IMPLEMENTING TURNAROUND STRATEGY AT KENYA REVENUE AUTHORITY

BY

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DECLARATION

This management project is my original work and has not been presented for a degree in any other university.

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This project has been submitted for examination with my approval as university supervisor.

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DEDICATION

This work is dedicated to my sister, Toni who kept my spirits up. Without her lifting me up when this project seemed interminable, I doubt it would ever have been complete. And to my parents, Leo and Liberata, who offered me unconditional love and support and for giving me the foundation to be who I am.
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The chain of my gratitude would be definitely incomplete if I would forget to thank God. My deepest and sincere gratitude for inspiring and guiding this humble being.
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ABSTRACT

Organisational turnaround is defined as the actions taken to bring about a recovery in performance in a failing organisation. Turnaround usually consists of a collection of concerted or co-ordinated activities which may include the replacement of key individuals in the organisation’s management and leadership, immediate attention to major operational problems, seeking short term solutions, and the longer term, but often radical, redesign or re-profiling of the organisation and its business. 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. Turnaround strategy must reverse causes of financial distress, resolve the financial crisis, achieve a rapid improvement in financial performance, regain stakeholder support and overcome internal constraints and unfavourable industry characteristics.

This study had three objectives. The first objective was to identify the turnaround strategies that were used by Kenya Revenue Authority. The second objective was to identify the factors that enabled the Kenya Revenue Authority to successfully turnaround. The third objective was to identify the challenges KRA faced in implementing turnaround strategy.

A case study design was selected. In this study, emphasis was given to primary data. The primary data was collected using an interview guide. The respondents were the commissioners in various departments as well as other selected employees. Data collected was mainly qualitative. Therefore content analysis was the best method of analysis as it does not limit the respondents on answers and has the potential of generating more detailed information.

The study found that that all the three elements of turnaround strategy were the principal strategies in the KRA context. Repositioning was done in terms of formulated mission and vision statement for the authority. Restructuring was also done through decentralisation and regionalisation. Some elements of retrenchment were also seen as the young generation replaced the old guards with the retrenches being given good packages for their early retirement. Success factors were found to be hiring of new management team, commitment from both the management team and the staff to implement the changes, government support in terms of financial resources, motivational measures put in place, flattening of organisation structure and the empowerment of the staff through training. The challenges included
resistance from stakeholders as well as a section of the staff to the reform initiative and the implementation hiccups during the implementation of ‘simba system’.

The study recommends that the managers in the public sector to think critically about what turnaround strategy fits their situations when indeed there is need to turnaround. They may choose to reposition, retrench or restructure or use all these elements during their turnaround process. But care must be taken on the implications of some of these strategies. The study also recommends that policy makers for public sector institutions take cognizance of the factors that influence turnaround strategy implementation in the public sector. Factors such as resources in terms of human and finance are critical in strategy implementation. The structure of the organisation also needs to be given weight when designing turnaround in the public sector.
CHAPTER ONE: INTRODUCTION

1.1 Background

1.1.1 Turnaround in Organisations
Many firms experience trends of deteriorating financial performance at some point in their organisational life cycle as a result of market erosion and maladaptive decisions by management. Based on a deterministic perspective this organisational decline can be attributed to environmental factors while the voluntaristic perspective attributes decline to internal factors, particularly management actions and perceptions. Whether causality is attributed to external factors, internal factors, or both, managers can respond by selecting strategies that redirect resources in an attempt to improve their firm's competitive position (Mukherji, Desai & Francis, 1999).

Management literature related to organisational decline has predominantly focused on strategic responses by managers in declining multinational corporations (Hitt & Ireland, 1985; and Wernerfelt, 1984). At the corporate level these strategic choices are generally classified as growth, stability, or retrenchment strategies. Firms experiencing negative trends of performance typically resort to retrenchment as the likely turnaround strategies (O'Neill, 1983; Pant, 1991; Robinson & Robinson, 1992).

Research on turnaround strategies has considered a number of factors that influence the likelihood of recovery. From an external perspective the firm's competitive environment and the maturity of the industry influences the choice and effectiveness of turnaround strategies (Mukherji, et al. 1999; Morrow, et al, 2002). The internal perspective appears to be a more dominant view, however. For example, the severity of the financial deterioration and management failure has been offered as a contributing factor to turnaround strategy formulation and likelihood of a successful recovery (Chowdhury & Lang, 1996). Lohrke et al, (2004) examined the role of the top management team on turnaround strategy formulation and implementation.

Among Asian firms, Tan and See (2004) suggested that strategic choice is a function of organisational slack, size, and management's perception of external factors controllability. However, the effects of the degree of deterioration and limits to resource availability on strategic choices for small business owners have not been adequately addressed.
Kotter and Schlesinger (2008) contend that there is nothing more difficult to carry out, nor more doubtful of success, nor more dangerous to handle, than to initiate a new order of things. Reorganisation is usually feared, because it means disturbance of the status quo, a threat to people’s vested interests in their jobs, and an upset to established ways of doing things. For these reasons, needed reorganisation is often deferred, with a resulting loss in effectiveness and an increase in costs.

Today, more and more managers must deal with new government regulations, new products, growth, increased competition, technological developments, and a changing workforce. In response, most companies or divisions of major corporations find that they must undertake moderate organisational changes at least once a year and major changes every four or five years.

Few organisational change efforts tend to be complete failures, but few tend to be entirely successful either. Most efforts encounter problems: they often take longer than expected and desired, they sometimes kill morale, and they often cost a great deal in terms of managerial time or emotional upheaval. More than a few organisations have not even tried to initiate needed changes because the managers involved were afraid that they were simply incapable of successfully implementing them.

1.1.2 Profile of Kenya Revenue Authority (KRA)

The Kenya Revenue Authority (KRA) was established by an Act of Parliament, Chapter 469 of the laws of Kenya, which became effective on 1st July 1995. The Authority is charged with the responsibility of collecting revenue on behalf of the Government of Kenya. A Board of Directors, consisting of both public and private sector experts, makes policy decisions to be implemented by KRA Management. The Chairman of the Board is appointed by the President of the Republic of Kenya. The Chief Executive of the Authority is the Commissioner General who is appointed by the Minister for Finance.

The purpose of KRA is to assess, collect, administer and enforce laws relating to revenue. KRA is a Government agency that runs its operations in the same way as a private enterprise. In order to offer better single-window services to taxpayers, KRA is divided into five Regions as follows: Rift Valley Region, Western Region, Southern Region, Northern Region, and Central Region. In terms of revenue collection and other support functions, the Authority is divided into the following Departments: Customs Services Department, Domestic Taxes
Department, Road Transport Department, and Support Services Department. Each Department is headed by a Commissioner. In addition to the four divisions the Authority had seven service Departments that enhance its operational efficiency. These are as follows: Investigations & Enforcement Department, Human Resources Department, Finance Department, Board Corporate Services & Administration Department, Internal Audit Department, Information & Communication Technology Department, and Research & Corporate Planning Department.

Since the inception of KRA, revenue collection has continued to grow while professionalism in revenue administration has been enhanced. However, a number of processes remain manual and KRA is yet to operate as a fully integrated organisation. Thus the KRA Second Corporate Plan while acknowledging these challenges recommended appropriate strategies to address these issues. This actuated the Revenue Administration Reform and Modernisation Programme (RARMP) which commenced in 2004/05 with the objective of transforming KRA into a modern, fully integrated and client-focused organisation. The RARMP process adopted project management and business analysis techniques in accordance with international best practice with the creation of the Programme Management and Business Analysis Office (PMBO) under the Office of the Commissioner General. This has led to the development of an institutionalized administrative framework for the RARMP making it easier to track progress in the reform initiatives and enhance project ownership and acceptance to change from both internal and external stakeholders.

1.2 Problem Statement

Times of corporate distress present special strategic management challenges. In such situations, a firm may be in bankruptcy or nearing bankruptcy. Often turnaround management consultants are brought into the company to devise and execute a plan of corporate renewal, assuming that the firm has enough potential to make it worth saving. 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. To achieve its objectives turnaround strategy must reverse causes of distress, resolve the financial crisis, achieve a rapid improvement in financial performance,
regain stakeholder support and overcome internal constraints and unfavourable industry characteristics.

This study focuses on KRA given that it is a unique organisation in the public sector. It runs on business principles taking advantage of the best of both worlds, private and public. It is semi-autonomous and was designed to be less vulnerable to political interference. It is also a rather important state body as it is charged with tax collection, taxes accounting for over 90% of total government revenue. The importance of tax revenue to any country cannot be underrated as it is used for economic development. KRA has faced teething problems largely attributable to the rigid and bureaucratic public sector management styles inherited from its parent ministry. This rigidity adversely affected the performance and image of the authority. Prior to 2002, the authority consistently failed to achieve its revenue collection targets. It is estimated that in the fiscal years 2000/2001 and 2001/2002 only 65% and 66.9% respectively of the income tax revenue was collected by KRA (KIPPRA, 2004a). This showed a failure that required turnaround strategy.

A few studies on change at KRA have been done (Mwabingu, 2002; Odundo, 2007). These studies looked at reforms in the organisation but not the implementation of turnaround strategy. Strategies on turnaround strategy in Kenya have on the other hand focused on other institutions other than KRA (Situma, 2006; Ngaruiya, 2007). Given the gap in literature and the successful implementation of the turnaround strategy in the organisation, this study seeks to fill in the gap by seeking answers to the following research questions: what turnaround strategies were used by the Kenya Revenue Authority? What factors necessitated the successful implementation of turnaround strategy at the Kenya Revenue Authority?

1.3 Objectives of the Study

This study had three objectives.

1. To identify the turnaround strategies that were used by Kenya Revenue Authority.

2. To identify the factors that enabled the Kenya Revenue Authority to successfully turnaround.

3. To identify the challenges KRA faced in implementing turnaround strategy.
1.4 Importance of the Study

This study will be invaluable to the managers in the public sector to think critically about what turnaround strategy fits their situations when indeed there is need to turnaround.

The results of this study will also be important to policy makers for public sector institutions by giving them a guide on what factors are associated with successful turnaround strategy implementation in the public sector.

This study will also act as a useful guide for researchers, academics and students as a reference material or as a basis for further research on the same area. This will go a long in adding onto the growing body knowledge of strategic management in the public sector in Kenya.

The study will also identify the challenges public sector organisations in Kenya implementing turnaround strategy are likely to face. Using recommendations of this study, they will be equipped with how well to counter the challenges experienced.
CHAPTER TWO: LITERATURE REVIEW

2.1 Turnaround Strategy

Organisational turnaround can be simply defined as the actions taken to bring about a recovery in performance in a failing Organisation (Pandit, 2000). In practice, it usually consists of a collection of concerted or co-ordinated activities which may include the replacement of key individuals in the organisation’s management and leadership, immediate attention to major operational problems seeking short-term solutions, and the longer term, but often radical, redesign or re-profiling of the organisation and its business. A turnaround situation is usually caused by some form of financial distress – reduced sales, falling market share, posting of losses quarter after quarter or decreasing share prices. Managements must be able to discern these trends as warning signals, quite different from normal business fluctuations. Loss in income must be considered the single most visible sign that a company is on the decline. Turnaround is a strategy usually employed by organisations facing the likelihood of failure or organisations that simply want to grow.

Organisational failure has been defined as an ‘existence-threatening decline’ in performance (Pandit, 2000) but that decline may be sudden or gradual, and can be precipitated by internal actions or inactions or by external circumstances and environmental factors. It rapidly becomes evident that organisational failure is a symptomatic rather than a diagnostic term. In other words it describes a situation facing an organisation but does little to help us understand how that situation was caused or came about, or what could or should happen next. Two basic theories have dominated the management literature on organisation failure. A deterministic perspective in classical industrial organisation and organisation ecology literature suggests that managers are constrained by exogenous industrial and environmental constraints and therefore their strategic choices have limited impact (Mukherji et al, 1999; Morrow et al, 2002). A more voluntaristic perspective in organisation studies and organisational psychology literature suggests that managers’ actions and perceptions are the fundamental cause of organisational failure (Mellahi & Wilkinson, 2004).

From the ecological perspective, Cameron et al, (1988) described organisational decline as a two stage phenomenon. The first stage of decline occurs when an organisation's adaptation to its domain or microniche deteriorates. The second stage occurs when the organisation's financial and human resources begin to diminish. Both stages of decline indicate that the
organisation has become less adapted to its microniche and is less successful at exchanging its outputs for new inputs. Weitzel and Jonsson (1989) characterized decline as the opposite of successful adaptation to the environment. They suggested that organisations enter the state of decline when they fail to anticipate, recognize, avoid, neutralize or adapt to external or internal pressures that threaten the organisation's long-term survival. Mukherji et al. (1999) concluded that firm must develop turnaround strategies to match the pressures of its multilayered environment in order to become competitive.

According to population ecologists, strategic decisions differ as the company evolves through the stages of the organisational life cycle (Hanks, 1990). Small firms focus on survival during the start-up phase, and their strategy is limited to making their product or service innovation successful. During the growth phase small firm owner/managers adopt competitive strategies that can require retrenchment. In the decline stage growth is negative, products are obsolete or have limited potential, and the organisation is inefficient or bureaucratic. Decline is often preceded by ineffective or short-lived attempts at revival, during which small firms focus on internal changes that can be made by reallocating limited resources (Hanks, 1990).

Most prior research in the strategic management literature has focused on turnaround strategy when firms are in decline (Pant, 1991; Pearce and Robinson, 2007). Turnaround strategies emphasize the improvement of operational efficiency through cost reductions and asset reductions (Chowdhury & Lang, 1996). The two principal types of turnaround strategies, contraction and consolidation, are used when a corporation's problems are not pervasive (Pearce and Robinson, 2007). Chowdhury & Lang (1996) considered entrepreneurial moves which typically involve growth strategies, as an alternative to retrenchment for small manufacturing firms.

Companies also choose a strategy based on the availability of resources at their disposal. Resource constraints are a limitation to growth created by the need to balance goodwill, excess capacity and organisational slack (Penrose, 1959). According to Penrose (1959) the growth of the firm is limited only in the long run by its internal management resources (Penrose, 1959). Additionally, it is partly constrained by the requirements for expansionary ventures (Mahoney & Pandian, 1992). Although new managerial recruits increase the growth potential of a firm, training new managers and their integration into the work force occupies
the time and effort of existing managers and thus temporarily reduces the managerial services available for expansion.

Resource availability has been suggested as a predictor of strategy choice (Penrose, 1959; Hitt & Ireland, 1985; and Wernerfeldt, 1984). The traditional concept of strategy suggests organisations establish competitive advantage by effectively evaluating their resources and focusing those resources on the generation of rent (Ansoff, 1965). Therefore, it is the resources of the firm that limit market choice and profit expectations (Wernerfeldt, 1989).

Turnaround, which is an organisational change effort, often runs into some form of human resistance (Kotter and Schlesinger, 2008). Although experienced managers are generally all too aware of this fact, surprisingly few take time before an organisational change to assess systematically who might resist the change initiative and for what reasons. Instead, using past experiences as guidelines, managers all too often apply a simple set of beliefs—such as “engineers will probably resist the change because they are independent and suspicious of top management.” This limited approach can create serious problems. Because of the many different ways in which individuals and groups can react to change, correct assessments are often not intuitively obvious and require careful thought.

2.2 Change Management

People who are affected by change experience some emotional turmoil (Kotter and Schlesinger, 2008). Even changes that appear to be “positive” or “rational” involve loss and uncertainty. Nevertheless, for a number of different reasons, individuals or groups can react very differently to change—from passively resisting it, to aggressively trying to undermine it, to sincerely embracing it. To predict what form their resistance might take, Kotter and Schlesinger (2008) contend that managers need to be aware of the four most common reasons why people resist change. These are a desire not to lose something of value, a misunderstanding of the change and its implications, a belief that the change does not make sense for the organisation, and a low tolerance for change.

2.2.1 Why People Resist Change

One major reason people resist organisational change is that they think they will lose something of value as a result. In these cases, because people focus on their own best interests and not on those of the total organisation. Resistance often results in “politics” or “political behaviour.” Political behaviour sometimes emerges before and during
organisational change efforts when what is in the best interests of one individual or group is not in the best interests of the total organisation or of other individuals and groups (Kotter and Schlesinger, 2008). While political behaviour sometimes takes the form of two or more armed camps publicly fighting things out, it usually is much more subtle. In many cases, it occurs completely under the surface of public dialogue. Although scheming and ruthless individuals sometimes initiate power struggles, more often than not those who do are people who view their potential loss from change as an unfair violation of their implicit, or psychological contract with the organisation (Schein, 1965).

People also resist change when they do not understand its implications and perceive that it might cost them much more than they will gain. Such situations often occur when trust is lacking between the person initiating the change and the employees (Argyris, 1970). Few organisations can be characterized as having a high level of trust between employees and managers. Consequently, it is easy for misunderstandings to develop when change is introduced. Unless managers surface misunderstandings and clarify them rapidly, they can lead to resistance. This type of resistance can easily catch change initiators by surprise, especially if they assume that people only resist change when it is not in their best interest.

Another common reason people resist organisational change is that they assess the situation differently from their managers or those initiating the change and see more costs than benefits resulting from the change, not only for themselves but for their company as well (Kotter and Schlesinger, 2008). Managers who initiate change often assume that they have all the relevant information required to conduct an adequate organisation analysis and that those who will be affected by the change have the same facts, when neither assumption is correct. In either case, the difference in information that groups work with often leads to differences in analyses, which in turn can lead to resistance. Moreover, if the analysis made by those not initiating the change is more accurate than that derived by the initiators, resistance is obviously “good” for the organisation. But this likelihood is not obvious to some managers who assume that resistance is always bad and therefore always fight it (Lawrence, 1969).

People also resist change because they fear they will not be able to develop the new skills and behaviour that will be required of them (Kotter and Schlesinger, 2008). All human beings are limited in their ability to change, with some people much more limited than others (Bennis, Benne and Chin, 1969). Organisational change can inadvertently require people to change too
much, too quickly. Drucker (1954) argued that the major obstacle to organisational growth is managers' inability to change their attitudes and behaviours as rapidly as their organisations require. Even when managers intellectually understand the need for changes in the way they operate, they sometimes are emotionally unable to make the transition. It is because of people's limited tolerance for change that individuals will sometimes resist a change even when they realize it is a good one. For example, a person who receives a significantly more important job as a result of an organisational change will probably be very happy. But it is just as possible for such a person to also feel uneasy and to resist giving up certain aspects of the current situation. A new and very different job will require new and different behaviour, new and different relationships, as well as the loss of some satisfactory current activities and relationships. If the changes are significant and the individual's tolerance for change is low, he might begin actively to resist the change for reasons even he does not consciously understand.

People also sometimes resist organisational change to save face. To go along with the change would be, they think, an admission that some of their previous decisions or beliefs were wrong (Kotter and Schlesinger, 2008). Or they might resist because of peer group pressure or because of a supervisor's attitude (ibid.). Indeed, there are probably an endless number of reasons why people resist change (as outlined in Zaltman and Duncan, 1977). Assessing which of the many possibilities might apply to those who will be affected by a change is important because it can help a manager select an appropriate way to overcome resistance. Without an accurate diagnosis of possibilities of resistance, a manager can easily get bogged down during the change process with very costly problems.

2.2.2 Dealing with Resistance to Change

Many managers underestimate not only the variety of ways people react to organisational change, but also the ways they can positively influence specific individuals and groups during a change. And, again because of past experiences, managers sometimes do not have an accurate understanding of the advantages and disadvantages of the methods with which they are familiar.

One of the most common ways to overcome resistance to change is to educate people about it beforehand (Kotter, 2008). Communication of ideas helps people see the need for and the logic of a change. The education process can involve one-on-one discussions, presentations to
groups, or memos and reports. An education and communication programme can be ideal when resistance is based on inadequate or inaccurate information and analysis, especially if the initiators need the resisters’ help in implementing the change. But some managers overlook the fact that a program of this sort requires a good relationship between initiators and resisters or that the latter may not believe what they hear. It also requires time and effort, particularly if a lot of people are involved.

If the initiators involve the potential resisters in some aspect of the design and implementation of the change, they can often forestall resistance. With a participative change effort, the initiators listen to the people the change involves and use their advice. Managers have quite strong feelings about participation—sometimes positive and sometimes negative. That is, some managers feel that there should always be participation during change efforts, while others feel this is virtually always a mistake. Both attitudes can create problems for a manager, because neither is very realistic (Kotter and Schlesinger, 2008).

When change initiators believe they do not have all the information they need to design and implement a change, or when they need the wholehearted commitment of others to do so, involving others makes very good sense. Considerable research has demonstrated that, in general, participation leads to commitment, not merely compliance (Marrow et al., 1967). In some instances, commitment is needed for the change to be a success. Nevertheless, the participation process does have its drawbacks. Not only can it lead to a poor solution if the process is not carefully managed, but also it can be enormously time consuming. When the change must be made immediately, it can take simply too long to involve others.

Another way that managers can deal with potential resistance to change is by being supportive (Kotter and Schlesinger, 2008). This process might include providing training in new skills, or giving employees time off after a demanding period, or simply listening and providing emotional support. Facilitation and support are most helpful when fear and anxiety lie at the heart of resistance. Seasoned, tough managers often overlook or ignore this kind of resistance, as well as the efficacy of facilitative ways of dealing with it. The basic drawback of this approach is that it can be time consuming and expensive and still fail (Zaltman and Duncan, 1977). If time, money, and patience just are not available, then using supportive methods is not very practical.
Another way to deal with resistance is to offer incentives to active or potential resisters (Kotter and Schlesinger, 2008). For instance, management could give a union a higher wage rate in return for a work rule change; it could increase an individual’s pension benefits in return for an early retirement. Negotiation is particularly appropriate when it is clear that someone is going to lose out as a result of a change and yet his or her power to resist is significant. Negotiated agreements can be a relatively easy way to avoid major resistance, though, like some other processes, they may become expensive. And once a manager makes it clear that he will negotiate to avoid major resistance, he opens himself up to the possibility of blackmail (Nierenberg, 1968).

In some situations, managers also resort to covert attempts to influence others. Manipulation, in this context, normally involves the very selective use of information and the conscious structuring of events (Kotter and Schlesinger, 2008). One common form of manipulation is co-optation. Co-opting an individual usually involves giving him a desirable role in the design or implementation of the change. Co-opting a group involves giving one of its leaders, or someone it respects, a key role in the design or implementation of a change. This is not a form of participation, however, because the initiators do not want the advice of the co-opted, merely his endorsement. Under certain circumstances co-optation can be a relatively inexpensive and easy way to gain an individual’s or a group’s support. Nevertheless, it has its drawbacks. If people feel they are being tricked into not resisting or are not being treated equally, or are being lied to, they may respond very negatively. More than one manager has found that, by his effort to give some subordinate a sense of participation through co-optation, he created more resistance than if he had done nothing. In addition, co-optation can create a different kind of problem if those co-opted use their ability to influence the design and implementation of changes in ways that are not in the best interests of the organisation.

Other forms of manipulation have drawbacks also, sometimes to an even greater degree. Most people are likely to greet what they perceive as covert treatment or lies with a negative response. Furthermore, if a manager develops a reputation as a manipulator, it can undermine his ability to use needed approaches such as education/communication and participation/involvement. At the extreme, it can even ruin his career. Nevertheless, people do manipulate others successfully—particularly when all other tactics are not feasible or have failed (Kotter, 1977). Having no other alternative, and not enough time to educate, involve, or support people, and without the power or other resources to negotiate, coerce, or co-opt them,
managers have resorted to manipulating information channels in order to scare people into thinking there is a crisis coming that they can avoid only by changing.

Finally, managers often deal with resistance coercively. Here they essentially force people to accept a change by explicitly or implicitly threatening them (with the loss of jobs, promotion possibilities, and so forth) or by actually firing or transferring them. As with manipulation, using coercion is a risky process because inevitably people strongly resent forced change. But in situations where speed is essential and where the changes will not be popular, regardless of how they are introduced, coercion may be the manager’s only option (Kotter and Schlesinger, 2008).

Successful organisational change efforts are always characterized by the skilful application of a number of these approaches, often in very different combinations. However, successful efforts share two characteristics: Managers employ the approaches with sensitivity to their strengths and limitations (see Table I) and appraise the situation realistically.

### Table 1: Methods for Dealing with Resistance to Change

<table>
<thead>
<tr>
<th>Approach</th>
<th>Commonly used in situation</th>
<th>Drawbacks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education +</td>
<td>Where there is lack of information or inaccurate information and analysis</td>
<td>Can be very time consuming if lots of people are involved</td>
</tr>
<tr>
<td>communication</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Participation +</td>
<td>Where the initiators do not have all the information they need to design the change, and where others have considerable power to resist</td>
<td>Can be very time consuming if participators design an inappropriate change</td>
</tr>
<tr>
<td>involvement</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Facilitation +</td>
<td>Where people are resisting because of adjustment problems</td>
<td>Can be time consuming, expensive, and still fail</td>
</tr>
<tr>
<td>support</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Negotiation +</td>
<td>Where someone or group will clearly lose out in a change, and where that group has considerable power to resist</td>
<td>Can be too expensive in many cases if it alerts others to negotiate for compliance</td>
</tr>
<tr>
<td>agreement</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manipulation +</td>
<td>Where other tactics will not work or are</td>
<td>Can lead to future problems</td>
</tr>
</tbody>
</table>

13
The most common mistake managers make is to use only one approach or a limited set of them regardless of the situation (Kotter and Schlesinger, 2008). A surprisingly large number of managers have this problem. This would include the hard-boiled boss who often coerces people, the people-oriented manager who constantly tries to involve and support his people, the cynical boss who always manipulates and co-opts others, the intellectual manager who relies heavily on education and communication, and the lawyerlike manager who usually tries to negotiate (Kotter, 1977). A second common mistake that managers make is to approach change in a disjointed and incremental way that is not a part of a clearly considered strategy (Kotter and Schlesinger, 2008).

### 2.3 Stage Theories of Failure and Turnaround

Many ‘stage’ theories or models have been proposed which describe the process of failure and turnaround as taking place in a number of phases or stages (for example Arogyaswamy et al., 1995; Balgobin and Pandit, 2001; Chowdhury, 2002; McKiernan, 2002). While the definitions and terminology used vary, they all describe the process in terms of five basic phases: decline and crisis; triggers for change; recovery strategy formulation; retrenchment and stabilization; and return to growth.

Decline and crisis is an often long and gradual period of performance decline, which may be characterized by a progressive loss of business, market position, resources, reputation and external support. Triggers for change encompass the events or circumstances which mean that the extent and seriousness of decline is eventually recognised and explicitly acknowledged by internal and external stakeholders in the organisation, which may be a particular financial, operational or leadership crisis.

Recovery strategy formulation involves the production of a plan to deal with the organisational failure which explicitly acknowledges the scale and nature of the problems and sets out strategies or methods for dealing with them. Retrenchment and stabilization refers to...
the shorter term actions aimed at turnaround which are often concerned with dealing with operational management problems, sorting out the finances, preventing any further decline or deterioration, and securing ‘quick wins’ in performance which will aid survival. Finally, return to growth involves the longer term and ongoing actions aimed at turnaround which tend to be concerned with setting out the new vision for the purpose and objectives of the organisation, establishing a longer-term strategy for investment and development, and securing its long-term success.

Stage theories are useful normatively because they help one to conceptualize the linked processes of failure and turnaround and to map, or track, the progress of organisations through them. However, they may encourage one to be ‘over sequential’ in thinking about how failure and turnaround work (Arogyaswamy et al., 1995). In practice, organisations do not necessarily progress through all the stages in the same order, can move backwards as well as forwards, and may get grounded or stuck in one part of the process. Stage theories implicitly suggest that turnarounds are successful and that the natural end point of the process is a final stage of return to growth, but there is empirical evidence that organisational failure can be a long term or even permanent state for some organisations (Meyer and Zucker, 1989; Meyer, 1999).

2.4 Turnaround Strategies in the Public Sector

There are three strategies that organisations in the public sector usually employ in the quest to turn around their dwindling performance: retrenchment, repositioning, and reorganisation. These have come to be commonly referred to as 3Rs’ model of turnaround (Boyne, 2004).

2.4.1 Retrenchment

This strategic response to organisational failure consists of reductions in the scope or size of an organisation. In the private sector, the emphasis is on making cuts in parts of the business that are unproductive and unprofitable. This in turn can release resources for investment in areas that seem likely to deliver higher performance. Retrenchment can include exit from markets where the firm is performing poorly, or contraction of activities in a market by selling assets or reducing the scale of operations, thereby increasing efficiency. The latter strategy was most clearly expressed in the ‘downsizing’ pursued by many corporations in the 1980s and 1990s (Barker et al., 1998). More recently, after a sudden collapse in profits, Marks and Spencer pursued a policy of retrenchment by withdrawing from overseas markets.
selling subsidiaries and closing some of their retail outlets (Bevan, 2002; Mellahi et al., 2002).

The impact of retrenchment on recovery has been analysed in thirteen empirical studies of organisational turnaround in the private sector. Seven of these studies find that divestment of assets and/or reductions in costs are associated with significant improvements in the performance of failing firms. For example, O’Neill’s (1986a) analysis of the U.S. banking industry shows that reversal of financial decline is more likely if overheads and operating expenses are reduced. Similarly, Chowdhury and Lang (1996) find that turnaround in a sample of 153 firms in 4 U.S. industries was assisted by the disposal of assets. Similar conclusions on the positive impact of retrenchment are drawn by Barr et al. (1992), Robbins and Pearce (1992), Pearce and Robbins (1994), Stopford and Baden-Fuller (1990) and Thietart (1988).

An important note of caution here is that other studies have failed to establish any positive link between retrenchment and recovery (Chowdhury and Lang, 1994; O’Neill, 1986b; Sudarsanam and Lai, 2001). A potential explanation for discrepancies between the results of different studies is that some investigate retrenchment as an isolated strategy, whereas others view it as the first stage in a process of turnaround (Arogyaswamy et al., 1995). In other words, retrenchment may be interpreted as a sufficient or as only a necessary condition for recovery. As yet, the empirical evidence does not discriminate clearly between these potential effects of reductions in organisational scope and size. In any event, none of the private sector studies has found that retrenchment has a negative impact on the performance of failing companies. Thus the balance of the evidence suggests that this strategy is significantly more likely to help than to hinder turnaround efforts.

2.4.2 Repositioning

Whereas retrenchment can be viewed as an ‘efficiency’ strategy, repositioning is an ‘entrepreneurial’ strategy that emphasises growth and innovation (Schendel and Paton, 1976). This response to failure involves a new definition of the core activities of an organisation, by becoming more dominant in an existing market or by diversifying into new markets and products. A strategy of repositioning through product innovation has recently been successfully pursued by Marks and Spencer. In the 1990s it lost market share in clothing to new high street rivals that appealed to young shoppers (Bevan, 2002; Mellahi et al., 2002).
The response was to introduce the ‘per una’ range of women’s clothing and ‘blue harbour’ range of menswear, which repositioned the company by targeting a younger group of customers.

The impact of repositioning on turnaround in the private sector has been investigated in eleven empirical studies. Only two of these find that this strategy makes no difference to the prospects for financial recovery (Pant, 1991; Sudarsana and Lui, 2001). Of the remaining nine studies, seven conclude that repositioning has a positive impact on firm performance. For example, Pearce and Robbins (1994) conclude that their sample of 32 U.S. firms were “more successful in their turnaround efforts when they emphasised entrepreneurial activities in the recovery response”, and Barker et al. (1998) find that growth in sales is associated with improvements in efficiency.

Similar results on the effects of repositioning are obtained by Barr et al. (1992), Harker and Sharma (1999), Thietart (1998) and Stopford and Baden-Fuller (1990). By contrast, two studies find that this strategy has a negative impact on recovery (O’Neill, 1986b; Schendell and Paton, 1976). Nevertheless, the general pattern of the empirical evidence is consistent with the view that repositioning is more likely to lead to turnaround than to stagnation or further decline.

2.4.3 Reorganisation

This term applies broadly to any change in the internal management of an organisation. The purpose may be to support strategies of retrenchment or repositioning, or simply to improve the implementation of the current strategy without any alteration in the size or market position of a company. Reorganisation may involve changes in planning systems, extent of decentralization, styles of human resource management or organisational culture. However, the form of reorganisation that is cited most frequently in the literature on private sector turnaround is the replacement of the chief executive or the entire senior management team. It has been widely argued that this is a necessary condition for the reversal of company decline (Mueller and Barker, 1997). After all, if the senior managers had been working effectively then a performance crisis would not have occurred in the first place.

Furthermore, the appointment of new top managers can be an important signal that a failing organisation is serious about recovery. The experience of Marks and Spencer again provides a useful illustration of the adoption of this strategy: retrenchment and repositioning were
combined with a new chair of the board and chief executive, and widespread replacement of long serving senior managers (Bevan, 2002; Mellahi et al., 2002).

Eight empirical studies have examined the impact of reorganisation on turnaround in the private sector. Some of these studies find that this strategy leads to the reversal of organisational decline. For example, O’Neill (1986b) finds that recovery is more likely if firms replace their chief executive and senior management team and strengthen their planning system; and Mueller and Barker (1997) find that the extent of change in the top management team is associated with recovery, although the full effect takes several years to emerge. Similar conclusions on the positive impact of reorganisation are drawn by Harker and Sharma (1999), Pearce and Robbins (1994), Stopford and Baden-Fuller (1990) and Thietart (1988). The remaining two studies of reorganisation find either that it makes no difference (Sudarsanam and Lai, 2001), or that it has a negative effect on turnaround (Barr et al. 1992). It should be noted that the latter study is based on only two firms, so may be unrepresentative of the wider picture concerning the beneficial consequences of this approach to organisational turnaround.

2.5 Factors Affecting Implementation of Turnaround Strategies

A few of corporate change efforts have been very successful. A few have been utter failures. Most fall somewhere in between, with a distinct tilt toward the lower end of the scale. The most general lesson to be learned from the more successful cases is that the change process goes through a series of phases that, in total, usually require a considerable length of time. Skipping steps creates only the illusion of speed and never produces a satisfying result. A second very general lesson is that critical mistakes in any of the phases can have a devastating impact, slowing momentum and negating hard-won gains.

Kotter (2007) asserts that Leaders who successfully transform businesses do eight things right (and they do them in the right order). The discussion in this section borrows heavily from the eight steps to successful transformation of organisation proposed by Kotter (2007). The eight critical success factors range from establishing a sense of extraordinary urgency, to creating short-term wins, to changing the culture (“the way we do things around here”).
2.5.1 Establishing a Great Sense of Urgency

Most successful change efforts begin when some individuals or some groups start to look hard at a company's competitive situation, market position, technological trends and financial performance. They focus on the potential revenue drop when an important patent expires, the five-year trend in declining margins in a core business, or an emerging market that everyone seems to be ignoring. They then find ways to communicate this information broadly and dramatically, especially with respect to crises, potential crises, or great opportunities that are very timely. This first step is essential because just getting a transformation programme started requires the aggressive cooperation of many individuals. Without motivation, people will not help, and the effort goes nowhere.

Compared with other steps in the change process, phase one can sound easy but over 50% of the companies fail in this first phase (Kotter, 2007). The reasons for such failure include the fact that sometimes executives underestimate how hard it can be to drive people out of their comfort zones. Sometimes they grossly overestimate how successful they have already been in increasing urgency. Sometimes they lack patience. In many cases, executives become paralyzed by the downside possibilities. They worry that employees with seniority will become defensive, that morale will drop, that events will spin out of control, that short-term business results will be jeopardized, that the stock will sink, and that they will be blamed for creating a crisis.

A paralyzed senior management often comes from having too many managers and not enough leaders (Kotter, 2007). Management's mandate is to minimise risk and to keep the current system operating. Change, by definition, requires creating a new system, which in turn always demands leadership. Phase one in a renewal process typically goes nowhere until enough real leaders are promoted or hired into senior-level jobs. Transformations often begin, and begin well, when an Organisation has a new head who is a good leader and who sees the need for a major change. If the renewal target is the entire company, the CEO is key. If change is needed in a division, the division general manager is key. When these individuals are not new leaders, great leaders, or change champions, phase one can be a huge challenge. Bad business results are both a blessing and a curse in the first phase. On the positive side, losing money does catch people's attention, but it also gives less manoeuvering room. With good business results, the opposite is true: convincing people of the need for change is much harder, but you have more resources to help make changes.
2.5.2 Forming a Powerful Guiding Coalition

Major renewal programs often start with just one or two people. In cases of successful transformation efforts, the leadership coalition grows and grows over time. But whenever some minimum mass is not achieved early in the effort, nothing much worthwhile happens (Kotter, 2007). It is often said that major change is impossible unless the head of the organisation is an active supporter. In successful transformations, the chairman or president or division general manager, plus another five or 15 or 50 people, come together and develop a shared commitment to excellent performance through renewal. Experience shows that this group never includes all of the company’s most senior executives because some people just will not buy in, at least not at first. But in the most successful cases, the coalition is always pretty powerful—in terms of titles, information and expertise, reputations, and relationships.

In both small and large organisations, a successful guiding team may consist of only three to five people during the first year of a renewal effort. But in big companies, the coalition needs to grow to the 20 to 50 range before much progress can be made in phase three and beyond. Senior managers always form the core of the group. But sometimes you find board members, a representative from a key customer or even a powerful union leader. Because the guiding coalition includes members who are not part of senior management, it tends to operate outside of the normal hierarchy by definition. If the existing hierarchy were working well, there would be no need for a major transformation. But since the current system is not working, reform generally demands activity outside of formal boundaries, expectations, and protocol (Kotter, 2007). A high sense of urgency within the managerial ranks helps enormously in putting a guiding coalition together. But more is usually required. Someone needs to get these people together, help them develop a shared assessment of their company’s problems and opportunities, and create a minimum level of trust and communication. Off-site retreats, for two or three days, are one popular vehicle for accomplishing this task.

Companies that fail in phase two usually underestimate the difficulties of producing change and thus the importance of a powerful guiding coalition (Kotter, 2007). Sometimes they have no history of teamwork at the top and therefore undervalue the importance of this type of coalition. Sometimes they expect the team to be led by a staff executive from human resources, quality, or strategic planning instead of a key line manager. No matter how capable or dedicated the staff head, groups without strong line leadership never achieve the power that is required (Kotter, 2007). Efforts that don’t have a powerful enough guiding coalition
can make apparent progress for a while. But, sooner or later, the opposition gathers itself together and stops the change.

2.5.3 Creating a Vision

In every successful transformation, the guiding coalition develops a picture of the future that is relatively easy to communicate and appeals to customers, stockholders and employees. A vision always goes beyond the numbers that are typically found in five-year plans. A vision says something that helps clarify the direction in which an organisation needs to move. Sometimes the first draft comes mostly from a single individual. It is usually a bit blurry, at least initially. But after the coalition works at it for three or five or even 12 months, something much better emerges through their tough analytical thinking and a little dreaming. Eventually, a strategy for achieving that vision is also developed (Kotter, 2007).

Without a sensible vision, a transformation effort can easily dissolve into a list of confusing and incompatible projects that can take the organisation in the wrong direction or nowhere at all (Kotter, 2007). In failed transformations, you often find plenty of plans, directives and programmes but no vision. In a few of the less successful cases, management have a sense of direction, but it too complicated or blurry to be useful (Kotter, 2007). Kotter (2007) further offers a useful rule of thumb: If you cannot communicate the vision to someone in five minutes or less and get a reaction that signifies both understanding and interest, you are not yet done with this phase of the transformation process.

2.5.4 Communicating the Vision

There are three common patterns of communication usually observed in organisations that fail to successfully transform (Kotter, 2007). In the first, a group actually does develop a pretty good transformation vision and then proceeds to communicate it by holding a single meeting or sending out a single communication. In the second pattern, the head of the organisation spends a considerable amount of time making speeches to employee groups, but most people still do not get it. In the third pattern, much more effort goes into newsletters and speeches, but some very visible senior executives still behave in ways that are antithetical to the vision. The net result is that cynicism among the troops goes up, while belief in the communication goes down. Transformation is impossible unless hundreds or thousands of people are willing to help, often to the point of making short-term sacrifices. Employees will not make sacrifices, even if they are unhappy with the status quo, unless they believe that
useful change is possible. Without credible communication, and a lot of it, the hearts and minds of the troops are never captured.

This fourth phase is particularly challenging if the short-term sacrifices include job losses (Kotter, 2007). Gaining understanding and support is tough when downsizing is a part of the vision. For this reason, successful visions usually include new growth possibilities and the commitment to treat fairly anyone who is laid off. Executives who communicate well incorporate messages into their hour-by-hour activities. In a routine discussion about a business problem, they talk about how proposed solutions fit (or don’t fit) into the bigger picture. In a regular performance appraisal, they talk about how the employee’s behavior helps or undermines the vision. In a review of a division’s quarterly performance, they talk not only about the numbers but also about how the division’s executives are contributing to the transformation. In a routine Q&A with employees at a company facility, they tie their answers back to renewal goals.

In more successful transformation efforts, executives use all existing communication channels to broadcast the vision. They turn boring, unread company newsletters into lively articles about the vision. They take ritualistic, tedious quarterly management meetings and turn them into exciting discussions of the transformation. They throw out much of the company’s generic management education and replace it with courses that focus on business problems and the new vision. The guiding principle is simple: Use every possible channel, especially those that are being wasted on nonessential information (Kotter, 2007). Communication comes in both words and deeds, and the latter are often the most powerful form. Nothing undermines change more than behaviour by important individuals that is inconsistent with their words.

2.5.5 Empowering Others to Act on the Vision

Successful transformations begin to involve large numbers of people as the process progresses (Kotter, 2007). Employees are emboldened to try new approaches, to develop new ideas, and to provide leadership. The only constraint is that the actions fit within the broad parameters of the overall vision. The more people involved, the better the outcome. To some degree, a guiding coalition empowers others to take action simply by successfully communicating the new direction. However, communication is never sufficient by itself. Renewal also requires the removal of obstacles. Too often, an employee understands the new
vision and wants to help make it happen, but an elephant appears to be blocking the path. In some cases, the elephant is in the person’s head, and the challenge is to convince the individual that no external obstacle exists. But in most cases, the blockers are very real.

Sometimes the obstacle is the organisational structure (Kotter, 2007): Narrow job categories can seriously undermine efforts to increase productivity or make it very difficult even to think about customers. Sometimes compensation or performance-appraisal systems make people choose between the new vision and their own self-interest. Perhaps worst of all are bosses who refuse to change and who make demands that are inconsistent with the overall effort. In the first half of a transformation, no organisation has the momentum, power, or time to get rid of all obstacles. But the big ones must be confronted and removed. If the blocker is a person, it is important that he or she be treated fairly and in a way that is consistent with the new vision. Action is essential, both to empower others and to maintain the credibility of the change effort as a whole.

2.5.6 Planning for Creating Short-Term Wins

Real transformation takes time, and a renewal effort risks losing momentum if there are no short-term goals to meet and celebrate (Kotter, 2007). Most people will not go on the long march unless they see compelling evidence in twelve to twenty four months that the journey is producing expected results. Without short-term wins, too many people give up or actively join the ranks of those people who have been resisting change.

Creating short-term wins is different from hoping for short-term wins. The latter is passive, the former active. In a successful transformation, managers actively look for ways to obtain clear performance improvements, establish goals in the yearly planning system, achieve the objectives, and reward the people involved with recognition, promotions, and even money (Kotter, 2007).

Managers often complain about being forced to produce short-term wins, but pressure can be a useful element in a change effort (Kotter, 2007). When it becomes clear to people that major change will take a long time, urgency levels can drop. Commitments to produce short-term wins help keep the urgency level up and force detailed analytical thinking that can clarify or revise visions.
2.5.7 Consolidating Improvements and Producing Still More Change

After a few years of hard work, managers may be tempted to declare victory with the first clear performance improvement. While celebrating a win is fine, declaring the war won can be catastrophic. Until changes sink deeply into a company’s culture, a process that can take five to ten years, new approaches are fragile and subject to regression. Typically, the problems start early in the process: the urgency level is not intense enough, the guiding coalition is not powerful enough and the vision is not clear enough. But it is the premature victory celebration that kills momentum. And then the powerful forces associated with tradition take over (Kotter, 2007).

Ironically, it is often a combination of change initiators and change resistors that creates the premature victory celebration (Kotter, 2007). In their enthusiasm over a clear sign of progress, the initiators go overboard. They are then joined by resistors, who are quick to spot any opportunity to stop change. After the celebration is over, the resistors point to the victory as a sign that the war has been won and the troops should be sent home. Weary troops allow themselves to be convinced that they won. Once home, the foot soldiers are reluctant to climb back on the ships. Soon thereafter, change comes to a halt and tradition creeps back in.

Instead of declaring victory, leaders of successful efforts use the credibility afforded by short-term wins to tackle even bigger problems. They go after systems and structures that are not consistent with the transformation vision and have not been confronted before. They pay great attention to who is promoted, who is hired, and how people are developed. They include new reengineering projects that are even bigger in scope than the initial ones. They understand that renewal efforts take not months but years.

2.5.8 Institutionalizing New Approaches

In the final analysis, change sticks when it becomes “the way we do things around here,” when it seeps into the bloodstream of the corporate body. Until new behaviours are rooted in social norms and shared values, they are subject to degradation as soon as the pressure for change is removed. Two factors are particularly important in institutionalizing change in corporate culture. The first is a conscious attempt to show people how the new approaches, behaviours, and attitudes have helped improve performance (Kotter, 2007). When people are left on their own to make the connections, they sometimes create very inaccurate links.
The second factor is taking sufficient time to make sure that the next generation of top management really does personify the new approach (Kotter, 2007). If the requirements for promotion do not change, renewal rarely lasts. One bad succession decision at the top of an organisation can undermine a decade of hard work. Poor succession decisions are possible when boards of directors are not an integral part of the renewal effort.

According to Kotter and Schlesinger (2008), a manager can improve his chance of success in an organisational change effort by performing four pertinent duties. They need to conduct an organisational analysis that identifies the current situation, problems, and the forces that are possible causes of those problems. The analysis should specify the actual importance of the problems, the speed with which the problems must be addressed if additional problems are to be avoided, and the kinds of changes that are generally needed. Secondly, they need to conduct an analysis of factors relevant to producing the needed changes. This analysis should focus on questions of who might resist the change, why, and how much; who has information that is needed to design the change, and whose cooperation is essential in implementing it; and what is the position of the initiator vis-à-vis other relevant parties in terms of power, trust, normal modes of interaction, and so forth. Thirdly, managers need to select a change strategy, based on the previous analysis, that specifies the speed of change, the amount of preplanning, and the degree of involvement of others; that selects specific tactics for use with various individuals and groups; and that is internally consistent. Lastly, managers should monitor the implementation process. No matter how good a job one does of initially selecting a change strategy and tactics, something unexpected will eventually occur during implementation. Only by carefully monitoring the process can one identify the unexpected in a timely fashion and react to it intelligently.
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

A research design is the general plan of how one goes about answering the research questions (Saunders et al., 2007). There are several research designs ranging from exploratory studies, descriptive studies, explanatory studies. Within each of these designs are strategies that can be applied such as experiment, survey and case study. This research problem was studied through the use of a case study design.

Case study is commonly used when the study involves a single organisation with unique characteristics. The primary purpose of a case study is to determine factors and relationships among the factors that have resulted in the behaviour under study (Mugenda and Mugenda, 2003). The investigation makes a detailed examination of a single subject, group or phenomenon. Therefore, the case study was deemed the best strategy to fulfil the objectives of this study.

3.2 Data Collection

In this study, emphasis was given to primary data. The primary data was collected using an interview guide. The interview guide was structured into three sections named Section A, Section B, and Section C. Section A of the interview guide sought responses to the turnaround strategy that was used in KRA. Section B delved into the real factors that necessitated successful implementation of turnaround strategy at KRA. Section C sought responses to the challenges the organisation faced in implementing turnaround strategy.

The respondents were the commissioners in various departments as well as six selected employees from the Programmes Management and Business Analysis Office (PMBO).

3.3 Data Analysis

Data collected was mainly qualitative. Therefore content analysis was the best method of analysis as it does not limit the respondents on answers and has the potential of generating more detailed information. Findings were summarized into a report based on the objectives of the study. Thus, the report was structured in terms of the turnaround strategies used, factors that influenced success of turnaround strategies and the challenges the management faced in implementing the strategy.
CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

4.1 Introduction

This chapter presents the findings of the study. The commissioners in various departments and the selected employees were interviewed on different dates and the results of the interviews are analysed and presented below. The chapter is organised as follows. First is the presentation on the turnaround strategies that KRA has adopted. The second section deals with the factors that were critical in the success of turnaround strategy implemented by KRA. Thirdly, a presentation on the challenges of implementing turnaround strategies follows.

4.2 Turnaround Strategies Used by KRA

The respondents were asked what measures KRA put in place to turnaround. From the responses given by majority of the commissioners, the study found that new management team with the right skills was hired. This including having a new Chief Executive Officer (CEO) with the right qualifications, skills and experience. This was done in order to send the right message to all employees that change was indeed coming. KRA also hired consultants to help with the change process. Frequent meetings were also arranged between the management and the employees to explain to them the changes that were to occur. This was in order to prepare them for the changes. The institution also initiated a process to getting ISO certification, which meant that radical measures were to be taken in order to achieve the intended goals.

In order to turnaround the operations of KRA, a retrenchment of employees was done. The nature of retrenchment was that the old employees were replaced with fresh graduates. This was done to help transform the image of KRA. Since modern technology was being introduced, it was deemed appropriate that fresh graduates would be better placed to embrace the technology than training of the old guards. The older employees were offered early retirement. The idea was not to reduce the number of staff, the usual retrenchment process, but to have a staff that will not require much training for the new technology that was to come. In fact, a larger number of staff than before was hired.

It was also established that before the turnaround process at KRA began, there was no mission and vision statement. The institution was operating without the mission or vision. So,
a mission and vision statement was put in place in order to give direction to what the institution was set to achieve.

On whether any restructuring of the organisation took place, the study found that the authority decentralised its operations. This was done by dividing the country into regions so that services could be more accessible. Each region was made semi-autonomous. Some of the departments were merged as new ones were created to enhance efficiency. For instance, VAT and Income Tax departments were merged to form the department of domestic taxes. On the other hand, support services department was created as a new department. Another form of restructuring was the rationalisation of processes and procedures to make them less tedious. KRA suffered from red-tape bureaucracy inherited from its parent ministries in the civil service. This was done to streamline the processes and eliminate bottlenecks.

4.3 Success Factors for Turnaround Strategy in the Public Sector

The respondents were asked to state what contributed to the success of turnaround strategy in KRA. According to the commissioners interviewed, there was total commitment of management and the entire staff to effect the changes that were taking place. The entire staff was willing to support the change and the management set for them attainable targets which motivated them.

The authority also had a well laid out plan for the process of change during the turnaround strategy. A clear strategy of achieving voluntary compliance through the excellent tax payer service, and the twin approaches of harnessing technology and people competencies was formulated and communicated across the authority so as to rally the efforts of all staff members towards the attainment of common goals.

A balance scorecard approach was adopted to set corporate goals that focused on cost effectiveness of tax administration, customer service and compliance, operational efficiency and staff competence and satisfaction. Corporate goals were cascaded into work plans and targets.

The Government was also in support of the change process taking place at KRA hence the success of the entire process.

Another issue was the introduction of Information Technology which simplified most of the operations of the authority. There was the implementation of an enterprise-wide IT strategy
for KRA which promoted the integration of Domestic Tax administration, Customs and Road Transport Departments. This enabled a single view of taxpayers across all KRA functions, ensuring efficient and effective revenue collection and the attainment of operational excellence. The IT system also enabled the provision of seamless sharing of information across KRA and interconnectivity with external systems of stakeholders to enable integrated e-processing of tax returns and enforcement. KRA introduced improved management information systems needed to increase efficiency. The new systems introduced include; cargo scanning, the Integrated Tax Management system (ITMS), the Simba system and the Electronic Cargo Tracking System (ECTS).

The recruitment of young, well qualified staff as well as the change of top management was attributed to the success of turnaround process in the authority.

In order to prepare the staff to implement the turnaround in the authority, the study found that communication became a top priority. A feedback system was introduced where information would flow in both directions. Change management seminars were also held to prepare the staff for the imminent changes. The authority hired consultants to handle the seminars which were carried out on site at the authority’s headquarters for the majority of the staff, and off site for top management. The consultants held interactive presentations with the staff. Discussions were about how change is, and should be implemented in organisations. Topics covered in seminars included: why change is initiated, why people resist change, denial and the myths of change management. Everyone interviewed was of the opinion that the seminars were successful because they enabled employees to feel part of the process and therefore less threatened by the imminent change. The seminars were crafted in such a way to allow the employees to decide for themselves that change was worthwhile.

The staff was also continuously trained to equip them with the necessary skills to manage the processes introduced.

Some elements of motivational measures were also introduced in order to enable the authority achieve its overall goal, which is to collect enough revenues to help the economy sustain itself. One of the features of motivational measures was the improvement of staff terms of service. The involvement of staff in the discussions also motivated them to work towards achieving the overall goals of the organisation. Salaries were also looked into and
rationalised as a motivational measure. New equipment and furniture bought for all the departments also motivated the employees.

The commissioners were unanimous on the fact that the level of financing allocated to all the departments was sufficient enough to carry out the turnaround strategy. This was seen in a lot of government support that saw vast financial resources being channelled to the authority in order to carry out the intended reforms. The financial support was not limitless though but it was done in phases throughout the strategy implementation process. This financial support enabled the authority to implement several initiatives within scheduled time. The financial support was further increased when the authority began to collect enough revenue from the tax payers.

The management at KRA was also touted as having influenced the success of turnaround strategy. The study found that they provided clear guidance on what was expected. They also showed their total commitment to the overall course of the authority. The management was a qualified one in terms of academic qualifications, skills and experience. This enabled them to have a positive influence on the whole strategy implementation process. The management's open door policy was also a significant influence on the process. The policy ensured that the work environment was favourable for all staff members to contribute to the main course in terms of ideas as well as their physical input.

On the contribution of organisation structure to the success of turnaround strategy, the study found that the change of structure had a positive influence on strategy success. The organisation structure was relatively flattened so as to increase the communication lines and help speed up the flow of information. The information could therefore be easily disseminated to the relevant intended staff. This also led to the empowerment of employees to make decisions. With the mergers of some of the departments, synergy was attained and all the departments began working as a team. The new structure also made the procedures clear and also led to clear guidelines as the employees knew where to report to and what information to find from what place. This sense of direction led to more efficiency and hence the success of the strategy.

The empowerment of employees was apparent. Training sessions were provided to empower the employees with the right knowledge and skills necessary to effectively ands efficiently carry out their work. It was also clear from the discussion with the commissioners that the
employees were all made to feel important in the bigger picture. Every little contribution from the employees was appreciated and recognized. KRA adopted multiple channels for employees to contribute to the achievement of the organisation’s objectives and goals. These included cross-functional teams and quality circles. This motivated them to help achieve the overall objectives of KRA. The employees were encouraged to give feedback on issues and how best to resolve them. Performance contracts were also introduced to help employees be aware of what targets they were to meet.

4.4 Challenges of Implementing Turnaround Strategy

There are various challenges that were experienced during the implementation of turnaround strategy. One of the challenges was resistance from stakeholders to the reform initiatives. For instance, the clearing agents took the authority to court to stop the implementation of the ‘Simba System’. This system is an electronic declaration system incorporating direct trader input, thereby allowing traders to lodge information directly with customs. It incorporated data imaging such that data is captured once at source thus ensuring the reliability and efficiency of data collection. This went a long way in sealing the loopholes that allowed corruption and made clearing agents specifically have to comply and make correct declarations. They were quite averse to this. There were also some implementation hiccups during the implementation of ‘simba system’. These were mostly programming hitches that had the system allow the clearance of goods from the port without payment of taxes. This had the revenue authority lose millions of shillings in taxes.

Another form of resistance also came from within the authority as there were some staff members that were opposed to the proposed changes. For instance, some staff were resistant to the merger of some departments citing their varied cultures. For example, when the two departments of Income Tax and VAT were merged. These two were vastly different, the former comprising of mostly older, less educated employees and the later comprising of younger, more qualified staff (mostly due to the fact that VAT was a newer tax). Staff from the VAT department were accustomed to a more “laissez-faire” attitude in the workplace unlike their counterparts in the Income Tax department. Others were resistant to the introduction of IT in the institution to replace the manual processes because this meant a sealing of all the loopholes that allowed corruption to thrive. Some of the staff layoffs were also taken to be political.
These challenges were resolved in various ways. One major way of resolving these challenges was training of both staff and stakeholders. This enabled them understand what changes were to take place and what was expected of them. Taxpayer education was also carried out to sensitise them on the new reforms. The problems that were experienced in the samba system were also ironed out.

The employees that continued resisting were given the choice to decide whether to tow the line or leave. For the retrenches, good packages were offered to them so as to help start a new life.

The authority also partnered with other organisations such as Uganda Revenue Authority (URA), Tanzania Revenue Authority (TRA) and the US government to help with the ideas during the reform process.
CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of Findings

5.1.1 Turnaround Strategies Used at KRA
The study found that new management team with the right skills was hired. This was done in order to send the right message to all employees that change was indeed coming. KRA also hired consultants to help with the change process. Frequent meetings were also arranged between the management and the employees to prepare them for the changes.

The nature of retrenchment was that the old employees were replaced with fresh graduates. Since modern technology was being introduced, it was deemed appropriate that fresh graduates would be better placed to embrace the technology than training of the old guards. The idea was not to reduce the number of staff, the usual retrenchment process, but to have a staff that will not require much training for the new technology that was to come. It was also established that a mission and vision statement was put in place in order to give direction to what the institution was set to achieve.

The study found that the authority decentralised its operations. This was done by dividing the country into regions so that services could be more accessible. Each region was made semi-autonomous. Some of the departments were merged as new ones were created to enhance efficiency. For instance, VAT and Income Tax departments were merged to form the department of Domestic Taxes.

This study thus found that all the three elements of turnaround strategy were manifest in KRA. Repositioning was done through formulated mission and vision statement for the authority. Restructuring was also done through decentralisation and regionalisation as some departments were merged as semi-autonomous regional offices were created to decentralise the operations and to take the services closer to the people. The young generation replaced the old guards with the retrenches being given good packages for their early retirement.

5.1.2 Factors that Influenced Success of Turnaround Strategy
There was total commitment of management and the entire staff to effect the changes that were taking place. The entire staff was willing to support the change and the management set for them attainable targets which motivated them. The authority also had a well laid out plan
for the process of change during the turnaround strategy. The Government was also in support of the change process taking place at KRA hence the success of the entire process.

Another issue was the introduction of Information Technology which simplified most of the operations of the authority. The recruitment of young, well qualified staff as well as the change of top management was attributed to the success of turnaround process in the authority.

In order to prepare the staff to implement the turnaround in the authority, a feedback system was introduced where information would flow in both directions. Change management seminars were also held to prepare the staff for the eminent changes. One of the features of motivational measures was the improvement of staff terms of service. The involvement of staff in the discussions also motivated them to work towards achieving the overall goals of the organisation. Salaries were also looked into and rationalised as a motivational measure. New equipment and furniture bought for all the departments also motivated the employees.

The level of financing allocated to all the departments was sufficient enough to carry out the turnaround strategy. The financial support was not limitless though but it was done in phases throughout the strategy implementation process. This financial support enabled the authority to implement several initiatives within scheduled time. The financial support was further increased when the authority began to collect enough revenue from the tax payers.

The management at KRA was also touted as having influenced the success of turnaround strategy. They provided clear guidance on what was expected. They also showed their total commitment to the overall course of the authority. The management’s open door policy ensured that the work environment was favourable for all staff members to contribute to the main course in terms of ideas as well as their physical input.

The organisation structure was relatively flattened so as to increase the communication lines and help speed up the flow of information. The information could therefore be easily disseminated to the relevant intended staff. With the mergers of some of the departments, synergy was attained and all the departments began working as a team. The new structure also made the procedures clear and also led to clear guidelines as the employees knew where to report to and what information to find from what place.
Training sessions were provided to empower the employees with the right knowledge and skills necessary to effectively and efficiently carry out their work. The employees were all made to feel important in the bigger picture. This motivated them to help achieve the overall objectives of KRA. The employees were encouraged to give feedback on issues and how best to resolve them.

5.1.3 Challenges of Implementing Turnaround Strategy
One of the challenges was resistance from stakeholders to the reform initiatives. Clearing agents took the authority to court to stop the implementation of the 'Simba System'. There were also some implementation hiccups during the implementation of 'Simba system'. Another form of resistance also came from within the authority as there were some staff members that were opposed to the proposed changes. Others were resistant to the introduction of IT in the institution to replace the manual processes. Some of the staff layoffs were also taken to be political.

One major way of resolving these challenges was training of both staff and stakeholders. This enabled them understand what changes were to take place and what was expected of them. Taxpayer education was also carried out to sensitize them on the new reforms. The problems that were experienced in the samba system were also ironed out. For the retrenches, good packages were offered to them so as to help start a new life. The authority also partnered with other organisations such as Uganda Revenue Authority (URA), Tanzania Revenue Authority (TRA) and the US government to help with the ideas during the reform process.

5.2 Conclusions
The study sought to identify the turnaround strategies that were used by Kenya Revenue Authority. It is concluded that the turnaround strategies that all the three elements of turnaround strategy were manifest in KRA. Repositioning was done in terms of formulated mission and vision statement for the authority. Restructuring was also done through decentralisation and regionalisation. This is where some departments were merged as semi-autonomous regional offices were created to decentralise the operations and take the services closer to the people. Some elements of retrenchment was also seen as the young generation replaced the old guards with the retrenches being given good packages for their early retirement.
The study also sought to identify the factors that enabled the Kenya Revenue Authority to successfully turnaround. One of the success factors was the hiring of new management team which sent the right message that change was imminent. Another factor was that the commitment from both the management team and the staff to implement the changes. Government support in terms of financial resources was also a major boost to the strategy implementation process. The motivational measures put in place also contributed to the success of turnaround strategy. The flattening of organisation structure also contributed to the success of the strategy. Another factor was the empowerment of the staff through training.

The third objective was to identify the challenges KRA faced in implementing turnaround strategy. One of the challenges was resistance from stakeholders to the reform initiatives. This was overcome by use stakeholder education. Another challenge was implementation hiccups during the implementation of ‘simba system’. This was overcome by ironing out the issues that were impeding implementation of the system.

5.3 Recommendations

The study recommends that the managers in the public sector to think critically about what turnaround strategy fits their situations when indeed there is need to turnaround. They may choose to reposition, retrench or restructure or use all these elements during their turnaround process. But care must be taken on the implications of some of these strategies.

The study also recommends that policy makers for public sector institutions take cognizance of the factors that influence turnaround strategy implementation in the public sector. Factors such as resources in terms of human and finance are critical in strategy implementation. The structure of the organisation also needs to be given weight when designing turnaround in the public sector.

The study also recommends that the public sector organisations be aware of the challenges they are likely to face when implementing turnaround strategy. Overcoming the challenges faced during the process will go long way in ensuring the success of the strategy selected.
5.4 Suggestions for Further Research

This study was designed as a case study of KRA. Future studies need to focus on other public institutions, either as case studies or as surveys, to establish whether the success story told of KRA has been replicated in other public institutions in Kenya. Further, a review of turnaround strategy in public organisations can be done but from the perspective of its effect on the performance of such organisations to determine whether turnaround strategy leads to better performance in organisations that choose to turnaround.
REFERENCES


APPENDICES

Appendix 1: Research Interview Guide

SECTION A: TURNAROUND STRATEGIES USED BY KRA

1. What measures did KRA put in place to turnaround?
2. Was any retrenchment of employees done during implementation of the strategy?
3. Were the mission and vision statements changed during the implementation process?
4. Did any restructuring take place in the organisation (for instance, new organisation structure, more decentralization, etc)?

SECTION B: SUCCESS FACTORS FOR TURNAROUND STRATEGY

5. What can you attribute to the success of turnaround strategy in KRA?
6. How was the staff prepared to implement the turnaround in the organisation?
7. What motivational measures were put in place for the staff during the period?
8. How sufficient was the allocated level of financing to carry out the turnaround?
9. How did the management influence success of the strategy?
10. How did the structure of the organisation influence success of turnaround strategy?
11. To what extent were the employees empowered during the exercise?
SECTION C: CHALLENGES OF IMPLEMENTING TURNAROUND

12. What challenges did the organisation face when carrying out the turnaround strategy?

13. How did you resolve the challenges you faced during the process of implementation?

Thank you for your time and participation.