TURNAROUND STRATEGIES AT DEVELOPMENT BANK OF KENYA LIMITED

BY

DAYANA K. KAMUNDE

A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS OF THE MASTER OF BUSINESS ADMINISTRATION DEGREE, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

SEPTEMBER 2010

DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than the University of Nairobi, School of Business for academic credit.

Signed……………………………………………. Date……………………………..

Dayana Kanana Kamunde

D61/70538/2007

This project has been submitted for examination with the approval of the appointed University supervisor.

Signed………………………………………………… Date…………………………..

Dr. Zachary B. Awino
Department of Business Administration
School of Business
University of Nairobi

DEDICATION

To my husband and daughter for love, encouragement and moral support this project is affectionately dedicated.

ACKNOWLEDGEMENTS

I thank God almighty for the gift of life and good health. I am grateful to my Husband Peter Mutuma for encouraging me to go back to school at a time when our daughter was only three months old. I also wish to thank my entire family for their encouragement, support and prayers. I also appreciate the invaluable input; tireless assistance and support from my supervisor Dr. Zachary Awino for ensuring the project met the required standards. Special thanks also go to Ann Gichuki for the moral support and prayers she offered during the entire period.

This project would not have been possible without the cooperation of the senior management of Development Bank who spared time from their busy schedule to participate in the study. Last but not least I appreciate all those people who contributed to this study on one way or the other to facilitate completion of this study. Thank you all and God bless.

TABLE OF CONTENTS

LIST OF FIGURES

ABSTRACT

Many firms experience trends of deteriorating financial performance at some point in the organizational life cycle as a result of internal and external factors. Whatever the cause of the decline, whether internal or external or both, management can respond by selecting strategies that redirect the resources in an attempt to improve the firms competitive position. The aim of the turnaround strategy is not only to halt the decline, but also to generate the means for a substantial recovery. Therefore turnaround is considered to have occurred when a firm recovers adequately and regains profitability.

Development Bank of Kenya Limited initially established in 1963 as a development finance institution operating under the name Development Finance Company of Kenya (DFCK). Its key objective was to fund long term project. Following the liberalization in the financial industry in Kenya during the 1990's, DFCK was transformed into a fully fledged commercial bank in 1997 to Development Bank of Kenya Limited. This allowed the bank to accept deposits from the open market and to broaden its scope of operations. However, the bank's lack of clear corporate strategy and other external factors resulted to decline in profitability. This study sought to establish the turnaround strategies adopted to successfully halt the decline and return the bank to profitability.

The study adopted a case study research design to gain an in depth understanding of the strategies. Primary and secondary data were used. Primary data was collected by way of pre-guided interview comprising of open ended questions. The respondents were drawn from top management. This comprised of five managers heading various divisions in the bank. These are Projects, Credit, Human Resource, Chief Operations and Business Development. Secondary data was collected from Bank's annual financial reports for various years and the Bank's intranet. The research findings indicated that Development Bank employed various strategies to confront declining performance. The process involved top management change, which saw the exit of the previous CEO and other changes at the board level. The process involved all the stakeholders to provide support for the much needed changes. For any turnaround to be successful, the organization must move fast to salvage the core of the business. Increasing efficiency is an important factor as these actions improve profitability in the short run and allow the company to release resources that may be used elsewhere. This can also play an important role in winning back stakeholders support and help raise external resources to fund other strategies.

Key words: Turnaround, strategy, Development Bank of Kenya Limited.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Many firms experience trends of deteriorating financial performance at some point in their organizational life cycle as a result of market erosion and decisions by the management. Based on the deterministic perspective this organizational decline can be attributed to environmental factors while voluntarisitic perspective attributes decline to internal factors, particularly management actions and perception Rasheed (2008). Whatever the cause of the decline, whether internal or external or both, management can respond by selecting strategies that redirect resources in an attempt to improve their firms competitive position.

1.1.1 Turnaround strategy

Different business environment will require different strategic options explored Gichuki (2009). Strategy is the direction and scope of an organization over the long term, which achieve advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder's expectations Johnson, Scholes and Whittington (2005). Hence strategy is about where the business is planning to get in the long run (the direction), the markets in which the business should compete and the activities involved in such markets (Markets; Scope). How the business can perform better than competition in those markets i.e. the advantage. What resources (skills, assets, finance, relationship, technical competence and facilities) are required in order to be able to compete (resources). The external environment factors that affect the business ability to compete (environment) and the values and expectations of those who have power in and round the business the (stakeholders).

According to Johnson et al (2005), strategies exist at various levels in the organization. Corporate Strategy is concerned with the overall purpose and scope of the business to meet stakeholder's expectations. This is a crucial level since it is heavily influenced by investors in the business and acts to guide strategic decision making throughout the business. Corporate strategy is often stated explicitly in a mission statement. Business strategy is concerned more with how the business competes successfully in a particular market. It concerns strategic decisions about choice of products, meeting customer needs, gaining advantage over competitors, exploiting or creating new opportunities etc. Operational strategy is concerned with how each part of the business is organized to deliver the corporate and business level strategic direction. Operational strategy therefore focuses on issues of resources, processes, people etc.

The corporate level strategies choices are classified as growth, stability or retrenchment. Firms experiencing negative trends of performance typically resort to retrenchment as the likely turnaround strategy Pant (1991). Growth as a turnaround strategy has largely been ignored. Not every growth strategy is good for every business. The key to finding the right growth strategy is properly matching it to your company and its specific market place. Diversification (new products/new market) is a high risk growth strategy, largely because both the products and the market are unproven territory for the entrepreneur. However, diversification may be a reasonable choice if the high risk is compensated by the chance of the high return. Other advantages of diversification include the potential to gain a foothold in an attractive industry and reduction of the overall business portfolio risk

Product development strategy may be appropriate if the firm's strengths are related to its specific customers rather than to the specific product itself. In this situation it can leverage its strengths by developing a new product targeted to its existing customers. Similar to the case of new market development, product development carries more risk than simply attempting to increase market share. Market development options include the pursuit of additional market segments or geographical regions. The development of new markets for products may be a good strategy if the firm's core competencies are related more to the specific product than to its experience with specific market segment. Because the firm is expanding into new market, a market development strategy typically has more risk than a market penetration strategy.

The market penetration strategy is the least risky since it leverages many of the firms existing resources and capabilities. In growing market, simply maintaining market share will result in growth and their may exist opportunities to increase market share if competitors reach capacity limits. However, market penetration has limits and once the market approaches saturation another strategy must be pursued if the firm is to continue to grow. Business owners or managers should be able to differentiate between when a turnaround strategy is achievable and when it is not. Sometimes a business in crisis is too far gone to be salvaged. Closing down a crises ridden business and liquidating its assets is sometimes the best and wisest strategy. This strategy is of last resort (Gichuki, 2009).

1.1.2 Banking industry in Kenya

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, The Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The Banking sector was liberalized in 1995 and exchange controls lifted. The CBK, which falls under the Minister for Finance docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. As at 31 December 2009, the banking sector was composed of 46 institutions, 44 of which were commercial banks and two Mortgage finance companies. In addition there was one licensed deposit taking microfinance institution and 130 foreign exchange bureaus. Commercial Banks and Mortgage Finance Companies are licensed and regulated under the Banking Act, Cap 488 and Prudential Guidelines issued there under. Deposit taking Microfinance institutions on the other hand are licensed and regulated under the Microfinance Act and Regulation issued there under. Foreign Exchange Bureaus are licensed under the Central Bank of Kenya Act, Cap 491 and Foreign Bureau Guidelines issued there under (Bank Supervision Report 2009).

Out of the 46 institutions, 33 were locally owned and 13 were foreign owned. The locally owned financial institutions comprised of three banks with public shareholding, 28 privately owned commercial banks and two Mortgage Finance Companies (MFCs). The foreign owned financial institutions comprised of 9 locally incorporated foreign banks and 4 branches of foreign incorporated banks.

The main challenges facing the banking sector in Kenya are regulations, for instance, the finance Act 2008, which took effect on 1 January 2009 requires banks and Mortgage firms to build a minimum core capital of Kes. 1 Billion by December 2012. This requirement is hoped to transform small banks into more stable organizations. The implementation of this requirement poses a challenge to some of the existing banks and may be forced to merge in order to comply. For example the recent merger between Southern Credit and Equatorial Commercial bank. The global financial crises experienced in late 2008 is expected to affect the banking industry in Kenya especially in regard to deposits mobilization, reduction in trade volumes and the performance of assets. The declining interest margins due to customer pressure leading to re-organizations. Increased demand for non-traditional services such as the automation of large number of services, and lastly the introduction of non-traditional players such as deposit taking Microfinance institutions that pose stiff competition to commercial banks.

The Kenyan banking sector continued to exhibit resilience in 2009 in the midst of the global financial turbulences. The global financial crises that escalated in late 2008 reared its face on the Kenyan economy in the form of second, third round lags effects. However, efforts by all players to stimulate the economy tampered the effects of the crisis in Kenya. This is evidenced by the performance posted by Banks and mortgage finance companies in 2009 which surpassed expectations (Bank Supervision Report, 2009).During 2009, Kenyan banks continued to embrace new technology to improve their customer service delivery. A considerable number of banks adopted the use of mobile banking technology as a service delivery channel to enhance convenience to their customers. In an effort to promote financial access to majority of Kenyans, the Central Bank and the banking sector has put in place a credit information sharing mechanism which will enable individuals to use their information capital as “collateral” to access bank services. Further, the amendment of the Banking Act to permit banks to use agents in their outreach will also extend the formal financial services access frontier (CBK Supervision Annual Report 2009)

With globalization and increased accessibility to electronic delivery channels for products and services, banks are continuously innovating to provide a wide range of electronic products and services. The enhanced ICT platforms have enabled banks to introduce internet and mobile banking services and products such as viewing of statements of account, enquiries on status of cheques, cheque book requests, notification of entries into account, funds transfer and payment of utility bills. Given the cut throat competition in the banking sector, banks can no longer compete on price but on the extra value addition services by leveraging on ICT based products that emphasize on convenience banking and of course superior customer service.

1.1.3. Development Bank of Kenya Limited

Development Bank of Kenya Limited (DBK) was established in 1963 as a development finance institution operating under the name Development Finance Company of Kenya (DFCK). Its chief aim was to identify and fund commercially viable projects, with the goal of developing the Kenyan industrial sector. The institution was initially formed as a joint development between the Kenyan, British and German governments through their respective development financing institutions. Over the years, Holland and the World

Bank also acquired shareholdings. These institutions provided funding for the bank's projects through a mix of equity participation and debt structures.

Following the liberalization of the Kenyan financial industry during the 1990s, DFCK was transformed into a fully fledged commercial bank in 1997and the name changed to Development Bank of Kenya Limited (DBK).This allowed the bank to accept deposits from the open market and broaden its scope of operations. Despite this, DBK's lack of clear corporate strategy and other external factors resulted in decline in deposits and advances. In year 2000, the country experienced severe economic recession. The Gross Domestic Product (GDP) declined to negative 0.3% compared to 1.4% growth in 1999. This decline in growth reflected poor performance in most sectors of the economy.

1.2. Statement of the problem

Turnaround refers to recovery to profitability from a loss or declining situation. Top management must rescue an ailing firm by responding successfully through strategies and policies to external and internal factors causing the decline. The aim is not just to halt the decline, but also to generate the means to substantial recovery. This process starts by analysing the situation to determine causes of decline pointing out the strategy to be adopted to stem the decline and the implementation path and program.

Development Bank of Kenya was formed to serve as a project financier. After liberalization of the banking sector in the 1990's the institution converted to a fully fledged commercial bank in 1997. This allowed the bank to accept deposits from the open market and broaden its scope of operations. However, DBK's lack of a clear corporate strategy and other external factors led to a steady decline in deposits and advances. This also led to the collapse of various institutions in the late 90s mainly due to poor management of credit risk resulting in accumulation of huge non performing loans and operational risks (The Banking Survey, 2007). Due to these setbacks, the Bank embarked on a turnaround strategy in year 2004 and has made remarkable recovery and regained the stakeholder's confidence. In year 2008, the Bank attained a complete turnaround recording a pre-tax profit of Kes. 169 million compared to Kes 80 million in 2000.The total assets increased to Kes. 6.5 billion in 2008, compared to Kes. 3.6 billion in 2000.

A few studies on turnaround strategies in Kenya have been done. Situma (2006) studied the adoption of turnaround strategy at Kenya Commercial Bank. She sought to investigate the experience of turnaround at Kenya Commercial Bank (KCB). In addition she had the objective of establishing the process employed in implementing turnaround strategies in 2002. The research findings indicate that KCB used both entrepreneurial and efficiency strategies in the turnaround process. All the stake holders were involved in the process to provide support to ensure that the bank fully recovered from the decline situation. Matundura (2008) studied implementing turnaround strategy at Kenya Revenue Authority (KRA). He sought to establish the turnaround strategies that were adopted by KRA, the factors that necessitated the implementation. His study found out that a new management team with the right skills was hired. They also hired consultants to help with the change process and several meetings were arranged between the management and employees to prepare themselves for the change. The authority also decentralised its operations. Saigilu (2008) focused on the effectiveness of turnaround strategy at the Kenya Revenue Authority. The key objective of the study was to find out how effective the turnaround strategies were in achieving the targeted organizational objectives. He found out that the turnaround strategies implemented were effective. In fact it led to consistent increase in revenue collections. The service delivery at the institution were also highly improved and led to building confidence among all the stakeholders. Gichuki (2009) studied turnaround strategy at the Co-operative Bank of Kenya. She sought to establish the cause of declining performance and how the turnaround strategy was implemented. The research findings indicate that Co-operative Bank employed various strategies to confront the decline. To steer the turnaround process the bank instituted changes at the top management which saw the exit of the previous CEO and other changes at board level. In addition the government as a stakeholder absorbed bad debts.

Two of the mentioned studies were on a non-banking context Matundura (2008) and Saigilu (2008). Both focused on Kenya Revenue Authority and their finding may not apply in a bank. In addition their focus was on the implementation process and how effective the turnaround strategies were in achieving the set targets. On the commercial bank context, Situma (2006) and Gichuki (2009) studied the adoption of turnaround strategies at Kenya Commercial Bank and Co-operative Bank of Kenya respectively. Both studies were case studies and the findings cannot be generalized. In addition, Development Bank of Kenya caters for a niche market. Its main focus remains long term project finance targeting the corporate institutions, unlike Kenya Commercial Bank and Co-operative Bank which serve both the retail and corporate clientele. Thus, this study will help bring out differences arising from different environment and organizational factors unique to each organization. This study seeks to investigate the turnaround strategy adopted at Development Bank of Kenya, how it was implemented and the challenges faced in the implementation process. The researcher will try o answer the following critical question; what turnaround strategies were adopted to confront the decline and return to profitability?

1.3. Research Objective

The objective of this study is to establish the turnaround strategies adopted by Development Bank of Kenya.

1.4. Value of the study

The study will also contribute to the body of knowledge. The study will bring out differences arising from different environmental and organizational factors unique to each organization. At the height of continued tough economic times, global economic recession and credit crunch, some organizations might experience declining performance. The research findings will be useful to such players who might embark on adopting turnaround strategies.

CHAPTER TWO: LITERATURE REVIEW

2.1. Introduction

This chapter is devoted to review literature related to the turnaround process, causes of decline, components of turnaround, some turnaround strategies, factors determining successful turnaround and the turnaround process model.

2.2. Turnaround strategies

Turnaround strategies are a set of consequential, directive, long term decisions and actions targeted to the reversal of a perceived crisis that threatens the firm's survival. Pearce and Robinson (2000, p 265) states that a turnaround situation represents absolute and relative-to-industry declining performance of a sufficient magnitude to warrant explicit turnaround actions. Turnaround situation may be the result of years of gradual slowdown or months of sharp decline.

Bibeault (1982), Pearce and Robbins (1993) view turnaround process as consisting two stages: decline stemming and recovery strategies. The primary objective of decline stemming strategies is to stabilize the company's financial condition and includes actions such as gathering stakeholder support, eliminating inefficiencies and stabilising the company's internal climate and decision process. The severity of the distressed state and the resource slack available ultimately determines the extent to which the decline-stemming strategies are applied and succeed. Once the company's financial position has stabilised, it must decide on its recovery strategy; whether or not it will continue to pursue profitability at its reduced size or implement growth-oriented (entrepreneurial-oriented) strategies.

Operational restructuring entails cost reduction, revenue generation and operating- asset reduction strategies to improve efficiency and margin by reducing direct cost and slimming overheads in line with volume Slatter (1984). Operational restructuring is generally the first turnaround strategy implemented by a financially distressed firm, as there is no point in assessing the strategic health if the firm goes bankrupt in the near term. Cost reduction may be sufficient where the firm is weak operationally. Efficiency measures are directed at both maximizing output (revenue) and minimizing input (resources such as inventory). Cost reduction may be sufficient where the firm is weak operationally. Revenue generating strategies may be pursued focusing on the existing product lines, initiating price-cuts or raising prices where products are price intensive) and increasing marketing expenditure to stimulate demand (Hofer, 1980).

When a firm is operating well below capacity, asset reduction to improve utilization and productivity of assets is imperative. Asset reduction can be an operational or strategic in nature. Operating asset reduction refers to business-unit level sale, closures and integration of surplus fixed assets such as plant, equipment and offices and reduction in the short-term assets such as inventory and debtors. This is driven by the need to enhance the efficiency of the firm’s current operations through improved asset utilization at the operating level (Bibeault, 1982; Hofer, 1980; Schendel, Patton and Riggs, 1976). Operational restructuring is primarily designed to generate, in the short term, cash flow and profit improvement. It is of a fire-fighting nature and differs from restructuring aimed at the longer term competitive positioning and performance of the firm (Sudarsanam and LAI, 2001).

Asset restructuring involves reorganizing the firm into self-contained strategic business units; divestments of lines of businesses not fitting the core business, acquiring companies that relate to and strengthen the core, discontinuing unpromising products, forming strategic alliances, joint ventures and licensing agreements. In addition the distressed firm may merge with other firms, be taken over in a hostile bid or be bought-out by their own management (MBOs). Asset divestment is deemed imperative where the firm is in severe distress and /or where strategic health is weak. (Hofer, 1980; Pearce 11 and Robbins, 1993). Asset reduction at the portfolio (Corporate) level covers divestment of subsidiaries/ divisions. The objective of this level is to divest the non-profit generating assets or even profitable assets for the purpose of raising cash to alleviate financial distress and fund restructuring.

Asset investment covers business and corporate level investments and comprises both internal capital expenditure and acquisitions. Capital expenditure is designed to achieve efficiency/ productivity improvement e.g. building new plants and equipments Hambrick and Schecter (1983) or computerized processing and monitoring equipment which speeds productivity and market response, improves productivity and reduces costs. Such expenditure complements, rather than conflicts with efficiency driven operational restructuring described earlier. It may also enhance firms competitive advantage e.g. when affirm achieves economy of scale by expanding its output. Since it involves cash outflow, firms in decline can undertake such capital expenditure as an ensure their survival and ensure their recovery. Thus internal capital expenditure may be critical component of the firm’s turnaround strategy. Firms may also seek to acquire firms that fit their core competencies with long term profit potential. This stage is crucial for turnaround by firms with inappropriate corporate strategy or mature or declining products/markets where new strategic direction is imperative Hofer (1980); Pearce11 and Robbins (1993); Scendel et al (1976). Acquisitions may thus contribute to successful sharp bend a sustained good performance thereafter but need to be selected and managed carefully (Sudarsanam and Lai, 2001).

Financial restructuring is the reworking of a firm’s capital structure to relieve the strain of interest and debt repayments and is separated into equity based and debt based strategies. Equity based strategies cover dividend cuts or omissions and equity issues. Firms in financial distress tend to reduce or omit dividends due to liquidity constraints, restrictions imposed by debt covenants, or strategic considerations such as improving firm’s bargaining position with trade unions. Debt-based strategies refer to the extensive restructuring of firm’s debt. Firms restructure their debt to avoid financial distress. Debt restructuring is a transaction in which an existing debt is replaced by a new contract with one or more of interest and principal reduced, maturity extended or debts –equity swap (Sudarsanam and Lai, 2001).

Managerial restructuring comprises effecting top management changes. This is widely quoted as a precondition for successful turnaround Sudarsanam and Lai (2001). When old ways of operating need to undergo drastic change, it is difficult for incumbent top management to change their habits and institute radical reforms. Changes in senior management team are seen as a means of restoring stakeholders' confidence in the future viability of the organisation, thereby ensuring their continued support. Also new senior managers are able to offer fresh insights into the causes of decline and the skills and motivation necessary to bring about organisational change Smith and Graves (2005). A change in top management is tangible evidence to bankers, investors and employees that something positive is being done to improve the firm's performance, even thought the cause of the poor performance may be beyond management's control (Slatter, 1984).

Stakeholder management is key to a successful turnaround. The cooperation of each of them- customers, vendors, employees, board of directors and others is essential. The stakeholders have vested interest in the survival of the business. If not involved in the process, they could frustrate any efforts to have a successful turnaround. Employee participation is essential to turning a business around. When employees are included in the restructuring plan, they tend to accept painful concessions as necessary to the company's survival. When restructuring is complete, the business is certainly indebted to these people and should compensate them for their contributions (Scherrer, 2003).

The strategy used and the timing of the strategy determine the success of the turnaround. Strategies can be combined and used in various sequences (e.g. an initial strategy may require cost-cutting, and then be superseded by the revenue generating strategy but using the inappropriate strategy can be a terminal error. The unique requirements of your business and the turnaround situation will determine the strategies to be used. The adoption of a turnaround strategy itself is no guarantee of recovery. For a strategy to be effective, it may have to be carried out swiftly, intensively and competently. Poor implementation of turnaround strategies may exacerbate decline Cameron, Sutton and Whetten (1988). Hoofman (1989) suggests that the difference between successful and failed turnarounds lies more in the strategy implementation process than the content.

2.2.1. Components of turnaround strategy

The three key components of turnaround strategy are managing the turnaround, stabilising the business and funding and recapitalisation. Managing the turnaround is in terms of leadership, stakeholder management and the turnaround project management. A turnaround situation requires robust leadership to drive the process, provide renewed energy and excitement, rigour, discipline and urgency. Retaining the existing management has the advantage of regaining knowledge of the company and the industry. However, it is generally accepted turnaround management principle that the existing management should only be retained if not in crisis denial, if it understands the reality gap, is acutely aware of the causes of decline and if determined to restore the company's performance. Existing management, being the architects of the distressed situation, is unlikely to succeed without new turnaround leadership or external support (Johnson et al, 2005). Hofer (1980) claims that there is almost universal need to change the current top management in a turnaround situation.

In a distressed company situation, Stakeholders typically have lost confidence and are concerned about their own risk exposure to a failure of the company. Turnaround management will fail unless stakeholder's advocacy ensures that support for the turnaround strategy is obtained and retained. Stakeholder management is aimed at achieving awareness, involvement buy-in and ownership from all the constituencies affected by the distressed company's turnaround situation. Rebuilding and retaining stakeholder support are built on two change management principles, mobilising stakeholders, especially employees around active participation towards achieving aligned turnaround objectives and clear, unbiased and open communication and full disclosure about the existing situation, turnaround strategy and action plans. Stakeholder management typically involves progress reports, regular structured feedback to shareholders, lenders and staff, notice board communications and newsletter (Jonson et al, 2005).

The execution of turnaround strategy faces immense complexities, pressure of limited time, information and resources as well as uncertainty about the future. To maintain control, the components of the turnaround plan across all the stages of the turnaround process need to be broken down into smaller manageable time-phased activities, each with associated costs and resources with allocated accountabilities. Meticulous project management is required to track turnaround performance against targets and timelines and to reschedule and reallocate.

According to Johnson et al (2005), when a business is distressed, there is need to stabilize it to ensure the short-term future of the business through cash management, cash generation and cash conservation, demonstrating control, re-introducing predictability and ensuring legal and fiduciary compliance. Stabilization is further achieved by reintroducing predictability to the operations by setting performance targets, establishing information systems and tracking progress. Stabilization requires rather autocratic leadership style to impose discipline and conformance to new systems and controls.

The distressed company under turnaround management typically faces a number of financial issues. It requires funding to meet both its short-term commitments during emergency management and to cover turnaround restructuring costs which may include working capital for trade creditor and interest payments, restructuring cost such as professional fees, closure and retrenchment cots, and investment in new technology and systems. The balance sheet has to be restored to solvency and excessive gearing needs to be corrected. A successful turnaround programme may often affect financial results on the operating profit. This requires the capital structure to be aligned with the projected level of operating profit and cash flow to avoid interest charges keeping the company on the red. Refinancing therefore involves not only the injection of new funds in the form of loan or equity finance but also changing the existing capital structure per se (Jonson et al, 2005).

To achieve a successful turnaround a management team must first identify the causes and the gravity of the decline, then stem out a firm's decline by selecting appropriate strategies for recovery Slatter (1984). This often requires increasing a firm's efficiency, stabilizing its internal operations and renewing stakeholders support. The appropriate strategies for recovery will to a large extent depend on the company size, severity of the decline, its stage on the company's life cycle and availability of resources, the external environment such as the actions of the competitors etc.

2.2.2 Implementation and stabilization

Two major elements of the early phase of the turnaround process are reorganizing the business's finances and analyzing its customers. Financial restructuring requires time, but this investment of time will help stop the business decline. The turnaround process begins by creating a budget and then strictly enforcing financial accountability. Standard costing estimates are replaced by actual costs, and the use of contribution margins reveals the products that contribute most to the fixed costs of the business.

During the initial stages of the turnaround process, the turnaround manager uses cash flow analyses and financial projections on a frequent basis to help reorganize the accounting system. In some situations, the cash flows will help with the development of an operating plan for the business. A quality-operating plan is required by most lenders, and the time line and the amount of cash inflow the plan generates will determine the methods a business can survive. It is necessary to use financial projections of cash to make a reasonable determination of how to dispense it (Scherrer, 2003). Analyzing the business customers is another essential part of the turnaround process. To determine which customers are profitable, the turnaround manager consults the customer classification and aging accounts receivable. These two sources will reveal the less productive accounts.

2.2.3. Causes of business decline

Organizational decline represents substantial resource losses over time (Cameron et al, 1987) and can be either a gradual process or a sudden, unexpected disruption (Tushman & Anderson, 1986). Substantial organizational decline leads to crisis where the survival of the firm is threatened. Managers tend to attribute performance decline and any resulting organizational crises to the external factors beyond their control, such as competition. Empirical studies, however, show that very few business failures are the result of outside factors only (Boyle & Desai, 1991). Instead organizational failure is frequently linked to internal problems like failure to update products, invest in core competencies and control cost (Baum, 1989; Hedberg, Nystrom, & Starbuck, 1976; Starbuck, Greve, & Hedberg, 1978).

Apart from internal factors, external factors like political, economic, social, technological, ecological and legal also play a decisive role in the decline of an organization. It includes the role of unions, governmental regulations, safety and health improvement measures, consumer organization pressures, shortage of energy and raw materials etc. Research shows that external causes play a minimal role compared to the internal causes in shifting the fortunes of the organization.

2.3. Internal signals of business decline

According to Scherrer (2003) long before a business commences its decline, warning signals start flashing, but managers often do not notice the red lights, or they ignore them. When they finally do acknowledge something is amiss, some managers will treat the problem as a temporary phenomenon putting out the fire but not remedying the hazard. Business failure is marked by early signals of decline that often go unobserved or ignored. A strong management team should be aware of any potential difficulties or signals of trouble and should deal with them accordingly. Neglecting these warning signals can cause irreparable damage to your business and rob it of its profit potential.

Managers often blame business decline to external market changes, unforeseen competition, financial market instability and technological changes-uncontrolled elements. While these excuses sound good, the major cause of business failure lie within finance, operations and marketing-the internal elements of a business. The management has direct control over these functions and are the force that drives them, yet 80 percent of business failures are caused by management's inability to control the internal elements (Scherrer 2003).

There are three distinct phases of decline; early, mid-term and late. Each stage has its own group of danger signals. For example, in the early stages of decline your business may experience a shortage of cash. In the mid-term stage, you might find inventory increasing and sales decreasing. In the late stage, the account payables might be 60 to 90 days late, account receivable could be over 90 days late, depleted working capital, overdrawn bank account substitutes for credit line etc. All these symptoms will lead to decrease in market share in key products line, poor internal accounting, non-seasonal borrowing, increase in management of employee turnover, management conflict with company goals and increase in trade inquiries. As problems increase within a business, its reputation with suppliers, banks, employees and potential and current customers and other stakeholders become severely diminished (Scherrer, 2003).

2.4 Elements of external environment

There are many external elements that can negatively affect a business such as increased competition, rapidly changing technology and economic fluctuations. Within these factors are other things like foreign competition, capital markets movements, legal contrasts and non-responsive political solutions. A change in an external uncontrollable element will be felt by all businesses in an industry, but the impact these changes have on specific business depends on the strength and stability on the management team (Scherrer, 2003).

A major problem with predicting the movement of uncontrollable elements is their interaction with each other. External elements are closely interrelated and consequently, anything affecting one element can have a secondary effect on another element. For example, a cultural/social change in our society can result in a legal/political change. These adjustments can affect our economic environment, which can lead to changes in technological developments. The development in technology, in turn can affect the level of competition. Many managers do not realize that they can plan for changes in the external environment to safeguard their businesses. Foresight is essential in order to adapt to changes in the external environment. Managers can safeguard their businesses by planning for external changes in good time (Scherrer, 2003).by monitoring the changes, strategies can be created to alleviate the negative effects the external environment has on a business.

2.5. Determinants of Successful turnaround strategy

Turnaround may not be feasible under some circumstances. In other settings, the organization might lack the capabilities or resources to implement appropriate turnaround strategy correctly. Even if implemented correctly, in a feasible setting, organizational outcome of a turnaround strategy still depend on emergent factors (such as competitor actions), which can prevent or delay any turnaround. Factors that influence the choice of strategy include severity of the distressed state, firm size and free resources available (Smith and Graves, 2005).

Arogyaswamy and Yasai-Ardekani (1997) investigated the role that cutbacks, efficiency improvements and investments in technology play in turnaround process. They found that cutbacks and increase in efficiency were important factors for successful turnaround as these actions improve profitability in the short run and allow the company to release resources that may e used elsewhere. The can also play an important role in winning back stakeholders support and help raise external resources to fund other strategies.

Pant (1991) found a statistically significant relationship between turnaround success and size; that is turnaround companies were generally smaller than failed companies. He suggests that smaller companies may be more successful in enacting successful turnaround as they are able to adapt to their changing environment more easily than large companies. However White (1984, 1989) argues that larger companies are better equipped to raise the additional funds necessary to remain viable due to their previous success in raising external capital. Taffler (1993) notes the prevalence of a stock market strategy based on the investment in underperforming large companies, as recognition of the perceived importance of firm size to corporate turnaround. Larger firms are likely to have a higher probability of survival, as the potential losses to stakeholders re greater than in smaller firms.

The top management develops and implements turnaround strategies that address the imminent organizational crisis. Top management become the change agent to reverse the organizational decline. Hofer (1980) claims that there is an almost universal need to change the current top management in a turnaround situation. It’s believed that incumbent managers are less motivated to engage in turnaround strategies, especially if they are strongly committed to the firm's current strategy or attribute the decline to external causes only. In addition, changes of the top management team can provide important signals to outside stakeholder that the firm is separating itself from past failed strategies. Such signals can increase the willingness of the outside stakeholder to support the struggling organization (Smith & Graves, 2005).

Smith & Graves (2005) 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. They argued that distressed companies with sufficient free assets (i.e. an excess of assets over liabilities, or more specifically of tangible assets over secured loans) are more likely to avoid bankruptcy because it increases their ability to acquire the additional funds necessary to enact a successful turnaround and it encourages continued support of existing lenders as sufficient assets are available to repay the loan if required.

The severity of the financial distress influences the ability of the firm to enact a recovery. Hofer (1980) and Robbins and Pearce (1992) argue that severely financially distressed companies need to make aggressive cost and assets reductions in order to survive. However, Slatter (1984) highlights, the aggressive reduction of costs and assets is no easy task as there is often organizational resistance to such actions. The severity of the distressed state will be determined by the components of the measure of distress, which themselves identify the major sources of distress; the direction and extent of change in severity may provide further support for likelihood of turnaround.

2.6. Turnaround process model

Based on existing turnaround models, their components and subsequent research, the model depicted in Figure 1 evolves. This model depicts turnaround process as a series of integrated steps within two key phases- the decline stemming phase and the recovery phase. Ultimately, the severity of the financial distress, the amount of the free assets available and the company size, influence the company's ability to stem the decline. In order to stabilize the company, senior management must strengthen stakeholder support, undertake retrenchment activities to improve efficiency and cash flows, and improve the internal management and decision –making processes. The aim of the recovery phase is to ensure that the causes of the decline are addressed and overcome. Distress can be due to external factors, internal factors or a combination of both. As a result, recovery strategies adopted may focus on maintaining efficiency, an entrepreneurial reconfiguration, or a combination of both. Although this model suggests that decline stemming and recovery strategies should be executed sequentially, circumstances may dictate that the two phases be executed concurrently in practice (Smith & Graves, 2005).

Turnaround is considered to have occurred when a venture has recovered from its decline that threatened its existence to resume normal operations and achieve performance acceptable to stakeholders, through reorientation of positioning, strategy, structure, control systems and power distribution. This implies that a declining firm can be rescued, while a firm that has failed cannot (Sudarsanam and Lai, 2001).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter deals with the research design and methodology used in the study. The chapter has been organized into research design, data collection procedures and data analysis techniques.

3.2 Research Design

The study will be conducted through a case study. A case study is an in-depth investigation of a single individual, group or event to explore causation in order to find underlying principles. This is considered appropriate since it will provide an in-depth understanding of the DBK's turnaround strategy instituted in 2004.

3.3 Data Collection

An interview guide will be used to collect data from the respondents. The researcher will utilize both primary and secondary data. Primary data will be collected by way of a personal interview guided by a prepared interview guide consisting of open ended questions. The respondents will be drawn from the top level management since turnaround is a corporate level strategy. They include the Managing Director, Chief Operations Manager, Head of Human Resource, Head of Projects and Credit. Secondary data will be sourced from brochures and financial reports to supplement the primary data.

3.4 Data Analysis

Data will be analyzed using content analysis because the study will seek to solicit data that is qualitative in nature given that this will be a case study. Content analysis is a process of inspecting, cleaning, transforming and modelling data with the goal of highlighting useful information, suggesting conclusions and supporting decision. Analysis of data collected will be comparing it with the theoretical approach and documents cited in the literature review.

CHAPTER FOUR: RESEARCH FINDINGS AND DISCUSSIONS

4.0 Introduction

This chapter outlines the research findings and discussions on turnaround strategies.

4.1 Respondents profile

Turnaround strategies are corporate level strategies. The respondents were chosen from the top level management and comprised the Project manager, chief operations manager, the Liability manager and the credit manager. They are all based at the head office and have over five years of experience at the Bank.

4.2 Causes of business decline

The decline in business performance at Development Bank of Kenya Limited can be attributed to both internal and external factors. The bank's lack of clear corporate structure was a major cause of decline. There was a noticeable decline in the demand for new projects finance due to scarcity of profitable investment opportunities and deterioration in the ability of the banks projects to service existing loans. The level of non-performing advances for all banks increased from 36% of gross loans in 1999 to 39.2% in 2000 and this continued to impact adversely on the performance of the banking sector. The Bank's advances decreased by 12% from Kes. 2.6 billion in 1999 to Kes. 2.3 billion in 2000. The same year 2000, the bank released expensive deposits due to lack of lending opportunity. The profit before taxation decreased from Kes. 133.8 million in 1999 to Kes. 80.7 million in year 2000. The decrease was mainly due to higher provisions made for bad doubtful debts, which increased from Kes. 85.6 million in 1999 to Kes. 176.2 million in 2000 (DBK audited account year 2000).

In 2004, DBK underwent a major change in shareholding, with the divesture of Deutsche Investitions (DEG) with a shareholding of 28.8%, Nederlands Financierings (FMO) with a shareholding of 22.8% and International Finance Corporation (IFC) with a shareholding of 7.2%. During year 2006, the Commonwealth Development Corporation (CDC) with a shareholding of 10.7% sold its shares to Kenyan investment group Trans-Century Limited. At present, the remaining 89.3% of the bank's shares are warehoused with the Kenyan government through Industrial & Commercial Development Corporation (ICDC), although the process of disposing of these shares is underway.

The account opening balances were all too high making the bank less competitive. The potential clients preferred opening accounts with the competition since their terms were more attractive. This in effect reduced the banks liquidity position as it maintained very few accounts.

In year 2008, the Bank experienced a complete turnaround (in five years) by recording growth in assets to Kes. 6.5 billion from Kes. 2.2 billion achieved in year 2004. This was a substantial 195% increase. The loan book increased by to Kes. 3.4 billion (431%) in 2208 from Kes. 0.6 billion in 2004. On the backdrop of this phenomenal growth in the asset book and concerted bad debts recovery effort, the non-performing portfolio declined substantially. The deposit base rose to an all time high of Kes. 13.8 billion from Kes. 0.6 billion in 2004.The turnaround is measured by improvement in the company's profitability as detailed in the five year analysis (2004-2008) in Appendix A (DBK Audited Report 2008).

4.3 Turnaround Strategies

Bibeault (1982), Pearce and Robbins (1993) view turnaround process as consisting two stages; decline stemming and recovery strategies. The declining performance at Development Bank of Kenya Limited was as a result of both internal and external causes. As a result, the bank adopted various sets of strategies to curb the declining performance and enhance its profitability.

The research findings indicate that the bank embarked on cost reduction measures (operational restructuring) to improve efficiency and margin by reducing direct costs and slimming overheads in line with volume. The Bank previous occupied four floors, the head office was located on the, fourteenth, fifteenth and sixteenth floors, while the banking hall remained on the ground floor. In order to reduce the overhead costs the bank reorganized the sitting arrangements. This enabled them to release fourteenth floor, which was later on leased to other tenants and was able to generate extra revenue for the bank (The bank owns the building that houses it's head office). Consequently, only the top level management were allowed to park at the premises. Hence most of the parking space that was initially given to other members of staff was leased out to external customers and was able to generate extra revenue for the bank.

To enhance operational efficiency further, the bank embarked on major layoffs thus reducing the salary expense. The bank also restructured the accounts by reducing the opening balances for Current; Savings and Fixed deposit accounts from Kes. 100, 000, Kes. 50,000 and Kes. 500,000 to Kes. 10,000, Kes. 5,000 and Kes. 100,000 respectively. The bank tariffs were also reduced in line with competition. In effect the accounts became more affordable and attractive to the market. A Business Development department was also created whose core responsibility was new product development and marketing. To improve on the liquidity further, the bank omitted payment of dividends in year 2002 and 2003.

In the year 2002, Small Enterprise Finance Company Limited (SEFCO), a subsidiary of the bank whose core business was micro finance ceased its operations. The subsidiary was operating well below capacity. Only two members of staff remained after the closure to follow up on debt recovery. The two employees were later on absorbed by the bank.

Top level management change is widely accepted as a precondition for successful turnaround Sudarsanam and Lai (2001). The research findings indicate that the main element of turnaround at Development Bank was change in top level management. There was change in the CEO and two other directors in the board in year 2004. Change in top level management is seen as a means of restoring stakeholders' confidence in the future viability of the organisation, thereby ensuring their support. New senior managers are able to offer fresh insights into the causes of decline and skills and motivation necessary to bring about organizational change Smith and Grave (2005).

Stakeholder management is a key to successful turnaround. The co-operation of each of them customers, vendors, employees, board of directors and others is essential. If not involved in the process they could frustrate any efforts to have a successful turnaround. Employee participation is essential to turning a business around. Continuous open communication of the ongoing changes was conveyed to all the stakeholders including the existing clients, the government, creditors and the employees. This was done through mails, memos and statement in the published accounts. To ensure employee participation, various committees were formed to review and give feedback on various key issues arising. The committees included the strategy, Human Resource, Automation, Assets and Liabilities, Debt Collection, Executive Committee to mention but a few. Each committee was charged with specific responsibilities. They were required to hold meeting at various intervals and the minutes of their meetings shared with the rest.

4.4 Discussions

The researcher set out to establish the turnaround strategies adopted at Development Bank of Kenya Limited. The research finding as discussed above support various arguments in the turnaround literature on the causes of business decline. The causes of business decline at Development Bank were both internal and external. Some of the internal factors identified were the bank's lack of clear corporate strategy. Some of the external factors identified included increased competition, economic recession which led to reduction in profitable projects and increase in non- performing loans. This concurs with Gichuki (2009) and Scherrer (2003) who identified the same internal and external factors to have contributed to business decline.

From the literature, long before a business commences its decline, warning signals start flashing, but managers often do not notice the red lights, or they ignore them. When they finally do acknowledge something is amiss, some managers will treat the problem as temporary phenomenon putting out the fire but not remedying the hazard. From the research findings, the business decline signals for Development Bank were felt long before the actual decline. This is manifest in the early 2000 when the Bank could not identify viable projects to finance. The bank actually returned most of the funds allocated for the projects to the shareholders. The loan advances continued to reduce due to attrition and the fact that there were no new loan booking. This in effect led to shrinking profit margin. A strong management team should be aware of any potential difficulties or signs of trouble and should deal with them accordingly. Neglecting these warning signals can cause irreparable damage to the business and rob it of its profit potential (Scherrer, 2003).

The research findings indicate that the main element of turnaround at Development Bank was change of top management. Top management change is widely quoted as a precondition for successful turnarounds Sudarsanam and Lai (2001).simply when old ways of operating need to undergo drastic change. It is difficult for the incumbent top management to change their habits and institute radical reforms. Often the stakeholders will continue to give their support if they are confident that the management team can manage the crisis at hand. A change in top management is tangible evidence that something positive is being done to improve the firm’s performance even though the cause of the poor performance may have been beyond management’s control (Sudarsanam and Lai, 2001).

The strategic management literature provides empirical support for overlapping two-stage approach to corporate turnarounds: the efficiency/operating turnaround strategy stage and entrepreneurial/strategic stage Sudarsanam and Lai (2001). The efficiency/operating turnaround stage aims to stabilize operations and restore profitability by pursuing strict cost and operating- asset reduction. The entrepreneurial/ strategic stage aims to achieve profitable long-term growth through restructuring the firm's asset portfolio or product/market refocusing. This literature supports the strategies that were adopted at Development Bank. The laying off of employees led to reduction in salary and other administration expenses. The reorganization of the offices and the initial sitting arrangements led to generation of extra revenue as the offices were leased out to external clients. In additional the reorganization of the bank account opening balances and the revision of the tariff positioned the bank well within the competition. The bank was able to open more accounts hence growth in deposits.

Stakeholder management is key to a successful turnaround. The cooperation of each of them- customers, vendors, employees, board of directors and others is essential. The stakeholders have vested interest in the survival of the business. If not involved in the process, they could frustrate any efforts to have a successful turnaround. Employee participation is essential to turning a business around. When employees are included in the restructuring plan, they tend to accept painful concessions as necessary to the company's survival. When restructuring is complete, the business is certainly indebted to these people and should compensate them for their contributions (Scherrer, 2003). The research findings at Development Bank are in consonance with these observations.

The strategy used and the timing of the strategy determine the success of the turnaround. Strategies can be combined and used in various sequences (e.g. an initial strategy may require cost-cutting, and then be superseded by the revenue generating strategy but using the inappropriate strategy can be a terminal error. The unique requirements of your business and the turnaround situation will determine the strategies to be used. The adoption of a turnaround strategy itself is no guarantee of recovery. For a strategy to be effective, it may have to be carried out swiftly, intensively and competently. Poor implementation of turnaround strategies may exacerbate decline Cameron, Sutton and Whetten (1988). Hoofman (1989) suggests that the difference between successful and failed turnarounds lies more in the strategy implementation process than the content.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS.

5.0 Introduction

This chapter gives the summary, recommendation, limitations of the study, suggestions for further study and the conclusion.

5.1 Summary

Development bank faced immense internal and external factors that led to declining performance in year 2000. Some of the internal factors included the banks lack of clear corporate strategy, non-performing loans, lack of profitable projects to finance, abrupt change in the shareholding and the economic recession experienced in the country at the time. To save the bank from collapsing, the management embarked on adopting various turnaround strategies that would see it recover from the decline and assume normal and profitable operations into the foreseeable future. The strategies adopted were effective and led to improved performance by year 2008.

5.2 Conclusion

The objective of this research was to identify the turnaround strategies that were adopted at the bank to counter the declining performance. From the research findings and in consonance with the existing theory, no single strategy is able to confront decline. Firms should adopt various combined strategies concurrently for a successful turnaround. The strategies adopted by Development Bank were effective as they resulted in improved performance.

5.3 Limitations of the study

The study was a case study, the research findings cannot be generalized to other firms in the industry. Management is sensitive to environment and organizational factors. The study was time limiting as it was conducted within a short period of time. Some of the intended respondents like the CEO was not available for the interview. In addition those interviewed did not have sufficient time to explain all the issues in greater detail due to time factor. As such some of the information was derived from the published accounts and other publications.

5.4 Suggestions for further study

Further research can be carried out on the challenges that were encountered in the implementation process and how they were overcome. Government owned institutions are perceived to have lengthy and unnecessary bureaucratic processes which at times hamper the timely implementation of key strategies. As such the researcher should aim to find out whether this perception was true in case of DBK, a government is owned institution.

5.5 Recommendation

The research findings indicate that the bank adopted the series of integrated strategies within two key phases- the decline stemming and the recovery phase. The severity of the financial distress, the amount of free assets available and the company size influence the company's ability to stem the decline. In order to stabilize the bank, senior management had to strengthen stakeholder support by providing continuous communication and updates of any changes that were being undertaken. The bank also undertook retrenchments, and other measures to improve efficiency and cash flows. The aim of the recovery phase was to ensure that the causes of the decline were addressed and overcome. The distress was due to both internal and external causes. As a result, recovery strategies adopted focused on maintaining both efficiency, and entrepreneurial reconfiguration. The top management change was able to restore the stakeholder's confidence and support. It's therefore important for any company that wishes to undertake any turnaround strategies to first seek to understand the cause of the decline, which will guide them in the choice of strategies to adopt.

5.6 Implication on policy and practice

Critical in a turnaround is to offset any cash problems. The results of the study indicate that the ability of firm to achieve successful turnaround largely depends on actions under the control of managers, either in the pre-decline conditions or in specific responses to decline. From the research findings, the most successful way of stemming decline is the combination of cost cutting measures, developing unabsorbed slack resources and using the firm's assets astutely. Poor performing firms can break the decline by reducing expenses such as salaries, marketing and inventories to free up cash. The need to improve internal efficiency and productivity in a turnaround cannot be over emphasized. Turnaround strategies are not singular actions but are interrelated with the prevalent contextual factors. In addition the stakeholders support is critical in the turnaround.

REFERENCES

Arogaswamy, K., Barker, V.L., & Yasai-Ardekani, M. (1995). Firm turnarounds: An integrative two-stage model. *Journal of management studies*, 34 (4), 493-525

Cameron, K.S.,Whetten, D.A., & Kim, M.U. (1987). *Organizational dysfunctions of decline.* Academy of Management Journal, 30(1), 126-138.

Central Bank of Kenya –*Bank Supervision Annual Report 2009*

Chowdhury, S.D. (2002). Turnarounds: A stage theory perspective. *Canandian Journal of Administrative Sciences, 19(3), 249-266*

Chowdhury, S.D., & Lang, J.R (1993). *Crisis, decline and turnaround*: A test of competiting hypotheses for short-term performance improvement in small firms. *Journal of Small Business Management, 31940, 8-17*

Development Bank of Kenya Audited accounts Year 2000 to 2008.

Gichuki, A. (2009). Turnaround Strategy at Co-operative Bank, unpublished MBA project, School of Business, University of Nairobi.

Hofer, C., (1980). *Turnaround strategies. Journal of Business Strategy, 1(1), 19-31*.

Johnson, G., Scholes, K., and Whittington R., (2005), *Exploring Corporate Strategy*, 7th Edition, New Delhi, Prentice Hall of India

Matundura, A. (2008). Implementing turnaround strategy a Kenya Revenue Authority, *unpublished MBA project, School of Business, University of Nairobi*

Mukherji, A., Desai, A., & Francis, J. (1999). Reclaiming the environment-organization fit: Matching turnaround strategies to environmental exigencies. Journal of Business Strategies, 16 (1), 27-43

Pant, L.W. (1991). *An investigation of industry and firm structural characteristics in corporate turnarounds.* Journal of management studies, 28.6

Pearce, A. J. and Robinson B.R., (2000), *Strategic Management: Formulation Implementation and Control,* 7th Edition McGraw-Hill International Editions.

Porter, M.E. (1985). *Competitive advantage*. New York: Free Press

Saigilu, P.L. (2008), The Effectiveness of Turnaround Strategy at Kenya Revenue Authority, unpublished MBA Project, School of Business, University of Nairobi.

Scherrer, P.S.,(2003), Management Turnarounds; Diagnosing Business Ailments, *Corporate Governance Journal*, Vol.13 No.4 pp 52-62

Situma, S. (2006). The Turnaround Strategy Adopted at Kenya Commercial Bank, unpublished MBA project, School of Business, University of Nairobi.

Slatter, S. (1984). *Corporate Recovery: Successful Turnaround Strategies and Their*

Implementation. Penguin, Harmondsworth, UK

Smith, M., and Graves, C. *Corporate turnaround and financial distress: Managerial Auditing Journal Vol.20. No.3, (2005) p. 304-320*

Sudarsanam, S., & Lai, J. *Corporate Financial Distress and Turnaround Strategies*: An Empirical Analysis. *British Journal of Management, Vol.12, 183-199 (2001).*

The Banking Survey Kenya 2007

APPENDIX A: INTERVIEW GUIDE

SECTION 1

Position held in Bank ……………………………………………………….

Department ………………………………………………………………..

No. of years of experience at the Bank…………………………………………….

SECTION 2

1. What were the principal causes of business decline in year 2000?

a) Internal Causes

b) External causes

2. a) Has the Bank embarked on any cost reduction measures since year 2000?

Yes ☐ No ☐

b) If yes mention at least three such measures.

i)

ii)

iii)

3. Has the bank closed/ sold any of its business units after year 2000?

Yes ☐ No ☐

4. Has the Bank reorganized any of its products/ business units after year 2000?

Yes ☐ No ☐

5. a) Has the Bank invested in new computer software or incurred any major Capital Expenditure since year 2000?

Yes ☐ No ☐

Please list any major investment after year 2000.

i)

ii)

iii)

iv)

6. Has the Bank omitted payments of any dividends since year 2000 to date?

Yes ☐ No ☐

7. a) Has there been any top level management change since year 2000?

Yes ☐ No ☐

b) Which year……………….

10. Has the Bank undertaken any major employee layoffs since year 2000?

Yes ☐ No ☐

11. What has been the stakeholder’s reaction to the changes...............................

…………………………………………………………………………………

……………………………………………………………………………………….

12. What mechanism was put in place to ensure their continued support?

…………………………………………………………………………………………….

………………………………………………………………………………………………

…………………………………………………………………………………………..

13. How was the information on the changes communicated to the employees?

……………………………………………………………………………………..

…………………………………………………………………………………….

……………………………………………………………………………………….

14. How were other employees in the organization involved in the turnaround?

……………………………………………………………………………………..

……………………………………………………………………………………….

……………………………………………………………………………………….

15. In your view were the strategies employed to curb the declining performance effective?

Yes ☐ No ☐

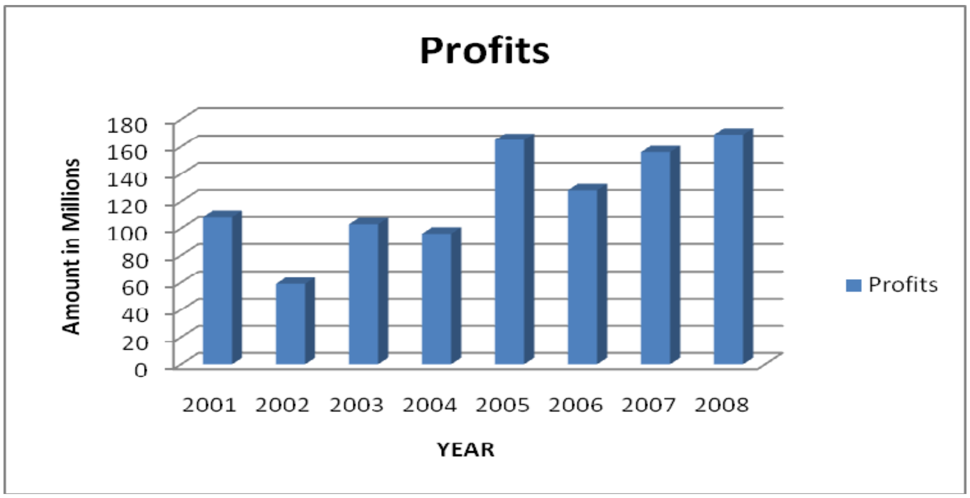
16. Any other comment?...

……………………………………………………………………………………………

Thank you.

APPENDIX B: DEVELOPMENT BANK PROFITABILITY, DEPOSITS AND ADVANCES, 2001- 2008

	2001	2002	2003	2004	2005	2006	2007	2008
Profits	108, 716	58,574	103,499	96,544	165,315	127,508	156,234	169,199



	2001	2002	2003	2004	2005	2006	2007	2008
Deposits	751	714	952	622	1,129	1,774	2,732	3,774
Advances	1,823	1,385	982	646	1,072	1,577	2,477	3,438