, with operating profit on the decrease and NPLs ratios being high, there was an urgent feeling that we had to restructure the old system. This is because profitability and credit control are important for a bank. ADB's strategic objective of embarking on the restructuring to improve profitability supports Dadhwal and Dange (2012) who identified improve profits as one of the key strategic objectives of restructuring.

Changes in business environment

The Ghanaian banking sector has undergone tremendous competition with the growing innovations and products that results from technological advancement. Banks especially foreign ones entering the sector come with innovative services and products such as internet banking. As Gowing et al, (1998) put it, the rising global competition, influence of advances in information technology, re-engineering of business processes are some of the imperatives that force organizations to restructure their businesses. To enable ADB join the league of large banks in the country with operational efficiency there was the need for it to be more technologically oriented. This was found to be one of the reasons why management of the bank embarked on the 3-year restructuring program. It introduced e-banking, Visa Card, Quick Alert etc, into the bank.

5. Conclusions and Recommendations

It is important to emphasise that organisational restructuring plays significant role in public and private businesses in every country in the world. This could be implemented through the combined efforts of all stakeholders of the business. The theoretical framework of the study suggests a magnificent implication of corporate restructuring on Ghanaian businesses and specifically on the banking sector where ADB is located. The ADB's corporate restructuring originated from the appointment of new management by the government. The findings conclude that the restructuring was a combined reason of poor financial performance and technological changes emanated from the business environment. It further indicated a fall in ROE, ROA, CAR, and transaction cost ratio which was as a result of increased level of non-performing loans. The experience of this symptom was due to ineffective and inefficient management of loans and advances. It is hoped that efficient strategy and method would be adopted to improve on the recovery of loans and advances. Even though it was evidenced in the research that technological change was a significant objective of the bank's restructuring, there is more technological facilities such as internet banking and small and medium-scale enterprises' banking to be considered as the bank seeks its second phase restructuring. This would help place the bank first or among the first in the banking industry as the customer size increases.

However, in this growing economy, the bank should be liberated from political influence so as to ensure full recovery of loans since most of the indebtedness is attributed to politicians and government.

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