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Effects of Restructuring on Organization Performance of Mobile Phone Service Providers

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Abstract

The aim of the study was to examine the effect of restructuring on an organization's performance specifically inquiring the frequency with which an organization carries out portfolio, financial and organization restructuring. The study location was in Kenya among the mobile phone service providers. The study adopted a causal research design using questionnaires to collect data from the finance, human resources, information communication technology and marketing departments of the major mobile phone service providers. Data was analyzed using descriptive statistics and the findings reveal that changes in the firm's objectives, technological change and economic factors influence the decision to restructure.

Keywords: Restructuring, organization performance, mobile phone service providers, Kenya

Introduction

Norley et al. (2001) defines 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. Alternate reasons for restructuring include a change of ownership or ownership structure, demerger, a response to a crisis or major change in the business such as bankruptcy, repositioning or buyout. Norley et al. (2001) note 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.
Restructuring has been adapted by managers in several industries so as to streamline cost, increase productivity and revenues, improve employees' welfare, increase shareholders wealth, enhance efficiency and improve performance among other reasons. Lal et al. (2001) suggest that the telecommunication industry has transformed from predominantly dormant, country-centered, government-run agencies to increasingly competitive, innovative and market-led organizations. The aim of the study was to examine the effect of restructuring on an organization's performance specifically inquiringthe frequency with which an organization carries out portfolio, financial and organization restructuring.

Literature Review

Bowman & Singh (1999) state that organizational restructuring strategies consists of three modes; portfolio, financial and organizational restructuring. Organizational restructuring emanate with 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 (2004) indicates that rationalization of the present pay structure should be accomplished in order to maintain the internal and external equity among the employees
There are symptoms that may indicate the need for organizational restructuring (Hane, 2000). 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.
Organizational restructuring has proven to be beneficial in a number of ways that are not limited to lowering operational costs and assisting in better formulation and implementation of strategies (Eby and Buch, 1998). According to Cascio (2002), debt restructuring also qualifies as financial restructuring. This process allows a private or public company facing cash flow problems and financial distress, to reduce and renegotiate its delinquent debts in order to improve or restore liquidity and rehabilitate so that it can continue its operations. Cascio (2002) contends that the investment pattern of a company which relates to ability of corporations to identify the various investments opportunities that would lead to higher returns is part of the restructuring procedure. Financial restructuring may be accomplished with the motive to enhance liquidity, lower the cost of capital, reduce risk, avoid loss of control, and improve shareholder value, among many other reasons (Cascio, 2002).
Previous research has indicated that organizational performance is affected by myriad factors including: the lines of communication and command connecting these individuals (organizational authority structure and the degree of centralization); the resources and information to which the individuals have access; the nature of the task faced by the individuals; and the type and severity of the crisis under which the individuals operate (Richard et al., 2009; Pfeiffer and Salancik, 1978). Organizations with designs that facilitate

information processing and accurate decision making should exhibit higher performance when faced with crises as well as in other situations (Perrow & Davy, 2008). There are various methods with which an organization can achieve restructuring. These methods include but are not limited to: downsizing which is the need to retrench the surplus manpower of the business to cut costs (this is the process of reducing the size of a company by laying off employees on the basis of incompetence and inefficiency) (see Norley et al. (2001; Sahdev, 2003; Tyler & Wilkinson, 2007); decentralization which involves reducing the layers of management in the business so that the people at lower hierarchy benefit (Mellahi & Wilkinson, 2004).

Networking refers to the process of breaking companies into smaller independent business units for significant improvement in productivity and flexibility. The phenomenon is predominant in South Korea, where companies like Samsung, Hyundai and Daewoo are breaking themselves up into smaller units. These firms convert their managers into entrepreneurs (Norley et al., 2001). Outsourcing is another measure that reduces the manpower and transfers the fixed costs of the company to variable costs (Norley et al., 2001). Business process engineering reconsiders radical redesign of organizational processes, in order to achieve drastic improvement of current performance in cost, service and speed (Norley et al., 2001). Total Quality Management involves quality improvement of customer service and reduces the cost of the business (Wilkinson 2004). Joint Ventures are new enterprises owned by two or more participants formed for special purposes for a limited duration. Each of the venture partners continues exist as a separate firms and the joint venture represents a new business enterprise. There are project based joint ventures which refer to those entered into by companies in order to accomplish a specific project and functional joint ventures are when companies agree to share their functions and facilities such as production, distribution, marketing, etc. to achieve mutual benefit (Mellahi & Wilkinson, 2004).

Wilkinson (2004) asserts that motives for forming a joint venture may be internal i.e. in order to build on company's strengths, spreading costs and risks, to improve access to financial resources, to gain economies of scale and advantages of size, to access to new technologies and customers and to access innovative managerial practices. Relocation is where the activityremainswithin the same company, but is relocated to another location within the same country for convenience (Ostrow, 2000).

Robbins (1993) asserts that mergers can are three types; horizontal, vertical and conglomerate mergers. A horizontal merger is when two companies competing in the same market join together. This type of merger can either have a very large or little or no effect on the market. When two extremely small companies horizontally merge, the results of the merger are less noticeable (Robbins 1993). Vertical merger is a merger between two companies producing different goods or services for one specific finished product. Vertical mergers can be in the form of forward integration of business (e.g. a manufacturing company entering in the direct marketing function) or in the form of backward integration of business (e.g. a manufacturing company focusing on producing the required raw materials and managing its supply chain activities). Robbins (1993) suggests that conglomerate merger involves mergers of corporates in related/unrelated businesses to achieve three objectives; product extension, entry into new geographic markets and, entry into unrelated yet profitable businesses

Research Methodology

The study adopteda causal research design approach and sought to determine the relationship between restructuring, market share and organization performance. The target population consisted of finance, human resource, information communication technology and marketing departments of the mobile phone service providing companies operating in Kenya which included Telkom-Orange Kenya, Safaricom Limited, YU Essar Kenya and Bharti Airtel. The studyapplied a census method and utilized both primary and secondary data. It employed a non-random sampling technique and the four departments were chosen on the basis that they are most likely to be affected by any restructuring process. Each department received 6 questionnaires that were filled by the Head of Department and 5 other members of the same department. The other 5 respondents were selected on a random basis as their perspective of the organization's performance was required. The questionnaires were administered at the Head Offices of the mobile phone service providers' organizations. The primary data was obtained through 96 questionnaires with closed-ended questions. The primary data was supplemented by use of secondary data obtained from published periodical reports and press releases. The data collected included information on developing trends on their market share and market growth. Data analysis was conducted through descriptive statistics.

Data Analysis

Table 1: Frequency of carrying out restructuring

		Scale (%)			
Organization	Type of Restructuring	Most Often	More Often	Often	Less Often
YU Essar	Portfolio Restructuring	27.3	27.3	22.6	20
	Financial Restructuring	40	16.7	27.8	20
	Organization Restructuring	29.4	27.3	18.2	27.8
Safaricom	Portfolio Restructuring	27.3	22.7	25.8	20
	Financial Restructuring	40	20.8	22.2	30
	Organization Restructuring	29.4	22.7	22.7	27.8
Orange Kenya	Portfolio Restructuring	18.2	36.4	25.8	0
	Financial Restructuring	20	25	25	30
	Organization Restructuring	17.6	31.8	31.8	17.7
Bharti Airtel	Portfolio Restructuring	27.3	13.6	25.8	33.3
	Financial Restructuring	0	37.5	25	20
	Organization Restructuring	23.5	18.2	27.3	27.8

Source: Research data (2012)

More than half of the organizations use portfolio restructuring as indicated by 27.3%, 27.3%, 18.2% and 27.3% most often for YU Essar, Safaricom, Orange Kenya and Bharti Airtel respectively. Safaricom and YU Essar use financial restructuring most often at 40% compared to Orange Kenya and Bharti Airtel who administer financial restructuring more often at 25% and 37.5% respectively. Orange Kenya and YU Essar utilize organizational restructuring at 31.8% and 27.3% respectively. It is evident that Safaricom and Orange Kenya apply more of portfolio restructuring compared to the other organizations. Safaricom is the only organization that attempts to balance the use of restructuring methods.

Table 2: Extent to which restructuring affects market Share and growth

	Market Share				**Market Growth**			
Type of	**2008**	**2009**	**2010**	**2011**	**2008**	**2009**	**2010**	**2011**

Restructuring								
Portfolio Restructuring	31.69	31.45	32.76	28.08	27.11	-4.28	20.79	0.00
Financial Restructuring	60.61	60.49	61.6	53.17	-1.75	1.72	7.8	0.00
Organizational Restructuring	25.79	24.21	25.55	25.17	27.25	8.89	25.37	0.00

Source: Research data (2012)

On average, portfolio restructuring affects the market share by 30.995% compared to 10.905% effects on the market growth. The study reveals that market share is greatly affected by financial restructuring at 58.97% compared to market growth at 1.94%. Besides portfolio and financial restructuring, organizational restructuring least affects the market share by 25.18% and it affects market growth by 15.38%. Restructuring therefore has a great impact on a company's market share and market growth.

Table 3: Effectiveness of restructuring methods on market share and growth

			Market Share				**Market Growth**	
Type of Restructuring	**Method of Restructuring**	**2008**	**2009**	**2010**	**2011**	**2008**	**2009**	**2010**
Portfolio	Introduction of New Products	31.05	30.85	32.24	29.62	26.70	-1.12	23.19
Restructuring	Partnering with other companies	57.14	57.84	59.11	51.67	0.11	-2.32	8.96
Mean	Mergers	6.88	5.66	6.93	9.89	54.53	-9.41	30.22
			31.35			32.27		
Financial	Divestment	70.17	69.90	71.03	60.89	-7.78	1.43	4.49
Restructuring	Change in Capital Structure	41.49	41.57	42.73	37.72	10.31	2.30	14.42
Mean	Diversification of Investments	70.17	69.90	71.03	60.89	-7.78	1.43	4.49
			58.96			2.59		
Organizational	Decentralization	35.66	34.68	35.63	32.34	10.25	-3.37	11.94
Restructuring	Lay Off	15.91	13.74	15.46	18.00	44.25	21.14	38.79
			25.42			20.43		

Source: Research data (2012)

By conducting a mean on the values, for every portfolio restructure conducted the market share of the companies, on average increased by 31.35% and the market growth rate by 32.72%. For every financial restructure executed, the market share increased on average by 58.96% and the market growth rate by 2.59%; and for every activity of the organization restructured implemented, the market share increased on average by 25.42% and the market growth rate by 20.43%.

On average, 60.04% of the respondents stated that the firm's decision to restructure was influenced by change in the firm's objectives, political/legal factors, technological change, economic and socio-cultural factors. Change in the firm's objectives, technological change and economic factors had a greater bearing of these factors i.e. 35.65%, 35.65% and 38.75% respectively.

Conclusion

This study examined the effect of restructuring on an organization's performance in the mobile service providing industry. The study focused on establishing how portfolio restructuring, financial restructuring and organizational restructuring affect the market share and market growth of companies and to establish whether change in the firm's objectives, legal, political, technological and socio-cultural factors had an impact on the decision to restructure. All the companies conducted restructuring with portfolio restructuring being undertaken more often as compared to the other types of restructuring. This could due to the mobile phone service providing industry clientele being more service oriented and thus only subscribe to the network that has the best deals; and also due to change in the market and market growth impacted by the change in a firm's portfolio. It is apparent that the three methods of restructuring had a favorable effect on the companies' market share and market growth. Results indicate that financial restructuring had the greatest impact on a company's market share followed by portfolio restructuring and organization restructuring. It is distinct that organizational restructuring had the greatest impact on market growth rate.

Findings indicate that a firm's decision to restructure is influenced by a change in the firm's objectives, political/legal, technological, economic and socio-cultural factors; with a greater weight being seton the firm's objectives, technological change and economic factors. Organizations have embraced the concept of restructuring and conduct it more often in a bid to increase their performance. Financial restructuring had the greatest impact on performance followed by portfolio and organizational restructuring. A firm's decision to restructure is therefore influenced by a change in the firm's objectives, political/legal, technological, economic and socio-cultural factors. It is evident that the major factors influencing the decision to impart a restructure are changes in the firm's objectives, technological change and economic factors.

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