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The Impact of Organisational Restructuring on the Financial Performance of Public Banks: A Post Restructuring Assessment of Agricultural Development Bank, Ghana

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Abstract
In recent years, corporate restructuring has become a common practice undertaken by firms for surviving an increasingly fierce business environment. In the present work, a case study is employed to explore the motivators and impacts of restructuring of one of Ghana's largest bank, Agricultural Development Bank (ADB). This paper begins by illustrating the theoretical explanations and implications regarding corporate restructuring. Taking into account the Ghanaian institutional context, the theoretical framework implies that the framework regarding motivators and impacts of restructuring could be applicable to state-owned enterprises (SOEs). Then, it presents a case study of ADB concerning the inside story of its restructuring. It is demonstrated that the motivators of ADB's restructuring lie in the changes in the business environment, ADB's weak governance, poor strategic control, and poor performance; whilst the impacts are on ADB's corporate governance, organizational structure and strategic control, performance, and employee (other impacts). It also includes some comparisons between the relevant literature and the findings from the case study. Hopefully, this study could contribute to the literature on the topic of restructuring of SOEs (state-owned commercial banks in particular).
Keywords: Agricultural Development Bank, Ghana, Restructuring, Corporate

1 Introduction

Bowman & Singh (1993) suggest that corporate restructuring is a complex and multidimensional phenomenon. In recent years, corporate restructuring has attracted much attention from academics not only because it concerns a wide range of aspects in business studies, such as finance, organization theory, corporate governance, etc; but also due to its implications for firms to adjust strategies regarding to the dynamic business environment, and eventually enable firms to create and retain the competitive advantages.

Despite the great theoretical potentials, impacts of corporate restructuring on firms remain empirically unclear. As Singh writes, corporate restructuring lacks a 'systematic theory and evidence on the consequences' (1993). Moreover, in order to get a whole picture, consideration of cross-national evidence on motivators, contents and impacts of corporate restructuring are required. However, due to the lack of access to comparable data and uncertainties in understanding foreign contexts, cross-national research on restructuring remains difficult (Ruigrok et al, 1999; Teagarden et al, 1995), so this paper confines analysis to a case in one country, a state-owned enterprise (SOE) in Ghana: The Agricultural Development Bank.

2. Literature Review

2.1 The concept of restructuring

Kratochvilova (2001) defines restructuring as a change of a particular economic area structure, change of production programs and enterprising activities. As Gowing et al. (1998) put it, the rising global competition, the influence of advances in information technology, the re-engineering of business processes are some of the imperatives that force organizations to restructure their businesses. In Ghana, the situation is even more compelling with the recent regulation of the banking sector and the continuous merging of major banks. Robbins and Coulter (1996) contend that in many instances, the restructuring is precipitated by an unexpected, emergency crisis or event that forces the organization to respond quickly to prevent a threat to its very survival, such as a bankruptcy or insolvency.

The more detailed identification of particular areas of restructuring is offered by Vodacek (1998), who defines the restructuring process as a process of assuring sources, introducing innovation changes while creating and mutually harmonizing production program structures, a production-technical basis, functional and organization structures, personal structures, or as the case may be, further pragmatic structures (e.g. financial structures) so that an effective and efficient reproduction process functioning can be achieved. However, there are other content and scope concepts of the expression of an organizational restructuring only as a change in a property and finance company structure. In the narrowest concept a company restructuring means only a change in enterprise property relations (Gaughan, 2002).

2.1.1 Alternative Spheres of Corporate Restructuring

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, 2002).

2.2 Measures of Financial Performance

Although measuring financial performance is considered a simpler task, it also has it specific complications. Here, too, there is little consensus about which measurement instrument to apply. Many researchers use market measures (Alexander and Buchholz, 1978; Vance, 1975), others put forth accounting measures (Waddock and Graves 1997; Cochran and Wood 1984) and some adopt both of these (McGuire, et al, 1988). The two measures, which represent different perspectives of how to evaluate a firm's financial performance, have different theoretical implications (Hillman and Keim, 2001) and each is subject to particular biases (McGuire, et al, 1988). The use of different measures, needless to say, complicates the comparison of the results of different studies.

In other words, accounting measures capture only historical aspects of firm performance (McGuire, et al, 1988). Market measures are forward looking and focus on market performance. 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 appreciated. The 12 % ROE is a general guideline of minimum satisfactory performance.

2.3 Restructuring and Financial Performance

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. Lal *et al*. (2001) also revealed that restructuring adapted by managements in several industries has resulted in increased productivity and revenues, improved employees' welfare, increased shareholders wealth, enhanced efficiency and improved general performance among other benefits.

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 & 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 (Pfeiffer & Salancik, 2003).

3. Methodology

3.1 Research Design

Firstly, ADB is chosen as the research subject due to the lack of prior research on restructuring (of ADB), and this research aims to fill this gap. The dissertation identifies the motivators and impacts of corporate restructuring in ADB, thus can be considered as exploratory (Yin, 1994), which suggests that a single in-depth case study under the qualitative paradigm should be adopted. As Hartley (2005) argues, the extant literature signposts the initial focus of the case study and also serves to raise questions about whether findings are consistent with or different from extant research. In the initial theoretical framework of this project, some other concerns are recognized from prior literature, whilst emphasis is given to motivators and impacts of restructuring. The reasoning is that motivators of restructuring embody the unique context in which ADB has undertaken restructuring, whilst impacts of restructuring interest academics, practitioners and policy makers. Nevertheless, evidence should be found to justify the theoretical framework that has been set up. Therefore, a case study is proposed with an aim to ascertain the motivators and impacts of restructuring in ADB.

3.2 Case Study

Hartley (2005) refers to case study research as a detailed investigation of phenomena within a certain context, usually with data collected over a period of time. According to Hartley (2005), a case study is a research strategy rather than a method. And within this strategy, various methods (such as interviews, questionnaires, documentary analysis) are available to address research issues. In this paper, a single in-depth case study serves as the research strategy, within which semi-structured interviews (qualitative method) and secondary data collection methods are used in combination.

3.3 Data Collection Methods

This paper comprises two categories of methods for data collection, based on primary and secondary data respectively. Since this project attempts to explore the motivators and impacts of restructuring in ADB in depth, semi-structured interviews are used as the main method to gather primary data. Interviews, as conversations with purpose (Kvale, 1996), are valuable in providing primary data. Marshall & Rossman (1999) argue that interviews allow researchers to understand people's thoughts for everyday activities, thus gathering a wide variety of information. This is particularly the case for the organizational research category, which this project falls into. Particularly, semi-structured interviews are ideally suited to in-depth data collection. Kvale (1996) indicates that semi-structured interviews are conducted according to an interview guide that focuses on certain themes and questions. Thus, the interviewer is free to explore and probe with questions (Patton, 1980).

As mentioned above, all interviews are indented to be semi-structured in nature and in the form of telephone interview, with each lasting between 30 to 60 minutes. The reasoning for precluding face-to-face interviews, which dominate qualitative research (Cisneros-Puebla et al , 2004), mainly lies in the difficulty in accessing the Ghanaian state-owned banking system and also concerns of time, money and political issues.

Within this unique institutional context, the telephone interview functions in a similar fashion to the face-to-face interview by eliciting respondents' 'stories of the lived world' (Kvale, 1996) whilst the former outwits the latter in a sense that the former avoids inconvenience and sensitive issues that might be brought ADB. Another justification is that 'some distancing from the organization is also advisable so the researcher is not overloaded with impressions and those not get so close to the data that he or she is unable to see their wider significance' (Hartley, 2005).

As regards interview candidates, senior or general managers are chosen as respondents, of which five are from ADB headquarters (Accra) whilst the other five are from one ADB branches in the Accra metropolis. This approach allows an examination of relationship and strategy implementation between headquarters and affiliates in ADB, thus enhancing reliability and validity of the case study with rich in-depth data.

3.4 Data Interpretation

It is important to note that the various data collection methods are often employed in conjunction with each other in this project. Brewer (2004) refers to this as triangulation which involves the use of multiple methods of data collection. Such triangulation is advisable in a case study as it reduces bias (Yin, 2003) and improves research results (Morse, 1991). Based on the discussion above, data interpretation will acknowledge. Buckley et al., (2005) suggestion that cross referencing be made between interviews and between primary and secondary data. This approach enhances links amongst different sources of information concerning the impacts of corporate restructuring in ADB. With reference to interviews in particular, analysis is performed individually to identify restructuring issues in ADB. Most interviews are interpreted as direct quotations to reflect the original conversations. Cisneros-Puebla et al (2004) refer to 'journalistic interviews', where verbal mistakes, unclear sentences, and lengthy pauses are deleted or cleaned up. In the presentation of this case study, additional words from the author to make sentences clear are in italics and square brackets. In addition, indirection quotation is used in some cases for the sake of the smoothness of data analysis.

4. Results and Discussion

4.1 Data Analysis

4.1.1 Restructuring and the Performance of ADB

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 (Pfeiffer & Salancik, 2003). In the same way the study revealed that the restructuring affected the financial performance of ADB in several ways. Majority of the respondents especially the branch managers agreed that the restructuring program reflected significantly on the financial performance of the bank.

Table 4.1 Perception of Employees on the Restructuring and Financial Performance of ADB

Response	**Frequency**	**Percentage (%)**
Yes	23	92
No	2	8
Total	25	100

Source: Author's own construct

Although majority agreed that profitability and stability has improved, the study again used various indicators to evaluate the performance of the bank to ascertain the impact of the restructuring on the bank's financial performance. These objective indicators included profitability ratios, stability indicators such as capital adequacy ratio, cost efficiency etc.

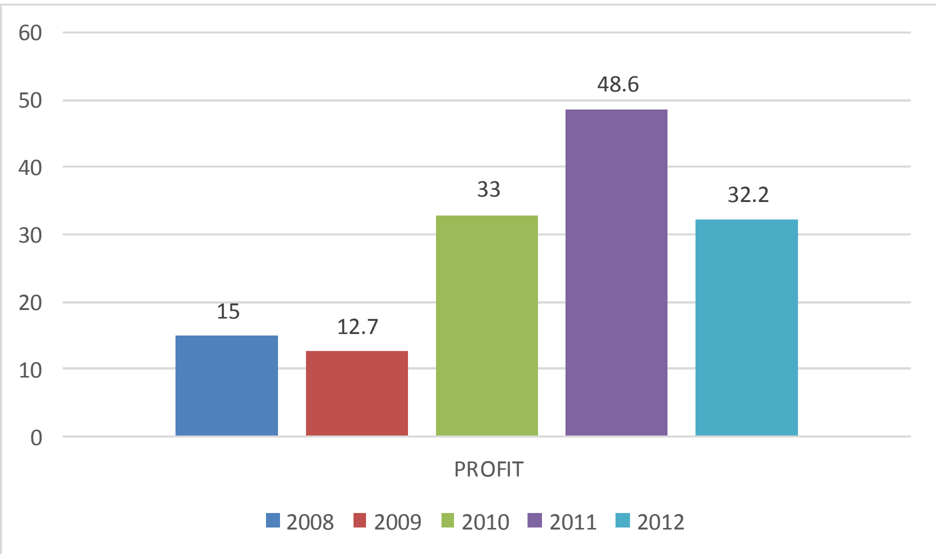
4.1.2 Profitability

The study found that positive impact of restructuring started manifesting in profitability performance of ADB during the first year (2010). Operating profit, Return on Equity and Return on Assets were the ratios used to evaluate the profitability of ADB for the period 2008-2012.

4.1.2.1 Net Profit

Profitability ratios measure the extent to which the resources of the bank were utilized to enhance shareholder's value.

Figure 4.1 Net profit of ADB for 2008-2012 in millions of GH¢



Source: Constructed ADB Annual Report, 2008-2012

As indicated in Fig. 4.1 above, the bank saw a tremendous growth in profit in the early years of the restructuring. In 2010, the profit was about GH¢ 33million from GH¢12.7 million in 2009, an increase in profit of about 15.18%. It continued to soar up to GH¢ 48.6 million in 2011 and saw a decline to GH¢32.2 million in 2012. Management attributed increase in profit to the change restructuring exercise brought.

4.1.2.2 Return on Asset (ROA)

This ratio basically measures managerial efficiency. It shows management's ability at using the resources of the bank to generate revenue.

Table 4.2: ROA and ROE of ADB from 2008-2012

Ratio	**2008**	**2009**	**2010**	**2011**	**2012**
ROA (%)	2.39	1.72	3.3	4.0	2.2
ROE (%)	13.70	10.41	23.19	30.90	15.5

Source: Constructed ADB annual reports 2008-2012

The ROA is calculated as ROA = $\frac{\text{Profit After Tax x 100\%}}{\text{Total Assets}}$

Generally, a high ratio is an indication of high efficiency in the use of the bank's assets. The ROA of ADB declined from 2.39 in 2008 to 1.72 in 2009; a contributing factor to introduction of the restructuring by the new management. In 2010 when the restructuring exercise had begun, it improved significantly to 3.3% and soared to a record high of 4.0% in 2011. The ratio fell significantly to 2.2% in 2012. The decline was however justified by management as resulting from increased levels of provision for bad and doubtful debts from a write back of GH¢7.6 million in 2011 to a prudent recognition of GH¢26.1 million in 2012 to reflect the deterioration in the credit portfolio.

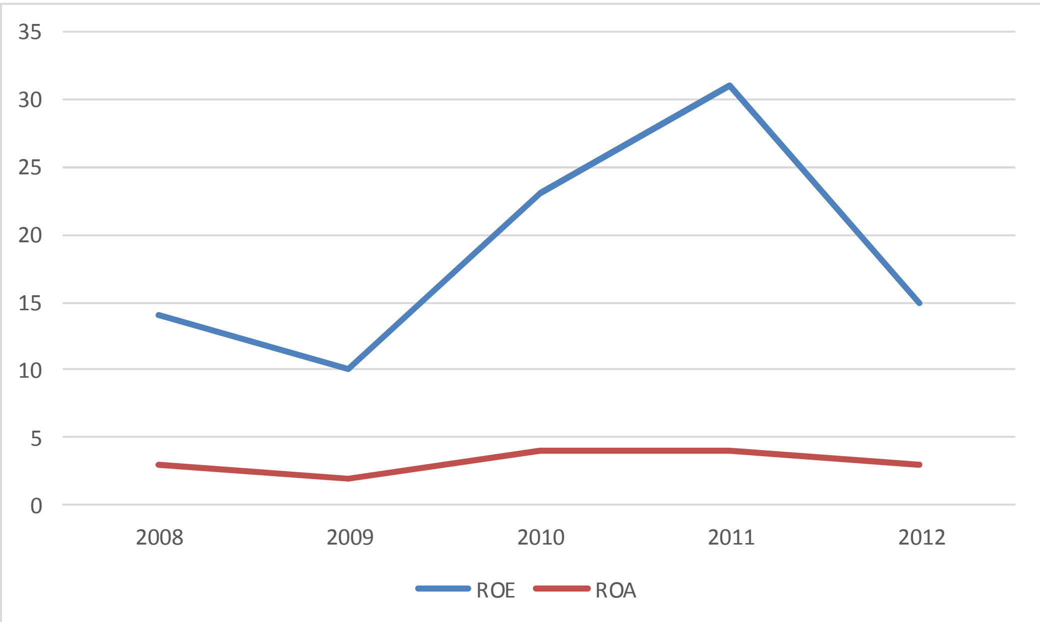
4.1.3 Return on Equity (ROE)

This profitability ratio indicates how much was earned for each unit invested by the owners. It is a straightforward benchmark for investors to compare the company's use of its equity against other investments. It is determined as:

$$ROE = \frac{\text{Profit after Tax}}{\text{Total Shareholder's Funds}} \times 100\%$$

ADB's ROE has followed a similar trend as that of ROA as seen observed from Fig. 4.2

Fig. 4.2 Trend analysis of ADB's ROA and ROE for 2008-2012



Source: Constructed ADB annual reports 2008-2012

In 2008 ROE was 13.70% and averaged 10.41% in 2009 and further to 23.19%, 30.9% and 15.5% in 2010, 2011 and 2012 respectively. The increase in profitability of ADB during 2010 and 2011 was mainly attributed to the introduction of innovative products, network branch increase and efficient management of cost which are all from the restructuring.

4.1.2.3 Cost efficiency

The transaction costs ratio calculated as, Total Operating Costs over Total Operating Income measures cost efficiency in the banking industry. The transaction costs ratio shows the amount of resources spent to generate a unit of income. Cost efficiency ratio of ADB as indicated in the table 4.7 and figure 4.4 below for the period under review indicates that transaction cost had increased from approximately 76% in 2008 to 80% in 2009. It modestly declined to 79.76% during the first year of the restructuring.

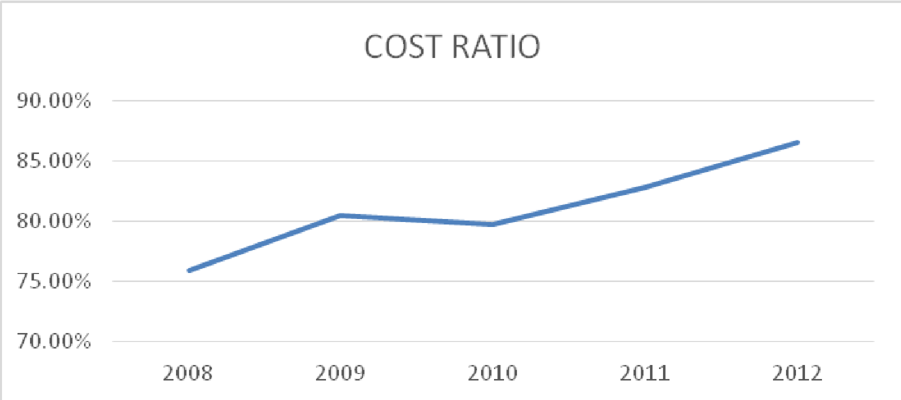
Table 4.3 ADB's calculated transaction cost from 2008-2012

	2008	**2009**	**2010**	**2011***	**2012***
Operating cost GH¢'000	57,292,114	61,947,745	114,182,823	135,508	186,447
Operating income GH¢'000	75,432,316	76,988,400	143,154,382	163,601	215,478
Cost ratio (%)	75.96	80.46	79.76	82.83	86.53

***Capital restated**
Source: Constructed ADB annual reports 2008-2012

Further analysis shows that the cost increased again form 2010-2012. This can be interpreted to mean dwindling efficiency in the operation of the bank. The ratio has risen from approximately 82.83% in 2011 to 86.53% in 2012. The interview with management revealed that the cost was still high due to rising operating cost of bank's recently upgraded technology and staff cost.

Fig. 4.3: Trend analysis of Transaction cost ratio for ADB 2008-2012



Source: Constructed ADB annual reports 2008-2012

4.2.3 Stability – Capital Adequacy Ratio (CAR)
This ratio measures the solvency state of the bank. It is measured by Equity (i.e. Shareholders' funds) as a percentage of total assets. The new Banking Act 2004 (Act 673) requires all banks to maintain a minimum ratio of total capital to risk-weighted assets of 10 percent at all times. The Higher the CAR, the higher the level of protection available to depositors and the more solvent the firm is. A further analysis of the financial statements of the bank showed that ADB was able to continuously meet the 10% requirement by BOG-the regulator of the banking industry in Ghana. However, it has undergone a continuous decrease from 16% in 2009 to about 12.5% in 2012.

5. Conclusion and Recommendation
First and foremost, a research background is built up through reviewing literature on corporate restructuring. Then, a theoretical framework specifying explanations and implications of corporate restructuring is set up, and taken into account the Ghanaian institutional context. Put another way, relevant literature on restructuring in the Ghanaian context implies that the theoretical framework regarding motivators and impacts of restructuring could be applicable to SOEs, which ADB used to be. Followed by a methodology for this research and an overview of Ghana's banking industry, a case study of ADB is presented. It provides evidence for the analysis of motivators and impacts of restructuring of Ghanaian SOEs detailed in the theoretical framework, thus answering the research question set beforehand. The motivators of ADB's restructuring lie in the changes in the business environment, ADB's weak governance, poor strategic control, and poor performance; whilst the impacts are on ADB's corporate governance, organizational structure and strategic control, performance and employee. In particular, every motivator and impact illustrated in the ADB case is concluded by a comparison between relevant literature and the findings from both interviews and secondary data. And the theoretical framework further strengthens the case of ADB.

However, as mentioned before, ADB's restructuring has happened in Ghana which Sit & Liu (2000) refer to a broadly defined institutional environment, indicating that there are some unique characteristics of ADB's restructuring. Apart from examining the linkage between theoretical and practical implications, more issues are being noted from the case study of ADB in this regard.

Firstly, among the four motivators of restructuring, the findings of this study suggest a stronger role for the changes in the business environment in motivating ADB's restructuring. Based on the findings, it could be safe to summarize that the occurrence of ADB's restructuring was the result of combined efforts by the central government and ADB itself. Concerning the first stage of restructuring, it was the state that played the primary role in triggering ADB's comprehensive restructuring. As for the second phrase of restructuring, it was ADB itself who has actively made efforts to put ahead the joint-stock restructuring after realizing the heating up pressure from the changing business environment. Having said that, the state has still played an important role in supporting ADB, as shown by the example of injecting capital into ADB.

Secondly, with regard to the impacts of ADB's restructuring, the study finds evidence that the impacts on ADB's organizational structure and strategic control, and performance are more apparent. Concerning the former, the evidence implies that substantial policy burdens of ADB have been removed, which is reflected in the dramatic decrease in NPLs. However, despite the diminishing of government interference, some question marks remain over the autonomy in ADB's future operation. Although having restructured into a joint-stock commercial bank, ADB, as the largest lender in Ghana especially to farmers, is still exerting large influence on the country's financial system as the state is the most dominant shareholder of ADB. As discussed previously, ownership should be continuously diversified for SOEs. The finding that ADB is expected to be going public has shed some lights on its future in this regard. Similar concerns should be raised about the long-term impact of the restructuring on ADB's performance, whilst the evidence suggests apparent improved performance of ADB since the overall restructuring scheme begun in 2004. In particular, the long-term effect of the immediate improvement on performance following ADB's joint-stock restructuring remains untested.

Moreover, ADB is yet to be a listed company, thus precluding the employment of stock price as an indicator to examine impacts of some frequent events, which are related to a firm's strategic control. Therefore, it is recommended that further research should be done by applying other indicators, and emphasizing longer years of firm performance. Hopefully, this research has made valuable contributions on the related topic. It is believed that more researches about the ongoing impacts on ADB's comprehensive restructuring will be carried out, as Ghana gradually opens the industry under the commitments to the WTO, and the ambition of ADB to compete with foreign rivals probably also requires more in-depth business analysis of the organization.

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