ORGANIZATIONAL STRUCTURE AND PERFORMANCE OF TIER ONE COMMERCIAL BANKS IN NAIROBI COUNTY, KENYA

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ABSTRACT

The performance of Tier One commercial banks in Nairobi County is increasingly shaped by internal structural dynamics amid rising operational costs, stricter regulatory demands, and heightened market competition. This study investigated the effect of organizational structure—focusing on hierarchy levels, formalization, and span of control—on bank performance. Grounded in Organizational Structure Theory, the research adopted a descriptive design targeting senior and middle-level managers from all 11 Tier One banks. A purposive sample of 88 managers drawn from 8 banks participated in the study. Data were collected through structured questionnaires and analyzed using SPSS Version 26.0, employing descriptive statistics and simple linear regression. The findings revealed strong, negative, and statistically significant bivariate relationships between each organizational structure variable and bank performance. However, the simple linear regression results indicated that the overall influence of organizational structure on performance was not statistically significant ($\beta = -2.14$, $p = 0.113$). This suggests that although structural elements such as hierarchy, formalization, and span of control may individually impact performance, their combined effect does not sufficiently explain performance variations when analyzed within a single model. The study concludes that organizational structure may influence performance outcomes at the individual factor level, but its predictive power is limited when assessed holistically through simple regression. It is recommended that Tier One banks consider streamlining their internal structures by eliminating unnecessary hierarchical layers, simplifying formal procedures, and widening managerial span of control where feasible. Pilot-testing these structural changes in selected units may offer practical insights for enhancing strategic performance in a competitive banking environment.

Keywords: *Organizational structure, Hierarchy Levels, Formalization, Span of Control, & Performance of Tier One Commercial Banks*

1.0 Introduction

The performance of commercial banks was a critical aspect of national economic development, given their central role in financial intermediation, capital allocation, and credit provision (Nguyen & Ben Ali, 2021). In Kenya, the banking sector had experienced rapid transformation driven by policy reforms, technological advancements, and increased competition (Okiro & Ndungu, 2021). These changes heightened pressure on banks to improve operational efficiency, customer satisfaction, and profitability (Kamau, 2022). While commercial banks largely responded through innovation and digitization, internal organizational dynamics remained an underexplored determinant of performance.

Among the most influential internal elements was organizational structure, which governed authority distribution, decision-making, communication, and workflow alignment. A well-aligned structure enabled institutions to implement strategies effectively, adapt to changing market conditions, and maintain operational control (Mintzberg, 1980). Conversely, rigid hierarchies, unclear reporting lines, and over-formalized procedures hindered agility, reduced staff motivation, and impaired service delivery (Omondi & Muturi, 2021). In the Kenyan context, banks varied widely in how they configured their internal structures, with Tier One banks—those with the largest assets and customer bases—often maintaining traditional hierarchical models despite growing operational complexity.

Tier One commercial banks in Kenya, including Equity Bank, KCB Group, Co-operative Bank, and NCBA, dominated the financial landscape in terms of market share, branch networks, and technological capacity (Central Bank of Kenya, 2023). These institutions served as benchmarks for performance in the industry. However, they also faced increasing pressure to remain efficient amid regulatory tightening, rising operational costs, and emerging competition from fintech and microfinance providers (Kenya Bankers Association, 2023). In 2023, Tier One banks posted an 8% increase in net profits, yet concerns persisted regarding structural inefficiencies that impeded responsiveness, collaboration, and accountability.

Several banks undertook restructuring initiatives aimed at improving performance. For instance, KCB and Equity introduced functional decentralization and performance-based reporting systems. Co-operative Bank streamlined its departments to reduce duplication, while NCBA focused on realigning its units following mergers. Despite these efforts, many institutions still grappled with challenges such as imbalanced spans of control, overlapping roles, and excessive formalization, which created friction in strategy implementation and operational coordination (Deloitte, 2023). For example, Standard Chartered Bank Kenya reported that delays in aligning operational departments limited its ability to respond to market shifts promptly.

While the influence of organizational structure on firm performance was well acknowledged in management theory, there remained a lack of empirical studies examining this relationship in the Kenyan banking context. Several local studies addressed related constructs such as strategic planning, leadership, and organizational culture (Kamau, 2019; Mwangi, 2021; Omondi, 2020). However, these studies did not specifically examine how structural dimensions—such as hierarchy levels, formalization, and span of control—affected institutional performance outcomes. Kamau (2019) focused on strategy formulation but not execution mechanisms.

Mwangi (2021) investigated organizational culture, while Wanjiku (2020) and Njoroge (2018) emphasized leadership without linking it to internal structural alignment.

This gap was especially significant for Tier One banks, which managed large teams across complex operational units and faced constant pressure to remain agile and profitable. With limited empirical evidence on how structural design influenced key performance outcomes in this setting, bank managers continued to adopt traditional configurations that limited flexibility and responsiveness.

To address this gap, the current study investigated the effect of organizational structure on the performance of Tier One commercial banks in Nairobi County. Specifically, the study examined how three structural dimensions—hierarchy levels, degree of formalization, and span of control—influenced performance. These variables were selected based on their foundational role in shaping authority flows, procedural compliance, and supervisory reach within large institutions (Mintzberg, 1980; Robbins & Judge, 2018). By focusing on Tier One banks, the study aimed to offer insights into how leading financial institutions could optimize internal configurations to achieve strategic and operational goals more effectively.

2.0 Materials and Methods

The study adopted a descriptive research design to examine how organizational structure influences the performance of Tier One commercial banks in Nairobi County, Kenya. This design was appropriate for obtaining accurate, detailed insights on how key structural variables—hierarchy levels, formalization, and span of control—affect organizational outcomes such as operational efficiency, customer satisfaction, and competitiveness.

Nairobi County was purposively selected as the study area because it hosts the headquarters of all 11 Tier One banks in Kenya. The county serves as the nation's financial hub, characterized by intense regulatory oversight, rapid technological transformation, and heightened competition. These conditions present complex structural and managerial challenges, making it a suitable setting for examining how internal organizational design affects performance.

The target population comprised 263 senior and middle-level managers from the 11 Tier One banks. These individuals were selected because of their strategic roles in managing departments and implementing structural reforms. To determine an appropriate sample size, Yamane's formula was applied:

$$N = N / (1 + N(e)^2)$$

Where: n = sample size; N = population size (263) and e = margin of error (0.1)

Substituting the values yielded a sample size of 88 respondents. Stratified sampling was first used to categorize managers by hierarchical level (top, senior, and middle), after which purposive sampling was employed within each stratum to ensure selection of participants with practical experience in structural implementation. Eight of the 11 banks granted access, providing sufficient coverage for the study.

Data were collected using structured questionnaires with closed-ended items measured on a five-point Likert scale. The instrument was pilot-tested to confirm clarity and internal consistency, with reliability verified using Cronbach's alpha coefficients.

Data analysis followed a stepwise approach using SPSS Version 26. First, data were cleaned, coded, and subjected to descriptive analysis to summarize demographic and variable distributions. Reliability analysis was conducted to ensure consistency of scales. Pearson correlation analysis was used to assess the strength and direction of relationships between structural variables and performance. One-way ANOVA tested for significant differences in perceptions across managerial levels. Finally, simple linear regression analysis was conducted to evaluate the individual influence of hierarchy levels, formalization, and span of control on bank performance.

The regression model was expressed as:

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon$$

Where:
Y = performance of Tier One commercial banks
β_0 = intercept
β_1 = regression coefficient for the predictor variable X_1
X_1 = organizational structure
ε = error term

All ethical considerations were observed, including obtaining informed consent, maintaining participant confidentiality, and ensuring voluntary participation.

3.0 Findings

This section presented the results of the Descriptive Analysis, Regression Analysis, and Model Summary.

Descriptive Analysis Results

The study aimed to evaluate the effect of organizational structure on the performance of Tier One commercial banks in Nairobi County, Kenya. The descriptive results for organizational structure are presented in Table 1.

Table 1: Descriptive Results for Organizational Structure

	M	STD
Hierarchy Levels		
The current organizational hierarchy effectively supports decision-making and implementation.	2.4	1.27
Hierarchical layers in the bank enable efficient communication and strategy execution.	3.3	1.26
The chain of command is clearly defined and helps streamline strategic initiatives.	2.9	1.27
Formalization		
Policies and procedures are well-documented, aiding the implementation of our strategies.	2.6	1.16
Formal processes guide the strategic activities in the bank effectively.	2.6	1.27
The degree of formalization ensures that all strategic decisions follow a clear, structured path.	2.3	1.16
Span of Control		
Managers have an appropriate span of control to oversee staff effectively.	3.3	1.18
The number of direct reports per manager ensures efficient supervision and strategy implementation.	3.7	1.15
The organization's span of control enhances quick decision-making and resource allocation.	3.2	1.15

Key: M = Mean**; STD =** Standard Deviation

The descriptive results for organizational structure indicated a combination of agreement and disagreement across the various dimensions of hierarchy, formalization, and span of control. Regarding Hierarchy Levels, respondents generally agreed that the current organizational hierarchy supported decision-making and implementation, as evidenced by a mean score of 2.4 and a standard deviation of 1.27. This suggested that the hierarchy was seen as effective, but there was some variation in responses. Similarly, for the statement that hierarchical layers enabled efficient communication and strategy execution, respondents showed moderate agreement, with a mean score of 3.3 and a standard deviation of 1.26, reflecting some diversity in opinions. The statement about the chain of command being clearly defined and streamlining strategic initiatives also received a favorable response, with a mean score of 2.9, indicating a positive outlook, though responses varied slightly (SD = 1.27).

In terms of Formalization, the findings suggested that respondents agreed that well-documented policies and procedures aided in strategy implementation, with a mean score of 2.6 (SD = 1.16). This indicated general approval, though there was still some diversity in opinions. Similarly, respondents agreed that formal processes guided strategic activities effectively, with a mean score of 2.6 and a standard deviation of 1.27. This showed a generally positive but varied outlook on the effectiveness of formal processes. When asked about the degree of formalization ensuring that strategic decisions followed a clear and structured path, the mean score was 2.3 (SD = 1.16), suggesting that most respondents felt formalization was beneficial, but there was some disagreement, as evidenced by the standard deviation.

For Span of Control, respondents expressed a generally positive view regarding the appropriateness of managers' span of control, with a mean score of 3.3 (SD = 1.18). However, some disagreement was apparent, as reflected by the standard deviation. In terms of whether the number of direct reports ensured efficient supervision, respondents showed strong agreement, with a mean score of 3.7 (SD = 1.15), indicating a consensus that the span of control facilitated effective supervision. Lastly, regarding whether the span of control enhanced quick decision-making and resource allocation, respondents expressed a moderate level of agreement, as reflected by a mean score of 3.2 (SD = 1.15). This indicated that, while the span of control was seen as beneficial, there was room for further improvement in decision-making speed and resource allocation.

Regression Analysis Results

The hypothesis stated in the null form was as follows:

H_{01}: There is no significant relationship between Organizational Structure and organizational performance of Commercial Banks in Kenya.

To test this hypothesis, a simple regression model was employed, with Organizational Structure as the independent variable and organizational performance as the dependent variable. The goal was to determine whether Organizational Structure has a statistically significant influence on organizational performance in Kenyan Commercial Banks

The hypothesis was tested by regressing Organizational Structure and organizational performance, following the equation:

$$Y = \beta_0 + \beta_1 X_1 + \epsilon$$

Where: X_1 represents Organizational Structure; Y represents organizational performance

The regression analysis results show that the value of R is 0.187, indicating a very weak positive correlation between Organizational Structure and organizational performance. The R^2 value is 0.035, meaning that only 3.5% of the variation in organizational performance can be explained by organizational structure. The Adjusted R^2 is 0.021, which accounts for the number of predictors in the model and confirms the limited explanatory power of organizational structure. The standard error of the estimate is 0.64579.

Table 2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.187[a]	.035	.021	.64579

The analysis of variance (ANOVA) results indicate that the relationship between Organizational Structure and organizational performance is not statistically significant. The calculated F-value is 2.569, and the p-value is 0.113, which is greater than the 0.05 significance level. This means that the regression model does not significantly predict organizational performance based on organizational structure. Therefore, we fail to reject the null hypothesis, suggesting that organizational structure does not have a statistically significant influence on organizational performance in this model

Table 3: ANOVA

	Sum of Squares	df	Mean Square	F	Sig. (p-value)
Regression	1.071	1	1.071	2.569	0.113
Residual	29.610	71	0.417		
Total	**30.682**	**72**			

Table 4: Coefficients

	Unstandardized Coefficients (B)	Std. Error	Standardized Coefficients (Beta)	t	Sig. (p-value)
(Constant)	4.010	0.398	—	10.072	0.000
Organizational Structure	–0.214	0.134	–0.187	–1.603	0.113

Dependent Variable: organizational performance

The regression coefficients table reveals both the unstandardized and standardized coefficients for the variable Organizational Structure. The unstandardized coefficient (B) is –0.214, with a standard error of 0.134. The standardized Beta coefficient is –0.187, and the corresponding t-value is –1.603 with a p-value of 0.113. These results indicate that while there is a negative relationship between Organizational Structure and organizational performance, the association is not statistically significant at the 0.05 level.

The resulting regression equation is:

$$\mathbf{Y = 4.010 - 0.214X_1}$$

Where: **Y** represents organizational performance, and $\mathbf{X_1}$ represents Organizational Structure.

This equation suggests that when Organizational Structure is zero, the baseline level of organizational performance is 4.010. Each one-unit increase in Organizational Structure is associated with a 0.214-unit decrease in organizational performance. However, since the p-value is greater than 0.05, the effect is not statistically significant. Consequently, the null hypothesis is not rejected, and the findings suggest that Organizational Structure does not have a significant influence on the performance of Tier One commercial banks in Kenya, at least within the context of this study.

4.0 Discussion

The study examined the effect of organizational structure—specifically hierarchy levels, formalization, and span of control—on the performance of Tier One commercial banks in Nairobi County, Kenya. While the regression analysis revealed a negative relationship between organizational structure and performance, the findings were not statistically significant. This section interprets these results in relation to previous studies, explains their implications, and outlines the study's limitations.

The negative, though insignificant, association suggests that more rigid or hierarchical organizational structures may be limiting the flexibility, efficiency, and responsiveness of banking institutions in Kenya. These results align with Mintzberg's (1980) assertion that overly bureaucratic structures often constrain innovation and delay decision-making, especially in fast-paced environments like banking. Similarly, Omondi and Muturi (2021) found that highly formalized institutions faced delays in interdepartmental coordination, resulting in suboptimal customer experiences and operational inefficiencies. However, unlike studies by Mwangi (2021) and Kamau (2019), which found significant positive relationships between organizational alignment and firm performance, the current study did not find statistically significant effects. This divergence may be due to contextual factors, such as the large scale and complex operational structures in Tier One banks, which can dilute the impact of individual structural variables.

These findings highlight the need for banks to re-evaluate the rigidity of their internal structures. While hierarchy and formalization are necessary for control and compliance, excessive layers of reporting or narrow spans of control may hinder adaptability in a dynamic market. This is particularly relevant in Kenya's banking sector, where digital transformation, customer-centric models, and competitive agility are increasingly essential.

From a policy standpoint, the results suggest that regulators and bank leadership should promote structural flexibility that supports rapid decision-making, horizontal coordination, and decentralized authority—particularly for large institutions. Additionally, banks could benefit from periodic internal structural audits to align organizational design with strategy implementation and market demands.

5.0 Limitations of the Study

Several limitations should be noted. First, the study was confined to Tier One banks in Nairobi County, which may limit the generalizability of findings to smaller banks or institutions operating outside urban areas. Second, although the sample was derived using stratified and purposive methods, it may not fully capture the diversity of roles or experiences within each bank. Third, data were collected using structured questionnaires, which may limit the depth of responses and restrict the exploration of context-specific nuances. Finally, the cross-sectional design does not allow for causal inferences or examination of changes over time.

Future studies could adopt a mixed-methods or longitudinal approach to explore how organizational structures evolve and interact with other strategic variables to influence performance. Expanding the sample to include Tier Two and Tier Three banks across diverse counties could also enhance representativeness and deepen sectorial insights.

6.0 Conclusion and Recommendations

This study examined the influence of organizational structure—focusing on hierarchy levels, formalization, and span of control—on the performance of Tier One commercial banks in Nairobi County. The regression analysis revealed a negative but statistically insignificant relationship between organizational structure and performance, suggesting that while structural arrangements may affect operational outcomes, they do not independently determine institutional success. These findings imply that other factors, such as organizational culture, leadership effectiveness, and digital transformation, may interact with structure to shape performance outcomes in the banking sector.

Based on these insights, the study recommends that Tier One banks pursue flexible structural reforms to enhance responsiveness and operational efficiency. Specifically, banks should periodically audit their internal structures to identify inefficiencies in reporting lines, coordination mechanisms, and managerial control. Reducing unnecessary hierarchy levels and balancing spans of control may improve decision-making speed and accountability. Furthermore, banks should invest in training programs that equip managers with adaptive leadership skills to manage cross-functional teams and dynamic environments. At the policy level, the Central Bank of Kenya and the Kenya Bankers Association should consider developing structural innovation guidelines that promote agility while preserving governance standards. These measures could support a more performance-oriented and resilient banking sector amid intensifying competition and regulatory demands.

Policy Implication

The results of this study suggest that banking regulators and industry stakeholders should not only focus on financial metrics but also encourage banks to adopt dynamic organizational structures. The Central Bank of Kenya, through its supervisory role, could provide structural governance guidelines that promote efficiency, accountability, and adaptability in bank management. Strengthening regulatory emphasis on structural performance could improve sector resilience in the face of economic and technological disruptions.

Author Contribution Statement

The author was solely responsible for the conceptualization, design, data collection, analysis, interpretation, and manuscript preparation of this study.

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