

Influence of Organizational Structure on the Performance of Financial Services Associations in Makueni and Kitui Counties of Kenya.

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ABSTRACT

On the surface, the concept of strategy implementation may sound relatively simple, whereby a strategy is developed and put into practice. However, putting strategies into practice is far more challenging and complicated. The present study sought to determine the influence of organizational structure on the performance of FSA in Kitui and Makueni counties. The study adopted a cross-sectional survey research design, the sample for the study was 280 obtained through a stratified random sampling technique from a population of 938 possible participants. The study applied a questionnaire to gather data for the study using both physical and electronic procedures. Data was analyzed through descriptive and inferential analysis, where a simple binary logistic regression analysis was applied to test a null hypothesis. The study revealed a ρ of 0.973, a Wald statistic of 21.285, $df=1$, and an $\text{Exp}(B) = 4.812$ which was associated with a p -value of 0.001. Firms that adopted flat structures instead of tall structures increased the odds of high performance by a factor of 4.812. The study concluded that organizational structure had a positive and significant influence on the performance of the FSA in Kitui and Makueni counties. The study also recommends for adoption of a flat organizational structure to promote a structure that is a flexible and responsive organizational structure to enhance performance.

Keywords: Strategy Implementation, Organizational Structure, Performance Financial Services Associations, Makueni and Kitui

INTRODUCTION

Strategy implementation is the disciplined process of bringing a plan forward through a series of logical, systematic actions to achieve a specific goal. The phase entails taking information from the strategic plan, decomposing its complexity into manageable daily tasks, and cascading down the duties to the team members to fulfill the roles and achieve the organization's goals. Institutional leaders must ascertain the internal environment required for the strategy's successful implementation before creating the environment itself. The perspective of strategic management, implementing proper strategies in a company is crucial to obtaining improved organizational effectiveness. The only difference between formulation and operationalization is the number of parties involved. Without a carefully thought no strategy execution plan, irrespective of how effective a plan is, will be used. Businesses should expect increased returns on investment attributable to better plan execution. When a plan is implemented well, a firm can see significant gains in terms of increased client satisfaction, commitment, and brand recognition. Additionally, the strategy should emanate from the final results of the consultation among all the relevant shareholders. Inclusion of all the parties in the decisions concerning the implementation of the strategies will contribute to high chances of success for a firm and avoid future chaos and misunderstandings (Makwana & Patange, 2022).

Financial Services Associations (FSA) is one of the innovations in the economic sector which enables people to lead economically healthy lives. The FSA is a method of rural financing areas that combines elements of community finance with those of investment companies. The FSA model permits local ownership, enabling the FSA to be highly sensitive to community needs and improving user trust and

commitment. At the same time, the FSA provides affordable and accessible financial services to the local community. The FSA is effectively geared to address many of the issues that rural financial institutions face. The associations are locally owned and administered, making them very sensitive to the community's specific needs. The closeness contributes to the elimination of the gap that typically exists between predominantly urban commercial banks and rural customers. Shareholders are required to be users, and as a result, there is a closer bond between the consumer and the institution and a decrease in the rate of loan defaults (Bouman, 2021).

On the surface, the concept of strategy implementation may sound relatively simple, whereby a strategy is developed and put into practice. However, putting strategies into practice is far more challenging and complicated (Chege et al., 2022; Bosire et al., 2019). A decline in the profitability among the Financial Service Associations in Kitui and Makueni counties has been at an alarming rate with an average annual profitability decline of 1.5% since 2018 (2018 at 20.5%, 2019 at 19.1%, 2020 at 17.5%, and 2021 at 16.1% (Shale, 2020). Besides, worrying statistics indicated that three FSA closed down their business activities in the region between the years 2019 and 2022 which has negatively affected the accessibility to credit among new start-ups in the region, which has indirectly caused insecurities through loss of jobs and livelihood among the residents (Elzahi, 2022).

There are several studies to explore the impact of strategic implementation and organizational performance. In one study Kolek (2017) found that strategy implementation through formal firm structure and strategic leadership had a significant influence on the performance of the top 100 medium enterprises in Nairobi county (Kolek, 2017) others found an insignificant relationship between the implementation of the strategy (strategic consensus and strategic communication) and performance of agribusiness firms in Nyanza region (Echessa, 2020). The studies seem to therefore pose contradicting findings, which could be a result of differences in the economic sector under scrutiny, where the study was conducted or the methodology used. The current study sought to fill the identified gaps through a study on the influence of organizational structure on the performance of FSA in Kitui and Makueni counties of Kenya.

LITERATURE AND HYPOTHESIS

Communication Theory

The communication theory was first introduced by S. F. Scudder in 1980. The theory emphasizes how information is exchanged in an organization between employees at different levels of management and the impact it has on the performance of an organization (Settle, 2018). Communication is the only way through which organizations can actualize team works, groups focused objectives. Through communication, employees feel more engaged and therefore fully commits themselves to the organizational goals by sharing their feeling, fear, and ideas with the rest of the employees in a transparent way which has the effect of boosting organizational performance. According to the theory it adopts the model of sender-message-channel-receiver, which involves a message encoding a message and then sending it through a channel to a receiver who decodes it to understand the message in it (Van Ruler, 2018).

Communication theory emphasizes the importance of the receiver clearly understanding the message being shared so that there is no miscommunication between the sender and the receiver in an organization (Goodwin, 2019). Communication is important in strategy implementation because strategy implementation needs to be a holistic process involving almost every employee in an organization in different ranks and job profiles. Therefore, communication plays a pivotal role in the organization's structure by clearly communicating the roles and job responsibilities of every employee in the organization to enhance a seamless flow of information across all departments and positions of an organization. Seniors are supposed to effectively communicate with their juniors and vice versa to enhance seamless information flow, in

particular during strategy implementation (Elhami, 2020).

Communication takes place in an organization, through top-down, bottom-up, and horizontal communication to enable employees in junior employees to receive instructions from their seniors, share feedback, and collaborate with their peers in the same job categories (Abu Bakar et al., 2022). Effective communication has the advantage of fostering employee productivity where they can communicate openly and clearly on available opportunities and challenges, they encounter during different phases of strategy implementation enabling quick decision-making. Besides, an organization can align the individual, and team's goals with the organization's goals through effective communication where every employee works towards the set mission and vision (Such, et al., 2020).

Empirical Literature Review Top of Form

Hindasah and Nuryakin (2020) argued that the organizational structure has many of those components which are interconnected and thus influence the firm's financial performance in Asia. The study was descriptive and concentrated on 43 businesses listed by medical corporations between 2012 to 2015. Using questionnaires that the researcher provided to the management of these businesses, data for the study was collected. The data was examined by using multiple linear regression. According to the study's findings, there is a requirement for communication between levels or across various departments in a hierarchical organizational structure. Efficient leadership, teamwork, and accountability are particularly crucial in complex organizations. According to the findings, managers should use efficient communication techniques to spread important information to all employees. The research also proposed that various organizations dealing with complicated organizational systems consider holding regular meetings of board and staff since efficient communication is critical to the corporations' performance. This study was significant because it provided a solid framework for determining the different variables that could impact the financial services associations in the chosen Kenyan counties.

Riany (2021) researched the impact of organizational structure on performance. The researcher used a survey research approach. Therefore, the study used a sociological survey technique, with questionnaires as the primary instrument for gathering data. To determine how strategic knowledge capability influences the performance of commercial banks in Kenya, the data obtained were statistically examined using descriptive and inferential statistics. To put this into practice, information was gathered via a standardized questionnaire given to every Chief Executive Officer of the 43 banks. They were distributed using a drop-and-pick later method of questionnaire delivery. The data was then analyzed using descriptive and inferential statistical tools, particularly Analysis of Variance (ANOVA) and regression analysis. The study concluded that organizational structure had an appreciable impact on the financial performance of Kenyan commercial banks. The conclusion was drawn that the organizational structure's definition of strategic knowledge competence significantly impacted the economic success of commercial banks. Therefore, this study laid a good foundation for the researcher to conduct the influence of organizational structure on the FSAs in the listed Kenyan counties.

Njiru and Nyamute (2018) sought to examine the relationship between organizational structure and financial performance of private sector companies, the New Kenya Cooperative Creameries firm. The case study collected primary data by employing the use of structured and semi-structured questionnaires. All 34 of Kenya's commercial state enterprises were the target of the investigation, which used a survey research methodology. Analyses were conducted on both qualitative and quantitative data. Inferential statistics, including multiple linear regression and correlation, established a relationship between and among the variables under study. The study concluded that a more robust organizational structure would enhance the monetary value of the firm. In this regard, the researcher highlighted the following organizational structure techniques: nomination and administration of the executive and staff size, corporation's vision and mission, authority balance on the administration, internal communications, and productivity evaluation. The

researcher analyzed the collected data using SPSS and linear. Illustrations like Figures and Tables were used to convey the analysis data graphically. The research findings showed that the financial performance of commercial state companies was influenced by organizational size, normative structure framework, framework sophistication, and structure centralization. Additionally, it was established that one difficulty the board faced was the number of non-executive executives, which impacted the operation of the commercial state company. Furthermore, it was concluded that the organizational structure affected the monetary success of the enterprises.

Abdulyakeen and Danjuma (2021) sought to investigate how the structure of an enterprise can affect its financial performance. The research was used to examine the impact of the features of a firm's system, including the size of the board and the ownership structure, on the profitability of Deposit Money Banks (DMB) in Nigeria. The study applied a hybrid method to research and concentrated on listed financial industry organizations. These firms' annual reports served as secondary data sources used in the study. From 2010 to 2019, panel information was compiled from the annual accounts of the 34 referred Deposit Money banks in Nigeria. Implementing Board Size and Ownership Structure as Independent Variables and Return on Assets (ROA) and Return on Capital Employed (ROCE) as Dependent Variables. The study found that, although not statistically significant, board size had a poor effect on Return on Assets and Return on Capital Employed, as well as the second dependent variable, ownership. The study found that, albeit not statistically meaningful, board size harms both ROA and ROCE. The second dependent variable, ownership structure, has a substantial impact on ROA and a negative impact on ROCE.

Furthermore, the results of this analysis revealed that a small panel significantly increases the firm's worth. Additionally, having more independent directors helps medium-sized businesses operate better since they lessen principal-agent problems inside the company and raise management conformity with their duties toward the firm's stakeholders. Therefore, the study suggests choosing more independent directors to improve managers' adherence to the firm.

Hypothesis: *Organizational structure has no significant influence on the performance of financial services associations in the Makueni and Kitui counties of Kenya*

DATA AND METHODS

Research Design: the study applied a cross-sectional survey; the design was chosen because it enables a researcher to answer important questions on how? When? What? About research. Besides, the research design was applied because it enables the researcher to quantify data for purposes of conducting robust data analysis such as hypothesis testing.

Target Population: The unit of analysis in the study was 37 FSA in Makueni and Kitui counties. Targeted respondents in the study were middle-level managers in the fiancé, human resources, marketing, corporate and ICTs department who in total are 938 employees, the unit of observation in the study was therefore 938 respondents.

Sample Size and Sampling Techniques: the study applied a stratified random sampling technique through the application of the Taro Yamane formula (), at a sampling error of 5% where a sample size of 280 participants was obtained ($n=938/1+938(0.05*0.05)$).

Data Collection Instruments and Procedures: data for the study was collected using a questionnaire, which was designed in such a way that it was able to capture perceptions of the respondents through a five-point Likert scale, whereby 1= strongly disagreed (SD) and 5= strongly agreed (SA). The data collection instrument was structured with six main sections. Data collection procedure involved both physical administrations of the questionnaire whereas a paper questionnaire was given to participants to fill out.

Besides, an online method was used through Google Forms that were emailed to the respondents or even sent through social media (WhatsApp).

Data analysis: Data was analyzed through both descriptive and inferential analysis. Descriptive analysis involved the determination of frequencies, mean, percentage, and standard deviation. Besides, the study conducted inferential analysis which involved binary logistic regression analysis. $\text{Logit } P = \frac{\ln(P)}{1-P}$, where P is the probability of high performance against low performance (ratio of performance), β_0 is the constant, β_1 is the coefficient for organizational structure whereas i is the nature of organizational structure (tall or flat structure) and e is the error term.

DATA ANALYSIS AND DISCUSSIONS

Response Rate: The study administered 280 questionnaires out of which 264 were filled and returned representing a 94.28% response rate.

Demographic Statistics: Table 1 revealed that the majority of the respondents as shown by 69.3% were male, whereas only 30.7% of the respondents were female. The table also reveals that the majority of the respondents were aged between 41 and 50 years as shown by 56.1%, followed by 19.7% of the respondents who were between 31 and 40 years old, 13.3% of the respondents were between the age of 21 and 30 years with only 11.1% of the respondents who were above 51 years. The table showed that the majority of the respondents had a Masters degree as their highest level of education (37.9%), followed by 19.7% with a Bachelor degree, 18.6% had a PhD, with only 8.7% of the respondents with a Certificate as their highest education qualifications.

Table1: Demographic Statistics

Gender	Frequency	Percent
Male	183	69.3
Female	81	30.7
Total	264	100.0
Age of Respondents	Frequency	Percent
21 – 30	35	13.3
31-40	52	19.7
41 -50	148	56.1
Above 51 years	29	11.0
Total	264	100.0
Education Qualifications	Frequency	Percent
Certificate	23	8.7
Diploma	52	15.2
Bachelor degree	40	19.7
Masters	100	37.9
PhD	49	18.6
Total	264	100.0

Descriptive Analysis:

Table 2 revealed from a majority of the respondents that FSA in Makuani and Kitui counties of Kenya had a flat organizational structure (57.2%), only 42.8% of the respondents indicated that they had a tall

organizational structure.

Table 2: Type of Organizational Structure

Nature of Organizational Structure	Frequency	Percent
It is a tall structure	113	42.8
It is a flat organizational structure	151	57.2
Total	264	100.0

Table 3 revealed that respondents were not decided (neutral) as shown by a mean of 3.66 with the statement that their organization had centralized management for decision-making. Respondents agreed as shown by a mean of 3.89 that arising matters were handled by the respective departments, the respondents also agreed that their organizations had a good chain of command as shown by a mean of 3.89. The respondents finally agreed as shown by a mean of 3.93 that the top management delegated jobs to junior employees.

Table 3: Descriptive Statistics on Organizational Structure

Indicators of Organizational Structure	Mean	Std. dev
We have centralized management for decision making	3.66	1.067
Arising matters are handled by respective departments	3.89	0.995
We have a good chain of command in the organization	3.89	1.024
Top management delegates jobs to their junior employees	3.93	1.027

Descriptive Statistics on Performance

Table 4 revealed that respondents agreed that there had been an increase in market share in the past three years as shown by a mean of 3.96. Respondents also agreed through a mean of 3.91 that there had been an increase in revenues in the past three years. Respondents also agreed as shown by a mean of 3.98 that there was an increase in profits, the respondents finally agreed through a mean of 3.90 that the capital base for their FSAs had increased in the past three years.

Table 4: Descriptive Statistics on the Performance of FSA

Indicators of Performance of FSAs	Mean	Std. dev
We have realized an improvement in the market share in the last three years	3.96	1.010
Our sales revenue has been rising in the past three years	3.91	1.127
Our net profits have increased in the past three years	3.98	1.133
We have a greater capital and asset base for the organization	3.90	1.167

Overall Performance of FSAs

Figure 1 revealed that 84.09% of the respondents indicated that the overall performance of their organizations had increased, and only 15.91% indicated that their organization's performance had not increased.

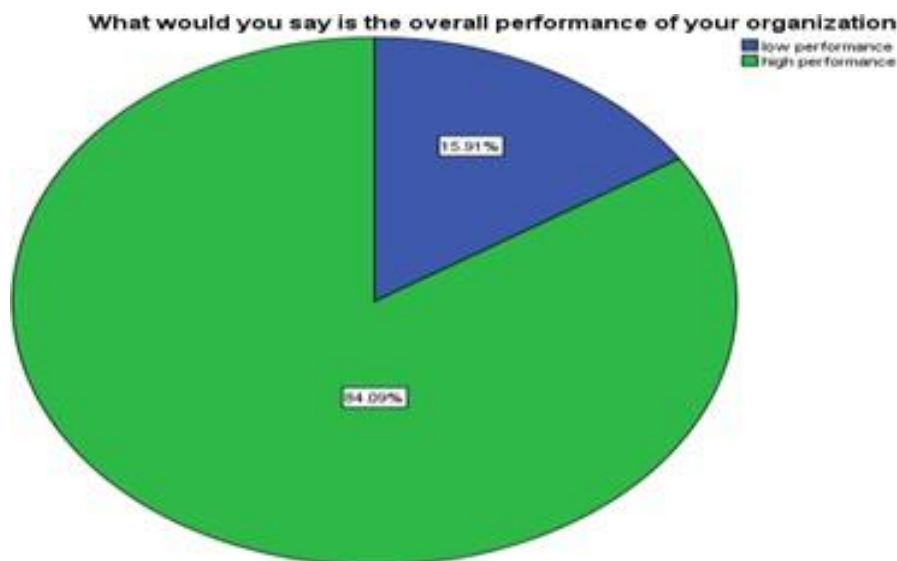


Figure1: Overall Performance of FSAs

Binary Logistic Regression Analysis

Table 5 indicated a **Chi-square score of 19.763**, which was associated with a p-value of $0.01 < 0.01$, which suggested that the regression model was significant with the predictor (independent variable) in the model having a significant influence on the dependent variable.

Omnibus Tests of Model Coefficients

		Chi-square	df	Sig.
Step 1	Step	19.763	1	.000
	Block	19.763	1	.000
	Model	19.763	1	.000

Table 6, revealed an R-square value of between 0.072 as shown by the Cox & Snell R Square, and an R-square of 0.124 shown by the Nagelkerke R Square. Using the Nagelkerke R Square to explain the findings, 12.4% of variations in the performance of FSA in Kitui and Makueni counties can be explained by the organization structure.

Table 6: Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	211.585 ^a	.072	.124

1. Estimation terminated at iteration number 5 because parameter estimates changed by less than .001.

Table 7 revealed a β of 0.973, a Wald statistic of 21.285, $df = 1$, and an $\text{Exp}(B) = 4.812$ which was associated with a p-value of 0.001. The findings suggested that an organization that adopts a tall structure significantly increases the odds of high performance by a factor of 4.812. Njiru and Nyamute (2018) agreed with the study findings when they revealed that the financial performance of New Kenya Cooperative Creameries firm was influenced by organizational size, normative structure framework, framework sophistication, and structure centralization.

Table 7: Variables in the Equation

	B	S.E.	Wald	df	Sig.	Exp(B)
Constant	.973	.211	21.285	1	.000	2.645
Tall structure (reference category)	–	–	–	–	–	1.000
Flat organization structure	1.571	.377	17.319	1	.000	4.812

1.Variable(s) entered on step 1: Organization Structure

CONCLUSIONS AND RECOMMENDATIONS

The study concluded that organizational structure had a positive and significant influence on the performance of the FSA in Kitui and Makueni counties. The study, therefore, rejected the null hypothesis. H_{01} : *Organizational structure has no significant influence on the performance of financial services associations in the Makueni and Kitui counties of Kenya.*

The study recommends the alignment of the organizational structure with the overall business strategy for effective strategy implementation. The study also recommends for adoption of a flat organizational structure to promote a structure that is a flexible and responsive organizational structure to enhance performance.

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