TURNAROUND STRATEGIES ADOPTED BY NEW KENYA COOPERATIVE CREAMERIES LIMITED

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DECLARATION

CANDIDATE
I declare that this project is my original work and that it has not been submitted to any other University or Institution for academic credit

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D61/8434/2006

SUPERVISOR
The Management Project has been submitted for examination with approval as University Supervisor.

Mr. Jackson Maalu  Sign……………………………… Date……………………
University Supervisor
DEDICATION

I dedicate this project to my parents who have been an inspiration to me to do my best in everything.
ACKNOWLEDGEMENT

First and foremost I wish to acknowledge the Almighty God who has enabled me to accomplish this work. Surely He is my Ebenezer. Secondly, I wish to register my sincere gratitude to my Supervisor Mr. J. Maalu for his commitment to the project and devotion of time towards the progress of the study through the initial stages to this level.

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There are special people without whom the MBA program would have been an uphill task: My colleagues in New KCC Ltd Dandora Factory “You are God sent, be blessed for the sacrifices you made in order for me to attend classes,” Mr. J. Njenga my former boss “You know very well what I went through, my heartfelt appreciation for the encouragement and support you made,” Mr. D. Mulwa “You defied the bond of friendship, you are truly a brother.” And brothers and sisters who have been there for me in many different situation and ways, however insignificant it might seem, I appreciate.

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ABSTRACT

Parastatals are institutions owned by the Government through its Ministries and are more business oriented as compared to mainstream Ministries. The study sought to establish the Turnaround strategies adopted by New Kenya Cooperative Creameries (New KCC) Ltd and the situational factors that were cause, hindered and helped the turnaround process.

The study was conducted using a case Study research design. The researcher conducted in-depth interviews with New KCC Ltd Heads of Departments who were and are involved in the turnaround process. Information was also obtained from the company’s records, which were useful in the compilation of the study report.

The study identified that to a large extent the company adopted Turnaround Strategies by pursuing two distinctive strategies namely decline stemming that reverse the decline and recovery strategies that yield a defensible competitive position to the firm. In the decline stemming the company instituted corporate avenues like change ownership, financial controls, and improving the processing capacity which reversed the downward trend. Next they instituted measures like quality certifications, putting its employees on performance contracts, forming partnership programs with stakeholders, indulging in Corporate Social Responsibility (CSR) activities and embracing the latest technology such as Enterprise Resource Planning (ERP) that has and will help the company to be in a defensible competitive position to fight off competition.

From the interviews conducted, it was identified that the situational factors played a vital role in the turnaround process. The downfall of the company caused a downfall in the Dairy Sub-sector and therefore all stakeholders were motivated to revive the company.

The results of this study can be used as a point of reference to other parastatals and other public sector organizations that are undergoing or are likely to undergo similar turnaround process. For the academicians and other researchers wishing to carry out further research, the empirical information will contribute to existing literature in the field of strategic management.
# TABLE OF CONTENTS

DECLARATION ........................................................................................................................... ii  
DEDICATION............................................................................................................................ iii  
ACKNOWLEDGEMENT ............................................................................................................. iv  
ABSTRACT.................................................................................................................................... v  
CHAPTER ONE: INTRODUCTION............................................................................................. 1  
  1.1 Background ...................................................................................................................... 1  
  1.2 Statement of the Problem ................................................................................................. 7  
  1.3 Research Objectives ......................................................................................................... 9  
  1.4 Significance of the Study ................................................................................................. 9  
CHAPTER TWO: LITERATURE REVIEW ............................................................................... 10  
  2.1 Influence of the Environment on Turnaround Process................................................... 10  
  2.2 The Causes of Corporate Decline ................................................................................... 11  
  2.3 Turnaround Strategies .................................................................................................... 14  
  2.4 Turnaround Process ........................................................................................................ 16  
  2.5 Main Steps of Turnaround.............................................................................................. 18  
  2.6 Situational & Organizational Determinants of Turnaround Strategies ......................... 21  
CHAPTER THREE: RESEARCH METHODOLOGY ............................................................... 25  
  3.1 Research Design............................................................................................................. 25  
  3.2 Data Collection............................................................................................................... 25  
  3.3 Data Analysis ................................................................................................................. 26  
CHAPTER FOUR: DATA ANALYSIS AND FINDINGS ......................................................... 27  
  4.1 Introduction .................................................................................................................... 27  
  4.2 Cause of Decline in Business ......................................................................................... 28  
  4.3 Implementation of Turnaround Strategy in New KCC Ltd ............................................ 29  
  4.4 Motivating Factors in the Turnaround Process .............................................................. 36
CHAPTER ONE: INTRODUCTION

1.1 Background

Over the past decade, a number of developments have taken place in business management. The transformation of value chain, influence of the global economy, changing patterns of employment and changes in the organizational structure are among the salient developments in business management (Langat, 2006). The above mentioned forces have forced organizations to evolve in order to survive in the ever changing turbulent environment. Huczynski & Buchanan (2001) argued that the turbulent environment has brought different dimensions in businesses in which they termed as complex, chaotic, multifaceted, fluid and interlinked streams of initiatives affecting work and organization design, resources allocation, and systems and procedures in a continuous attempt to improve performance.

Whilst many change programs require cultural change and need to be transformational, there are circumstances where the emphasis has to be on rapid reconstruction where, in its absence, a business could face closure, enter terminal decline or be taken over. This is commonly referred to as a turnaround strategy, where the emphasis is on speed of change and rapid cost reduction and/or revenue generation. Managers need to be able to prioritize the things that give quick and significant improvements (Johnson, Scholes & Whittington, 2005)

1.1.1 Turnaround Strategies

Turnaround refers to recovery to profitability from a loss situation. Following a loss a firm’s top management team must respond in an effort to ensure that the firm’s survival. A faltering firm will most likely continue to decline and may eventually fail if its top management team lacks the ability to respond successfully to external and internal factors causing decline. To achieve a successful turnaround, a management team must first stem a firm’s decline and select an appropriate strategy for recovery (Situma, 2006).
For any one of a large number of reasons, a firm can find itself with declining profits. Among these reasons are economic recession, production inefficiencies, and innovative breakthrough by competitors. In many cases, strategic managers believe that such a firm can survive and eventually recover if a concerted effort is made over a period of a few years to fortify its distinctive competence. This grand strategy is known as turnaround (Pearce and Robinson, 1997). Hill and Jones (2001) suggested that there are seven main causes that stand out in most cases of corporate decline which include poor management, overexpansion, inadequate financial controls, high costs, the emergence of powerful new competition, unforeseen shifts in demand, and organizational inertia. Normally one of them, a combination if not all of these factors are present in a decline.

Situma (2006) argued that as much as there is the need for developing competitive strategy, there is agreement among strategists that grand strategies are critical in the long-term success of the firm. Turnaround strategy falls under the broader umbrella of grand strategies. These strategies provide the basic direction for the actions and forms a basis of coordinated and sustained efforts directed towards achieving long-term business objectives.

Strategy ultimately requires achievement of a fit between the external situation and internal capabilities (Mintzberg, Lampel, Quinn & Ghoshal, 2003). The external situation, which constitute threats and opportunities include influences from political, social, economic and technological arena. The internal environment on the other hand constitutes internal capabilities, include here are strengths and weakness-organizational systems, policies, resource capacity and organizational culture (Koigi, 2002).

In defining Corporate Strategy, Johnson et al (2005) defined corporate strategy as ‘the direction and scope of an organization over the long term, which achieves advantage for the organization through configuration of resources within changing environments to meet the needs of markets and fulfill stakeholders’ expectations. Mintzberg et al (2003) also defined corporate strategy as ‘the pattern of decisions in a company that determines and reveals objectives, purpose and goals,
produce principle policies and other plans for achieving their goals and defines the range of business the company is to pursue. In addition, it shows the kind of human organization it is or intends to be and the nature of economic and non-economic contribution it intends to give to its shareholders, employees, customers and the society as a whole.’

Various strategies are available to the firm depending on the circumstance in the environment the firm operates which includes Corporate Turnaround, Retrenchment, and Portfolio Restructuring Strategies. Thompson & Strickland (1989) established that Retrenchment differs from turnaround in that retrenchment is a pullback and leaning-up in the face of adverse conditions. The strategic posture of retrenchment is one of defensively “battening down the hatches and weathering out the storm,” withdrawing from activities where return on investment in subbar. They further explained Portfolio restructuring strategies involves radical surgery on the mix and percentage makeup of the types of businesses in the portfolio.

A turnaround strategy is designed to stop and reverse a declining business as quickly as possible. The strategy is used by a firm with long-term potential when it is faced with a significant weakening of its competitive position. Most turnaround strategies attempt to improve the business’ cash flow by increasing revenues, decreasing cost, reducing assets, or combining these moves (Baterman & Zeithaml, 1990). They continued to argue that strategic change at the business level occurs when a company competes better and serves the industry and market it’s in. Revitalization is necessary when performance is mediocre or poor but improvement is possible; in other words the business must revitalize its current market position. In worse case, a company must try a turnaround. A turnaround situation means that the company has experienced serious losses and failure to improve threatens its survival.

Hill and Jones (2001) present the view that at any stage of life cycle, companies that are in weak positions may apply strategies. The questions that a company has to answer are whether it has the resources available to develop a viable business-level strategy to compete in the industry and how much that will cost. If a company decides that the turnaround is not possible, either for
competitive or for life cycle reason, then the two remaining investment alternative are liquidation and divestiture. As the terms imply, the company moves to exit the industry either by liquidating its assets or by selling the whole business. Both can be regarded as radical forms of harvesting strategy, because the company is seeking to get back as much as it can from its investment in the business. Often, however, it can only exit at a loss and take a tax write-off.

1.1.2 The Dairy Sector in Kenya
Generally 75% of Kenyans earn their living from farming either directly or indirectly. Kenya has one of the largest dairy industries in sub-Sahara Africa. Appendix 1 shows the structure of the dairy sector in Kenya by the year 2000. By the end of 2000 there were around 1,500 licensed informal milk traders in the country.

With a large dairy cattle herd, Kenya is able, besides satisfying the East African market, to export milk to Yemen, Nigeria, South Africa, Rwanda, Burundi and Botswana. Local consumption amounts to 45 per cent while the rest is marketed across the borders. The Kenyan Dairy industry has developed over a span of more than 90 years. Small-scale farmers, about one million of them, contribute 80 per cent of the total milk produced and 70 percent of the marketed milk in the country. This has created approximately over 1 million jobs at the farm level, half a million in the industry and over 700,000 jobs in the support service industry. In total, there are 35 milk processors with an installed processing capacity of 3.5 million litres per day (Mutugi, 2008).

He also presents his findings that dairy industry contributes 4 per cent to the national gross domestic product and 14 per cent of the agricultural GDP. The sub sector is very important to the Kenyan economy and it forms a significant part of the rural economy. The industry growth opportunity is buoyed by the growth of the national economy which accelerated from 5.8% to 6.1% in the year 2006/2007. It is encouraging that the dairy sub-sector achieved improved growth stability both in production and stable prices to the farmers (New KCC, 2007).
Up to 1992, the dairy industry in Kenya was under government control, which gave the policy guidelines, set prices, determined the players in the industry and set the market rules among other things. Kenya Co-operative Creameries (KCC) enjoyed a protected monopoly in the marketing of the milk and dairy products (EPZ, 2005). Presently, the dairy industry is regulated by the Kenya Dairy Board, established under Section 4 of the Dairy Industry Act Cap. 336 enacted by Parliament in 1958. It is from this Act that the Board derives its mandate (EPZ, 2005).

Specialized organizations have stepped in to improve dairy production and marketing. Land O’Lakes, a US co-operative NGO, strives to make the sector self sustaining. Its vision is to build a strong and vibrant sustainable dairy industry by increasing efficiency in marketing, processing and production of milk and dairy products. Other organizations as Egerton University’s Tegemeo Institute of Agricultural Policy and Development, International Livestock Research Institute (ILRI), TechnoServe, Heifer Project International (HPI) and American Breeders Services (ABS), are also working with the organizations in the dairy sector, including the KDB, to improve processing, production, marketing and promotion of dairy products in the country (Wambua, 2003 cited by Auma, 2004)

1.1.3 **New KCC Ltd**

The story of KCC Ltd to KCC 2000 Ltd to New KCC Ltd is equal to that of Dairy Sector in Kenya. The New Kenya Co-operative Creameries Ltd was registered on the 25th of June 2003. Its predecessor, the Kenya Co-operative Creameries Ltd has operated in Kenya since 1925. This makes it the oldest dairy processor in the country. The company was created so that it can provide a channel for dairy farmers to sell their milk. The principal business of KCC Ltd was buying, processing and selling dairy products both in the domestic market and export market. The company started with only one factory in Naivasha but today has eleven (11) dairy processing factories and eleven (11) cooling plants. Growth was mainly achieved during the period 1966 to 1988. As at the time there was a lot of technical, technological and financial assistance from DANIDA.
Besides the factory that was set up at Miritini to serve the coastal region, the rest of KCC factories and cooling plants exist in the medium and high potential parts of Kenya, where over 70% of the population lives and where poverty is prevalent. By 1987/88, KCC was selling 1 million litres per day with purchases from dairy farmers reaching a peak of 1.4 litres per day. The company operated as a monopolistic environment until the 1990s. (New KCC Ltd website, 2009)

Liberalization brings with it stiff competition and the firms that survive are those that study requirements of the consumers and strive to meet them effectively, without which the firm may either close down or be taken over by more powerful ones (Auma, 2004). Due to liberalization of the dairy sub sector mismanagement in the company caused it to collapse in 2000 and was put under receivership. In August 2000, a select group of dairy farmers (majority of who were members of KCC) decided to form a new entity, KCC 2000, to bid for the business and assets of KCC. KCC 2000 bid to acquire the business and assets on a going concern basis at Ksh. 406 million was successful (KCCHL, 2001).

Come June 2003 the NARC government bought back the company at the same price and renamed it New KCC Ltd. Over the last four years, the business has mainly been focused on revival and rehabilitation of its factories and plants which were in desolate state when the company was revived in June 2003 (New KCC, 2007). According to the New KCC annual report 2006/07 the business is at its tail end of revival and rehabilitation program having successfully re-opened all the 11 Cooling Plants, 11 factories and 12 Sales Depots at an estimated cost of Ksh. 3 billion. During the year under review, the company achieved the operational targets set by the government in the performance contract for the year. New KCC has sustained growing profitability in the financial year ended 30th June 2007 despite increased competition and historically high fuel prices in the year which led to an escalating cost of production (New KCC, 2007).
Kenya’s political environment traditionally has an impact on the economy. Following the disputed outcome of the general election in 2007, there was widespread violence and displacement of people throughout the country. This had a significant impact on milk supplies to NKCC factories in the Rift Valley. Appendix 2 shows the milk intake in the formal sector declined and March 2008 due to post-election violence. Preferential trade access, trade restrictions and tariffs in different trading blocs affect export markets for NKCC. (Deloitte, 2008)

In 2006 New KCC was awarded the Parastatal status which required the company to follow the Parastatal Act. The management staffs were put on Performance Contract as provide by the Public Service Act. According to the New KCC annual report 2006/07 the company had put the Performance Management system which has redefined the key result areas for the organization, department and individuals and also put in place an appraisal tool and a reward scheme aimed at realizing the full potential for individual employees and entire organization.

1.2 Statement of the Problem
Not all turnaround cases are a success story, Hambrick and Schecter (1983) studied two hundred and sixty cases of turnaround and only fifty six had managed to recover over a four-year period. This suggests that turnaround especially in difficult operating environment like mature, competitive businesses is not easy. Turnaround attempts more often than not fail where firms concede defeat and have to wind up. Turnaround failure presents harsh realities of liquidating a firm’s assets to try returning some capital to shareholders, creditors or owners. It is always a drastic and sad situation to face up to the hard reality of liquidation, however, it may be sometimes be the best thing to do rather than to go on into even the sadder and worse situation (Khandwalla, 2001).

The main reason of the establishment of KCC in the 1920s was to stabilize the dairy subsector so that the dairy farmers can have a channel to sale their milk. Therefore the company has played a very vital role in the Economic Revival Strategy for the country and this was the main reason
why the government bought it back from KCC Holdings, attempt a turnaround which had a positive impact in the dairy sector in Kenya. New KCC’s entry into the dairy sector has revived interest in dairying by offering improved prices for milk which have shot up from Sh.8 a liter in 2002 before stabilizing to the current Sh.24 (Daily Nation, 2009).

New KCC Ltd has grown from strength to strength to register profits in otherwise very turbulent and complex dairy sector. While other Public Sector organizations which received funding from the Government are still struggling in their respective external environment of which some are not as turbulent and complex as the dairy sector, New KCC Ltd has registered a profit non tax of Ksh half a billion in 2007/08 financial year from a Ksh 8 million loss before tax posted in 2005/06 financial year (Refer Appendix 3). This signifies an upward trend in the company’s performance. Annual Report and Financial Statement (2005/6) highlighted that there is further recorded significant growth as a result of continued rehabilitation of facilities, development of new product brands and expansion of the market reach while pursuing a strategy to diversify and provide innovative products and services under a competitive environment.

Studies of the turnaround strategies have been done on the private sector companies especially outside Kenya. Barker & Duhaime (1997), Hambrick & Schecter (1983) and Hofer (1980) studied the Turnaround Strategies in the broader sense; Arogyaswamy et al (1995) studied the application of Turnaround Strategies using an Integrative Two Stage Model; Pant (1991) and Schendel (1976) did a study of Corporate Turnaround Strategies. Situma (2006) studied the Turnaround Strategies Adopted by Kenya Commercial Bank. Though the above mentioned studies had same theoretical framework, the context is different in terms of it is not specific to the dairy sub sector in Kenya and more so to New KCC Ltd.

A knowledge gap therefore exists in the experience of implementing turnaround strategies at New KCC Ltd. The research will set out to investigate and try to answer the following questions: What are the turnaround strategies that New KCC Ltd employed? What situational factors led to the success Turnaround in the company?
1.3 Research Objectives

i. To establish the turnaround strategies employed by New KCC Ltd in their revival plan.

ii. To establish the situational factors that influenced the turnaround strategy process.

1.4 Significance of the Study

New KCC is one of the state corporations where government uses it as a tool economic growth and development by stabilizing the dairy industry as part of Economic Recovery Strategy for Wealth and Employment Creation. The performance of New KCC is vital to the Government, farmers and citizens at large in creating wealth in the Dairy sub-sector. Therefore this research will try to offer data that can be used as a point of reference to the revival of other public sector organizations. It will provide an important empirical data to the current and future scholars who are interested in studying turnaround strategies.

The research will try to highlight the crucial links on the cause and effect of their day to day performance. It will help the employees to understand and appreciate the effects of Strategic Management and increase their participation in creating targets for their work. It will improve the service to the customers which will in turn improve on the product range on offer. The interest of suppliers is to know the financial health of the company which will guarantee continued business. The data will enable the suppliers to postulate the future successes of New KCC Ltd thereby increasing their commitment.
CHAPTER TWO: LITERATURE REVIEW

2.1 Influence of the Environment on Turnaround Process

All organizations do not exist in an island but interact with the external environment. According to Scherrer (2003) strategic management literature underscores the importance of the environment to the firm. An important aspect of identifying early signals of business failure understands the effects that the internal and external business environments have on business stability and profitability. The internal environment consists of finance, production, and marketing/distribution functions. The external environment is considered hostile and uncontrollable by management and consequently managers often shy away from trying to control it. This environment consists of political, legal, cultural, social, competitive, economic and technological elements.

The internal environment is the easier of the two groups for management to control but negative changes often go unnoticed and cause the business to falter. To survive in today’s business environments, a company’s management team must be able to react to changes in the internal and external environments. By understanding the business environments and how they affect the business, you can locate and correct problems before they become unmanageable. This is an important step in management of a turnaround process (Scherrer, 2003). Aosa (1992) asserted that companies responded differently to the competition depending on environmental factors that are prevailing in their external environment, and even where external environmental factors were similar, differences in characteristics of these firms could lead to variation in practices and responses.

There are three distinct phases of decline; early, midterm and late (Scherrer, 2003). According to Situma (2006) each stage has its danger signals, for example in early stages of decline the business may experience shortage of cash. The midterm and later stages of decline on the other hand consists of inventory decrease and depleted working capital respectively. Scherrer (2003) asserts that as problems increase within a business, its reputation with suppliers, banks and employees, both potential and current customers and other stakeholders become severely
diminished. A credibility gap can occur and place the business in the position of defending itself not only from internal and external factors, but also from a loss of self esteem in the business community.

External elements that negatively affect the business include increased competition rapidly changing technology and economic fluctuation. A change in an external uncontrollable element will be felt by all businesses in an industry, but the impact these changes have on a specific business depends on the strength and stability of management team. A major problem with predicting the movement of uncontrollable elements is their interaction with each other. According to Scherrer (2003), external elements are closely interrelated and consequently anything affecting one element can have a secondary effect on another element. He further asserts that managers should realize that they could plan for changes in the external environment in order to safeguard their businesses. Foresight therefore becomes of essence in order to adapt to changes in the external environment.

Situma (2006) explains that ‘the external environment constantly changes however, by monitoring the changes; strategies can be created that alleviate the negative effects the external environment has on business. Since changes will occur in the environment, it is not a question of if the business will be affected by changes, but when it will be affected. Strategic planning that ignores changes in the external environment is thus useless.’

### 2.2 The Causes of Corporate Decline

Poor performance can be caused by large losses in one or more business units that pull overall performance down, having a disproportionate number of businesses in unattractive industries, a bad economy which has adversely impacted many of firm’s business units, or having weak management at either corporate or business level (Thompson & Strickland, 1989). Scherrer (2003) is of the opinion that long before business commences its decline, warning signs start flashing but managers often do not notice the red lights or they ignore them.
In review of empirical studies of turnaround situations, Hofer (1980) identified a number of management defects commonly found in declining firms. They include lack of strong middle management and a failure to provide for orderly management succession by departing managers. A faulty top management team may result in a firm’s strategy being misaligned with its task environment whether or not the environment has changed. Strategic misalignment may result in the management teams’ failure to update product lines, overcome functional weakness and curtail operating expenses or ill-advised expansion.

According to Hill & Jones (2001), Poor management covers a multitude of sins, ranging from sheer incompetence to neglect of core business and an insufficient number of good managers. Although not necessarily a bad thing, one-person rule often seems to be at the root of poor management. One study found that the presence of dominant and autocratic chief executive with a passion of empire-building strategies often characterizes failing companies. Another study of eighty-one turnaround situations found that in thirty-six cases troubled companies suffered from an autocratic manager who tried to do it all, but, in the face of complexity and change, could not.

Hill & Jones (2001) also argued that the empire-building strategies of autocratic CEOs often involve rapid expansion and extensive diversification. Much of this diversification tends to be poorly conceived and adds little value to the company. They advanced their thoughts that the consequences of too much diversification include loss of control and inability to cope with recessionary conditions. Moreover, companies that expand rapidly tend to do so by taking on large amounts of debts financing. Adverse economic can limit a company’s ability to meet its debt requirements and thus precipitate a financial crisis.

Failure to assign profit responsibility to key decision makers within the organization, the lack of accountability for the financial consequences of their actions can encourage middle-level managers to employ excess staff and spend resources beyond what is necessary for maximum efficiency. Inadequate financial control can lead to high costs. Beyond this, the most common cause of high-cost structure is low labor productivity. Competition in capitalist economies is a
process characterized by the continual emergence of new companies championing new ways of doing business. In recent years few industries and few established companies have been spared the competitive challenge of powerful new competition. Indeed, many established businesses have failed or run into serious trouble because they did not respond quickly enough to such threats. Powerful new competition is a central cause of corporate decline. Unforeseen, and often unforeseeable, shifts in demand can be brought about by major changes in technology, economic or political conditions, and social and cultural norms. Although such changes can open up market opportunities for new products, they also threaten the existence of many established enterprises, necessitating restructuring. (Hill & Jones, 2001)

High costs are also to blame for decline situations. Inadequate financial control will lead to high costs. Beyond this, the most common cause of high cost structure is low productivity. This may arise as a result of union practices, management’s failure to invest in labor conserving technologies, high wage rates and failure to realize economies of scale among others (Hofer, 1980). Situma (2006) explained the salient reasons of Kenya Commercial Bank declining performance were due to internal factors like employee attitude of resigning attitude that the bank was nose diving and nothing can be done. Also the bank had a huge workforce which stood at 3,600 raking Ksh. 4 Billion per annum in wage bill as compared to Standard Chartered Bank Kenya which was operating with 900 employees having a wage bill of Ksh. 1.6 Billion per annum.

Finally, unforeseen and unforeseeable demand shift can be brought about as a result of changes in technology, economy and political conditions and social cultural norms. Most of these shifts in demand come as a result of changes in the external elements of the business. Those changes may result in opening up of new market opportunities for new products but more often than not, they threaten the existence of many established enterprises necessitating restructuring (Hofer, 1980).
2.3 Turnaround Strategies

The overall goal of turnaround strategy is to return an underperforming or distressed company to normal in terms of acceptable levels of profitability, solvency, liquidity and cash flow. Turnaround strategy is described in terms of how the turnaround strategy components of managing, stabilising, funding and fixing an underperforming or distressed company are applied over the natural stages of a turnaround (CRS Turnaround Management, 2009).

Turnaround refers to recovery to profitability from a loss situation. Following a loss a firm’s top management team must respond in an effort to ensure the firm’s survival. A faltering firm will most likely continue to decline and may eventually fail if its top management team likes the ability to respond successfully to external and internal factors causing decline. To achieve a successful turnaround, a management team must first stem a firm’s decline and select an appropriate strategy for recovery (Situma, 2006).

Baterrman & Zeithaml (1990) present the view that many companies restructure their operations, divesting themselves of their diversified activities, because they wish to focus more on their core business area…. this often occurs because the core business area in itself in trouble and needs top management attention. An integral part of restructuring therefore is the development of a strategy for turning around the company’s core or remaining business areas.

A number of studies have sought to classify alternative turnaround strategies. Hofer (1980), Schendel, Patton & Riggs (1976) have classified turnaround strategies into strategic and operational. The basic idea is that if the decline is because of strategic failure then the turnaround management would need to focus on strategic responses and if the decline is because of failure in operational efficiency, then operational improvements would be needed.

Hofer (1980) proposed a situation specific model in which, what strategy would be adopted under what circumstances. He went further to identify two “strategic” strategies namely product market refocusing and dramatic market share increase presumably through expansions and
acquisitions. His operational strategies were revenue increasing, cost cutting, asset reduction and a combination strategy.

He further argues that the choice of the operating strategy should depend upon how sick firm is to breakeven point. For example cost cutting makes sense when the firm is operating just below its breakeven. Revenue increasing strategies such as involving price cutting, increased advertising among others should be appropriate when a firm is moderately operating below break-even point. Finally asset reduction strategies are recommended when the firm is operating far below break-even point.

While abandoning the strategic/operating dichotomy, for their particular study Hambrick and Schecter (1983) distinguished between entrepreneurial and efficiency strategies. They proposed two entrepreneurial strategies and two efficiency strategies. One entrepreneurial strategy was revenue generating in which the attempt is to increase sales by some combination of product re-introduction, increased advertising, and increased sales effort and lower prices. The second is products-refocusing strategy involving shifting of focus into definable or lucrative niches. Efficiency strategies were cost-cutting strategy involving typically cuts in R&D, marketing, administration and other expenses as well as reduced interest cost through liquidating receivables and inventories; and asset reduction strategy involving divesture of fixed assets like plant and equipment.

In their study, Arogyaswamy, Barker & Assai (1995) concluded that firms attempting a turnaround pursued two distinctive strategies namely decline stemming that reverse the decline and recovery strategies that yield a defensible competitive position to the firm. Effective decline stemming strategies encompass not only retrenchment, but also effective management of firms’ external stakeholders to get their support for turnaround. The extent to which decline stemming strategies are applied and their success is influenced by several factors including severity of the distressed state (Pearce and Robinson, 2008), firm size and free resources available (Khandwalla, 2001). Also needed is effective management of internal processes to create a climate conducive
for turnaround and this means that downsizing must be handled with care and with a concern for the staff.

Scherrer (2003) also classified turnaround strategies as above. He proposes that strategic strategies should involve redefining the business, which involves change in markets served, and the product lines. He however went further to introduce financial turnaround which involves restructuring financial operations of the business. The objective here is to use the financial strength of the business as an asset and restructure the business to take advantage of this financial strength.

Which strategies to use and at what time, determine a turnaround success. Using inappropriate strategy may be a terminal error. Strategies may be combined and used in various sequence. The unique requirements of the business and the turnaround situation determine which strategies to be used (Situma, 2006). Pearce and Robinson (2008) advanced their view that a turnaround situation represents absolute and relative-to-industry declining performance of a sufficient magnitude to warrant explicit turnaround actions. Turnaround situations may be the result of years of gradual slowdown or months of sharp decline. In either case, the recovery phase of the turnaround process is likely to be more successful.

### 2.4 Turnaround Process

Corporate turnaround, retrenchment, and portfolio restructuring strategies come into play when senior management undertakes to restore an ailing corporate business portfolio to good health. The first task here is always diagnosis of the underlying reasons for poor corporate performance. Crafting turnaround strategies then follows. (Thomson & Strickland, 1989)

Managers need to create strategic management systems that integrate all disciplines and all areas of operation of the organization in outcome based structures of the future the manager must critically look at their performance and compare it to others to assess where they are and where they want to go they need strategic management systems that can put these ideas into action so as
to create organizations that: are healthy, balanced, efficient and effective; provide quality products and services to the satisfaction of customers as well as support for their employees; add value on results; measure and evaluate results and use such measurements and evaluation to improve future performance through effective strategies; foster and promote thinking among its members (Gekonge, 2005).

Turnaround is considered to have occurred when a firm recovers adequately to resume normal operations, often defined as having survived a threat to survival and regained sustainable profitability (Barker and Duhaime, 1997). The recovery is due to a decline in performance which in most cases is situational.

When a firm’s Top Management Team responds inappropriately, it may continue in its effort to reverse a firm’s decline although such efforts will most likely become more difficult as slack resources become exhausted, organization stakeholders withdraw support and key managers’ exit (Arogyaswamy et al, 1995). Thus during decline the management team must make expeditious well-informed decisions to hasten a firm’s recovery. Research indicates that when management formulate and implement informed strategies, their firms can turnaround even when facing declining environment munificence, increasing environmental dynamism, escalating internal problems or limited slack resources (Pearce and Robinson, 2008; Barker and Duhaime, 1997).

In all successful turnarounds the management first stems out the decline and then advance an appropriate strategy for recovery. This often requires increasing a firm’s efficiency, stabilizing its internal operations and renewing stakeholder support. In doing so the range of viable decisions available to a top management team depends to a large extent to the severity of a firm’s decline. Once the management team has stabilized a firm’s performance, it must necessarily address the causes of business decline to effect recovery (Pearce and Robinson, 2008). Elsewhere turnaround is also seen a sustained positive change in the performance of a business to obtain the desired result. It is the process by which a business with adequate performance is analyzed and changed to achieve a desired result (Scherrer, 2003).
Pearce & Robinson (2008) present the view that strategic management research provides evidence the firms that have used a turnaround strategy have successfully confronted decline. The research findings have been assimilated and used as the building blocks for a model of the turnaround process shown in Appendix 4. The model begins with a depiction of external and internal factors as causes of a firm’s performance downturn. When these factors continue to detrimentally impact the firm, its financial health is threatened. Unchecked decline places the firm in a turnaround situation.

2.5 Main Steps of Turnaround

In turnaround strategies the focus to most stakeholders is on the speed of change, rapid cost reduction and/or revenue generation. The length of time necessary to complete successful business turnaround varies. Scherrer (2003) suggest a couple of years. Much research has been done to find out the sequence that precedes the turnaround in a company. Scherrer (2003) identified five stages of turnaround. According to him the first crucial stage is the analysis of the situation followed by creation of a plan, implementation and stabilization followed by return to growth. Analysis begins when a turnaround manager examines value for the past three years and any deviations analyzed. Financial ratios are useful for this purpose and include working capital to total assets, retained earnings to total assets, earnings before interest and taxes to total assets and the market value of equity to book value of total debt. Sales to total assets are also an important ratio in business faced by turnaround situations. Stable businesses tend to have consistent ratios from year to year. Where there are inconsistencies it is important to find the cause. Extremely low ratios indicate need for bridging capital.

According to PA Consulting Group (2009) website, www.paconsulting.com, the general steps to undertake a successful turnaround strategy Step 1 is to develop the turnaround strategy objectives, define success and identify the key problems to fix. CEOs must quickly develop a strategy based on a sound analytical understanding of which parts of the business can create value now, or can create value in the future. This has to be based on a good understanding of value creation potential which is a function of both inherent market attractiveness and of
competitive strength. Step 2 is to focus on execution activities that eradicate value destruction. It is often said that there is no such thing as a bad strategy; it is just the execution that is flawed. Whilst this statement is debatable, we observe many situations where implementation is poorly managed. The success of this step relies on the ruthless execution of a portfolio of projects, all aimed at the eradication of value destroying activities. The nature of the projects could include divesting underperforming businesses, implementing a new pricing strategy, selling underutilized assets, pruning unprofitable product lines and overhead cost reduction. Finally the 3rd step is to stabilize and nurture the value creating businesses. This phase usually requires a style of management that is different to the earlier phases, involving nurturing of management talent to guide value creating businesses to the next stages of their development. In parallel, turnaround must be embedded by consistent, visible management against value driving KPIs.

Thompson & Strickland (1989) submit that how to attempt a turnaround necessarily depends on the roots of profitability and the urgency of the crisis. Depending on the causes, there are six action approaches that can be used singly or in combination to pull off a turnaround in a diversified enterprise, First is to concentrate on restoring profitability in the money-losing units, secondly is to implement harvest strategies in the poorly performing units and divert cash flows to opportunities in better-performing units, Thirdly is to institute across-the-board economies in all business units, then revamp the composition of the business portfolio by selling off weak businesses and replacing them with new acquisitions in more attractive industries, followed by replacing key management personnel at the corporate or business levels, or both, and finally launch sales and profit improvement programs in all business units.

Johnson et al (2005) views are too often turnarounds are seen as no more than cost-cutting exercises when, in fact, a wider alignment between causes of decline and solutions is important consideration. For example, in a situation where the decline is principally a result of changes in the external environment it may be folly to expect that cost-cutting alone can lead to renewed growth. Other elements of turnaround strategies are important.
According to CRS Turnaround Management (2009) website, www.turnaround-sa.com, the generic turnaround strategies commonly used are operational turnaround strategy may be, and usually is underpinned by a further set of generic organizational and strategic turnaround strategies. Operational turnaround implies changes to the value chain, which in turn requires changes in the organizational structure of the underperforming or distressed business. Financial turnaround strategy refers to financial restructuring with a view to strengthening the balance sheet and/or provides funding. Reorganization turnaround strategy may also entail changes to the leadership team. Strategic repositioning turnaround strategy improves effectiveness and efficiency may not be enough. Often the turnaround is also based on chances the business domain and value proposition of the business. Appendix 5 depicts how these generic turnaround strategies can be employed in an organization. Johnson et al (2005) identifies crisis stabilization, management changes, gaining stakeholder support, clarifying the target markets, refocusing and financial restructuring as the core elements of business turnaround.

Management changes are crucial in turnaround process as it ushers the anticipated change and affect the mindset of the employees. Johnson et al (2005), Hill & Jones (2001) observed that changes in management are usually required, especially at the top level. Since the old leadership bears the stigma of failure, new leadership is an essential element of most retrenchment and turnaround situation.

Johnson et al (2005) presented the reasons why we should have management changes. First the old management may well be the ones that were in charge when the problems developed and be seen as the cause of them by key stakeholders. Second because it may be necessary to bring in management with experience of turnaround management. Third because, since the new management is likely to come from outside the existing organization, they may bring quite different approaches to the way the organization ha operated in the past.

Redefining strategic focus involves a reevaluation of the company’s business level strategy. A failed cost leader, for example, may reorient towards a more focused or different strategy. For a
diversified company redefining strategic focus means identifying the businesses in the portfolio that have the best long-term profit and growth prospects and concentrating investment there (Hill & Jones, 2001).

The financial structure of the organization may need to be changed. This typically involves changing the existing capital structure, raising additional finance or negotiation agreements with creditors, especially with banks (Johnson et al, 2005). A company should divest as many unwanted assets as it can find buyers for and liquidate whatever remains. It is important not to confuse unwanted assets with unprofitable assets. Assets that no longer fit with the redefined strategic focus of the company may be very profitable. Their sales can bring the company much needed cash which it can invest in improving the operations that remain (Hill & Jones, 2001).

A company’s success is judged by the profits it makes. Therefore all generic strategies of cost reduction and diversification are all targeting improving profits. According to Hill & Jones (2001), improving profitability typically one or more of laying off white- and blue-collar employees; investing in labor-saving equipment; assigning profit responsibility to individuals and subunits within the company, by a change of organizational structure if necessary; tightening financial controls; cutting back on marginal products; reengineering business processes to cut cost and boost productivity; and introducing total quality management processes.

Johnson et al (2005) argues that all of this requires the ability of a management to prioritize those things that give quick and significant improvements. A more general comment about successful turnaround strategies, as distinct from less successful ones, is that the focus of action tends to be on getting the existing business right rather than looking for new opportunities in quite different markets or new businesses that managers may not understand.

2.6 Situational & Organizational Determinants of Turnaround Strategies

2.6.1 Efficiency –Oriented Strategies

For a company to realize turnaround it has to reinvent its processes so that they can run efficiently. This will in turn reduce costs that may eat up the profits. Pearce and Robinson (2008)
argue that efficiency–oriented moves not entrepreneurial initiatives were associated with successful turnaround. The result revealed that, regardless of the causes of the downturn, turnaround performance was strongly associated with retrenchments. They concluded that, regardless of the cause of the decline, adopting efficiency-oriented recovery strategies is essential for any successful turnaround.

2.6.2 Company Size

It is believed that a company size plays a vital role in its performance. Small companies can be efficient due to the close knit of the employees which reduces bureaucracy as compared to big sized companies. Pant (1991) found a statistically significant relationship between turnaround successes and size that is; turnaround companies were generally smaller than failed companies. He suggests that smaller companies may be more successful at enacting a successful turnaround, as they are able to adapt to their changing environment more easily than large companies. Khandwalla (2001) contends that company size occupies an honored placed among tormentors of organizations. British researchers in 1960s established that larger organizations, even commercial ones, exhibit more of the features of bureaucracy than smaller ones. They have taller hierarchies, more standardized products, more formal interactions among employees and more specialization of functions. The trouble is that bureaucratised organizations are more prone to pathologies. Minute division of labor tall hierarchy and standardization contributed to efficiency but undermine it by alienating the staff.

Khandwalla (2001) contends that the growth and large size can predispose an organization which becomes sick because of them, the management may be predisposed to taking certain remedial measures and tackle the causes of sickness. He further asserts that corporation size had a pronounced association with several turnaround building blocks, the largest association being between size and asset cost surgery, strategic shift, transformational changes, restructuring and empowerment and cost shedding. Large organizations were more likely to be more fundamentally re-oriented during turnaround so that compared to the beginning of turnaround they were more likely be quite different in terms of posture, culture, structure, and functioning. Smaller organizations could be more effective during the turnaround but less likely to become
metamorphosed. In a nutshell, a turnaround was likely to be more revolution for large organizations and relatively quick honing for specifics for the smaller organizations.

However studies from bankruptcy literature have found a statistically significant relationship but in the opposite direction; that is, successfully re-organized companies were generally larger than liquidated companies. White (1984) argues that larger companies are better equipped to raise additional funds necessary to remain viable due to previous success in raising capital. Larger firms are likely to have a higher probability of survival, as the potential losses to stakeholders are greater. Also such firms are likely to be kept alive.

2.6.3 Senior Management Turnover

Each management has its own style of management. Stakeholders both internal and external believe that the situation a company finds itself is caused by the top management. Therefore, the thought of making any turnover in stakeholders’ minds commiserates with change in management. Finkin (1985) and Slatter (1984) suggested that changes of senior management are an important step towards enacting a successful recovery.

They further argued that change to the senior management team is seen as means of restoring stakeholders’ confidence in the future viability of the organization thereby ensuring their continued support. Also, new senior managers are able to offer first insight into the cause of decline and skills and motivations necessary to bring about organizational change. Furthermore, the appointment of top new managers can be an important indication that the declining organization is serious about recovery.

2.6.4 Severity of Distressed State & Free Assets

The severity of financial distress influences the ability of the firm to enact a recovery. Pearce and Robinson (2008) argue that severity distressed companies need to make aggressive cost and asset reduction in order to survive. However, Slatter (1984) highlights that the aggressive reduction of cost and assets is no easy task as there are organizational resistance to such action. The severity of the distress state will be determined by components of the measure of distress which
themselves identify the major source of distress, the direction and extent of change in severity may provide further support of likelihood of turnaround.

Free assets which a company possesses are crucial in getting liquid assets from financial institutions as they can be used as collateral. White (1984) argued that the amount of free assets was an important variable in distinguishing between distressed companies that were successfully reorganized and those that were liquidated. He argues that distressed companies with sufficient free assets are more likely to avoid bankruptcy because it increases their ability to acquire additional funds necessary to enact a successful turnaround, and it encourages the continued support of the existing lenders as sufficient assets are available to repay the loan if required.
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

This was a case study whose purpose was seeking to collect in depth information on the turnaround strategies that were adopted by New KCC Ltd. in improving its performance. A case study design provides very focused and valuable insight to phenomena that may be vaguely known or understood. Robson (2002: 178) defined case study as ‘a strategy for doing research which involves an empirical investigation of a particular phenomenon within its real life context using multiple source of evidence.’ The strategy will be of particular interest to you if you wish to gain rich understanding of the context of the research and the processes being enacted (Morris & Wood, 1991)

Young (1960) concur that case study is very powerful form of qualitative analysis that involves a careful and complete observation of a social unit, which could be a person, a family, an institution, a cultural group or even community. It is a method of study that drills down rather than casts wide and is used to determine the relationship amongst the variables influencing the current behavior or status of the subject/unit of study. Kiboi (2006), Koigi (2002), Njoroge (2003), Othieno (2006) and Situma (2006), have done case studies in their respective fields, successfully.

3.2 Data Collection

The data was qualitative in nature where the data collected was mainly ideas and themes that were related to the turnaround strategies. It allowed an in depth exploration of the turnaround strategies adopted by New KCC Ltd.

Primary and Secondary Data was used in this research. The primary data was collected from respondents by way of personal interview. The respondents were present Managing Director and Head of Departments. An interview guide was used to assist in collecting the face to face interviews. The Secondary data was sourced from the company information like the Annual
Financial Reports. The research sought convergence of the idea of turnaround strategies adopted in the organization. Therefore, eight persons were interviewed on several occasions to seek the same idea of turnaround strategy employed.

3.3 Data Analysis

Content analysis was used in this case study since the study was interested in the meaning. Being a case study this approach was useful in getting areas of consensus and disagreement from various interviews and with already documented data. Content analysis is described as ‘any technique for making inferences by systematically and objectively identifying specific characteristics of messages,’ (Nachamias & Nachamias, 1996: 237).

According to Cooper & Schindler (2003), content analysis measures the semantic content or the ‘what’ aspect of the message. Its breadth makes it a flexible and wide-ranging tool that may be used as a methodology or problem-specific technique. It guards against selective perception of the content, provides for the rigorous application of reliability and validity criteria. The data collected was very large and thus the meaning was of importance. The analysis was based on the meanings and implications which emanated from the respondents information and documented data on Turnaround Strategy.
CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

4.1 Introduction

Since its inception in 1925, KCC Ltd was operating as a monopoly in the Dairy Sub-sector in Kenya. By 1992, the dairy industry in Kenya was liberalized and other private processors came in. This caused a complex environment. The company started to experience cash flow problem during that time. In August 1999, the debenture holders Kenya Commercial Bank (KCB) placed KCC Ltd under receivership and PriceWaterHouse & Coopers were appointed as receiver managers. In August 2000, KCC 2000 was formed and acquired the company through bids invited by the receiver manager. Then in 2003 it was bought back by the government. During its operations, 1999 to 2003 the three entities were operating at a loss.

The overall goal of turnaround strategy is to return an underperforming or distressed company to normal in terms of acceptable levels of profitability, solvency, liquidity and cash flow. New KCC Ltd aim was to return this underperformance into profitability that can stabilize the dairy sector. Therefore a firm will embark on employing turnaround strategies and follow a well defined process to achieve this goal. The turnaround process was to first stop the downward trend in their performance and then create strategies that are going to recover the situation from underperformance to good performance. For the process to work, there are situational factors that may assist in actualizing the turnaround process. Such factors include the environment which the company operates in and the workforce that drives the turnaround process.

This chapter presents the analysis of data collected from the interviewees using the Interview Guide in Appendix 7. The interviews were done with eight departmental heads from Company Secretary, Production, Quality, Engineering, Human Resources, Sales & Marketing, Finance, and Information Communication Technology Departments. The interview guide contained five areas which include the cause of decline of business, motivation behind the turnaround, the strategy employed & roles played, challenges faced, and the status of New KCC now in the future.
4.2 Cause of Decline in Business

The interviewees were asked on the causes of the decline in business and the symptoms which accompanied the decline. From the responses, it was unanimous that the cause of decline emanated from KCC Ltd in 1999. KCC was unable to reengineer/restructure operations or reduce high operating fixed costs. There were serious financial irregularities and procurement abuses due to lax management then. There were serious delays in payments to farmers and suppliers. KCC was now faced with very serious working capital constraints.

The company resorted to huge borrowing to settle outstanding creditor payments and finance purchase of milk from dairy farmers. In an attempt to address lost market share KCC became a “buyer of last resort” in the industry. This resulted to KCC being flooded with milk it could not process and sell to consumers. Much of the milk has to be converted to powder and stored. The powder could reconstituted into liquid milk when needed; this proved very costly and further strained the company’s resources. Over time, stocks of powder became unmanageable, tying further the much needed capital. Moreover, milk purchases were debt managed thus profit margins shrank. KCC could not meet its commitments as and when they fell due.

New KCC Ltd was bought from KCC holdings in 2003 at a going concern which had bought the business from KCC Ltd. Much of the decline started in 1999 when KCC was under receivership. In the previous years KCC Ltd was characterized by poor management where most directors and managers used to embezzle company’s resources. This was characterized from pilferage to creation of ghost procured resources. The company went under receivership which its aim was to restore the ailing business to be back to profitability. But this was not the case, as there were hidden intentions from the receiver managers to sell the company. Some intended to sale it as individual units, that is, selling the factories and depots separately while some wanted the company to be sold as one whole entity. The receiver managers did little help in turnaround other than speeding up the decline due to the resigning attitude of the business will not go back to profitability and therefore is better to divest.
By the fact that the company was a monopoly and dealing with Fast Moving Consumer Goods (FMCG), there was too much free cash flow and these developments created a different culture in the organization of ‘everybody for himself’. This affected the performance even further as the company could not retain its earnings that was crucial in the running of the business. The effect was the company could not pay its workers for more than three months and to ensure that one resource works there was cannibalization of some parts from another similar resource rather than buying new spare parts.

The company could not pay its suppliers especially the farmers. This resulted to most farmers shying away from delivering milk to the company. This affected the processing units situated in the Central region that led to factories being closed except Sotik Factory. By the fact that, the factories were closed, this reduced the processing capacity which in turn reduced the earnings. The company was forced to lay off workers in order to survive with the little resources it had. These activities that happened in the old KCC had effect on the 1st year of the New KCC Ltd financial year as it posted a loss of Ksh. 8m loss before tax.

4.3 Implementation of Turnaround Strategy in New KCC Ltd

4.3.1 Corporate Governance & Finance Strategies

In 2003, the government wanted to reclaim the company from KCC Holdings at the same price the company had bought. An agreement was reached out of Court of Law to pay Ksh.547m after considering assets value, value of shares from farmers and the milk powder stocks. The company at that time was still recognized as a cooperative society company whose owners are Ministry of Cooperatives and the Treasury. In Nov 2004, the company changed its status to be a Parastatal which had effect on the Corporate Governance in the company. For instance the Board of Directors was now government appointees, a break away from elected farmers being in the Board.

This induced professionalism needed in running the business rather it being affected by politics. The company was now doing competitive hiring of staff as stipulated by the government
regulation, there was controlled spending according to approved budget which enhanced proper cash flow management, procurement procedures were adhered according to the Public Procurement and Disposal Act to mention but a few. The fruits of these stringent measures the company managed to move from Overdraft facility to Asset Financing and the Current Ratio improved from 1.3 to the current 2.3 (Refer Appendix 4). This means that the current asset value for the company is more than twice their current liabilities. Therefore the company operates at a financially sound environment. When the company was revived it operated with streamlined departments where most departments were merged like Quality was under Production department; Corporate Affairs, Sales and Marketing were in the same department. This was because the company needed to reduce operation cost by reducing the wage bill.

The company started its operations by getting milk from farmers, process it, ensure that farmers are paid on the 20th day of the month and other suppliers are paid promptly. The company wanted farmers to feel the presence of New KCC Ltd and therefore its priority was to improve price of raw milk which competitors were taking advantage of low prices. Therefore, there was need to stabilize raw milk prices which were as low as Ksh 8 to the current Ksh. 24. This move was strategically to restore the confidence of farmers who occupy a special position in resuscitation of the company as they supply raw material. By restoring their confidence, they will bring more milk. Since the company had a bigger infrastructure there was a big need to reduce cost per unit by increasing processing capacity.

In the past, the company used to turn away milk with questionable quality standards. To help farmers avoid such loses; the company instituted regular sensitization projects and rapid extension services to introduce farmers to better dairy farming practices. The company recognized that when the suppliers thrive, the company thrives. Owing to the enhanced working relationship between the company and its suppliers, it managed to get back most of the suppliers lost to competitors, boosting the company’s daily intake.
The mechanisms that were put in place to ensure support of stakeholders include inclusion of incentives like volume bonuses for delivering chilled milk; partnership programs like better farming methods; taking initiatives of linking the farmers to the service sector providers like feed companies and financial institutions; and availing big trucks to collect milk from milk collection centers drastically reduces production cost from the farmers’ perspective. Most recently the company installed more milk collection centers and coolers to bring the facilities closer to the raw milk suppliers who are the farmers.

4.3.2 Human Resources Strategies

With an overgrown profit margin, the Human Resources Department had struck a delicate balance between the administration and its workforce. The Board of Directors approved a Training Policy back in 2007. This move was designed to encourage the workforce to identify and take up professional courses that were relevant to their job descriptions that would enhance their potential.

To augment the effectiveness of the Training Policy, the company joined other companies around the world in intensively adopting the Performance Management Programs (PMPs) which consist of signing of a performance contract with regular review sessions. As a result, the company was able to award and reward employees based on merit, a practice that was reflected on salary increment and benefits. In line with PMPs approach, the company reorganized its remuneration structure with a view of aligning salaries to the labor market and to the company’s strategic plan by 2013. In 2009, the company through African Delloite & Touche carried out a successful job evaluation exercise. The exercise helped to lay down career progression path for all positions within the company. Most recently the company trained all employees on Culture Change which proved to be a success by setting the mindsets of the employees to embrace change thereby reducing resistance to change.

HIV/Aids have remained to be a serious threat to any workforce. The company had put in place mechanisms to minimize the effects of the disease. A comprehensive HIV/Aids policy had been
put in place in accordance to the government’s HIV/Aids policy and all available resources channeled towards fighting the scourge. The company has made it clear that people living with HIV/Aids are not discriminated against. Consequently, the company has negotiated with the Medical Service provider on a medical plan to management staff that covers HIV/Aids and related diseases.

### 4.3.3 Operations Strategies

The turnaround heavily depended on Engineering and Production Departments. This was because the primary focus was on revival of the processing units where they had become obsolete. Most of the facilities had been vandalized and the company had to revive them. The role was to rebuild the capacity to process. The company did not contract any company to do the resuscitation but relied on the Engineering team who did improvisation of most facilities at a lower cost.

The opening of processing factories was strategically done in accordance to high pay off. Dandora was first in 2003 because of proximity to the market and solving the logistics problems faced when relying on Sotik Factory. Dandora Factory is the lead factory with the highest processing capacity while Sotik factory is small which could not fulfill the growing market. Also road used was Mau-Narok which was in poor situation and most transporters were still not ready to partner with the company. Since the main market was in the urban areas, in terms of logistics it would have been ideal to operate from Nairobi.

In 2004, the second plant revived was Nyahururu factory which costs approximately Ksh 70m. This was purely due to the market demand and intake pressures. The market started to demand more of Ultra High Temperature (UHT) products of which Sotik could not handle. Other companies had introduced UHT related products like Tetra Fino Aseptic (TFA), Tetra Brick Aseptic (TBA) and Tetra Classic Aseptic (TCA) which piled the pressure on product demand. At the same time there was high intake of raw bulk milk which was due to the renewed confidence of most farmers to the company as a result of the drastic improvement in prices to Ksh 22m.
Nyahururu had only one existing packing line. The company bought two TBAs and redid one. Most of the packing aseptic machines were acquired from Tetra Pack (K) Ltd in form of long term loan payable within 5yrs.

In 2004/5, the efforts of restoring most farmers had paid off and there was a big glut on raw milk intake countrywide. Kitale was then rehabilitated in 2005 to improve the powdered milk processing capacity, increase the reserve and also not to disappoint most farmers who had decided to supply milk to the company. During the same time the government through the Ministry of Special Programs declared milk powder as a strategic reserve. This barred milk powder importation and thus New KCC milk powder was guaranteed to be sold to the market.

In 2006, Mirintini Factory was next at a rehabilitation cost of Ksh 20m. The Coast market was served by Dandora Factory but it was growing steadily which started to strain Dandora Factory’s operations. This stagnated sales volume because of what Dandora could churn out to Mirintini. Also by driving down the cost, the company could fight off the competition by effectively reducing production and logistics costs. Initially the factory used to process the UHT and fresh milk. When revived, they rebuilt the fresh milk line. This was because the UHT line had a complication of integrated circuit which had become an obsolete technology and rebuilding meant extra cost of re-buying a new line. Also Nyahururu and Sotik factories could serve the UHT market comfortably.

The last factories to revive were Eldoret and adjacent Sosiani Factories. Though the strategic plan of reviving the factories existed way before 2004, in 2007 the government offered a mini grant of Ksh. 110m to revive the factories. This improved the drying capacity for the company. The UHT lines in Eldoret factory were not revived due to sustenance of the market demand by Nyahururu & Sotik Factories.
4.3.4 Marketing & Corporate Affairs Strategies

The main objective of the company was to ensure that the customer gets value for money. In January 2007, the top management signed a Food Safety Policy Document guaranteeing “Safe Product First Time” to Customers’ expectation both in health and satisfaction. This was the beginning of the journey towards ISO-22000:2005 Food Safety Management System certification, an international standard that stipulates the requirement of a system that ensure safety of food to be consumed. The superior brands have also received the Diamond Mark of Quality, issued under stringent conditions by the Kenya Bureau of Standards.

The company attained Super Brand status; an accurate and most reliable insight into many of East Africa’s strongest brands, and which is awarded in recognition of the company’s brands in a growing and challenging market. In addition, the company was Halal certified. The certifications had enhanced the ability to competitively market its product. For instance in 2007, the company was able to serve the Middle East market with Dried Milk Powder.

Each year began with setting sales targets given that it is the only source of revenues for the company. Looking at the trends in sales figures, the Sales and Marketing team had been equal to the challenge. In March 2009, the sales team hit the highest sales target ever in the history of the company hitting a sales turnover of Ksh. 682 million in just a month. Currently, KCC fresh and Mala have been noted to be the best performing brands in the market, a position best explained by its rich heritage.

The company has embarked on an exercise that will see the company vehicles branded. This will add to the number of marketing avenues that the company is currently using. In addition, wall branding exercise in selected areas is already underway.

As the company was achieving its growth, so the stature rose. This has increased the company’s involvement in Corporate Social Responsibility (CSR) activities. The company viewed itself as a community organization and therefore all CSR activities are very community based. The face of
New KCC has been seen in sponsoring Athletics Kenya (AK) for the third year running dubbed as ‘Nurturing Kenya’s Talent.’ This march 2009, the company presented Ksh 10 million cheque to AK to fund track and field meets all over the country. A further Ksh 5 million will go in material form and support seminars for both the athletes and coaches. It is expected that the sponsorship package will roll over to the 2010 Africa athletics Championships which Nairobi will host. The company hopes to use sports as part of their marketing program toward reaching the target of Ksh 20 billion turnover by 2013.

In the month of May 2009, the company contributed milk worth Ksh. 3 million towards the national kitty to provide food to hungry Kenyans through Kenya Red Cross Society. The company has felt proud in transforming the rural economy in this country. With these activities, they have provided a strong base on aggressive milk procurement campaign and marketing of the finished products.

4.4.5 Information & Communication Technology Strategies

In the current strategic plan, the company has set out to install and implement Enterprise Resource Planning (ERP) Program at a cost of Ksh. 124m. The company did a Return on Investment (RoI) analysis on this endeavor and found out that within two and a half years the cash will be recovered from the program. The aim of this program is to achieve operational efficiency through planning and reducing cost.

Currently the company runs its process manually and thus some process becomes sluggish. For instance, the Financial Statements are availed to the top management after a month. This is a relatively a long time given that the company operates in a complex and non-static environment. It is expected that the system will help the top management to make timely decisions in regard to planning on time and monitor costs at real time. Secondly, the system aims to make the businesses they operate in visible by integrating all processes to avoid island of information existing in respective functionalities. New KCC Ltd is Multi-site and Multi-plant which there are
businesses disparities when doing businesses. The stakeholders like customers will always view
the company as one unit.

4.4 Motivating Factors in the Turnaround Process

The board and management were operating on the same script and this had reduced bureaucracy
that might emanate from decision making and implementations. This made the company to do
the right, viable and timely decisions which were realistic. The effect of moving away from
choosing directors from farmers’ election to government appointees reduced effects of politics in
running of the company. The board of directors was now made up of people with no political
interests but interested in running of the business. These enable to whisk away external political
influences in running of the business.

The company was able to be revived due to good structures that were in place in dairy sub-
sector. Policies which were in place like levy on milk powder importation, barred saturation of
milk in the market from other countries thus ensuring that what the local farmers produce it
absorbed wholly by the processors. This improved the number of farmers in doing dairy
business. Secondly, ban on unlicensed raw milk hawking also ensured that milk will pass
through the processors.

The company was interested in reviving the processing factories and the 1st CEO was the former
KCC Ltd Production Manager who had a clear idea of what is to be done to put the company
back to its feet in terms of restoring the farmers’ confidence and reviving the company’s
processing capacity. The second CEO has experience in Sales and Marketing from a different
sector of economy which has helped in aligning with current strategies of product diversification
and wading off competitors. By the fact that he came from a different company, he brought
freshness in how things are to be done.

Most of the employees were self motivated. There was urgency of self accomplishment in most
management staff and this derived the greatest motivation. Most of them saw the company as a
sleeping giant who used to collect 2.3 million liters in its hay days as KCC Ltd. Therefore, it was an inherent motivation to bring the company back to its feet.

There was so much sacrifice done by former employees in kick starting the business. There was teamwork between the management and the employees where there were few salient issues which were agreed like the formation of Staff Union to be done letter when the company is back on its feet, the workers to multi-tasks for longer hours due to unavailable resources. The management did its work through consultation with employees which was important in keeping the teamwork spirit. The management was candid with their present financial situation and this made workers to focus on the farmer who was the key in driving the business. There was that feeling that, NKCC was the solution to the dairy-sub sector problems and that was a motivation enough to ensure that it worked. Through contact with farmers who by extension are their relatives, the eradication of poverty was evident.

4.5 Challenges Faced in the Turnaround Process

When the government bought back the company from KCC Holdings, most of the assets 34 out of the 85 were under the name KCC Ltd. Most of these assets were residential and 15 had been sold out to individuals. Even though New KCC Ltd went to court of law to reclaim this assets on the platform that they were illegally sold, the company managed to reclaim 3 while the others are still yet to be decided. Some of the title deeds for the assets are not available and their gazetement had been slow. This delay was due to the dispute between the company and its lawyers. Assets at company’s disposal had been reduced thereby affecting the level of asset financing.

When it was revived, it would lay hands on 30,000 ltrs of milk a day. This was because of soiled reputation caused by previous management that had gone to receivership. The company needed money, which required the goodwill of financial institutions, a goodwill devastatingly squandered by the precious records. The company had no security and the title deeds that the company owned were in the hands of the creditors. The company needed approximately Ksh. 3.5
billion and finally they got a good partner from Co-operative Bank Ltd. Also most of the facilities were in dilapidated state and one of the first strategies was to restore the processing capacities of these facilities. Given that the company did not have enough finances to sub contract other companies to do reengineering or buying new spare parts, the engineering department had to do the reconditioning of the facilities with minimal resources.

The company had to operate with the minimal staff level at lower wage levels during the turnaround process. This was to ensure that the wage bill is at the minimal levels and therefore reduce cost. The challenge was to retain qualified and well experienced staff given that the amount of work done did not commensurate with remuneration. Currently the company is facing the challenges of how to reward the group of staff who had stuck with the company during trying times.

When the turnaround process began, cost of utilities like water, electricity and fuel had also gone up. This had posed a challenge of inflating the cost per unit of production and therefore eating up on profits. This to a great extent slowed down the turnaround process. With the global financial melt down, the situation has become even more difficult to maximize profits accrued.

When the KCC Ltd went down it destabilized the dairy sector where the price of raw milk went down to as low as Ksh 8. This impacted the economy and Agricultural Gross Domestic Product (GDP). When New KCC was revived, most of the farmers had stopped dairying and the little who had remained had no financial muscle to do modern farming method. The current challenges are on the climate changes where Kenya has experienced failed rains in the past five seasons. In the rainy season the company experience a flush of milk delivered which is converted to milk powder. The dry spell has posed challenges on the type of animal feeds that cows feed on which affects the quality of milk.

Many industries have emanated and have brought competition on the same customer. This has brought a different scenario from operating from a monopolistic environment to very competitive
environment. This means that the consumer will go for dairy products which not only have good quality but have great presence in the market. The effects of economy on consumers have forced the company to package dairy products in cheaper packaging material that consumers can afford. This on one hand has improved sales but on the other hand has put quality of products in a delicate situation.

Given that the company is multi plant and multi site, there are challenges in regard to having a common culture. The company needed to put controls in how people do business especially to the stakeholders. From the stakeholders point of view is that they are dealing with New KCC Ltd while the company is made up of Factories, Plants and Depots which are spread out in the country. With the changes taking effect in the company, there was resistance to change which made the efforts of turnaround process to be difficult. These pockets from resistance were from the ignorant lot of staff who had no idea of desired end result of the turnaround process.

4.6 Status of New KCC Ltd Now & Future

In the first 18 months, the company posted a loss of Ksh. 8 million. In the second 18-month financial year the company made a profit of Ksh. 349 million. Then the company reverted back to a 12-month year and the next profits were Ksh. 384 million. In financial year 2007/08, profits had nearly doubled to achieve a Ksh. 500 million profit margin. With more control programs put in place like ERP program dubbed as Project SAPhari, it is expected to have an upward trend in profits. In the next few years the corporate strategy will revolve around the project SAPhari and Athletics Kenya promotion. The company expects in the next 5yrs to operate with a Ksh. 20 billion turnover and a Ksh. 5 billion profit.

Most recently the dairy sub-sector has been affected by the prolonged drought. Annual milk production had fallen by 30%. But within the same year the company managed to surpass the previous year milk intake target. This is due to increase in its presence to the farmers by opening most of the cooling plants so that they can tap raw milk in most milk catchment’s areas.
Currently it has opened more collection centers. This ensures that the company gets uninterrupted good quality raw material thus ensuring business continuity.

Preoccupation with quality underlines New KCC Ltd efforts to serve dairy consumers, producers and other stakeholders. Dairy farmers have put in enhanced milk production systems since revival of the company and more farmers have invested in long term dairy projects. By producing quality dairy brands, the company has grown the consumer base and assured dairy farmers a steady market. The company is committed to securing sustainable markets for them by exploring and exploiting both the local and international market opportunities.

Today’s consumers are increasingly concerned over products that they consume and require measures that assures the consumer of good quality products. The company has and will engage in certification on its products in number of quality systems that will attract more consumers. The company has engaged in setting up state of the art machinery that will ensure no deviation in quality. The diversification of products is one of the major strategies.
CHAPTER FIVE: SUMMARY & CONCLUSIONS

5.1 Summary of findings

The objectives of the study were to establish the turnaround strategies adopted by New KCC Ltd and the situational factors that played in the turnaround process. These objectives were achieved through interviews with the respondents assisted with an interview guide.

5.1.1 Turnaround Strategies Adopted

In their study, Arogyaswamy, Barker & Assai (1995) concluded that firms attempting a turnaround pursued two distinctive strategies namely decline stemming that reverse the decline and recovery strategies that yield a defensible competitive position to the firm. Effective decline stemming strategies encompass not only retrenchment, but also effective management of firms’ external stakeholders to get their support for turnaround. The previous entity, that is KCC, was embroiled with the politics of the day, and it was essential that the structures are put in place in terms of ownership so that they are clearly defined. This was done by breaking away from the tradition of directors elected by farmers to government appointees. With this move it injected professionalism in running of the company. Khandwalla, (2001) extended the view that effective management of internal processes will create a climate conducive for turnaround. Some of the moves were creation of internal controls like procurement procedures, expenditure being tied to the budgets and stopping bank overdraft as means of financing to asset financing. The company was able to effectively reverse the decline.

New KCC Ltd management knew that the only route to recovery is by ensuring support from stakeholders especially farmers. From the company’s structure which was multi-location there was capacity utilization challenge which would have eaten up revenues. Therefore, there was massive campaign in increasing raw milk intake from the farmers by paying them on time and creating partnership programs. Also to achieve fast recovery, the company had to introduce performance contracting to its employees, increase its corporate social responsibility and have an effective marketing team. Scherrer (2003) also classified turnaround strategies as above. He proposes that strategic strategies should involve redefining the business, which involves change
in markets served, and the product lines. He however went further to introduce financial turnaround which involves restructuring financial operations of the business. The objective here is to use the financial strength of the business as an asset and restructure the business to take advantage of this financial strength.

5.1.2 The Turnaround Process in New KCC

In all successful turnarounds the management first stems out the decline and then advance an appropriate strategy for recovery. This often requires increasing a firm’s efficiency, stabilizing its internal operations and renewing stakeholder support. In doing so the range of viable decisions available to a top management team depends to a large extent to the severity of a firm’s decline. Once the management team has stabilized a firm’s performance, it must necessarily address the causes of business decline to effect recovery (Pearce and Robinson, 2008).

The company did a systematic turnaround process to be where they are now. First they had to stem out the decline by providing a good corporate structure and internal controls. The opening of the processing factories and depots were a well defined strategy executed on timely basis. This enabled the company to increase its revenues and at the same time reduce their cost. On of the most prudent moves was to capacitate the Engineering department to steer the revival of the stall processing facilities thereby reducing the cost that would have been incurred by outsourcing. The prime strategy was to restore the raw milk supply to even the processing capacity and thus increasing the firm’s efficiency. The company next move was to create partnership programs with the stakeholders in order to sustain this growth.

Johnson et al (2005) views management changes are crucial in turnaround process as it ushers the anticipated change and affect the mindset of the employees. Johnson et al (2005), Hill & Jones (2001) observed that changes in management are usually required, especially at the top level. Since the old leadership bears the stigma of failure, new leadership is an essential element of most retrenchment and turnaround situation. The company started its turnaround process with a CEO who had an insight in operations of the company. This was crucial in that the company was engaged in stemming the decline and reviving of the processing capacity. Then there was a
change in the top seat in 2006 where there was a new young and vibrant CEO who has a Sales & marketing background. This set a new agenda in the direction the company had to take. The company now concentrated on the revival phase of the turnaround by increasing its presence in the corporate scenes, market its products and most importantly having the partnership programs with the stakeholders to ensure growth continuity.

5.1.3 Situational Determinants of Turnaround Strategies in New KCC Ltd

Khandwalla (2001) contends that large organizations were more likely to be more fundamentally re-oriented during turnaround so that compared to the beginning of turnaround they were more likely be quite different in terms of posture, culture, structure, and functioning. Smaller organizations could be more effective during the turnaround but less likely to become metamorphosed. In a nutshell, a turnaround was likely to be more revolution for large organizations and relatively quick honing for specifics for the smaller organizations. The turnaround process metamorphoses the company from their old ways of monopolistic views to the market to become a very competitive organization in all aspects of its functionalities. The company could now follow strict budget controls and employees motivated to produce results.

The financial structure of the organization may need to be changed. This typically involves changing the existing capital structure, raising additional finance or negotiation agreements with creditors, especially with banks (Johnson et al, 2005). The company started of with little assets at their disposal due to most of the assets was at the hands of creditors. Therefore the company used to get financing through overdrafts. The company instituted proper budgetary controls which improve on the expenditure. Currently the company’s borrowing is purely on asset financing which has improved their current ratio to 2.3 (Refer Appendix 4). Since the company deals with fast moving consumer products, there is tendency of having too much free cash flow. This might create a situation like before where there was Agency problem. Therefore the company had created proper cash flow management that ties up the free cash flow to paying up for the assets acquired. For a company to realize turnaround it has to reinvent its processes so that they can run efficiently. This will in turn reduce costs that may eat up the profits. Pearce and Robinson (2008)
argue that efficiency–oriented moves not entrepreneurial initiatives were associated with successful turnaround.

Finkin (1985) and Slatter (1984) suggested that changes of senior management are an important step towards enacting a successful recovery. They further argued that change to the senior management team is seen as means of restoring stakeholders’ confidence in the future viability of the organization thereby ensuring their continued support. The changes in leadership from the board of directors to the two CEOs had set an agenda on which direction the company will head to.

The severity of financial distress influences the ability of the firm to enact a recovery. Pearce and Robinson (2008) argue that severity distressed companies need to make aggressive cost and asset reduction in order to survive. When the company went under receivership in 1999, most of the employees lost their jobs, farmers did not have a place to take their milk, suppliers lost cash form the supplied materials and the raw milk prices went down which prompted the collapse of the Dairy Sub-sector in Kenya. These experiences were lessons that the four named stakeholders didn’t want to experience again. Therefore, there was that element of doing it right the first time. The employees who were recalled back, offered to put extra hours with minimal pay to ensure that the operations were back to its feet; the farmers started to supply milk to the company which improved raw milk prices; the suppliers were willing to do business with New KCC Ltd by offering credit supplies; and the government instituted policies that were supporting growth of the sub-sector. Some policies were declaring dried milk powder as a strategic food reserve and barring importation of the product to Kenya. This ensured that even if the supply of milk from farmers will exceed the processing capacities, raw milk will still be bought by the company at any circumstances.
5.2 Conclusion

The findings of the study have shed adequate light to draw pertinent conclusions about the Turnaround Strategies adopted by New KCC Ltd. The company’s quest for turnaround had propelled stability in the dairy sub sector in Kenya and therefore encouraging more farmers to take dairying as source of the livelihood due to improved prices of raw milk. Therefore the turnaround in the company had a turnaround effect to the dairy sub-sector in Kenya.

Encouraging milestones towards achieving turnaround were well defined in the company’s strategic blue print and the future looks promising as more strategies are laid to solidify the success and improve on their current state. It is however worthy to note that the turnaround process would not have seen the light of the day were it not for the situational factors that provided the proper environment for a successful turnaround. Also it would have not been a success if there were no counter measures to combat a number of challenges met on the way. It could be generally concluded that turnaround strategies were employed in order to achieve a turnaround process in New KCC Ltd and the effects were felt in all facets of the company during the time of this study.

5.3 Recommendations

A number of issues arise from the study and warrant the following recommendations. The first is how the company can deal with legislations like Public Procurement and Disposal Act. The company operates in a very competitive and complex environment of which the Act creates bureaucracy in sourcing of materials and equipments. On numerous occasions competitors have taken advantage of quick decision making to acquire materials and equipments in which the company still grapples with long procurement procedures. It is recommended that the company should have a seamless strategic plan which outlines what is to be done in the next two years or so. This will enable the company to acquire high-tech assets way before the competitors have thought of.
Secondly, the company should seek cost efficient management of value chain activities. This can be achieved by operating at full capacities to enjoy economies of scale, adopting labor saving operating methods, trying to increase sells volumes so that a company can spread costs to other cost centers, and using the company bargaining power to the suppliers. The company should now view itself as a Food Processing company and not a Dairy company by competing with soft drinks companies and other liquid food processors. The company should endeavor in processing juice, mineral water and coconut products in order to increase its processing capacity.

5.4 Limitations of the Study

Every study encounters some level of limitations because of the scarcity of resources, mostly time. It proved challenging at times to get the respondents who were Heads of departments due to their busy schedules. This affected the length of the study and at times inadequate information was churned out during interviews. The study also focused on the current senior managers of the company and some to a certain extent were not involved in the turnaround process from beginning. Therefore the interpretation of the findings of this study should be done with this limitation in mind.

5.5 Suggestions for Further Study

This study had explored on the turnaround strategies adopted by the company after a decline. Further study should be done on the cause of decline right from the former KCC Ltd. This will shed light on what causes decline in most public sector companies and how to avert decline. The study also recommends a further study on the Effects of Turnaround Process in New KCC Ltd to the Dairy Sub-sector in Kenya. This is because the growth of the dairy sub-sector happened concurrently with the growth of the company. A study of other public sectors that have succeeded in the turnaround process should be done to establish the strategies adopted and situational factors that affected the process.
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KDB (2004), *Activities within the Kenya Dairy Industry and List of Processors*


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http://www.turnaround-sa.com, Last Visited on 18th April 2009
APPENDICES

Appendix 1: Types and number of licensed traders (2000)

<table>
<thead>
<tr>
<th>Area</th>
<th>Producers</th>
<th>Processors</th>
<th>Milk- Bars</th>
<th>Milk Dairies</th>
<th>Cottage</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nairobi</td>
<td>499</td>
<td>11</td>
<td>170</td>
<td>6</td>
<td>8</td>
<td>694</td>
</tr>
<tr>
<td>Mombasa</td>
<td>73</td>
<td>3</td>
<td>52</td>
<td>2</td>
<td>3</td>
<td>133</td>
</tr>
<tr>
<td>Nakuru</td>
<td>65</td>
<td>7</td>
<td>61</td>
<td>2</td>
<td>9</td>
<td>144</td>
</tr>
<tr>
<td>Kericho</td>
<td>20</td>
<td>3</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>23</td>
</tr>
<tr>
<td>Kisii</td>
<td>11</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>11</td>
</tr>
<tr>
<td>Kisumu</td>
<td>29</td>
<td>3</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>32</td>
</tr>
<tr>
<td>Kakamega</td>
<td>16</td>
<td>-</td>
<td>6</td>
<td>1</td>
<td>1</td>
<td>24</td>
</tr>
<tr>
<td>Eldoret</td>
<td>32</td>
<td>2</td>
<td>22</td>
<td>4</td>
<td>-</td>
<td>60</td>
</tr>
<tr>
<td>Kitale</td>
<td>31</td>
<td>3</td>
<td>5</td>
<td>-</td>
<td>-</td>
<td>39</td>
</tr>
<tr>
<td>Nyeri</td>
<td>115</td>
<td>4</td>
<td>22</td>
<td>4</td>
<td>4</td>
<td>149</td>
</tr>
<tr>
<td>Embu</td>
<td>51</td>
<td>1</td>
<td>24</td>
<td>2</td>
<td>1</td>
<td>79</td>
</tr>
<tr>
<td>Meru</td>
<td>6</td>
<td>1</td>
<td>18</td>
<td>1</td>
<td>-</td>
<td>26</td>
</tr>
<tr>
<td>Narok</td>
<td>15</td>
<td>-</td>
<td>10</td>
<td>-</td>
<td>-</td>
<td>25</td>
</tr>
<tr>
<td>Voi</td>
<td>15</td>
<td>1</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>17</td>
</tr>
<tr>
<td>Total</td>
<td>1043</td>
<td>42</td>
<td>393</td>
<td>23</td>
<td>51</td>
<td>1550</td>
</tr>
</tbody>
</table>

Source: KDB, 2002
Appendix 2: Milk Intake in the Formal Sector

### Appendix 3: New KCC Profit & Loss Accounts

<table>
<thead>
<tr>
<th></th>
<th>Dec 2004 (Kshs Millions)</th>
<th>June 2006 (Kshs Millions)</th>
<th>June 2007 (Kshs Millions)</th>
<th>June 2008 (Kshs Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales</strong></td>
<td>2,490.8</td>
<td>4,905.2</td>
<td>4,479.3</td>
<td>5,566.0</td>
</tr>
<tr>
<td><strong>Cost of Sales</strong></td>
<td>(1,743.1)</td>
<td>(3,043.6)</td>
<td>(3,164.9)</td>
<td>(4,002.3)</td>
</tr>
<tr>
<td><strong>Gross Profit</strong></td>
<td>747.6</td>
<td>1,861.6</td>
<td>1,314.4</td>
<td>1,563.7</td>
</tr>
<tr>
<td><strong>Other Income</strong></td>
<td>18,591.1</td>
<td>38,117.2</td>
<td>17,859.11</td>
<td>9466.8</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administrative Expenses</td>
<td>(498.0)</td>
<td>(889.4)</td>
<td>(456.2)</td>
<td>(522.7)</td>
</tr>
<tr>
<td>Selling Expenses</td>
<td>(261.4)</td>
<td>(602.8)</td>
<td>(423.3)</td>
<td>(508.0)</td>
</tr>
<tr>
<td><strong>Profit from continuing operating activities</strong></td>
<td>6,789</td>
<td>407.5</td>
<td>452.9</td>
<td>552.5</td>
</tr>
<tr>
<td><strong>Financing Cost</strong></td>
<td>15.0</td>
<td>57.7</td>
<td>68.8</td>
<td>52.2</td>
</tr>
<tr>
<td><strong>Profit/ (Loss) Before Taxation</strong></td>
<td>(8.2)</td>
<td>349.8</td>
<td>384.1</td>
<td>500.3</td>
</tr>
<tr>
<td><strong>Taxation</strong></td>
<td>(0.9)</td>
<td>(113.1)</td>
<td>(136.4)</td>
<td>(125.7)</td>
</tr>
<tr>
<td><strong>Profit/ (Loss) for the period</strong></td>
<td>(9.1)</td>
<td>236.7</td>
<td>247.8</td>
<td>374.6</td>
</tr>
<tr>
<td><strong>Profit/ (Loss) per share</strong></td>
<td>(4.6)</td>
<td>118.4</td>
<td>123.9</td>
<td>37.5</td>
</tr>
</tbody>
</table>

*Source: New KCC, Annual Report and Financial Statements (2005/6), (2006/07), and (2008)*
### Appendix 4: Key Business Ratios From July 2003 to June 2009

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>18 Months</td>
<td>18 Months</td>
<td>12 Months</td>
<td>12 Months</td>
<td>12 Months</td>
</tr>
<tr>
<td>Trading profit</td>
<td>(8,224,342)</td>
<td>349,829,288</td>
<td>384,120,731</td>
<td>500,318,759</td>
<td>497,018,605</td>
</tr>
<tr>
<td>Total Assets</td>
<td>898,626,186</td>
<td>4,067,866,630</td>
<td>4,668,241,845</td>
<td>4,911,710,657</td>
<td>4,929,374,257</td>
</tr>
<tr>
<td>Revaluation Reserve</td>
<td>0</td>
<td>1,759,060,039</td>
<td>1,627,882,124</td>
<td>1,504,741,161</td>
<td>1,381,600,198</td>
</tr>
<tr>
<td>Capex</td>
<td>101,510,809</td>
<td>120,292,851</td>
<td>322,763,073</td>
<td>172,744,720</td>
<td>262,902,546</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of sales</td>
<td>1,743,141,314</td>
<td>3,043,626,490</td>
<td>3,164,903,125</td>
<td>4,002,259,979</td>
<td>4,455,707,379</td>
</tr>
<tr>
<td>Selling expenses</td>
<td>261,414,881</td>
<td>602,767,891</td>
<td>423,251,915</td>
<td>507,970,877</td>
<td>546,277,682</td>
</tr>
<tr>
<td>Administrative costs</td>
<td>497,980,581</td>
<td>899,396,479</td>
<td>456,155,704</td>
<td>522,738,486</td>
<td>498,474,503</td>
</tr>
<tr>
<td>Finance costs</td>
<td>15,013,680</td>
<td>57,671,412</td>
<td>68,748,105</td>
<td>52,153,630</td>
<td>58,544,670</td>
</tr>
<tr>
<td>Total</td>
<td>2,517,550,456</td>
<td>4,593,462,272</td>
<td>4,113,058,849</td>
<td>5,085,122,972</td>
<td>5,559,004,234</td>
</tr>
<tr>
<td><strong>Return on Investment</strong></td>
<td><strong>ROI</strong></td>
<td>-1.8%</td>
<td>12.0%</td>
<td>12.2%</td>
<td>15.6%</td>
</tr>
<tr>
<td><strong>Development Index</strong></td>
<td><strong>DI</strong></td>
<td>4.0%</td>
<td>2.6%</td>
<td>7.8%</td>
<td>3.4%</td>
</tr>
<tr>
<td><strong>Current Ratio</strong></td>
<td><strong>CR</strong></td>
<td>1.1</td>
<td>1.3</td>
<td>1.6</td>
<td>2.1</td>
</tr>
</tbody>
</table>
Appendix 5: A Model of the Turnaround Process

<table>
<thead>
<tr>
<th>Turnaround situation</th>
<th>Turnaround response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cause</td>
<td>Retrenchment phase</td>
</tr>
<tr>
<td></td>
<td>Recovery phase</td>
</tr>
</tbody>
</table>

- **Turnaround situation**
  - Internal
    - Declining sales or margins
      - Low
      - High
  - External

- **Turnaround response**
  - (operating)
    - Cost reduction
    - Stability
  - (strategic)
    - Efficiency maintenance
    - Recovery

Appendix 6: Generic Turnaround Strategies Model

Generic turnaround strategies

- Vision
- Mission
- Customer value proposition

- Business model
- Value chain design
- Balanced Scorecard
- Strategy map

- Organisational restructuring
- Staffing, skills

Strategic repositioning

Strategy

Reorganisation

Structure

Value chain improvement

Operations

- Revenue enhancement
- Cost reduction
- Asset reduction
- Improved service delivery (government)

Enablers:
- Leadership alignment
- Project management including realised benefit tracking against business case
- Stakeholder management inclusive of change management

- Improved profitability
- Improved return on capital employed

Source: http://www.turnaround-sa.com
Appendix 7: Interview Guide

Section A
Position Held in the Company .................................................................
Department .............................................................................................
Years of Experience with the Company ................. (from ............... to .............)

Section B (Respondent Board of Directors)
  a) What are the main causes of the decline?
  b) What were the main characteristics of the decline?
  c) What has been your role in the corporate turnaround?
  d) What was the motivation for the turnaround strategy?
  e) What strategies did you put in place for the turnaround?
  f) What challenges did you face in the process?
  g) Comment on New KCC Ltd now and then?
  h) Where do you see New KCC Ltd in the next 5 years?

Section C (Respondent Managing Director)
  a) What are the main causes of the decline?
  b) What were the signals that the business was on a decline?
  c) What role has the Internal & External environment play in the decline?
  d) What were the main characteristics of the decline?
  e) What is the perceived relationship between the company size and the turnaround strategy?
  f) What has been your role in the corporate turnaround?
  g) What was the motivation for the turnaround strategy?
h) What strategies did you put in place for the turnaround?

i) What financial implications has the turnaround had on the company?

j) What challenges did you face in the process?

k) What was the response of the stakeholders to the turnaround?

l) What mechanisms were put in place to ensure continued support of the stakeholders?

m) How was the turnaround planned?

n) What was the rationale behind opening the closed factories, plants and sales depot?

o) What were the implications of opening the above facilities?

p) What was the rationale behind expanding market outside the Kenyan borders?

q) What were the implications of the export sales?

r) How was the information about turnaround communicated?

s) Comment on New KCC Ltd now and then?

t) Where do you see New KCC Ltd in the next 5 years

Section D (Respondent Head of Departments- Sales & Marketing)

a) What was the motivation for the turnaround

b) What strategies did you put in place for the turnaround?

c) What financial implications has the turnaround had on the company?

d) What challenges did you face in implementing Sales and Marketing Strategies?

e) What were the signals that the business was on a decline?

f) What role has the Internal & External environment play in the decline?

g) What were the main characteristics of the decline?

h) How was the turnaround planned?

i) What was the rationale behind the local sales expansion strategy?
j) What is the rationale behind export sales?
k) What are the implications of the above two strategies?

Section E (Respondent Head of Departments – Operations Related Departments)
a) What are the main causes of the decline?
b) What were the signals that the business was on a decline?
c) What were the main characteristics of the decline?
d) What has been your role in the corporate turnaround?
e) What was the motivation for the turnaround strategy?
f) What financial implications has the turnaround had on the company?
g) What challenges did you face in the process implementing operations strategies?
h) What was the response of the stakeholders to the turnaround?
i) What mechanisms were put in place to ensure continued support of the stakeholders?
j) How was the turnaround planned?
k) What was the rationale behind opening the closed factories, plants and sales depot?
l) What were the implications of opening the above facilities?

Section F (Respondent Head of Department - Human Resources)
a) What are the main causes of the decline?
b) What were the signals that the business was on a decline?
c) What were the main characteristics of the decline?
d) How was the turnaround planned?
e) What has been your role in the corporate turnaround?
f) What was the motivation for the turnaround strategy?
g) How has the turnaround affected the employees?

h) What was the perception of the employees on the turnaround strategies?

i) What measures have been taken to ensure continues support of the employees to the turnaround strategy?

Section G (Respondent Head of Department - Finance)

a) What are the main causes of the decline?

b) What were the signals that the business was on a decline?

c) What were the main characteristics of the decline?

d) What has been your role in the corporate turnaround?

e) What was the motivation for the turnaround strategy?

f) What financial implications has the turnaround had on the company?

g) What challenges did you face in financing marketing and operations strategies?

h) What was the response of the stakeholders to the turnaround especially the financial sources?

i) What mechanisms were put in place to ensure continued support of the stakeholders?

j) What financial implications has the turnaround had on the company?

k) What challenges did you face in the process?
Appendix 8: Sample of Request Letter

To………………………….
Position……………………
Company……………………
Date…………………………

Dear Sir/Madam,

REFERENCE: MWAKIDA GERVASI NGATI (D61/8434/2006)
The above named person is a Post Graduate student doing Masters of Business Administration in Strategic Management from University of Nairobi. He is carrying out his Management Research Project on the *Turnaround Strategies Adopted By New Kenya Cooperative Creameries Limited*. Assistance in providing information on mentioned study will be highly appreciated.

Yours Sincerely,

M. G. Ngati.             J. Maalu
(Student)                (Project Supervisor UoN)