

DECLARATION

//
IMPLEMENTATION OF A TURNAROUND
STRATEGY AT MORISON ENGINEERING LTD //

DATE 9/11/2007

NGARUIYA SAMUEL G.

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A MANAGEMENT RESEARCH PROJECT REPORT
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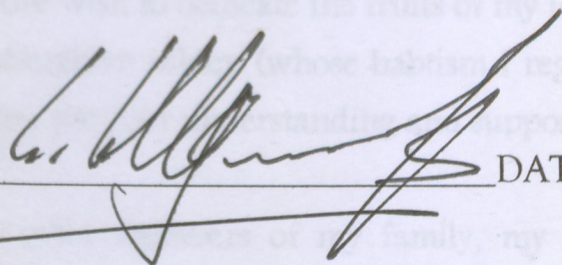
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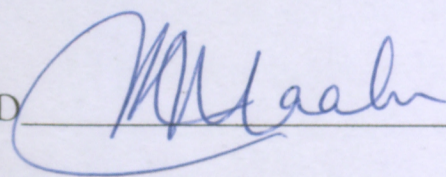
DEDICATION
DECLARATION


This Research Project is my original work and has not been submitted for a degree course in this or any other University.

SIGNED  DATE 9/11/2007

NGARUIYA SAMUEL G.

This Research Project has been submitted for examination with my approval as a University Supervisor.

SIGNED  DATE 13/11/07


PROF. EVANS AOSA
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ACKNOWLEDGEMENT

DEDICATION

A large number of people were involved in my MBA Programme and in the research project, and I am most grateful to all of them. However, I wish to record The MBA Programme was so demanding that I had to forego, with great pain, the company of my family and friends.

Prof. E. Aosa was my Supervisor for the project and I thank him for his insightful I therefore wish to dedicate the fruits of my labour to Maxi, Githua, Tina and my grand-daughter Ashley (whose baptism I regrettably missed two months ago). I thank you for your understanding and support.

Dr. Ogutu made some very important comments on the research proposal which And to other members of my family, my friends and golfing colleagues for tolerating my unsociability during the last four years. I greatly missed your company and look forward to making adequate recompense.

specialization of the MBA Programme instead of the finance specialization. Reading strategic Finally, to my late mother and my ailing father who endowed me in my early years with a life-long thirst for knowledge and a passion for work. Your contribution has been invaluable and timeless.

J. Wanjau, my former director at AMEL; found time to participate in the research and coped with me the long decline and slow turnaround of MEL.

A. Ganga, the CEO of MEL devoted the last five years to ensure that the MEL would end in a success. He participated in the research and spent many days giving me information, recalling events, and answering research questions with great reluctance.

E. Muthoni, an MBA colleague and a dear friend showed keen interest in the research and I am grateful for her support and endurance.

E. Wanjau, my secretary, very patiently typed and retyped my course work assignments and various drafts of the research project. I greatly valued her services throughout the MBA programme.

ACKNOWLEDGEMENT

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Prof. E. Aosa was my Supervisor for the project and I thank him for his insightful suggestions and comments. His interest in case study research was a constant source of inspiration.

Dr. Ogutu made some very important comments on the research proposal which have been incorporated in the project. The comments were extremely useful.

J. Maalu persuaded me to pursue the strategic management specialization of the MBA Programme instead of the finance specialization. Reading strategic management has been the most exciting, stimulating and enriching intellectual pursuit of my life.

J. Wainaina, my fellow director at AMH, found time to participate in the research and revisited with me the long decline and slow turnaround of MEL.

P. Kabuta, the CEO of MEL devoted the last five years to ensure that the MEL turnaround is a success. He participated in the research and spent many days digging up information, recalling events, and answering research questions with great enthusiasm.

C. Muthoni, an MBA colleague and a dear friend showed keen interest in the research and I am grateful for her support and endurance.

L. Wazome, my secretary, very patiently typed and retyped my course work submissions and various drafts of the research project. I greatly valued her untiring assistance throughout the MBA programme.

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ABSTRACT

Globalization of markets and competition requires organizations to adapt to change incessantly. When firms fail to do so, performance declines and if the decline is not reversed, such firms can end up in bankruptcy. A turnaround strategy aims at arresting the decline and restoring a firm to a path of sustainable profitable growth. The implementation of a turnaround strategy determines whether a firm will regain its financial health or whether it will eventually end up in bankruptcy.

Existing literature on corporate transformation indicates a high failure rate in turnaround efforts. The high failure rate is not caused by the turnaround strategy per se, but by poor and ineffective strategy implementation. While crafting a suitable strategy for an organization in distress is very important, strategy implementation is even more crucial. This is an aspect of strategic management that has persistently been underscored by those practitioners in management who have written about their experiences in successful corporate transformations.

This research report investigates the successful implementation of a turnaround strategy by Morison Engineering Limited (MEL), a medium-size Kenyan company. MEL nearly went into receivership in 2002 following many years of poor performance. The company implemented a successful turnaround strategy during the period 2002 to 2007 and has returned to good financial health. MEL hopes to record an operating income of Shs.16.2 million in financial year 2007, the highest in its twenty-two history, and is poised for faster profitable growth during the next two years.

The case study research involved collection of primary data during in-depth personal interviews of two directors, the CEO and departmental managers of MEL. The primary data was supplemented by secondary data obtained from the Company. Data from MEL's audited accounts has been reformatted and presented in the appendices. It depicts the improvement in the company's performance during the implementation of the turnaround strategy.

Research findings indicate that the turnaround strategy implemented by MEL consisted of a retrenchment strategy, a recovery strategy and a corporate strategy. The simultaneous implementation of the three strategies has enabled the company to make substantial recovery and regain its leading position in the fire protection industry in Kenya.

The MEL turnaround presented an opportunity to study a successful strategy implementation in a Kenyan environment. The study confirms that a successful implementation of a turnaround strategy requires a unique blend of leadership and management processes capable of meeting the many challenges of a turnaround situation.

CHAPTER ONE: INTRODUCTION

1.1 Background

1.1.1 Strategy Implementation

The strategic management process is composed of three main processes: strategy analysis, strategy formulation and strategy implementation. It is through these three processes that a company's strategy is crafted, implemented and executed. A company's strategy is its game plan, crafted by management for the purpose of positioning the company in a given market environment, where it is expected to compete successfully, satisfy customers and other stakeholders. "A strategy thus entails managerial choices among alternatives and signals organizational commitment to specific markets, competitive approaches, and a way of operating" (Thompson and Strickland, 1998:2). Strategy provides the management of a company with a roadmap to guide it in its efforts to win markets and customers and achieve competitive advantages over its rivals. Strategy also provides a framework for weaving together decisions and actions independently taken by managers and employees across the company into a cohesive and coordinated system.

Crafting a good strategy and its successful implementation are the hallmark of an effective management. Indeed competent implementation of a well crafted strategy is not only a prerequisite for organizational success but also an affirmation of managerial excellence. However, crafting a strategy is a lot easier than strategy implementation. Executing a strategy successfully requires a wide range of managerial skills, knowledge and ability to cope with an array of managerial issues, activities and challenges. Furthermore, putting a strategy

in place and getting a management team to execute it well require different approaches and competencies. Crafting a strategy is largely a market-driven entrepreneurial activity involving strategy analysis and strategy formulation. On the other hand strategy implementation is primarily an operations-driven activity which demands effective management of people, resources and business processes. It is an action-oriented process, "the product of much organizational learning" (Thompson and Strickland, 1998:16), that requires leadership, development of competencies and capabilities, budgeting policy making, motivating people, and culture building. Strategy implementation is without doubt the most complex and time-consuming part of strategic management.

The process of strategy implementation entails converting a company's strategic plan into actions that are aimed at achieving desired objectives. It involves the entire management team in such a manner that all managers become implementers of strategy, each in his/her own area of authority and responsibility. Successful strategy implementation is achieved by a company management when targeted strategic and financial objectives are realized. However, given the unique nature of each organizational context, it should be noted that strategy implementation is more of an art than a science. Consequently, each company situation requires a customized approach to strategy implementation.

Notwithstanding the need for a tailor-made approach to strategy implementation, certain managerial tasks appear repeatedly in the strategy implementation process, no matter what the unique features of the situation. These managerial tasks can be considered as the components of a framework for strategy implementation and range from the supervisory responsibility of

the board of directors over strategy formulation and implementation to the post action implementation control by operational managers.

The first key role of a board of directors in the strategic management process is to critically appraise and ultimately approve the strategic objectives and action plans presented by management. The second key role of the board is to continually evaluate the strategic leadership skills of the CEO and other senior management and their ability to craft and implement the company strategy. In troubled companies boards take a more hands-on approach to strategy-making and strategy implementation (Ward, 2000). In a turnaround or major restructuring, especially where the management has been discredited and sacked, the board steps in to provide strategic leadership, if for no other reason than to stave off business failure. In such a situation the board may temporarily take charge of the day-to-day strategy implementation as it takes action to replace the firm's top management.

Within the framework for strategy implementation the board of directors therefore exercises its strategic oversight through strategic audits. However, managers remain the owners of the strategic plan and it is their responsibility to turn strategic vision into operational reality through strategy implementation. They do this firstly, by "working their plan" through short-term objectives, functional tactics and empowerment policies. Secondly, managers restructure and refocus the organization so as to create a "fit" between the organizational structure, leadership and culture and the chosen strategy. Thirdly, managers establish strategic control mechanisms to track strategy implementation in real-time and determine what necessary adjustments require to be made.

Short-term objectives aid strategy implementation by "operationalizing" a

strategic plan. They convert long-term objectives into short-term action plans and targets in the form of budgets, policies, support systems and rewards. Short-term action plans identify strategy-critical activities, address resource allocation, determine accountability and provide a basis for strategic control. Functional tactics are routine activities that are undertaken in each functional area to assist strategy implementation. They are linked together by policies which are designed to guide employees in strategy implementation. Policies help empower operating personnel in decision making when carrying out strategy-critical activities. They also help to overcome resistance to strategic change and foster commitment to successful strategy implementation (Pearce and Robinson, 2003). Action plans and guidelines for functional activities are components of a framework for strategy implementation, and require to be founded on an organizational setting that is conducive to efficient and effective execution of strategy. A strategy-supportive organizational setting is one where strategy guides the organizational structure. It is also one where organizational leadership is able to galvanize commitment for change and strategy implementation through clarification of the strategic intent, realigning the organization and reshaping the organizational culture.

“Since the firm’s strategy is implemented in a changing environment, successful implementation requires that execution be controlled and continuously improved” (Pearce and Robinson, 2003:248). Strategic controls, as part of the framework for strategy implementation, endeavour to provide a basis for adapting strategic plans to internal and external changes and developments. They help evaluate the validity of assumptions made during strategy formulation and monitor a broad range of events that are likely to affect strategy implementation. Finally, strategic control is effected through implementation control which recognizes the fact that strategy execution takes place as series of steps, programs, investments and moves that are

carried out over weeks, months and sometimes years. Implementation control assesses the effectiveness of incremental actions in the overall strategy implementation and whether any change is necessary.

As indicated above, strategy implementation is the critical part of every successful strategy, including a turnaround strategy. The implementation of a turnaround strategy determines which company will shortly end up in bankruptcy, which company will realize short-term wins but fail to win the battle for long-term survival, and which company will regain financial health and realize long-term profitable growth. "Execution is the tough, difficult, daily grind of making sure the machine moves forward meter by meter, kilometer by kilometer, milestone by milestone" (Gerstner, 2003:231).

1.1.2 The Turnaround Strategy

The last thirty years have seen corporate transformations become a worldwide phenomenon due to changes brought about by the globalisation of markets and competition. Globalisation is in turn driven by a broad and powerful set of forces originating from technological change, international economic integration, demographic and geopolitical changes (Kotter, 1996). Globalisation of the economy has increased the opportunities and risks that individuals and organizations have to contend with daily.

The powerful macroeconomic forces at work are forcing organizations to change more dramatically and to go beyond reengineering, restrategising, downsizing, mergers, and quality improvement efforts. The dramatic changes required will have to be more transformational than "an alphabet soup of initiatives" (Beer and Nohria, 2000). What confronts every company, large or small, today and in future is having to learn to thrive in a world where

change is discontinuous, unrelenting and pitiless (Hamel, 2002). In the globalized economy and in the age of discontinuity successful corporations will need to transform themselves regularly and as nimbly as change itself.

The terms “corporate turnaround”, “corporate change” and “corporate transformation” are used interchangeably in the business press and business literature. They are often used to describe relatively dissimilar circumstances involving change in business organizations. Organizational changes can be viewed as running from a continuum starting from small-scale incremental change to large-scale transformational change (Burnes, 2004). Small-scale incremental change is associated with operational change while large-scale transformational change is associated with strategic change. Incremental changes are fine-tuning forms of change geared to changing activities, performance, some attitudes and behavior of individual and groups within an organizational. The majority of these incremental changes are limited in scope and are of short-term duration. They are generally accommodated within the current organizational paradigm and are the most common forms of change in organizations (Johnson and Scholes, 2004). They are peripheral to the desired strategic direction of an organization and do not equate to turnarounds (Burnes, 2004).

In contrast, transformational change is a large-scale organization-wide process that aims at effecting a fundamental change in the strategic direction of an organization. It is a strategic process of a long duration which endeavors to change the processes, structures and culture of an entire organization so as to create core competencies that enhance the organization's competitive advantages (Pearce and Robinson, 2003). A turnaround is therefore a transformational change that is subjected to an organization which

is experiencing declining performance or is likely to do so in the near future. Left on its own without recovery efforts, the organization is likely to experience further decline which may eventually lead to bankruptcy. Recovery efforts that rescue the organization from “a cycle of decline” are part and parcel of the implementation of a turnaround strategy. (Kantar, 2004).

A turnaround strategy is a combination of several generic and grand strategies that address the survival of a firm in a downward spiral and its restoration to a path of long-term growth and profitability. Firstly, the strategy has the primary objective of stabilizing the financial condition of the firm through cost-cutting and asset-reducing activities (Pearce and Robinson, 2003). Secondly, the strategy endeavors to rebuild the firm’s core competencies which are required to help it regain competitive advantage—the sources of its growth and profitability. Most turnaround strategies respond to factors in the industry environment and factors in the operating environment. They also adopt a mixture of two models of strategy: the competitive forces model and the resource-based model. However, the success of any turnaround strategy depends on its implementation: on how it aligns customer needs with organizational vision and organizational capability (Coulson-Thomas: 2004).

Turnaround strategies are important tools for organizational change initiatives. However, their implementation has, on the whole, yielded unsatisfactory results. Research from all over the world indicates that the failure rate of turnaround efforts is notoriously high. In the majority of turnarounds, the results have been “disappointing and the carnage has been appalling, with wasted resources and burned-out, scared, or frustrated employees” (Kotter, 1996:4). The carnage includes new CEOs, the leaders who are expected to provide new leadership and make the turnaround a resounding success: their failure rate is more than 50% (Kanter, 2004). “The

brutal fact is that about 70% of all change initiatives fail” (Beer and Nohria, 2002:2). Given the poor success rate of turnaround efforts and the increasing demand for change initiatives in so many organizations across the globe, what lessons can we learn from the turnaround winners and losers?

1.1.3 The Fire Protection Industry

The fire protection industry in Kenya plays an important role in the economy. It protects human life, and individual and community assets which would otherwise be lost through fire hazards. In the past few years the Nairobi City Hall, hotels at the coast, schools, factories and commercial buildings have been destroyed by fire. The Central Bureau of Statistics does not collect data on loss through fire damage but insurance industry data show that asset losses through fire are in excess of shillings one billion per annum. Notwithstanding this heavy loss to the economy, individual and public awareness about fire risks remains very low. However, the level of awareness has grown during the last few years and the industry is estimated to have a total turnover of between Shs.500 million and Shs.700 million, with a current annual growth rate of about 10%.

The industry is very fragmented with nearly twenty companies claiming to be fire protection specialists. Market intelligence sources indicate that the two top players in the industry are Morison Engineering Ltd (MEL) and Mather and Platt Ltd. Between them they control approximately 40% of the market. The two operate nationally and sometimes carry out fire protection equipment installation elsewhere within the East African Community. Total full-time employment for the industry is about 400 people but the industry regularly employs approximately 200 people as casuals who are engaged during

equipment installations. The other eighteen or so companies in the industry are mainly family owned and tend to operate only in Nairobi or Mombasa. Some fire protection business is also undertaken by electrical and plumbing contractors, as architects and consulting engineers tend to group fire protection installation works under electrical or plumbing contracts.

Fire protection requires a wide range of products for fire detection and prevention. The products range from domestic fire extinguishers to sophisticated electronic fire detection and prevention systems for multistorey buildings. There are also special fire detection and prevention systems for oil and gas installations, electrical power installations and computer rooms. Food manufacturing and processing factories as well as hotels and restaurants require special human friendly fire protection systems. Currently the industry markets portable systems like extinguishers, water-based systems like sprinkler systems, fire hydrant systems using high capacity pumps, gaseous systems for IT installations and document security facilities. During the last ten years or so the industry has experienced increasing demand for electronic fire detection systems, including computer controlled alarm systems.

Most of the products marketed by the industry are sourced overseas. Alarms and fire detection equipment are imported from Europe and the U.S.A. Gas and chemical extinguishants are required to conform to high European and American fire security standards and are generally imported from multinational manufacturers. Pumps, sprinkler equipment, and extinguishers have traditionally been imported from Europe, but the industry is increasingly sourcing these products from India, China, Malaysia and other Asian countries.

All fire detection and prevention systems require to be regularly serviced and

MEL is the industry leader in the provision of maintenance service country-wide. Installations and servicing require a good deal of technical knowledge and skills ranging from plumbing to electronics. More technical knowledge is required for the design of intricate systems for high rise buildings and petroleum depots. Unfortunately, the industry is quite conservative in terms of acquisition and development of technical knowledge and skills. Consequently, the industry employs few university graduates, especially graduates in mechanical and electrical engineering. Given the level of competition in the industry, the larger players are looking for growth outside the industry. The construction and building maintenance industry provides attractive opportunities for related diversification. Synergistic opportunities exist in this industry especially for those players in the fire protection industry who have invested in the development of technical skills which have a high degree of compatibility. Growth opportunities also exist within the East African Community, particularly for those industry players with a corporate approach to a regional market expansion.

1.1.4 Morison Engineering Limited

Morison Engineering (MEL) is a medium size company with branches in Nairobi and Mombasa. It is a wholly-owned subsidiary of Amedo Madison Holdings Limited (AMH), a diversified group with interests in engineering, retailing, insurance and tourism. MEL is the engineering subsidiary of AMH and its principal activities are installation and servicing of fire protection equipment. During the last few years, MEL has diversified its operations to include the installation and servicing of air conditioners, industrial pumps and generators. Its customers include banks, oil companies, hotels, construction firms and manufacturing companies and its operations extend to all over Kenya.

MEL was incorporated as Morison Products Limited in 1986 to take over the business activities of J.L. Morison Son and Jones (Kenya) Limited. J.L. Morison had been trading in East Africa for over forty years and at the time of the takeover, its activities included the manufacture of tooth brushes, sale of glues to shoe manufacturers and the sale and servicing of fire extinguishers. The liberalization of the Kenyan economy in the early 1990s made the manufacture of tooth brushes and the importation and sale of glues uncompetitive. The company abandoned these activities and concentrated for a number of years on the sale and servicing of fire protection equipment.

In 1996 a decision was made to change the strategic direction of the company. It was decided that the future of the company lay in engineering activities which could be undertaken together with the fire protection business. The company changed its name from Morison Products to Morison Engineering and engaged a mechanical engineer and an electrical engineer. It also recruited a qualified graduate accountant to join the management team which was led by a Chief Executive Officer with many years' experience in retail and industrial marketing.

MEL had some initial success and realized growth in engineering sales activities, particularly in plumbing and sale of generators. However, within two years, the two engineers and the accountant left MEL and the engineering activities decreased significantly while the fire protection business came under heavy competition. By mid-2002, MEL was in a major financial crisis. Turnover for the year 2002 dropped to Shs.38 million and an operating loss of Shs 7.9 million was recorded (Appendices 2 and 3 on pages 61 and 62). Borrowings shot up to Shs.28.1 million. MEL was on the brink of death. Its suppliers were turning off supplies, its customers had lost confidence in the company, and its competitors were closing in on MEL for cheap pickings.

In September 2002 its directors and the holding company, AMH, had to make an urgent decision: whether to let the company go into bankruptcy or mount a rescue. It was decided that MEL was worth rescuing from imminent death and urgent efforts to save the company were given top priority.

The board of directors quickly crafted a turnaround strategy aimed at saving the company from financial disaster in the short term and creating conditions for sustainable profitable growth in the longer term. The implementation of the strategy has been in progress for nearly five years and has so far produced positive results. MEL is expected to achieve in 2007 a turnover in excess of Shs.100 million and a profit after tax of more than Shs. 10 million. The company has fully regained the confidence of its suppliers and customers. It is also perceived as a serious threat by all its competitors in the fire protection industry. Internal confidence has also substantially returned to MEL but a lot of progress remains to be achieved in such areas as internal processes, core competencies, organizational culture, development of a growth mindset and debt reduction.

MEL achieved the short-term financial stabilization objective in 2003 when it realized an operating profit of Shs. 0.3 million from a turnover of Shs.42 million. However, growth in turnover and profitability has not been consistent during the period 2003 to 2007 (Appendix 3 on page 62). MEL has been saved from bankruptcy and the “losing streaks” have been turned into “winning streaks”. But the company has not yet achieved a pattern of steady and sustainable profitable growth. The “bold strokes” have largely been realized but the “long march” is still a long, long way from the finishing line! However, one can safely say that the turnaround strategy has been largely successful.

1.2 Statement Of The Research Problem

During the twenty-first century organizations will continue to experience discontinuous and abrupt change. Every organization will be required to reinvent its strategy continuously, year after year, and make right-angle turns quite often (Hamel, 2002). Since change has become a constant, successful organizations will need to implement change continuously and this will require development of organizational change competences. Successful organizations will be those that implement turnaround strategies successfully.

The results of past and current turnaround efforts do not give us much optimism. Research carried out in the USA and Europe indicates that the failure rate of turnaround efforts can be as high as 70% (Beer and Nohria, 2000). This has led some people to conclude that organizations are simply unable to change much and that we must learn to accept that fact (Kotter, 1996).

However, the experience of the MEL turnaround strategy implementation indicates that under certain circumstances, turnaround efforts can achieve significant success. Since a successful turnaround is largely the result of a well executed turnaround strategy, these circumstances relate to approaches in strategy implementation. What approaches to strategy implementation at MEL caused a successful turnaround? Are there any critical approaches to strategy implementation that are crucial to successful turnaround efforts?

1.3 Research Objective

The objective of the study is to establish how a successful turnaround strategy was implemented at MEL during the period September 2002 to August 2007.

1.4 Importance of The Study

The macroeconomic forces driving change throughout the world will continue to create perpetual turbulence for companies and individuals everywhere during the twenty-first century. Change is no longer episodic for “we live in a world that is all punctuation and no equilibrium” (Hamel, 2002:6). To remain relevant in such a turbulent environment, companies will have to engage themselves in perpetual revolution and renewal. Changes of such magnitude will require that organizations transform themselves ceaselessly. Turnaround situations will therefore increase in the years ahead. The increase will require that directors and top management develop better understanding of the factors that bring about successful transformational changes.

Most published studies on large-scale organizational changes and in particular turnarounds focus on transformational changes of big corporations like IBM, Shell and Nissan. There is little published material on transformational changes of SMEs, notwithstanding the importance of SMEs to the economy of every country in the world. MEL is a medium-sized company and the study of its turnaround could be of interest to all those who manage or study SMEs.

MEL is a subsidiary of a diversified group. The study could be of interest to those involved in the management of conglomerates and in particular those interested in the practice of corporate governance in a conglomerate. It will certainly be of use to senior management of the AMH Group in understanding the dynamics of transformational change within the Group.

Finally, it is hoped that scholars and researchers will find this study of added

CHAPTER TWO: LITERATURE REVIEW

value to the growing body of knowledge on turnarounds in Kenyan organizations. It is hoped that the study will be useful to those interested in researching transformational change in a vital category of businesses that has not attracted much academic attention: the Small and Medium Enterprises.

The implementation of a turnaround strategy starts immediately the board of directors and the top management have decided that a firm is worth saving from further decline. Since every organization is unique, it follows that every organization in a turnaround situation requires a turnaround strategy that is specific to its circumstances. It is for this reason that different writers on change management propose different approaches to strategy implementation in turnaround situations.

2.1 Strategy Implementation

Broadly speaking, turnaround strategies for businesses in crisis have a common objective to arrest and reverse the sources of competitive and financial weaknesses as quickly as possible (Thompson and Strickland, 1998). However, since the causes of poor performance are many and varied, the cures are also many and varied. Where cashflow is critical and the strategic objective is to save part of a business, asset reduction/restructuring strategies are implemented through sale of assets and reduction of the workforce. In a situation where weak performance is caused by bad strategy, revising the existing strategy can rescue a firm from decline. Thompson and Strickland (1998) recognize that different diagnoses lead to different turnaround strategies and advise that successful strategy intervention must be linked to the firm's strengths and near-term competitive capabilities and market opportunities.

CHAPTER TWO: LITERATURE REVIEW

2.1. Introduction

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A similar approach to strategy implementation in a turnaround situation is recommended by Pearce and Robinson (2003). In their model of a turnaround process, the two writers recommend the implementation of a retrenchment phase followed by a recovery phase. The retrenchment phase is characterised by cost-cutting and asset-reducing activities with the aim of stabilizing a company's financial condition. Pearce and Robinson (2003) also recommend the implementation of entrepreneurial strategies where a firm's decline is due to external problems.

After studying the implementation of turnaround strategies for more than 40 years Beer and Nohria (2000) state that there are two theories of change applicable to turnarounds: theory E and theory O. Theory E change strategies adopt the "hard" approach to turnarounds and consider shareholder value as the only legitimate measure of corporate success. On the other hand theory O change strategies adopt a "soft" approach to turnarounds and are geared toward building the corporate culture and employee capability as the legitimate basis for corporate success. Beer and Nohria state that theory E strategies usually involve heavy use of economic incentives and are accompanied by drastic layoffs, downsizing and restructuring. In countries like the United States where financial markets push corporate boards for rapid turnarounds, E change strategies are more common than O change strategies. However, in Europe and Asia, companies tended to place high value on employee commitment and businesses were more likely to use O strategies to change.

Following their research, Beer and Nohria discovered that most companies used a mix of both approaches to change. Those companies that were able to combine the two approaches to change effectively reaped big payoffs in profitability and productivity and achieved a sustainable competitive

advantage. The two writers give an example of General Electric where CEO Jack Welch combined quite successfully O and E change strategies during the 1980s. Beer and Nohria further discovered that companies that used either O change strategies or E change strategies to manage their turnarounds, the results were in the long-term disappointing. The companies that used theory E strategies failed to build the capabilities needed for sustained competitive advantage while the companies that embraced theory O strategies were unable to achieve enough productivity gains quickly because they failed to undertake fundamental structural changes.

Beer and Nohria conclude that survival in the global economy will require that companies apply theories E and O together in their endeavor to implement strategies for change. Used simultaneously and with a lot of determination, skill and wisdom, O and E strategies are likely to achieve rapid improvements in economic value while simultaneously developing an open, trusting corporate culture. Beer and Nohria recognize the contradictions contained in theories E and O strategies but advise that companies that combined the two change approaches successfully were able to resolve the contradictions. The tensions between E and O goals should be confronted explicitly by focusing simultaneously on the "hard" and "soft" sides of the organization. Beer and Nohria recommend that strategic direction be set from the top while simultaneously engaging the people below by encouraging dialogue, experimentation and innovation.

The view that the "soft" side of organizations holds the key to successful strategy implementation and successful transformation has been championed by an increasing number of authors. After studying change efforts in three of the world's largest organizations, Sears, Roebuck & Company, Royal Dutch

Shell, and the United States Army, Pascale et al (1997) state that the "800-pound gorilla" that impaired performance and blocked sustained transformational change in these organizations was culture. For these authors organizational culture is as strategically important as an organization's products and services and market initiatives. Organizations that are in good health have healthy cultures. Transformation efforts fail because organizations do not address cultural factors which are the key to sustainable revitalizations. Successful turnaround strategies must lay great emphasis and focus on how to shift the attention from incremental change to the tools that can transform the culture of an organization.

In the final analysis, according to the three authors, sustained organizational renewal will come about when all the employees in an organization share the whole burden of transformational change. This requires a permanent rekindling of individual creativity and responsibility, a lasting transformation of an organization's internal and external relationships and a change in employee attitude and behavior. The writers suggest three interventions that can be used in such a transformational change. The first intervention is to incorporate employees fully into the process of dealing with business challenges. This should foster a new level of individual power, a new sense of identity with the organization, a new kind of open and productive conflict, and a new appetite for learning. The second intervention is a new approach to leadership which requires leaders to stand firmly in the zone of discomfort and ambiguity and lead from there. The third intervention requires that employees internalize appropriate mental disciplines that help shape their reactions and govern their behavior in order to achieve sustained organizational renewal. Implementation of the three intervention tools should, according to the three authors, help improve the low success rate of turnaround efforts.

Kanter also approaches the implementation of a turnaround strategy from the “soft” side of an organization. However, she sees leadership playing a crucial role in rescuing organizations from declining performance. For Kanter a successful turnaround is the result of a process of rebuilding internal and external confidence which has been destroyed by poor leadership and years of “losing streaks”. A turnaround is one where the organization has succeeded in rebuilding in all its people its three “cornerstones of confidence”: accountability, collaboration and initiative. Without the three cornerstones of confidence, an organization is unlikely to regain its “winning streaks”. In order to regain its winning streaks an organization must first replace its top management with leaders who possess high self-confidence. It must also overhaul its operating processes and organizational structure and implement short-term objectives and action plans to help it rebuild internal and external confidence. Kanter believes that an organization needs to create “a culture of winners” so that the turnaround can be sustained in the long-term. A culture of winners enables leadership to “multiply” throughout the organization. Without widespread leadership within the organization, it is unlikely that turnarounds will sustain long-term success.

After studying many turnarounds, Kotter (1996) concluded that successful transformational changes are the consequence of two important patterns. “First, useful change tends to be associated with a multistep process that creates power and motivation sufficient to overwhelm all the sources of inertia. Second, this process is never employed effectively unless it is driven by high-quality leadership, not just excellent management....”(Kotter, 1996:20). Kotter recommends an eight-stage change process, with each stage being directed at each of the eight fundamental errors that undermine transformation efforts. The eight stages are: “establishing a sense of urgency,

creating the guiding coalition, developing a vision and strategy, communicating the change vision, empowering a broad base of people to take action, generating short-term wins, consolidating gains and producing even more change and institutionalizing new approaches in the culture” (Kotter, 1996:22). Kotter advises that successful transformations implement the eight steps sequentially, as skipping even a single step leads to a loss of the momentum needed to overcome powerful sources of inertia.

Kotter views each stage in the multistep process as a project made up of a number of smaller projects. Viewed from this standpoint, strategy implementation ends up being multiple projects within projects and the end result is often complex, dynamic, messy and scary. That is why any attempt to carry out transformational change with simple, linear, analytical processes almost always end up in failure. Given the complexity of implementing change, managing change requires competent management without which the transformation process can get out of control. However, the much bigger challenge according to Kotter, is leading change. “Only leadership can blast through the many sources of corporate inertia. Only leadership can motivate the actions needed to alter behavior in any significant way. Only leadership can get change to stick by anchoring it in the very culture of an organization” (Kotter, 1996:30).

2.3 The Turnaround Situation

A declining company performance, realized or anticipated, is considered to be the sine qua non of a distressed organization. However, the culture of an organization in a turnaround situation holds the key to the causes of a declining performance (Kanter, 2004). A company in a turnaround situation

is likely to be trapped in a culture of "learned helplessness" where secrecy, blame, isolation, avoidance, and lack of respect reign supreme. Feelings of helplessness create a culture that worsens the turnaround situation and make change seem impossible. Accountability, collaboration, and initiative tend to disappear in a company that is in a turnaround situation causing employees and outsiders to lose confidence in the company. "Underlying the problems of distressed organizations are pathological patterns that are self-perpetuating and mutually reinforcing" (Kanter,2004:95).

Kanter identifies three types of turnaround situations. The first type belongs to organizations that have "reached the brink of imminent death". It includes companies that are about to default on their financial obligations and all those organizations either in or getting out of bankruptcy. The second type includes organizations that have lost so much "external confidence" as to compel the owners or the boards of directors to seek deep and rapid change in order to avoid a financial crisis. Such organizations are not yet at death's door but are in the market for new leadership to end the decline. The third type are organizations going through "a regime change" where the old CEOs retire and leave behind problems that are about to start a decline cycle.

Kotter like Kanter ascribes a culture of complacency to many turnaround situations. He goes further to state that the typical twentieth-century organization has not operated well in a rapidly changing environment because of the lack of leadership. Firms in turnaround situations tend to be "overmanaged and underled", according to Kotter. They are full of managers who resist change and have a shortage of leaders who are able to create the badly needed change. Managers who resist change develop a strong and

arrogant culture and fail to acknowledge the value of customers and stockholders. More importantly, they fail to acknowledge the value of leadership and tend to stifle initiative and innovation.

Indeed, turnaround situations are not only short on leadership but pretty thin on innovation. Leaders are not necessarily innovators but they have the responsibility of spotting and encouraging innovation. Companies in turnaround situations tend to discourage innovation, perhaps because innovation is inherently messy and unpredictable, especially to arrogant managers bent on stifling initiative and innovation (Peters, 1987). Firms that deal with turnaround situations successfully learn to welcome innovation and induce a steady, high volume flow of new projects, products, processes and services. When companies fail to nurture innovation, the capacity for corporate change is compromised and the underlying "pathological patterns" of distressed firms become self-perpetuating (Kanter, 2004).

What then are the characteristics of an organization in a turnaround situation? Does size matter in a turnaround situation? By far the most widely recognized characteristic of a turnaround situation is a decline in revenue and profitability over more than one year (Pearce and Robinson, 2003). If the decline continues unchecked, the turnaround situation sooner or later becomes severe and the company may be on the brink of imminent death. Although there are differences between any two turnaround situations, the differences, nevertheless are in context and details (Kanter, 2004), rather than in the fundamental causes of decline in performance. The fundamental reasons that cause a potentially serious decline in revenue and profitability according to Kanter and Kotter are: lack of strategic direction, a tendency for

businesses to become victims of the very success of their past (the paradox of success), poor corporate governance, absence of organization learning, overmanaged and underled culture, and inability to make radical innovation part of the corporate culture.

It is now time to reflect on whether the size of an organization matters in a turnaround. However, there is need to establish first the importance and relevance of small organizations to the economy. Studies carried out in the U.S. in 1984 indicated that 96% of registered businesses employed fewer than fifty people (Baumbach, 1988). In the manufacturing sector 82% of companies employed fewer than 50 employees. In 2000 small businesses (fewer than 500 employees) in the U.S. employed more than half of the private sector workforce and accounted for more than 50% of non farm private gross domestic product. A small percentage of the fastest growing entrepreneurial firms (5-15 percent) accounted for a majority of the new jobs created in 2000 (Dess et al, 2005).

Notwithstanding the economic importance of small businesses, the reality is that large firms are more widely researched and written about than small firms. Consequently, we are much more ignorant about the behavior of small as compared to large firms and have a much smaller pool of tacit or informal knowledge on which to draw when theorizing about small firms (Reid, 1993). In arriving at the above conclusion, Reid observes that Michael Porter obtained the empirical underpinning of his competitive advantage framework from field work interviews of CEOs of major corporations.

In line with the above, published studies of turnaround situations are preponderantly based on large firms like the IBM (Gerstner, 2002), Nissan

(Magee, 2003) and Intel Corporation (Burgelman, 2002). In Kenya, it is the turnaround of large firms like the Kenya Commercial Bank and Housing Finance that has attracted the attention of researchers (Situma, 2006). However, given the importance of the small and medium enterprises (SMEs) to the national and global economy, it is surprising that more research attention has not been directed towards SMEs.

Unlike large corporations, many SMEs have high mortality rates and do not respond successfully to turnaround efforts. It is estimated that for every one hundred new SMEs launched in the U.S. at any time, only approximately 19% will still be in business at the end of ten years (Baumbach, 1988). The situation is even worse in Kenya. A recent study by SBC Network, an associate of the University of Pennsylvania, estimates that "as many as 75% of small enterprises started in Kenya fail within three years of their birth. Indeed an enterprise that is more than three years old is regarded as having achieved some measure of success".

Most of the causes of turnaround situations discussed above also apply to small businesses. However, SMEs do not fail mainly due to an overmanaged and underled culture. On the contrary, SMEs suffer from an undermanaged and underled culture. Available evidence indicates that poor management is at the root of most of the operating problems of small businesses. In 98% of recorded small business fatalities, ineffective management was cited as the underlying cause (Baumbach, 1988). Indeed the management of an SME has considerably less latitude in its capacity to make some major errors in judgment from which the firm can recover. Unlike a large organization a small enterprise can fail because of even one wrong decision by its management. It is for this reason that the management of a smaller firm is

considered inherently more difficult and demanding and hence more susceptible to failure than that of a large firm (Baumbach, 1988).

Turnaround situations in SMEs are therefore firstly characterized by a great shortage of management skills. Secondly they are characterized by an inability to replace unsuccessful leadership with transformational leadership.

Most SMEs are owner-managed and often in a highly personalized style of management. When hard times befall a small business, the owner-manager struggles to save his business as best as he can, while waiting for better times to come knocking. He is hardly likely to replace himself with a better leader who can restore confidence and achieve a turnaround. Large corporations tend to act differently when confronted by persistent poor performance.

They are prone to call "turnaround consultants" and replace top management with leaders that can implement quickly transformational change in the organization. This leads us to the third cause of turnaround situations in small businesses: small businesses, especially those that are family/closely held, have weak corporate governance (Ward, 2000). Research indicates that there is solid evidence linking good corporate governance with higher performance (Dess, et al, 2005). Weak corporate governance tends to contribute towards poor performance particularly in small businesses. Turnaround situations in the majority of small businesses are therefore characterized by a cocktail of three factors: weak management, poor leadership and weak corporate governance (Reid, 1993).

2.4 The Turnaround Process

A successful turnaround process is a multistage process which develops power

and motivation sufficient to overwhelm all the causes of a turnaround situation (Kotter, 1996). The process is only effective when it is driven by an effective management. However, turnarounds often proceed unevenly, in fits and starts, and are fraught with the danger of false recoveries. They have an uncertain duration; some take a few years, like the Nissan turnaround (Magee, 2003), while others take longer like the Kenya Commercial Bank one (Situma, 2006). It all depends on the severity of the turnaround situation and the velocity of environmental change.

The turnaround process in a firm is triggered by the realization by the board of directors or the owners that the company is in dire need of urgent change in order to avoid an overt crisis or in order to escape imminent death. In this decision-making phase, board leadership is crucial. A deliberate choice needs to be made whether to let the firm decline further into death, or whether to try to restore its health. The decision to restore a company to good health calls for courageous and committed leadership with stamina and persistence to deal with the myriad problems of a firm in a crisis of internal and external health. Many firms and especially small companies end up being condemned to death just because shareholders and directors lack confident leaders, to lead the turnaround process.

There are situations when a turnaround process is triggered by an unanticipated by-product of normal life events like the retirement of an old CEO who leaves behind a set of problems which have started a cycle of decline. In such a situation, the new CEO has the difficult task of leading a turnaround without top management consensus that the company faces a difficult future. It is almost an article of faith that in large multinationals like General Electric normal succession will frequently trigger a turnaround

process even when the company is declaring that the new CEO has inherited a firm in perfect corporate health (Kanter, 2004).

Once the board of directors has concluded that a turnaround is due and feasible, the next stage is to "restore external confidence" by replacing the top managers with turnaround leaders from outside the organization. Outsiders are viewed as better placed to disentangle the company from the internal and external problems that the old leaders failed to solve. The turnaround leader must have the self-confidence to instill confidence in the organization and the people who must work to deliver winning performance. He must also instill confidence so as to attract the support of customers, suppliers, investors and others on whom the organization depends.

2.5 Managing The Turnaround Process

Successful turnarounds require a combination of good leadership and good management: a balance of the two is necessary if short-term wins are to be realized. Management takes care of the processes that keep a complicated system of people and technology working efficiently. Indeed, the essence of management is to obtain desired results by systematically targeting objectives and budgeting for them, creating plans to achieve those objectives, organizing for implementation, and controlling operations so as to keep everything on track. Every turnaround process must be managed in order to keep the operation from flying out of control. While managing change is important, the bigger challenge for most organizations, and particularly those going through a turnaround process, is leading change (Kotter, 1996).

Leadership has been defined as the "process of transforming organizations

from what they are to what the leader would have them become"(Dess et al, 2005:374). It has also been defined as "set of processes that created organizations in the first place or adapts them to significantly changing circumstances"(Kotter, 1996:25). Leadership offers a vision of the future, aligns people with the vision, motivates and inspires them to realize the vision. Transformational leadership seeks to radically change an organization and is particularly effective in a turnaround process (Goleman et al, 2002). Indeed it has been argued that whereas a successful transformation is only 10% to 30% management, it is 70% to 90% leadership (Kotter, 1996).

It is useful to make two other observations on the relationship between management, leadership and the turnaround process in organizations. The first is about management and leadership styles. Management is generally concerned with maintenance of the status quo where goals are clearly understood, so that a predictable external and internal environment prevails. In such a situation the management skills in use are largely transactional skills. Managers utilize transactional skills to achieve task completion, goal clarification and performance optimization, within the existing paradigm. Leadership, on the other hand, is about change, values and emotions and seeks to develop new ways of adapting an organization to new environmental challenges for the sake of survival. In so doing leadership deploys transformational skills to gain the trust and emotional commitment of employees.

The second observation worth making is that management and leadership focus on different types of change. Management is generally concerned with small-scale, localized, adaptive changes requiring low levels of creativity and innovation. On the other hand leadership tends to focus on large-scale

organization-wide changes that require high levels of creativity, innovation and learning. Having defined leadership and underscored its importance in corporate transformations, it is now time to examine its role in the turnaround process.

The turnaround process starts in the corporate board for the board is the organ responsible for the successful perpetuation of the corporation. The primary responsibilities of the board are to ensure that strategic plans undergo rigorous scrutiny, to evaluate managers against high performance standards, to take control of the succession process and to replace the chief executive officer (CEO) when necessary (Dess et al, 2005). Where a company is threatened with death, is losing momentum, or is eager to break new ground, the board has to display leadership and appoint a new CEO. This is the most crucial act in the turnaround process. The new CEO must quickly determine the severity of the turnaround situation, create a sense of urgency in the management, undertake drastic measures to stem the decline and stabilize the organization. The overriding challenge for a leader in every turnaround process is the need to make unpopular decisions required to reverse declining performance, while at the same time recreating internal and external confidence (Kanter, 2004).

Creating a sense of urgency is the first stage for the new CEO in leading the turnaround process. During this stage the leader endeavors to reduce the level of pessimism, complacency, fear and anger in the organization. He recreates confidence in the people in preparation for the organizational changes ahead. He stops the hemorrhaging of cash, develops an intermediate term business strategy and stabilizes the company (Gerstner, 2002). Other stages of leading the turnaround process follow and aim at developing an

effective team to own and guide the change process, craft a vision and strategy and institutionalize change.

As the change leader creates a sense of urgency in the organization and makes progress in stabilizing the organization, he turns his attention to the other stages of the turnaround process. He puts together a guiding team that has the credibility, skills, connections, reputations and formal authority required to provide change leadership. The team will assist the leader craft a sensible clear, simple, and uplifting vision together with a set of strategies. The change leader and the guiding team will then communicate the vision and strategy to employees in such a manner as to create a shared sense of a desirable future that can help motivate and coordinate the kinds of actions that will result in a successful turnaround. Once the vision and strategy have been effectively communicated, the change leader has to ensure that the employees are empowered so that they can implement the strategy. This involves the removal of organizational barriers that thwart the implementation of the change vision.

In successful turnarounds, empowered people strive to achieve visible, meaningful, and unambiguous progress quickly. Progress through short-term wins energizes the change helpers, enlightens the pessimists, defuses the cynics, and builds momentum for the change effort (Kotter, 2002). By building momentum, the change leader and the guiding team ensure that the turnaround process does not stall, urgency is maintained, commitment to the vision remains the priority, and the company moves through a series of projects which take it nearer the end of the turnaround process.

A turnaround process will come unstuck if the organizational changes are not

embedded in the very culture of the enterprise. It is the responsibility of change leaders to ensure that the changes made during the turnaround process are made to stick by nurturing a new organizational culture. The goal is to succeed in creating a new, supportive culture that provides roots for the new ways of operating.

Organizational culture is "the collection of basic assumptions, values, norms and artifacts that are shared by and, influence the behavior of an organization's members" (Burnes, 2004:602). Culture is found in every organization and its influence is all encompassing. Effective change leaders understand its importance and strive to shape and use it to set boundaries – unwritten standards of acceptable behavior. Organizational culture provides employees with a sense of identity and helps them commit to the organization's vision and goals. It guides employee behavior in a given situation and reinforces standards of group behavior.

Effective change leaders know that the culture of an organization can only change when employee behavior changes. The central challenge in the turnaround process is therefore not strategy, nor culture but changing people's behavior – it precedes all other change. The effective leader must influence people's feelings and emotions so that employees can abandon the emotions that undermine change and embrace the emotions that facilitate change (Kotter, 2002). To influence emotions positively the change leader must inject into the organization optimism and hope for the future and establish quickly in the workplace a positive emotional climate. This enables people regain confidence in themselves, in the group, in the system and in the organization. "Confidence is reflected in behavior that propels winning" and is founded on accountability, collaboration and initiative (Kanter, 2004:46).

Leading a successful turnaround requires transformational leadership. In the context of a business, transformational leadership refers to the process whereby a leader engages employees and inspires them to achieve large-scale organizational change (Northouse, 2003). Carlos Ghosn employed transformational leadership when effecting the turnaround of Nissan (Magee, 2003). Equally Gerstner displayed transformational leadership in the "reinvention" of IBM (Gerstner, 2003). Leadership is indeed a process that transforms individuals and groups by affecting their emotions, values and motives so that they can transcend their expectations.

Transformational leaders recognized the need for change and create a sense of urgency to break down complacency, paralysis, fear and pessimism that prevent people from facing the challenges. They have the responsibility to ensure that a vision emerges from the collective interests of individuals and groups, that a strategy is crafted and that a guiding team is put together to communicate and implement the strategy. Finally, transformational leaders ensure that the changes are institutionalized in the organizational culture. If the changes are not firmly anchored in the culture, the turnaround process will remain fragile and the transformation may not stick for long (Kotter, 1996).

Since transformational leadership is so crucial to the success of a turnaround process, it is useful to examine briefly the leadership factors that characterize transformational leadership (Northouse, 2003). However, it is important to note first that transformational leadership is effective only when it succeeds in changing the behavior of people in an organization. This is why the most fundamental problem in leading a turnaround process is changing the

behavior of people. "The key to this behavior shift, so clear in successful transformations, is less about analysis and thinking and more about seeing and feeling."(Kotter: 2002,179). Transformational leaders succeed firstly not because of the formal data, analysis, reports and presentations they are able to assemble, but because of their ability to show people compellingly what the problems are and how to resolve them. Secondly, they succeed because they are able to deliver confidence within and outside the organization through their belief in other people. "When leaders believe in other people, confidence grows, and winning becomes more attainable"(Kanter:2004:328).

The fundamental tasks of a transformational leader are to generate excitement, optimism, and a passion for the job ahead and to create an atmosphere conducive to accountability, collaboration and initiative (Kanter, 2004). Individuals who are able to produce transformational leadership tend to have a strong set of internal values and ideals that motivate people to act in ways that promote organizational goals rather than their self-interests. Such leaders are able to manage and direct people's emotions so that people as individuals and members of a group are able to commit themselves to an organization and its goals. These leaders typically exhibit strong emotional intelligence competencies in four areas: self-awareness, self-management, social awareness and relationship management (Goleman et al, 2002). These are the emotional resources that transformational leaders require in order to thrive amidst chaos and turbulent changes.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1. Introduction

The research was a case study which investigated the implementation of a turnaround strategy at Morison Engineering Limited during the period September, 2002 to August, 2007. During the period MEL underwent a successful turnaround and the objective of the research was to study the implementation of the turnaround strategy.

3.2. Research Design

A case study is an in-depth investigation of an institution or a phenomenon which enables the researcher to access insightful information from people's individual and collective memories and experiences. The approach was an interpretive mode of enquiry which was used to conduct an in-depth investigation of the outcome of decisions and actions taken by directors, management and employees of MEL during the implementation of the turnaround strategy.

The case study approach to research has been widely used to investigate individual and group interactions, behavior and attitudes in different organizational contexts and it is particularly suitable for examining the implementation of a turnaround strategy. Many other studies have successfully adopted a similar research design including those studies that relate to the turnaround of Kenya Commercial Bank (Situma, 2006) Nissan (Magee, 2003) and IBM (Gerstner, 2003).

3.3 Data Collection

Collection of primary data was done through in-depth personal interviews conducted by the researcher. The interviews were carried out face-to-face using unstructured interview guide schedules of open-ended questions. Data collection was done as the interview progressed and probing was used in order to collect in-depth information. The respondents were two directors, the CEO and departmental managers of MEL.

Secondary data was used to supplement the primary data. This was achieved through desk analysis of available company records which included budgets and financial statements for the period under study.

3.4 Data Analysis

The data was largely in the form of texts which was analysed as data collection was in progress. The researcher evaluated closely the usefulness of information contained in the texts. Categories, themes and patterns emerging from the texts were determined and their relevance to the research objective was established. Data analysis was carried out during the process of data collection in order to ensure that emerging patterns of structure and meaning responded to the research problem.

Secondary data, and in particular financial statements, was analysed and reorganized where necessary for better comprehension. The financial statements reproduced in the research were abridged for relevance to the research objective.

CHAPTER FOUR: RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

This report is on the findings of a case study research on the implementation of a turnaround strategy at Morison Engineering Limited during the period September, 2002 to August 2007. The research was conducted in August/September 2007 and involved personal interviews of two directors, the CEO and two senior executives of the Company. The two directors have been involved with the Company during the last twenty years while the CEO has worked in the Company for eleven years. The interviews were conducted face-to-face using open-ended questions. The primary data collected was supplemented by secondary data obtained from the Company.

4.2 Causes of Poor Performance

In 2002 MEL recorded a turnover of Shs.38 million and an operating loss of Shs.7.9 million (Appendix 3, page 62). Total borrowings by the Company were shs.28.1 million and the shareholders funds were negative Shs.2.4 million. Progressive poor performance during prior years had culminated in the disastrous results recorded in 2002. The causes of poor performance were both internal and external and ranged from corrupt management to the absence of a competitive strategy and an economy in decline.

MEL had a history of incompetent management since its incorporation in 1986 when it acquired the business formerly owned by J.L. Morison & Jones Kenya Ltd. The senior management was poorly educated and lacked adequate technical and managerial skills. The first university educated manager joined the company in 1991 while the first qualified accountant did so in 1996. All the management processes at MEL were suffering from inadequate

management competencies, particularly in the finance and accounting function. Policies in all functional areas were rudimentary and employees had insufficient guidelines to assist them in decision-making and problem-solving.

Poor leadership contributed even more to MEL's poor performance. The CEO was unable to provide strategic direction or execute effectively strategies agreed by the board of directors. The poor leadership prevailing was unable to develop a vision for the future and MEL was unable to cope with change. Without strategies for the future, organizational priorities were not developed, empowerment was not encouraged, and the organization was in a drift. The leadership had little self-confidence, intolerance and withdrawal crept in, denial became acceptable, and decision-making when practiced was by the chosen few.

Apart from incompetent management and poor leadership, the other internal cause of poor performance was a culture of negativity. Accountability and teamwork were discouraged, initiative and transparency were reprimanded. Ideas were only tolerated if they came from the CEO and any display of confidence met with disapproval from an intolerant leadership. Employees lost interest in quality work and in serving customers, and unwanted customers took their business to the competition. A culture of blame, denial, disrespect and helplessness set in, employees and their managers lost their sense of integrity and trust. Self-interest and self-aggrandizement were tolerated, managers and employees started faking sales, cheating and perpetrating frauds. Wide-spread corruption was abetted by the CEO.

Incompetent management, poor leadership and a culture of negativity within the Company could not provide the market with the required products and service. The fire protection product range marketed by the Company was too narrow and diversification and product development strategies agreed with

the board were poorly implemented. Atlas Fire Security, the fire protection trading division of MEL, was the best known brand in the industry but was losing market share fast. Its products were imported from traditional markets with high manufacturing costs. The high cost products were loaded with fat margins required to support inflated operating expenses and the resultant selling prices were 30% higher than competition. Servicing of fire protection equipment, previously a distinctive competence of MEL, and a source of competitive advantage, was suffering from high product costs and a demoralised service department. Consequently, major corporations were terminating service contracts and awarding them to competition.

Cost management was largely ignored within MEL, in spite of exhortations from the board. Product distribution costs had been growing even as revenue generation and debt collection were going down. A new branch, the third in the country after Nairobi and Mombasa, was set up in Eldoret, at a time when the economy was on the decline. Plant and equipment were old and servicing and maintenance costs were mounting up. Increased loan facilities generated increased finance costs and working capital management was worsening. All in all, the cost base was growing even as the revenue base was declining.

The board of directors did not effectively supervise the management and the CEO and this failure contributed to the poor performance of MEL. Directors failed to effectively determine MEL's mission and strategic objectives. The mission and strategic objectives were general and short on details. The directors' role on resource allocation for strategy implementation was episodic and their role in strategic control was limited. The CEO controlled and selected the information reaching the board and board members had no independent means of verifying the information. The external auditors were to the directors, the only independent source of information on the company's

performance and their information was only available after the annual audit. Overall, the board failed to appoint strategic leaders to shape corporate strategy, monitor strategy implementation, have effective internal processes put in place, and influence the development of a strategy-supportive culture.

The internal causes of declining performance were accompanied by external causes. In Kenya, the decade of the 1990s was characterized by intense political activity, tribal clashes, high levels of corruption, infrastructure collapse, and an economy that was performing poorly. Companies were retrenching and closing down branches, farmers were not receiving regular payments for their produce and government institutions were in a paralysis. For the majority of organizations in the country, fire protection was not a priority and companies were spending less and less on fire protection equipment and service. In 2002 the country recorded a negative growth of 0.2%, even as MEL was recording its highest loss ever.

As the Kenyan economy deteriorated, competition in the fire protection industry changed its nature. Family-owned hardware businesses entered the industry with ease given the low barriers to entry. They linked up with building contractors and introduced unethical methods of competition which enabled them gain a growing share of the industry market. Other family-owned businesses found market segments that were not well-served by the main players in the fire protection industry and were thereafter able to expand to the rest of the industry. These developments in the industry created opportunities for some of the MEL employees who were poorly motivated and were of questionable ethical behavior. They started secretly working for competitors, supplying them with trade secrets and even "selling" customer orders to them. MEL stocks started to disappear and later successful break-ins were made into the Company's warehouse, occasioning further loss to the Company.

4.3 The Turnaround Situation

MEL was in a severe turnaround situation in September, 2002. The Company was about to collapse and imminent bankruptcy was near. The directors discovered the severity of the situation when the CEO went on leave and one of the directors became acting CEO. After a physical stock take, it was discovered that stocks had been deliberately overstated from actual stocks of about Shs.7 million in the stores to Shs. 15 million in the accounting records. Earlier in the year, imported goods had been auctioned at the port of Mombasa because the Company could not find the cash to pay duty and VAT. Other imported goods were, in September 2002, about to be auctioned for similar reasons but the directors intervened just on time to save the situation.

Massive fraud had been perpetrated so as to report fake sales and receivables for the current and prior years. Fake profits had been recorded and more than Shs.12 million of tax paid. MEL was running an overdraft of Shs. 19 million at a cost of Shs. 3 million per year. Salaries were not being paid on time and local creditors had stopped further supplies, with some threatening legal action. In one of the branches, employees were selling goods for cash and pocketing the proceeds. Some employees realized that MEL was like a sinking ship and decided to jump ship before disaster struck.

The turnaround situation at MEL in September 2002 was so severe that closure of the Company was contemplated. The directors of AMH decided that closing down MEL would be more harmful to the long-term interests of the group and its shareholders than mounting a rescue. A turnaround strategy was quickly crafted and its implementation was undertaken immediately.

4.4 The Turnaround Strategy

The turnaround strategy crafted for MEL in September, 2002 had three

fundamental objectives. The first objective was to stabilize MEL's financial situation by implementing a retrenchment strategy within four months. The second objective was to restore the Company back into profitability by rebuilding its organizational capabilities to give it a source of sustainable competitive advantage. This was to be done through a recovery strategy to be implemented within a period of about two years. The third objective was to restructure the Company so that it could develop the capacity for sustainable profitable growth. This capacity was to be created through a corporate strategy to be implemented over a period of about four years. The three strategies were overlapping as they were to be implemented simultaneously.

The retrenchment strategy aimed at halting the company decline through cost and asset reductions. Cost reduction was carried out through closure of loss making activities, laying off employees, extending the life of machinery and eliminating promotional activities. Asset reduction focused on getting rid of assets non essential to the firm's core activities, or those that were considered to be underproductive. More productive assets were to be saved for use during the recovery strategy phase. As indicated above, the retrenchment strategy had an internal focus, and aimed at eliminating inefficiencies from within the Company.

The recovery strategy had an external focus and its objective was to address the challenges that the firm was facing in the external environment and particularly the industry environment. The strategy was designed to employ entrepreneurial strategies that would help the company regain as quickly as possible its predownturn levels of performance.

The corporate strategy that MEL was to implement over a period of four years consisted of two generic strategies and two grand strategies. A low-cost leadership strategy would enable MEL regain lost market share and enjoy

higher profit margins while a differentiation strategy would enable the Company rebuild customer loyalty. The two grand strategies that MEL implemented were a product development strategy and a related diversification strategy. The product development strategy was crafted to enable MEL introduce new products to be marketed to its existing customers through existing channels. The related diversification strategy was to lead MEL to diversify horizontally into new activities requiring the use of current resources and competencies.

4.5 Strategy Implementation

The implementation of the retrenchment strategy at MEL started in September 2002, when the board terminated the services of the CEO and seconded at no cost a director to act as the Company's CEO. Other cost reduction measures included the closure of the loss-making Eldoret branch, and the disposal of two old vehicles. The Company also discussed and agreed with the union not to increase salaries during the year 2003, provided the same applied for all employees including senior management. Other cost reduction measures relating to use of telephones, medical benefits and travel were implemented. The retrenchment strategy enabled the Company to conserve cash and inventory by implementing efficiency measures.

The recovery strategy had the objective of rebuilding as soon as possible internal and external confidence with all the company's stakeholders. Employees needed to be assured that there was a future for MEL while customers and suppliers needed assurances that MEL had the capacity to honor its obligations to them. Meetings were held with employees to make them understand the Company situation, and to explain to them how committed the AMH Group was to the survival and recovery of MEL.

Other meetings were held with the company's bankers and major local suppliers to assure them that the AMH directors were reinvesting in the future of MEL and that the group was undertaking to honor all the obligations of the distressed subsidiary.

The second objective of the recovery strategy was to recreate strategic direction for the company. The stakeholders needed to be reassured that in view of negative impressions created by the competition, MEL was going to remain in the fire protection industry. This was achieved through intensified meetings with customers and through increased visibility in the marketplace through selective advertising. MEL stepped up its marketing and promotional activities by participating in tenders and seeking close associations with architects and consulting engineers. Through these activities, MEL reaffirmed its commitment to regain its position in the fire protection industry and to grow further through new products and services. MEL commenced during the same period to canvass the industry players to form an association for the promotion and protection of mutual industry interests. The Company was thus signaling to the industry that it intended to regain before long its strategic leadership position.

The third objective that the recovery strategy planned to achieve was a rebuilding of MEL's strategic capability which had been lost over a number of years. MEL had a narrow product base and steps were taken to ensure that the Company was able to offer within Kenya, any product and service that customers required. This was done through increased product sourcing and through technical agreements with European firms. Product quality and cost were also given more attention. Servicing of customers' equipment, a competence developed by MEL in the past, was also revived and strengthened. Training in sales and marketing and customer service was also conducted for all staff.

The technical and managerial skills of the employees of MEL had gotten weaker over time and there was needed to reverse the trend urgently. New recruitment guidelines emphasizing high educational and professional qualifications were put in place. Engineering qualifications were made mandatory for all positions in field operations. For the first time in the history of the Company a qualified engineer was put in charge of the Mombasa branch.

Rebuilding strategic capability therefore required MEL to renew its resources and competences. Its parent, AMH, took over MEL's bank loan and generally provided financial resources required for the implementation of the recovery strategy. AMH also gave financial undertaking to some suppliers of MEL who were reluctant to do business with the Company. With the help of its tax advisors, MEL was also able to document and file a Shs. 12 million claim for a tax refund covering the period when fraudulent taxable profit was reported.

As indicated above, the turnaround strategy crafted by MEL included a corporate strategy which was to be implemented over a period of about four years. The corporate strategy was designed to give MEL a competitive advantage over its competitors in the fire protection industry, and enable the Company achieve its long-term objective of creating sustainable profitable growth. Two generic strategies and two grand strategies were chosen for implementation in order to give MEL competitive advantage over its rivals. The first generic strategy to be implemented was a low-cost leadership strategy.

For a number of years, MEL had imported its products from high-cost countries like the U.K. and South Africa. As an alternative, the Company had acquired some of its products locally from importers and at high prices. The high cost of goods sold by the Company had proved uncompetitive and had caused loss of market share. In October 2002, MEL started looking for cheaper

sources of supply and managed to commence shipments from Spain and India at a much lower landed cost than from U.K. and South Africa. Later, other low-cost suppliers were identified in Malaysia and China, thus enabling MEL to charge lower prices and even enjoy higher profit margins.

MEL was also able to implement a differentiation strategy based on marketing and competence approaches. The Company was the only player in the market that provided a country-wide servicing of fire prevention equipment. This competence was appreciated immensely by corporate customers, especially in the banking and oil industries, who had branches all over Kenya. MEL strengthened its ability to offer the service country-wide and increased its service revenue by more than 300% between 2002 and 2006.

Atlas Fire Security is a brand owned by MEL and is the strongest brand in the fire protection industry in Kenya. Starting from 2002, MEL invested in the promotion of the brand through advertising. The Company was able to implement a differentiation strategy based on the brand "Atlas Fire Security", focusing on corporate customers who valued the services of a strong brand.

It took longer for MEL to implement the two grand strategies it had identified early in 2003. The product development strategy had the objective of increasing market share through increased product offering. The market for electronic fire detection systems and plumbing systems was growing and MEL had neither the required products for the two systems nor the expertise to specify and install them in factories, commercial and public buildings. In 2003 MEL started sourcing the necessary products for the two systems and hired people with the required skills. The implementation of the product development strategy has enabled MEL to offer electronic fire detection systems and plumbing systems to a growing number of customers in the hotel and oil industries, retailing and banking. MEL is now recognized by architects,

and consulting engineers as a serious provider of the two systems anywhere in Kenya.

MEL had tried to implement a related diversification strategy without much success since the late 1990s. The strategy was revisited in 2003 with the objective of using resources and competencies within MEL to import and distribute generators and air-conditioners through the network of the customers who buy fire protection equipment and service from the Company. Banks, retailers like supermarkets, oil companies and hotels all use generators in their establishments. Some of them also use air-conditioners and MEL counts many of them as its customers for fire protection services. MEL management were of the view that it could exploit the opportunities to market generators and air-conditioners, and indeed other products like pumps, through its existing customers. The Company was in the late 1990s able to import and install a few generators. However, it has not been able to increase turnover through generator sales due to its inability to locate a low-cost supplier. Recently, the Company was able to source a low-cost supplier and MEL management hopes to recommence selling generators before the end of 2007.

The implementation of the diversification strategy has also met with a lot of challenges with regard to the marketing of air-conditioners. Again, identifying a supplier of competitively priced and good quality air conditioners, has been a major challenge. MEL imported its first units of air-conditioners in 2002 but as reported above, the consignment was auctioned at the port of Mombasa when the management was unable to pay duty for the units. Between 2003 and 2006, MEL tried to gain expertise in marketing and installing air-conditioners purchased locally and some significant results were achieved. Early in 2007, MEL imported a consignment of air-conditioners which it has

managed to sell with relative success. A second consignment of air-conditioners is expected in the country in October 2007, and MEL is convinced that it will succeed in realizing its diversification strategy this time round.

The corporate strategy implemented by MEL since 2003 forms part of its turnaround strategy, and has so far covered market-oriented strategies. However, MEL also implemented strategies that focused on the "internal" organization. These strategies addressed organizational structure, leadership and culture and are fundamental to strategy implementation. In September 2002, MEL had three branches, Nairobi, Mombasa and Eldoret, the last two headed by branch managers who reported to the CEO. Also reporting to the CEO were the Chief Accountant and the Technical Manager. The service department was headed by a Supervisor who reported to the Technical Manager. However, in reality, the reporting lines were not respected and the CEO had everybody answerable more or less directly to him.

Effective strategy implementation required that the organizational muddle be resolved. Eldoret branch was closed down as reported above and all marketing activities outside the Coast area were put under the Nairobi branch headed eventually by a Technical Sales Manager. The marketing activities for the Coast area, including servicing, were put under the Mombasa Branch Manager.

The former Technical Manager was appointed Assistant General Manager and eventually appointed the CEO in 2005 when the Director who was acting CEO relinquished the position. The functional organizational structure of the Company makes it possible to combine technical, marketing and administrative responsibilities under a functional head. This structure has

worked well for MEL and has enabled the Company to implement successfully the market-oriented strategies it has been pursuing over the last four years.

During the implementation of the corporate strategy, significant progress has been achieved with regard to providing MEL with an organizational leadership capable of establishing direction, embracing change and building a team to implement strategy. The leadership has achieved considerable success with regard to strategy implementation, growth in turnover and profitability, creating organization capabilities and rebuilding MEL. Within the Company, leadership is well distributed across all functional areas, teamwork is being practiced and professionalism is largely visible. The Company has now one of the best professional technical team in the industry.

From the owners' perspective, the implementation of the turnaround strategy

Organizational culture, as is to be expected, has taken a long time to change so as to be fully supportive of the strategy implementation. The human resources development strategy under implementation since 2003 recognizes the need to have employees that are well educated, have the necessary technical qualifications, are remunerated well by industry standards, value integrity, customer service and professionalism. Although remnants of the old culture still linger, MEL has today a culture that appreciates and supports customer service, loyalty to the organization, discipline, respect for others and integrity.

The implementation of the turnaround strategy over the last five years, starting September 2002 has been quite successful, though not dramatic as can be seen from Appendices 1, 2, and 3 on pages 57 to 59. Between 2002 and 2006 turnover increased by 87%, from Shs. 38 million to Shs.71 million. Sales per employee increased by 96% from Shs.905,000 to Shs.1,775,000 while operating expenses per employee increased by 15.6% from Shs. 610,000

to Shs.705,000 during the same period. The operating income during the same period grew from a loss of Shs. 7.9 million to a profit of Shs.7.7 million.

Forecast results for 2007 will record a dramatic growth in comparison with the past. Between 2002 and 2007 turnover will record a 163% growth, sales per employee will record a productivity growth of 190%, while operating expenses will have grown by 46%. The operating income is expected to reach Shs. 16.2 million in 2007 and the Company plans to declare a small dividend for the first time in fifteen years. The corporate plan for the period 2007 to 2009 indicates that MEL expects growth in turnover and profitability to be sustained and improved during the next two years.

From the owners' perspective, the implementation of the turnaround strategy of MEL has been quite successful and the prospects for a sustainable profitable growth over the longer term look bright. From the industry perspective, the recovery of MEL has been quite phenomenal. A company that was on its knees five years ago has managed to turn round and challenge the competition successfully as well as regain a leading position in the fire protection industry.

5.1 Introduction

The case study research on the implementation of a turnaround strategy at MEL was undertaken for two main reasons. Firstly, the implementation of the turnaround strategy had achieved a significant success and this elicited a need to understand what causes successful strategy implementation. Secondly, since the implementation had not been a total success, there arose a need to understand the causes of failure in turnaround efforts. After literature review revealed that the failure rate of turnaround efforts can be as high as 70%, it became even more important to examine the problem from a wider perspective in order to try and understand the causes of high failure rate in turnaround efforts.

The research was conducted in August/September 2007 and it was therefore possible to include in the study current management information on the success of the strategy implementation. The research findings were based on primary and secondary data.

5.2 Summary

Research revealed that MEL was in a worse state as at September 2002 than initially understood. The assets of the Company were grossly overstated while the liabilities were highly understated and the Company was indeed technically insolvent (Appendix 2, page 61) Information given to the board at the time by the CEO before he was sacked was so distorted that even the audited accounts for the period 1997 to 2001 could not be relied on. Consultants had to be brought in to reconstruct the books of accounts for the five year period before the 2002 accounting records could be relied on. In such an environment strategy formulation and implementation was a

nightmare. Financing the implementation of the turnaround strategy under the conditions of insolvency required a stream of funds from the AMH Group and without it MEL would have gone into bankruptcy.

Implementing a turnaround strategy requires good leadership and an efficient management which did not exist at MEL in September, 2002. Given the circumstances, hiring a CEO from outside the Company to come and implement the turnaround strategy would have ended in failure, which would have worsened the situation. Luckily, AMH made available, and at its own cost, a director with many years of general management experience, and with a good knowledge of the MEL business. This assistance from AMH helped to reestablish internal and external confidence at MEL which was crucial to the implementation of a turnaround strategy.

This confidence helped create a positive emotional climate within the Company. Employees were being asked to make sacrifices so that the Company and their jobs could be saved, and a positive emotional climate helped convince even the union that sacrifices had to be made by all. The positive climate also made it easier to get rid of those employees who were poor performers.

The Company culture was and still remains the biggest obstacle to strategy implementation and change. In September 2002, the Company was wallowing in hopelessness, indiscipline, mistrust and disinterest in the Company's survival. Integrity was in short supply all round and theft and perpetration of fraud were tolerated. Too many employees were busy looking after themselves and stealing from customers was a common occurrence. A lot of this culture of negativity has disappeared and new values and standards of behavior have been embraced. However, much remains to be done in creating a culture that seeks high standards of performance, support for the customer, teamwork, and integrity.

At the end of 2004 the AMH director who had acted as CEO since September 2002 handed over the leadership of the Company to the current CEO who had done a tremendous job in the revival of the Company. Without the new CEO's loyalty, integrity, energy and commitment to see the turnaround succeed, MEL would probably have gone under. However, declaring victory after two years was premature. The Company continued to suffer from a shortage of management skills especially in the finance and accounting function. Recruiting good middle managers with good technical and managerial skills, has been a major handicap which has slowed down the turnaround process. Execution is the key to a successful turnaround and good execution requires functional leadership with adequate skills. It has proved difficult to recruit functional managers combining engineering knowledge with managerial skills. Without doubt this problem has contributed to the slower-than-expected pace of recovery.

The business processes have not been fully supportive to the implementation of the turnaround strategy. It was wrongly assumed that the business processes would evolve as the turnaround process progressed. Inadequate attention was given to the processes and no attempt was made to rationalize, upgrade and streamline them. Information processing has also remained inadequate in spite of efforts to computerize some operations. Consequently, the management information system is unable to produce accurate information on a timely basis for decision-making. Performance measurement is therefore unsatisfactory and this has slowed down the implementation of performance-based remuneration plans.

This summary has so far focused on the internal effects of the turnaround efforts and it is now time to look at the implementation of the turnaround strategy from an external focus. Externally, the turnaround has been hailed as

a complete success. Two years ago MEL bankers gave the Company a vote of confidence when they removed the Company from the "to watch" list. Local suppliers have also given MEL a vote of confidence and increased credit facilities while more and more overseas manufacturers are eager to have MEL act as their local partners. External confidence has enabled MEL buy new vehicles through lease hire and this has boosted the morale of the field operations' staff. MEL has to work closely with architects and consulting engineers on customers' projects and they too are happy working in partnership with MEL.

Confidence has also been fully rebuilt between MEL and its customers. Major corporations have their fire protection equipment serviced by MEL on contract and have come to respect the technical expertise of the Company. However, more work needs to be done on marketing the Company and creating closer partnerships with corporate bodies. A close relationship will be vital for the success of the diversification strategy which is currently in progress.

A healthier relationship exists between the Company and its competitors. MEL has regained the respect of its competitors and the role it has played in the establishment of the industry association has earned it great admiration with all industry players including government ministries. The ownership of MEL by AMH has given MEL a kind of special status within the industry and in the market place. Consequently, MEL is gradually becoming a supplier of goods to those competitors who do not have the capability to import in big quantities items like fire extinguishers.

The ownership of MEL by the AMH Group has played a major role in the successful turnaround of the Company. The Group financed the implementation of the turnaround and provided leadership and management

skills which were vital ingredients in managing the change. The relationship between the Group and MEL is evolving and new corporate governance mechanisms will require to be developed. The corporate parent is reviewing its relationship with MEL, and indeed its other subsidiaries, so that its value-addition role becomes more effective and clear to all.

5.3 Conclusion

Organizations in decline waste a lot of resources and opportunities that would have otherwise benefited shareholders and nations. Those Organizations that go burst waste even more resources. The success of many turnarounds including MEL, is proof that most organizational failures can be avoided. The failure rate can be dramatically reduced if decline in performance could be spotted earlier, and actions taken to bolster leadership and strengthen capacity for change. The accelerating rate of change in the global economy will require more leadership in organizations than ever before. Organizations need to invest much more in leadership training and development than in the past.

The MEL turnaround shows that the longer an organization has been in decline the harder and longer the turnaround. If the board of MEL and the AMH Group had put in place mechanisms for strategic control, the decline would have been noticed much earlier and corrective action taken. A lot of pain, financial loss and missed opportunities would have been avoided. The board and the corporate parent have to increase the amount and quality of corporate governance, and in particular strategic leadership, as well as corporate parent value-addition. Better strategic and operational control mechanisms are also required to spot and arrest early improprieties and financial shenanigans, that inevitably lead to performance decline.

A turnaround is about individuals and organizations catching up with change.

Organizations and their employees can never be at par with change, for change is always running ahead of everybody. But increased efforts in change management can enable organizations not to lag too far behind change and to stay close to the "edge of chaos". Strategy-making and strategy implementation need to become organizational competencies that enable organizations to pursue change constantly and effectively.

Literature review and the research on the MEL turnaround lead to the conclusion that the key to successful change is a blend of leadership and management processes unique to each and every turnaround. Turnarounds in global organizations appear to emphasize the role of leadership while turnarounds in SMEs put more emphasis on the role of management. In global organizations management processes are pretty complex structures while in SMEs they tend to be loose, simple, and somewhat imprecise. This might explain why SMEs appear to need more management than leadership and vice versa for global companies. Whatever the case may be, all change needs to be led and managed. Since every transformational change is unique, each turnaround requires its own blend of leadership and management.

Organizations change because people change. Where people change their behavior positively, success tends to follow. Where people do not succeed in changing their behavior in line with corporate objectives, organizations tend to fail. People behavior determines organizational culture and a culture of negativity, like the one that prevailed at MEL, leads to decline in performance which eventually creates distress in the organization. Leadership and management processes need to be exercised in an appropriate organizational culture so that successful turnarounds can be sustained.

The success or failure of any change effort is a function of the leadership and

management efforts applied to a given cultural and economic context. Viewed from this perspective, it can be argued that the failure rate of turnaround efforts can be significantly reduced if sufficient amounts of leadership and management efforts are applied to a given cultural and economic context. However, given the increasing rate of change in the global environment, more leadership is required to enable organizations cope with change. Furthermore, leadership is about influencing people so that they can change their behavior and their organizations. It follows, therefore, that in the 21st century, leadership will be the most crucial factor in the implementation of a turnaround strategy as well as in reducing the rate of failure in turnaround efforts.

5.4 Limitations of the Study

Most research on the implementation of turnaround strategies have been carried out on global organizations and especially American, European and Japanese firms. There is, therefore, not much literature of case study research on SMEs and especially those operating in developing countries like Kenya. This severe limitation makes it difficult to generalize research findings based on SMEs like MEL.

There is a paucity of published data on SMEs in Kenya. This is unfortunate given the importance of SMEs to the country's economy. It is therefore difficult to obtain comparative data for research purposes. Researchers have to rely more on primary data and market intelligence in spite of the time and financial constraints that they have to contend with.

5.5 Suggestions for Further Research

SMEs are of vital importance to the national and global economies. Yet little

published material is available on factors that influence the success or failure of SME turnarounds. More research on the success or failure of turnaround efforts in SMEs would increase knowledge in an area of business research that has received little attention so far. Overall, further research on the role of leadership and management in effective strategy implementation would be beneficial to those who study or implement organizational change.

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	RST	AUD	RST	AUD	RST	AUD
Cost of Sales	22.2	22.0	17.8	22.2	18.0	22.1
Gross Profit	20.6	24.5	17.3	22.0	18.9	22.3
Expenses	24.6	25.3	24.1	24.7	20.7	25.7
Operating (Loss) Profit	(4.0)	(0.2)	(6.5)	(2.7)	(1.8)	(3.5)

RST = Restated (actual) audited figures

AUD = Audited (fraudulent) figures

Source: Morrison Engineering Limited Audited Accounts

Appendix 1: Restated Income Statements

Comparative Audited Actual and Audited Fraudulent
Income Statements For 1998, 1999, 2000 and 2001 in Shs. (millions)

	RST	AUD	RST	AUD	RST	AUD
	2001	2001	2000	2000	1999	1999
Sales	42.8	77.6	35.1	72.8	36.9	66.0
Cost of Sales	22.2	43.0	17.8	39.2	18.0	36.5
Gross Profit	20.6	34.6	17.3	33.6	18.9	29.5
Expenses	24.6	24.3	24.1	24.1	20.7	20.7
Operating (Loss) Profit	(4.0)	10.3	(6.8)	9.5	(1.8)	8.8

RST = Restated (actual) audited figures

AUD = Audited (fraudulent) figures

Source: Morison Engineering Limited Audited Accounts

Appendix 2: Balance Sheets: Year 2001 and 2002
In KShs.(thousand)

	2001 (AUD)	2001 (RST)	2002 (ACT)
Non current assets			
Machinery, motor vehicles and equipment	<u>613</u>	613	355
Deferred tax asset	<u>322</u>	<u>6951</u>	<u>10199</u>
	<u>935</u>	<u>7564</u>	<u>10554</u>
Current assets			
Inventories	<u>19589</u>	10027	7450
Trade and other receivables	<u>36367</u>	10605	10287
Tax recoverable	<u>445</u>	12276	12785
Due from group companies	-	223	-
Work in progress	<u>7980</u>	203	444
Cash and bank balances	<u>95</u>	<u>95</u>	<u>64</u>
	<u>64476</u>	<u>33429</u>	<u>31030</u>
Total assets	<u>65411</u>	<u>40993</u>	<u>41584</u>
Capital and reserves			
Share capital	<u>8040</u>	8040	8040
Revenue reserves	<u>28737</u>	<u>(3210)</u>	<u>(10487)</u>
	<u>36777</u>	<u>4830</u>	<u>(2447)</u>
Current liabilities			
Trade and other payables	<u>5151</u>	12680	15913
Due to group companies	<u>4707</u>	4707	21653
Bank borrowings	<u>18776</u>	<u>18776</u>	<u>6465</u>
	<u>28634</u>	<u>36163</u>	<u>44031</u>
Total equity and liabilities	<u>65411</u>	<u>40993</u>	<u>41584</u>

(AUD) = Original audited (fraudulent) 2001 balance sheet
(RST) = Restated (actual) audited 2001 balance sheet
(ACT) = Actual Audited 2002 Balance Sheet
Source: Morison Engineering Limited

Appendix 3: Comparative Income Statements

Abridged Audited Income Statements for the period

2002 to 2007 (forecast)

In KShs.(thousand)

	2002	2003	2004	2005	2006	2007
Turnover	37,929	42,449	63,888	70,364	70,887	100,000
Cost of Sales	20,490	23,290	37,953	41,224	35,018	50,000
Gross margin	17,439	19,159	25,935	29,140	35,869	50,000
Total expenses	25,316	18,878	24,295	27,526	28,193	33,818
Operating income	(7,877)	281	1,640	1,614	7,676	16,182
Employees	42	43	41	42	40	38

Years 2002 to 2006 results are as per the audited accounts

Year 2007 is a forecast

Source: Morison Engineering Limited

Appendix 4: Interview Guide

Name-----

Position held in the Company-----

Date of joining the Company-----

SECTION A: CAUSES OF DECLINE

- 1) How would you describe the performance of MEL upto 2002?
- 2) What caused the decline in performance during the period?
- 3) How would you describe the competition during the period?
- 4) How would you describe the leadership and management of MEL during the period?
- 5) How would you describe the relations between the Directors and management during the period?
- 6) How would you describe the relations between the management and the other employees during the period?
- 7) What were the immediate causes of the financial crisis in 2002?
- 8) Describe the strategies, if any, implemented by the Company up to 2002.

SECTION B: TURNAROUND PERIOD: 2002-2007

- 1) What strategies, if any, have been implemented since 2002?
- 2) How successful are the strategies?
- 3) Describe how the strategies have been implemented.
- 4) What are the products /services marketed by the Company and how successful are they?

- 5) What is the competitive position of MEL currently?
- 6) How strong is the financial position of the Company currently?
- 7) How is the Company currently perceived in the market place?
- 8) How would you describe the Company's strengths and weaknesses currently?
- 9) Describe the relations between the Board of Directors and the management since 2002.
- 10) Describe the relations between the management and other employees currently.
- 11) Describe the culture that prevailed in MEL in 2002.
- 12) How would you describe the Company's internal processes currently?
- 13) Does the Company encourage training for employees?
- 14) What employee training has been conducted in the last twelve months?
- 15) Do employees have adequate skills for current job demands?
- 16) How would you describe empowerment and teamwork within the Company?

SECTION C: THE FUTURE

- 1) How do you see the future of MEL?
- 2) What strategies is MEL implementing for the future?
- 3) Is the Company on a growth mode and if so, in what directions?
- 4) How well are the strategies understood and supported by the Board?

- 5) How well are the strategies understood and supported by the management and other employees?
- 6) How soon do you think MEL will have fully repaid its Group loans?
- 7) How soon do you see MEL being able to pay a dividend?
- 8) What new products and service will the Company introduce over the next 12 months?
- 9) Do you see any competence gaps in MEL currently?
- 10) What is the vision of MEL?
- 11) What vision and strategic objectives is the Company currently pursuing?
- 12) What challenges is MEL currently facing and why?
- 13) How would you describe the culture of MEL currently?
- 14) Is the culture fully supportive of the vision and strategy of MEL?
- 15) How would you describe current management practice at MEL?
- 16) How would you describe current leadership at MEL?