

# Influence of Capital and Operational Restructuring on Financial Performance of Deposit Taking Savings and Credit Cooperative Societies in Nairobi County, Kenya

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## Abstract:

Many Savings and Credit Cooperative Societies (Saccos) are facing financial crisis due to the Covid-19 pandemic and some have adopted restructuring approaches though literature review shows inconsistent and conflicting empirical findings thus the need for more empirical studies. This study therefore examined the influence of capital and operational restructuring on financial performance of Deposit Taking Savings and Credit Cooperative Societies in Nairobi County, Kenya. The study was grounded on resource based view theory and financial intermediation theory. The study adopted descriptive survey design and targets 11 tier one deposit taking Saccos in Nairobi County. A secondary data collection sheet was used to collect secondary data on the study variables. All collected data were analyzed using descriptive and inferential statistics with the aid of STATA 15. Descriptive analysis such minimum, maximum, means, standard deviation were utilized; analyzed data was presented in tables and graphs. Further, inferential statistics assessed nature and the strength of linear and multiple relationships. The findings indicated that a positive and significant relationship between capital restructuring and financial performances for the deposit taking Sacco's in Nairobi County. There was a positive and significant relationship between operational restructuring and financial performances for the deposit taking Sacco's in Nairobi County. This implied that an increase in capital restructuring and operation restructuring leads to a significant increase on financial performances for the deposits taking Sacco's in Nairobi County. The study concluded that corporate restructuring has significant positive influence on financial performance while asset restructuring has insignificant negative effect. The study recommends that the Sacco management should maintain their core capital as a Sacco reserve to above 10% compared to total capital. The study recommend that deposit taking Saccos management should adopt debt management strategy as this would led to increase in debt recovery, improving loan portfolio performance, lower loan books, increase bank interest earning on loan recovered, and enhance easier tracking of non-performing loans, reduction in risks, reducing non-performing loan to a great extent. Much effort should also be made toward adopting portfolio management as this would result into increased asset quality.

**Key Word:** Corporate Restructuring, Capital Restructuring, Operational Restructuring, Financial Performance, Deposit Taking Savings and Credit Cooperative Societies

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## I. Introduction

The financial performance of financial lenders has a detrimental effect on the economic crisis. In financial sectors, for example, when SACCOS is reduced, despite ongoing attempts to control the spread of the virus, such impacts as the daily savings and borrowing habits of the members have started to change greatly with regard to COVID-19 economic repercussions. The lockout due to the COVID-19 spread has, for instance, led to the reassessment of the credit and risk situations of the nations in light of the geo-economic difficulties presented by the crisis (Weltman, 2020).

To try overcome financial distress in Saccos, most researchers as reported by Birjandi et al. (2015) have reinforced on the need to have reliable board directors and firm managers to address financial performance issues emanating from agency related issues. The agency theory encourages a growing number of external board members, helping to regulate and limit managers' opportunistic nature based on their skills, impartiality and independence, which are essential for control. In addition, the presence of external (non-management) directors increases the efficiency in order to generate more publications for the business. Birjandi et al. (2015) highlighted the rise in the monitoring and efficiency of financial disclosures and the lowering of retention incomes by a majority of external board members. The membership of the board may have a positive effect on SACCO's financial performance. However, boards with more external directors may contribute to minimizing the issue of

the agency by reducing managerial opportunism (Oguku & Olweny, 2016). They can also play a supervisory role in successfully executing business restructuring operations.

In the restructuring of financial lending institutions to reduce their financial performance, restructuring usually involves reorganizing their operations to attain better levels of operational efficiency. The field of restructuring was seen as an area of strategy implementation for Pearce and Robinson (2007), in which managers seek to redefine their organizational structure, leadership, culture and incentive structures in order to ensure the cost competitiveness and quality of their plans. Restructuring involves removal of non-core business and business processes, consolidation of important business and business activities and the extensive reengineering of existing processes. According to Rose (2016), restructuring often involves changing the organizational management team, a shifting strategy, or the insertion of new technologies into the organization which enables the organization to track new acquisitions and enterprises to build a critical mass and sell unneeded or unconnected parts, reducing the effectiveness of acquisition costs. This means that Saccos can compete and thrive successfully in the local industry, assess its performance and reorganize its organisations, reduce expenses and improve efficiency. When possible (Rose, 2016)

SASRA (2019) highlighted the Board's commitment to set the lead tone by requiring managers to meet the criteria that show the company's commitment to financial dependability and uniformity. The tone provides the foundation for an organizational culture that then passes on to staff at all levels of the business. It also is required to approve the organization's restructuring plans and to regularly review execution of plans to achieve sustainable values while assessing and seeking risk solutions inherent in the restructuring plans in such a way that Saccos' financial results is not affected.

Kenyan SACCOs were leading in Africa and rated 11th worldwide (WOCCU, 2018). The area includes deposit receivables and credit partnerships (DT-SACCOs) and a non-deposit receivables and credit partnership. The Commissioner for Co-operatives supervises SACCOs who provide back office services operations. Those offering front-office services activities are also licensed and controlled by SASRA but must be properly registered under the CAP 490 Cooperative Societies Act.

Further, a 6.3 percent of Kenyans are members of DT-SACCOs which employ over 250,000 people and over 60 percent of the population depends on SACCO related activities. They also contribute by 45 percent to the Kenya's gross domestic product. The asset base of these societies has grown from Kshs 442 billion in 2017 to Kshs 495 billion in 2018. Deposits have also increased from Kshs 305 billion in 2015 to Kshs 341 billion in 2018 (SASRA, 2019).

SACCO's sub-sector Demographic Study Report, 2019 states that the SACCO sub-sector comprise a total population of little more than 4.97 million natural individuals and a member company or institution for the period ending December 2019.

In addition, the SACCO sub-sector Demographic Study Report 2019 indicates that for the time period ending December 2019, the SACCO subsector has an overall population of just over 4.97 million natural people and an enterprise or institutional membership in the SACCO sub-sector – SACCOs. According to UNDP (2020), however, in a political brief descriptive of the ways in which the socio-economic impact of a COVID-19 pandemic on the Kenyan economy was described as causing a fear of associations with others, which leads to reduced labor participation due to the contagious nature of the virus that calls for social distance This crippled trade as agricultural marketing and savings and lending. In particular, DT-Saccos have claimed low financial performance because to non-repayment of loans, withdrawals of members and poor asset quality.

### ***Statement of the Problem***

According to the 2018 Kenya Financial Sector Stability Report 2018, SACCO accounted for around 5.55 percent of Kenya's GDP in 2018. However, the deposit of Saccos continues to have a poor financial performance because of difficulties which have slowed the increase of the SACCO movements, such as the non-remittance of employers' dues, the misuse of government money, and members failing to repay their loans, among others. In addition, Coronavirus has had far reaching effect on SACCO survival. The economic slump caused by Covid-19 in Kenya has an enormous impact on jobs and companies. Many workers were on an unpaid leave or had a payroll while many companies either registered losses or were shut down entirely. Many deposits have caused Sacco members to withdraw their funds to meet their necessities. Furthermore, a study from Kiaritha (2015) reveals a high failure rate (51%) for SACCOs with 3 (3) in every seven (7) of the registered deposit-taking SACCOS that have revoked their deposit-taking licenses due both to the perpetual failed handling of nonconformity issues, as well as to the financial difficulty caused by the Saccos deposits..

According to SASRA annual reports (2020), Kenya's Saccos have an asset base of over KES 1 trillion, mobilized savings and deposits in excess of Sh732 billion and a loan portfolio of Sh700 billion, but majority of Sacco members with loans were facing monumental challenges; that is, members, who had borrowed money before Covid-19 period, were struggling to service their loans, thus negatively affecting Saccos financial performance. For instance, the Sheria Sacco annual report shows that total membership reduced by 105

members from 15,143 in 2019 to 15,038 (11,955 Active and 3,083 dormant). This was a shrinkage of 0.69%. Despite 591 new members being recruited in the year 2020, a higher number left the Sacco. This is attributed to the financial challenges in the year that pushed members to recall their Savings. This reduced growth rate is also attributed to lower loan uptake caused by reduced ability to borrow as a result of loss of jobs, salary cuts and uncertainties in business.

The Kenyan Cooperative alliance (2020) encouraged Saccos to rethink the suspension of interests on its members' loans, the postponement of annual meetings, improved risk management, technological leverage (particularly greater use of online services) and restructuring methods. However, while restructuring approaches have been suggested as valid measures to enhance Sacco's financial performance during economic downturns, existing empirical studies shows inconsistencies on the application of restructuring approaches in financial institutions. For instance, Chalos and Chen (2016) showed that changes in firm financial performance subsequent to layoffs generally corroborate; some studies reported that downsizing aspect of operational restructuring may lead to overall increase in productivity and operating performance levels while some studies revealed that after downsizing financial performance of firms' decreases. Mawih (2016) also reported that although some companies show a significant impact on their financial performance of asset restructuring, some firms particularly those in financial institutions concluded that the effects of asset restructuring on financial performance have not been significantly affected.

Comparatively, moreover, while Osoro (2014) study found that a non-significant but good impact of restructuring of financial systems on the financial performance of commercial banks in Kenya, Kithinji, Mwangi and Litondo (2017) was shown to have a significant positive and negative effect on the performance of commercial banks and restructuring of capital assets, respectively Financial and operational restructuring has not had a major impact on commercial banks' performance in Kenya. Moreover, most studies on restructuring-financial performance in banks have been done (although they have revealed empirical discrepancies in the effect on financial performance of selected restructuring approaches) with little regard to repositories taking Saccos undergoing bad financial performance; a gap motivating this study to investigate capital, assets, and fines.

#### ***Objectives of the Study***

- i) To determine influence of capital restructuring on financial performance of deposit taking Saccos in Nairobi County, Kenya
- ii) To evaluate influence of operational restructuring on financial performance of deposit taking Saccos in Nairobi County, Kenya.

#### ***Hypotheses of the Study***

- i.  $H_{01}$ : There is no significant relationship between capital restructuring and financial performance of deposit taking Saccos in Nairobi County, Kenya
- ii.  $H_{02}$ : There is no significant relationship between operational restructuring and financial performance of deposit taking Saccos in Nairobi County, Kenya

## **II. Literature Review**

### ***Theoretical Framework***

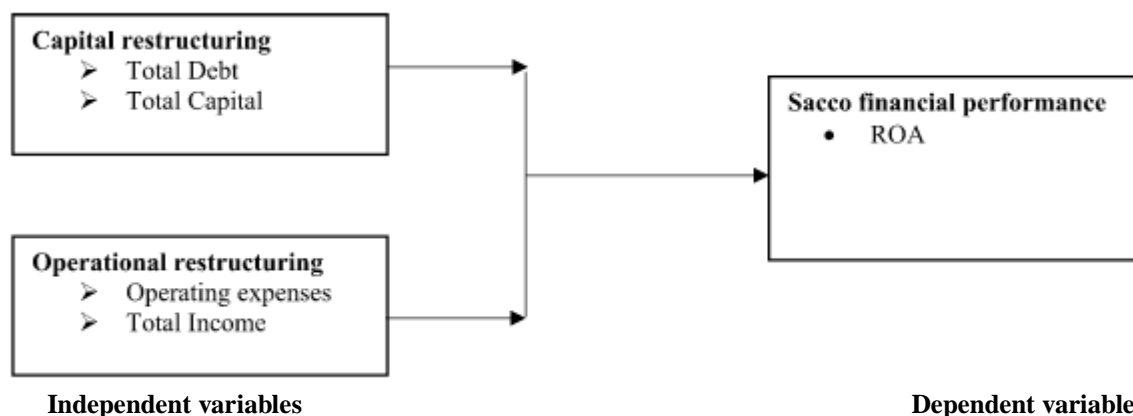
The study was guided by the following theories, Pecking Order theory by Myers and Majluf (1984) and E Resource Dependency theory Pfeffer and Salanchik's (1978). Myers and Majluf (1984) observed that companies prefer internal money in relation to external capital when financing new projects. If internal finances are not sufficient for a specific investment opportunity, the company may look for other options such as the external fund. If so, they will choose from the many external funds so as not to pay any extra expenses of asymmetric knowledge. Myers (1984) also stated that the most secure securities would be given first priority when external funding is needed and companies will most likely be ordering this to be achieved by securing debt, convertible debt and then equity as a last option. This theory is linked to this research in the sense that Myer's (1984) thesis was that company follows a hierarchy when selecting the sources of funding and internal funding is preferable, and that debt should be at the top in comparison with share capital, if the restructuring is necessary.

Pfeffer and Salanchik's (1978) Resource dependency theory offers inter-company governance as a strategic solution to circumstances of uncertainty and reliance on exchange partners. The idea is also that organizational activities are motivated by mostly resource concerns and that complementarities of resources across companies may largely explain their connections and interactions. Theory believes that the differences in organizational and business environments are accountable both for the internal distribution of power across organizations and the outward distribution of power among market players (Hillman et al., 2009). Mismatch of resources generates interdependence among cooperatives and other players in the cooperative sector when

cooperative performance is in an uncertain situation. The idea therefore indicates the degree that an enterprise such as Sacco has to sustain knowledge and material resources interchange in the business environment with other partners since the future is unpredictable (Gulati and Sytch, 2007). The resource dependency theory thus connects to this study in the sense that to save on operational costs and enhance financial performance, Sacco adopt operational restructuring approaches to avoid resources mismatch and wasteful use of resources to run cost –ineffective operations.

**Conceptual Review**

This is a diagram showing the linear relationships between independent factors (capital and operational restructuring) and the dependent variable (Financial performance) as illustrated in figure 1.



**Figure 1.0: Conceptual Framework**

Increasing financial performance by replacing short-term debt and junior long-term debt with longer-term debt obligations (by converting debt to equity) to enhance Saccos' capital structures involves capital restructuring. It also includes direct capital injections from shareholders and rescuing government or institutional investors in other cases when extra money is sent to Sacco's deposit (Dubel and Berlin, 2017). The present research will thus evaluate how the financial performance of deposits in Saccos may be affected by capital restructuring methods such as direct capital injections, recapitalization/lift ratios, long and short-term debt obligations, rescue programs and capital adequacy assessments.

Operational restructuring means that financial lending institutions concentrate on the financial structure and are generally worried about their obligations. Customer deposits are the most important component of Sacco's liability, while long-term debt tends to be a relatively minor part of the financial structure of Saccos' deposit. Fiscal restructuring of Saccos' deposit may be achieved with the aim of boosting liquidity, reducing capital costs, reducing risk, avoiding loss of control, and improving shareholder value (Tyler & Wilkinson, 2017). This study thus assessed how operational restructuring approaches such as product /service lines reviews, downsizing, review of governance structures, innovative changes in Sacco operations influence financial performance of deposit taking Saccos.

**Empirical Review**

The effect capital restructuring on operational elements of China's publicly listed companies was studied by Jin, Dehuan, and Zhigang (2016). They utilized before and after the capital restructuring as proxy for the corporate performance and carried out tests to evaluate if capital restructuring resulted in substantial changes. Their survey revealed substantial increases in overall revenue, profit margin, and asset returns after the restructuring of capital, but no significant effects on asset turnover were seen. They also discovered indications of substantial market expectation and response to the approach to capital restructuring. Brauer and Markus (2016) examined the performance impacts in Switzerland of capital restructuring programmes. Based on the technique of an Event Study, the authors examined between 1998 and 2007 the anomalous returns of 160 divestiture notices in the worldwide insurance sector. The empirical findings show that methods for capital restructuring provide better returns than absence of adoption. The study suggested that managers abstain from using fragmented capital restructuring methods that lack clear strategic emphasis. Instead, they are encouraged with a clear strategic purpose and common business rationale to execute viable capital restructuring solutions. However, the research was carried out in insurance companies whereas this study is being carried out in Saccos in order to compare findings.

Howe (2016) also examined Wedbush Securities and found that, in recent years, the company has been actively engaged in helping public and private medium-sized businesses to assess and execute capital restructurings. In order to verify capital sufficiency, capital divestitures were regarded as part of growth strategies, as a source of cash for businesses in tough times and a means of reversing unwise buys. The result was that there are more and more private equity companies focusing on capital restructuring. They see recapitalized enterprises as frequently undermanaged, underfunded and "orphans" not properly cared for. By selling it to a private equity company, Brady (2016) examined capital restructuring in Myers Industries that retired a plastics business. This subsidiary generated no profit for the firm, but took money in the company. Myers had little or no value for the plastics company as part of its portfolio. But they might sell the company for more than \$100 million to generate cash for their material handling sector, the real area of development. The research suggested that if an asset does not produce profit or significant profits, or if the margins are lower than the general company, divestiture may be a very economic method of raising money. Dubel and Berlin (2017) examined the structure of capital and bank restructuring practices and concluded that the timing of bank restructuring is significant. In addition, the survey showed that big banks are better at delivering a larger variety of services due to their broader network of branches set up through operational restructuring.

Ugoani and Ugoani (2017) examined the effectiveness of the Nigerian banking and commercial processes. The research showed that the Nigerian Banking System was inefficient before 2000 and before banks in Nigeria restructured their operations, characterized by fraud, lengthy lines, inadequate loans, liquidity and hardship. As one approach to overcome these difficulties, banks have focused on reorganizing company processes as a true instrument for efficiency, customer satisfaction and increased shareholder value. With restructuring and process improvement for commercial operations, efficiency eventually returned to the Nigerian banking sector. In 1996, the Nigerian banking system had a liquidity ratio of minus 15.92 percent with 41 Banks falling below the 30-percent prudential minimum requirement. The Nigerian bank system had a positive average liquidity ratio of 65.69 in 2011, with all Banks meeting the minimum liquidity ratio of 30 percent. The banks that restructured their operations early in the 2000s were unstressed, liquid, effective and with strong gross profits, overall profitability of assets and equity growth. For this study, the exploratory research strategy was used and company restructuring has a beneficial impact on the efficiency of Nigerian banking systems. The research concentrated solely on performance efficiency measurement, however, without utilizing other performance metrics.

Rose (2016) has examined the operational reorganization of nearly 730 US commercial banks allegedly in distress. The study evaluated the effect of restructuring on commercial banks' overall financial performance. ROA, ROE and Net Interest Margin were the financial performance instruments utilized in the study. The findings indicate that the banks operationally reformed had constant operating effectiveness and greater profitability. Essam and Ahmed (2016) study on bank restructuring in Egypt indicated that the restructuring process has many benefits as a result of improved performance of the bank by controlling the cost of operations and the introduction of technology in the development of products and services offered to customers with lifting of quality to meet the challenges of competition.

Ozlem and Bumin (2016) studied the relationship between downsizing as an aspect of operational restructuring strategy to minimize operational cost and financial performance of Turkish banks. Banks and Bank Systems. The study results showed that results, there was no significant difference between the profitability of Turkish banks before and after downsizing-that is, no substantial link between downsizings - the measure of operational cost reduction and bank profitability. However, the research solely evaluated bank performance as a profitability gap without adding other bank performance metrics. In Kenya, the connection between bank restructuring, deposit and financial performance of business banks in Kenya was reviewed in Kithinji (2019). There has been no substantial impact on the composite variable of financial services. Consequently, the study found that operational restructuring and deposits did not affect the profitability of the banks. The investigation revealed that the success of most commercial banks in Kenya is influenced by financial and capital ratios of reforming institutions and not operational restructuring

### **III. Material And Methods**

This study employed a descriptive survey design. Mugenda (2008) points out that descriptive research is appropriate for collecting data so as to answer questions concerning the current status of a phenomenon and does not involve manipulation of study variables. For the period ending December 31, 2018, the study's target population was 11 tier one deposit-taking SACCO societies in Nairobi County. The study used a census method to systematically acquire and record information from the 11 tier one deposit taking SACCOs in Nairobi County hence no sampling was done. A secondary data collection sheet was used to collect data on the study variables. The data was collected from financial statements of the 11 tier one deposit taking Sacco in Nairobi County between 2016 and 2020. The research utilized quantitative data analysis techniques. The research had four goals. Data analysis was thus performed for each goal. The gathered data was processed, cleaned, coded and

calculated using STATA 15. A descriptive statistical analysis described data in understandable form, using maximum, minimum, means and standard deviations; whereas inferential statistics, correlation, linear and multiple regression analyzes are calculated for variable relations

#### IV. Result and Discussion

##### Descriptive Analysis

The descriptive statistics results were based on the mean, minimum and maximum values and standard deviation. Table 1.0 displays a summary of the descriptive statistics for the variables under study averaged for the five- year period running from 2016 to 2020.

**Table 1.0: Descriptive Statistics**

Variable	Obs	Min	Max	Mean	Std Dev.
Capital Restructuring	55	0.04703	5.550345	0.818159	1.137184
Operational Restructuring	55	0.27451	1.662658	0.599748	0.362784
Financial Performance	55	0.001078	0.129998	0.047337	0.16121

A sample size of 11 firm-year observations is shared across all the variables with 55 observations (11\*5). On the whole, the mean value of capital restructuring is 0.818 with a standard deviation of 1.137184 showing large variations in capital structuring within the period. The mean value for operational restructuring is 0.599748 with a standard deviation of 0.362784. The value ranged from 0.27 as minimum to 1.663 as maximum. Return on asset which was used to measure financial performance ranged from 0.001 (0.1%) to 0.1299 (13.0%) with a mean of 0.0437 (4.37%) and a standard deviation of 0.1612(16.12%).

##### Inferential Analysis

###### Unit Root Test

Unit root tests are tests for stationarity in a time series. A time series has stationarity if a shift in time doesn't cause a change in the shape of the distribution; unit roots are one cause for non-stationarity. A variable can only be said to be stationary when it has no unit root. The Dickey Fuller Test (sometimes called a Dickey Pantula test), which is based on linear regression. Serial correlation can be an issue, in which case the Augmented Dickey-Fuller (ADF) test can be used which is based on propositions

- Ho: All panels contain unit roots
- Ha: At least one panel is stationary

**Table 2: Unit Root Tests without Difference (Augmented Dickey-Fuller (ADF))**

	Statistics	P-Value	Significant
Capital Restructuring	18.3124	0.0000	**
Operational Restructuring	2.9556	0.0016	**

\* sig at 5% level, \*\* sig at 1% level

Table 2 shows the summary results for Stationarity test. A p-value of more than 0.05 indicates the presence of unit roots (H0) while a p-value of less than 0.05 was an indication that there was no presence of unit roots for augmented Dickey-Fuller tests. The results indicated that there was absence of unit root for all the study variables.

###### Hausman Test

In panel data analysis (the analysis of data over time), the Hausman test can help you to choose between fixed effects model or a random effects model. The null hypothesis is that the preferred model is random effects; The alternate hypothesis is that the model is fixed effects. Essentially, the tests look to see if there is a correlation between the unique errors and the regressors in the model. The null hypothesis is that there is no correlation between the two. The results are as shown in Table 3.0.

**Table 3.0: Hausman Test**

Coefficients ----	(b) Fixed	(B) Random	(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.
Capital Restructuring	0.588248	0.285301	0.302947	0.048905
Operational Restructuring	0.076379	0.044755	0.031624	0.006763

b = consistent under Ho and Ha; obtained from xtreg

B = inconsistent under Ha, efficient under Ho; obtained from xtreg  
 Test: Ho: difference in coefficients not systematic  
 $\chi^2(11) = (b-B)'[(V_b-V_B)^{-1}](b-B)$   
 = 13.26  
 Prob> $\chi^2$  = 0.0101

If the p-value is small (less than 0.05), reject the null hypothesis. Results in the table 3.0 indicated a prob> $\chi^2$  value of 0.0101 which is less than critical P value at 0.05 level of significance which implies that the null hypothesis that a random effect model is the best was rejected. The study hence used a fixed effect regression model.

**Correlation Analysis**

So as to deduce the nature of statistical relationship between each pair of variables, the study has conducted correlation analysis. To this end, Pearson correlation was performed for the relationship between the study variables. The correlation matrix of all the variables under study, are shown in Table 4.0 below.

**Table 4. 0: Correlation Matrix Results**

	ROA	Capital Restructuring	Operational Restructuring
ROA	1		
	55		
	0.4016	1	
	0.003		
Capital Restructuring	55	55	
	0.3392	-0.0287	1
Operational Restructuring	0.015	0.8429	
	55	55	55

Correlation analysis was carried out between corporate restructuring and financial performance of deposit taking Saccos in Nairobi County. The results displayed on table 4.0 indicate that capital restructuring has a significant positive relationship with financial performance. The findings indicate that at 5% level of significance,  $r = 0.4016$  with a p-value of 0.003. This indicated that increase in financial restructuring would result to increase in financial performance of Deposit taking Saccos. The results are in agreement Brauer and Markus (2016) who indicated that capital restructuring has significant relationship with financial performance. However, the works Anandarajan, Hasan and Lozano-Vivas (2005) indicated that there is negative relationship between capital restructuring and financial performance.

Operational restructuring has a weak significant positive relationship with financial performance. The findings indicate that at 5% level of significance,  $r = 0.3392$  with a p-value of 0.015. This postulated that increase in operational restructuring will results to increase in financial performance DTS. The results are supported by Rose (2014) who revealed that operational restructuring increases profitability of banks. However, Abdi and Opuodho (2019) showed that asset restructuring had a negative but significant relationship with financial performance of SACCOS in Kenya.

**Panel Model Multiple Linear Regression**

This study is based on the theory that there exists a relationship between corporate restructuring and financial performance. The panel regression model with financial performance as the dependent variable was used to ascertain the strength of the direct relationship between corporate restructuring and financial performance. Regression analysis was also carried out to establish the statistical significance of the various hypotheses. Whereas the F statistics establishes if the general regression model is a good fit for the data, the coefficient of determination ( $R^2$ ) value is the proportion of variance in the dependent variable (Financial performance) which is predictable from the independent variables. The null hypothesis holds that the regression coefficients are equal to zero. Table 5.0 shows the F-statistic and the coefficient of determination of the dependent variable (Financial performance).

**Table 5.0: Fixed Effect Regression Model**

<b>Model:</b> Fixed Effect Model					
<b>Dependent variable:</b> Financial Performance					
<b>Balanced Panel:</b> n=11, T=5, N=55					
Variable	Coef.	Std. Err.	T	P>t	Significance
Capital Restructuring	0.588248	0.093381	6.3	0.000	**

*Influence of Capital and Operational Restructuring on Financial Performance of Deposit ..*

Operational Restructuring	0.076379	0.030309	2.52	0.034	*
_cons	-0.16926	0.132618	-1.28	0.210	
<b>Other Model Information</b>					
Significance Code	** significance at 1.0%		* significance at 5.0%		
R Square	0.5822				
F-Statistics	11.04 on 2 and 42 Degree of Freedom, P- Value: 0.0002				

The ANOVA of regression model provided the regression sum square of 0.031 and a model residual's of 0.260 with a mean square of 0.008 for the regression and 0.001 for the residuals. The Analysis of Variance (ANOVA) results produced an F-significance value 15.020 and a  $p < 0.000$ . This is an indication that the probability of this model giving false prediction is 0.0%. The study results on table 5.0 indicate  $\text{Prob} > F = 0.0002$  with Financial performance as the dependent variable. Since  $\text{Prob} > F = 0.0002$  is less than the significance level of 0.05, the study rejects the null hypothesis that the regression coefficients are equal to zero. Therefore, the panel regression model with financial performance as the dependent variables was fit for analysis. The coefficient of determination (R-squared) equals 0.5822. This indicates that financial performance as shown by return on asset will be explained by 58.22% changes in independent variables while the remainder of 41.78% is as a result of factors not contained in the regression model. It can also mean that a combination of financial restructuring, capital restructuring, operational restructuring and asset restructuring can account for 58.22% of the variations in financial performance of deposit taking Saccos in Nairobi County. This could indicate that there exist other factors not included in the study which explains the remaining 41.78% of variation in the financial performance. Therefore, this could imply that the presence of the other factors would improve the predictive model of corporate restructuring on financial performance. The p-value of 0.0002 implies the model is significant at 5% significant level.

The coefficients of independent variables and the intercept show p-values of below 0.05. This implies that they are statistically significant. The constant represents where the line of regression intercepts the y-axis. It shows the ROA when all independent variables are at zero. The constant has a p-value of 0.2100. Capital restructuring and operational restructuring have p-value of 0.000,  $\beta_1 = 0.588$  and p-value of 0.034,  $\beta_2 = 0.076$  respectively and have positive and significant effect on financial performance of deposit taking Saccos in Nairobi County. The final study regression model based on the significant coefficient is as shown below

$$\gamma_{it} = -0.16926 + 0.588X_1 + 0.076X_2$$

Where  $\gamma$  = Dependent variable [financial performance of deposit taking Saccos]

$X_1$  = Independent variable 1 [capital restructuring]

$X_2$  = Independent variable 2 [operational restructuring]

$\epsilon$  = error term

The regression model further gave the results of coefficients of independent variables used in the model which indicate that these variables have variance relationship to the dependent variable. The model provided a constant value of -0.16926 (t – value = -1.28) with a p – value of 0.210. Capital restructuring was found to be a major determinant of financial performance as it had a significant positive coefficient of 0.588248 with a t – value of 6.3 and a p – value of 0.000. This implies that a unit increases in capital restructuring causes an increment in financial performance by 0.588 units. Therefore, capital restructuring has a positive and significant effect on financial performance of deposit taking Sacco. The results are in agreement with Jin, Dehuan, and Zhigang (2016) who established that substantial increases in overall revenue, profit margin, and asset returns after the restructuring of capital, but no significant effects on asset turnover were seen. They also discovered indications of substantial market expectation and response to the approach to capital restructuring. Further, Brauer and Markus (2016) examined the performance impacts in Switzerland of capital restructuring programmes. The empirical findings show that methods for capital restructuring provide better returns than absence of adoption. The finding on capital restructuring conflicts with the study by Kwani (2014) who found that restructuring of government owned banks lead to a decrease in profitability. However, the findings on asset restructuring support those of Anandarajan, Hasan and Lozano-Vivas (2005) who discovered that restructuring assets reduces profitability of commercial banks according to this study

Further, operational restructuring did have significant influence on the financial performance of deposit taking Saccos in Kenya since they had coefficient values of 0.0763 (t – value = 2.52) and p – value of 0.034. Therefore restructuring operations of commercial banks increase performance of DTS in Nairobi by 0.0763 units. The outcome postulated that operational restructuring has significant positive effect on financial performance of deposit taking Sacco in Nairobi County. The results confirm findings from previous studies. The study agrees with the findings by Rose (2014) that operational restructuring increases profitability of banks. This revelation also agree with those by Osoro (2014) who found out that there exists a positive effect of operational restructuring on the financial performance of commercial banks in Kenya. The study findings are in agreement with those of Srivastava and Mushta (2011) who found that organization restructuring significantly improved performance of organization. Harwood et al. (2016) also found that organization restructuring



positively affects firm performance. However, Abdi and Opuodho (2019) regression results showed that asset restructuring had a negative but significant effect on financial performance of SACCOS in Kenya

## V. Conclusion and Recommendation

The study determined capital structuring has a positive and statistically significant effect on financial performance (as measured by return on assets) of deposit taking Saccos in Nairobi County, Kenya. The positive effect leads to the conclusion that the deposit taking Sacco financial performance increases as capital restructuring increases hence first null hypothesis was rejects. As Deposit taking Saccos use more of share capital as compared to debt, financial performance of DTS in Nairobi County increases. Borrowing creates debt and interest payments, it can potentially positively affect the financial performance of a co-operative society if capital investments are considered based on the cost-benefit analysis. On the influence of operational restructuring on financial performance of deposit taking Saccos in Nairobi County, Kenya, the study evaluated that operational restructuring has a positive and significant influence on financial performance. This finding leads to the conclusion that reducing operational expense relative income potentially positively affects the financial performance. This might be explained by the fact that restructuring bank operations usually has the effect of expanding the customer base and therefore increasing deposit levels, merging departments, downsizing, use of ICT which might be associated with profitability.

Based on the positive and significant influence of capital restructuring on financial performance of deposit taking Sacco's, the study recommends that the Sacco management should maintain their core capital as a Sacco reserve to above 10% compared to total capital. SACCOs should properly manage their equity ratios in order to finance liquidity gaps hence enhance stability of SACCOs. The study also recommended that external borrowing should be controlled to avoid increasing in debts as compared to the total capital. In addition, they should review their by-laws and working policies to ensure that the optimum external financing is encouraged. The study recommend that management in deposit taking Sacco institution should adopt downsizing strategy and use of digital platforms at it would led to reduction in operating expenses, increase efficiency and profitability, reduction portfolio risks, led reduction in operation cost, reduced expenses, increased market share, increased sales, increased customer satisfaction, improved decision making, reduced bureaucracy, increased productivity, improved cash flow, improve on it internal efficiency, improve product development thereby increase customer satisfaction and achieve quality financial service delivery and improve deposit taking Sacco financial performance.

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