DECLARATION

This is to declare that this research project is my original work and has not been presented to this or any other University or Institution of Higher Learning for any academic award.

Signed: ____________________    Date: ______________

ANTHONY BARASA MASINDE
REG NUMBER: D61/70171/2008

I declare that this research project has been submitted for examination with my approval as university supervisor.

Signed: ____________________    Date: ______________

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DEDICATION

This Project is dedicated to my family for their patience, encouragement, and understanding and support throughout my study.
ACKNOWLEDGEMENTS

The road to the completion of this project has been challenging but exciting and inspiring. I was able to walk through this journey with the help of people who were very close to me that encouraged me and gave me useful guidance when it was required. The successful completion is attributable to my effort which was complimented by others who committed their time, expertise, resources and dedication. The following persons deserve special recognition.

I want to single out my supervisor Dr. MARY KINOTI whose supervision, support, and guidance in the entire research undertaking was beyond measure.

Finally, appreciation goes to the entire Management team of Kenya Railways Corporation (KRC) for their cooperation during data collection. May the Lord bless them abundantly.
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### ABBREVIATIONS AND ACRONYM

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<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
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<td>GOK</td>
<td>Government of Kenya</td>
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<td>ICT</td>
<td>Information and Communication Technology</td>
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<td>KRC</td>
<td>Kenya Railways Corporation</td>
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<td>PPP</td>
<td>Public Private Partnerships</td>
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<td>R &amp; D</td>
<td>Research and Development</td>
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<td>RBV</td>
<td>Resource Based View</td>
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<td>RVR</td>
<td>Rift Valley Railways</td>
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<td>SGR</td>
<td>Standard Gauge Railway</td>
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<td>SM</td>
<td>Strategic management</td>
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<td>TMT</td>
<td>Top Management Team</td>
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ABSTRACT

The business environment globally and locally is increasingly becoming competitive. Gaining and sustaining a competitive advantage is harder than ever. In order to cope with these changes, strategic management has taken the centre stage in organizations that intend to succeed in the turbulent business environment. Many public corporations experiencing decline in performance have opted to implement turnaround strategies to improve their performance. KRC is one of these institutions that are yet to effectively manage challenges facing the implementation of its turnaround strategies. This study therefore sought to determine the challenges faced in implementation of turnaround strategies at Kenya Railway Corporation. The study adopted a case study research design. Both primary and secondary data was used to gather information on the topical issue. The respondents were the General Manager-Finance, General Manager-Business Development, Project Manager –SGR, Human Resource and Administration Manager and Procurement and Logistics Manager since they were critical in the formulation of the corporate strategies at the corporation. The data collected was analyzed using content analysis technique because it was qualitative in nature. Data was summarized and presented under KRC’s strategic themes in response to the strategic objectives. The study found out that KRC Management adopted a number of strategies to turnaround the Corporation. These strategies included: privatization through concession management, diversifying of its funding sources by harnessing the potential of its vast real estate portfolio, modernizing the rail infrastructure through the construction of the new Standard gauge railway (SGR), expanding urban passenger transport services, reopening of all viable closed branch rail lines, restructuring its organization structure and strengthening corporate governance. The study concluded that the challenges faced in the implementation of the turnaround strategies were a weak financial base, stiff competition from road and pipeline transport, dilapidated and obsolete rail infrastructure and assets, lack of documents of title for a large portion of the real estate portfolio, insecurity including vandalism and encroachment on the railway corridor, dismal performance by the concessionaire Rift Valley Railways(RVR) and the weak legal regulatory framework governing State Corporations in Kenya. The study recommends that continued Government support especially on infrastructure development and on regulatory reforms is critical in harnessing the potential of KRC. The study further recommends that to fully realize the vast potential of KRCs diversification strategy into the real estate sector, the recruitment of a professional property management firm that would independently run it’s the real estate portfolio is critical.
DEFINITION OF OPERATIONAL TERMS AND KEY WORDS

Challenges; prevailing, new or emerging circumstances that threaten the existence and sustainability of firm/ business entity.

Effectiveness; Appropriate ways of managing new and emerging situations

Kenya Railways Corporation; It is a State Corporation created by an Act of Parliament to provide a coordinated and integrated system within Kenya of rail and inland waterways transport services and inland port facilities.

Leadership; The ability to influence a group of people towards the achievement of organizational goals

Strategic Change; planned Long term organizational transformation.

Strategy Implementation; Is a way in which a company creates the organizational arrangement that allows it to pursue its strategy successfully.

Turn around process; Stages of implementing a successful transformation.

Turnaround strategy; Set of consequential, directive, long-term decisions and actions targeted at the reversal of a perceived crisis that threatens the firm’s survival.
CHAPTER ONE
INTRODUCTION

1.1 Background of the Study
The business environment globally and locally is increasingly becoming competitive. Businesses today are leaner and meaner as they struggle to survive in an increasingly competitive environment. It’s now more difficult to gain and sustain a competitive advantage. New entrepreneurs, e-commerce and social networking have substantially changed the business landscape. Firms of all sizes are now faced with ever increasing opportunities and also challenges as compared to prior years. This leaves little or no room for error during the process of formulating and implementing strategic plans. In order to cope with these changes, strategic management has taken the center stage in organizations that intend to succeed in the turbulent business environment (David, 2011). David further describes strategic management as the science and art used to formulate, implement and evaluate decisions across functions that enables firms to achieve their objectives. Though formulation of strategy is important, strategy implementation is the critical cog of every successful strategy including a turnaround strategy (Pearce and Robinson, 2004).

The evolution of turnaround research may have had contributions from strategy literature theories like Dynamic Capability Theory, RBV (Resource based view) theory and Organizational theory. While focusing on addressing the challenges of implementation of turnaround strategy in Public Sector Organizations, this study will be anchored on the three theories. The RBV theory proposes that a firm’s performance is primarily determined by the resources it possesses which substantially contribute to a competitive advantage that can be sustained by the firm (Hofer & Schendel, 1978). Dynamic Capability Theory can be explained as “the capability to attain congruence with the ever-changing commerce environment by renewal of competencies” by “reconfiguring, integrating and adapting a firms skills which may be internal or external, functional competencies and resources” (Teece et al, 1997). Daft and Armstrong (2012) describe Organization Theory as the macro examining of an organization since it involves analyzing the entire organization as one unit. It examines the organization to detect
patterns and problem solving structures, maximizing efficiency so as to meet the stakeholder’s expectations.

Railway transportation is ranked highly when considering freight and passenger services in Kenya coming second only to road transportation. (ERSWEC 2003-2007). Railway transportation is highly favored by both national and county governments due to its capability to offer quality and attractive transport especially in urban areas in so doing it gives its share to an efficient and sustainable transport network. The strategy on economic recovery for creation of wealth and employment creation identifies the transport segment as the 3rd pillar of Kenya’s economic recovery. The railway system in Kenya is managed by KRC (Kenya Railways) and it includes a railway track of two thousand seven hundred and sixty five kilometers. Furthermore apart from providing carriage services within Kenya it also extends the same services to transit cargo from landlocked countries including Uganda, Rwanda, Democratic Republic of Congo, Burundi and other countries in the East African region.

1.1.1 The Concept of Strategy
Strategy to an organization is, amongst other things, concentrating on focusing on a handful of important factors of success, core competencies and critical resources. It is about benchmarking and adopting best practices and speedily reacting to the ever changing market and competitive changes (Porter 1996).

Thompson and Martin (2005) describe strategy as a blueprint that describes ways in which a firm can attain its goals and objectives. It involves committing resources in the present to in line with future anticipated results. Furthermore, the strategies developed offer a basis under which decisions by management can be made (Robbins et al, 2000).

1.1.2 Turnaround Strategy
The Concept of turnaround is broadly defined as the reversal of a declining situation which is characterized by a negative performance trend and negative performance levels. Pearce and Robbins (1993) defines Turnaround as “the combination of activities that
corporations that were once successful but have been faced with performance severely declining results over a long time period overcome their challenges and return to their formerly prosperous results or even exceed them. A turnaround encompasses two main activities that is retrenchment and recovery. Thus, turnaround is being represented by the literature as a process that has its retrenchment and recovery responses tailored principally by the causes of decline.

According to Chowdhury (2002) turnaround strategy can be defined as a set of long term, directive, consequential actions and decisions that are directed at the reversal of a crisis that is seen as a threat to the survival of the firm. To achieve an effective turnaround strategy, a firm must first stem its decline and select an appropriate recovering strategy (Situma, 2006). An organizational turnaround is said to occur at the moment when the organization has adequately recovered to its normal processes after surviving threats to its continuity with its profits having increased substantially. (Barker and Duhaime, 1997). However, for a turnaround strategy to be effective and succeed it must have a proper implementation and it must align with customer demands depends on its implementation; how it must be in line with the customer demands, the firms capability and vision (Coulsion, 2004).

1.1.3 Strategy implementation
Implementation of strategy can be described as the process by which plans are converted into action. Strategy Implementation is the process that converts plans into action tasks and makes sure that such tasks are performed in such a way that the stated objectives of the plan will be accomplished Kotler (1984). For a strategy to be implemented successfully the issues to consider include creation of a supportive organizational culture, matching of the organizational structure to strategy, putting in place a linkage between performance and sanctions or incentives among other issues (David, 2011).

Implementation of strategy can be seen as a procedure that induces various forms of learning in the organization since strategic responses and threats from the environment are the main trigger for the learning process in an organization (Lehner, 2004).
Implementation of strategy is the sum total of processes and choices that are deemed necessary for the implementation of a strategic plan. (Wheelen & Hunger, 1992).

1.1.4 Public Sector Organizations in Kenya

According to the report of the Presidential task force on Parastatal Reforms (2013), Public Sector Organizations commonly referred to as state or public corporations are formed to implement state programmes and policies to enhance socio-economic development. Further State Corporations were established on the premise that they will accelerate development both socially and economically, address the issue of local economic disparity, add to the participation of Kenyan citizens in the economy, encourage local entrepreneurship and promotion of direct foreign investments through joint ventures (Sessional Paper No. 10 of 1965). This acted as the starting point of the state investing in the agricultural, manufacturing and various other sectors of the economy this are now referred to as state corporations or parastatals.

Worries have been raised as to whether the present structures of governance are capable of developing long term strategies to meet these many obligations. In view of the important roles played by these organizations in the country’s economic blueprint, there is need to understand the root cause of the underperformance of the majority of state corporations which gobble up a significant amount of the scarce Government resources (Report by the Presidential Taskforce on Parastatal Reforms 2013).

1.1.5 Kenya Railways Corporation

Kenya Railways Corporation was created a Parliamentary Act (Cap 397) Kenyan Laws, and started operating on 20th January 1978. This Act was amended through The Kenya Railways (Amendment) Act 2005 which made it possible for the Board of Directors to enter into concession agreements or other forms of management to enhance provision of railway transportation services.

The major challenges facing the railway industry in Kenya that affects its capability to offer quality service to passengers includes: adverse conditions of operating railway transport services; obsolete, non-functional infrastructure; reduced connectivity between
the countries in the region; very low traffic for the existing railway network; unsatisfactory agreements for operating passenger transport services with negative impact on the financial stability of operators and chronic lack of resources to finance the maintenance and rehabilitation of infrastructure inducing the vicious circle of continuous decrease of quality of services (World Bank report, 2006).

1.2 Research Problem

For an organization to achieve its goals it’s a requirement that the strategy formulated to achieve such goals is successfully implemented (Sekoyo, 2010). Implementation of strategy has proved to be one of the most difficult areas for management. It requires substantial thought, resources and energy (Johnson and Scholes 2002).

Using evidence from strategic management on turnaround strategies, empirical investigations indicate that various studies have been carried out. Pearce and Robbins (1993) in their study “Towards Improved Theory and Research on Business Turnaround,” concludes that firms whose performance declined mainly due to external problems, achieved turnarounds through new entrepreneurial strategies while corporations that declined due to of internal problems achieved turnarounds through efficiency. Boyne (2006), who reviewed literature concerning turnaround strategies for private firms identified three main strategies that under-performing state corporations can implement so as to improve their performance. These include retrenchment, reorganization and repositioning. While the three are all turnaround strategies state corporations have difficulties at the level at which they can implement repositioning or retrenchment strategies.

Schoenberg et al (2013) in their study “strategies for business turnaround and recovery” made a review of twenty two empirical studies investigating turnarounds of businesses during previous periods of economic recessions. From their studies they arrived at six most effective turnaround strategies which were consistent among the twenty two studies done. Of these turnaround strategies, four relate to what is contained in the turnaround strategies which include efficiencies in cost, retrenchment of assets, concentrating on the core activities of the organization and strategizing for the future. The other two focus on
the process that is required to implement the change, rejuvenation of the firms leadership and a change in culture.

A number of local studies have been conducted on the difficulties encountered when implementing strategy and specifically turnaround strategies in Kenyan companies. Simba (2010) on the “Challenges faced in the implementation of turnaround strategy at KMC” He identified leadership that is ineffective, frequent machine breakdown, problems in cash flow, a negative culture, lack of adequate funding to the marketing department, resistance to change, export markets loss, lack of stakeholder involvement, adoption of new technology at a very slow rate and not linking the budget to a specific strategic priority as the key challenges. Mutunga (2013) identified environmental turbulence and uncertainty, organization culture, political interference, resistance to change and restrictive government policies as the key challenges. Kiveu (2013) identified Macro-environmental forces, inability to tie strategy to the institutions of the firm, resistance to change, inadequate resources, strategic drift and failure to adapt to modern information communication technologies as the key challenges faced in implementation of turnaround strategies at new KCC. Additionally, Kimutai (2010), Sekoya (2010), and Njeru (2010) conducted studies focused on the challenges faced in implementing turnaround strategies in Telkom (k) Ltd, NSSF, and National Bank of Kenya respectively.

However, no study has been identified for the railway industry and specifically on the challenges faced when implementing its strategy on turnaround. Therefore there exists a gap that needs to be studied. Kenya Railways Corporation is thus a perfect choice especially when we consider that the Government has embarked on a massive infrastructure project in the construction of the Standard Gauge Railway (SGR). Therefore the research seeks to answer the following question: What challenges does KRC face when implementing its turnaround strategy?
1.3 Objectives of the study

i. To establish the turnaround strategies adopted by KRC

ii. To determine the challenges faced by KRC when implementing turnaround strategies.

1.4 Value of the Study

In the recent past there has been a scrutiny at the performance of government corporations with the ever increasing scarcity of resources and the ever increasing needs. The researcher hoped that academicians would benefit from this study by using it as a basis for further research thus adding to the body of knowledge and studies on the turnaround strategies in state corporations. It will specifically be very useful to those interested in delving into the public sector transformational change which has very few studies conducted on it.

Secondly, the research is expected to provide valuable insights to the management and staff of KRC on turnaround strategy management. This will help in the formulation of relevant policies and also help in identifying solutions to some of the challenges faced in strategy implementation in the organization.

The stakeholders in the industry will greatly benefit from this study since it will enable them understand their contribution and tasks in the transforming organizations that may be on the decline. The policy makers will also benefit from this study by helping them make better decisions on effective change management.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction
This chapter points out the main issues surrounding turnaround strategy in corporations that may be facing a performance decline. The chapter will review available literature on the various theories that form the basis of this research, turnaround strategies, the turnaround process and challenges faced when implementing turnaround strategies.

2.2 Theoretical Foundation
Various theories have been developed by various scholars in the study of strategic management. While focusing on addressing the challenges of implementation of turnaround strategy in Public Sector Organizations, this research is anchored on three theories which include Resource Based theory, Dynamic Capability theory and Organizational Theory.

2.2.1 Resource Based View Theory
The resource based view theory (RBV) suggests that superior performance of a firm is mainly determined by its resources. The resource based view approach to achieve competitive advantage emerged during the 1980’s and 1990’s is an approach to achieving competitive advantage that emerged in the 1980s and 1990s, this was after studies done by Werner felt(1984), Prahalad & Hamel (1990) and Barney (1991). This theory suggests that corporations should look internally for sources of competitive advantage rather that searching from the external competitive environment. Rumelt (1991) defines the firm as consisting of capabilities and resources. These capabilities and resources include intangible, human, financial and physical assets. The theory is based on the fact that resources lack homogeneity and mobility. It was concluded that the resource based view is one of the main theories of strategic management that can be used to explain a firm’s performance.
2.2.2 Dynamic Capability Theory
The Dynamic capability theory can be defined as the ability of the firm to transform its resources based on how the environment changes. In other words how it adapts its resources to the ever changing environment. Therefore dynamic capabilities can be looked upon as the process of resource acquisition, resource integration and resource transformation or reconfiguration with an aim of coming up with new activities that will create value for the firm. (Teece et al 1997). The assumption of the theory is that the greater the dynamic capabilities of a firm the higher its performance compared to those firms lacking dynamic capabilities. The theory aims at understanding the use of dynamic capabilities by firms for the creation and sustaining of competitive advantage over other firms by how they respond to and create environmental changes (Teece, 2007). Firms today therefore create value through innovation. Examples of dynamic capabilities include: new process development, Idea generation, new product development and market disruptiveness capabilities.

2.2.3 Organization Theory
According to Daft and Armstrong (2012), Organization theory analyses organizations to recognize structures and patterns for how they maximize efficiency and productivity, solve problems and meet the expectations of stakeholders. Organization theory then formulates normative theories on how best an organization can function by using these patterns. Therefore, one can study the Organizational Theory so as to learn the best way to operate a firm or identify firms that are run in such a manner that there is a very high likelihood of them being successful. When the organizational theory is applied several benefits accrue to both the organization and the over-all society.

2.3 Turnaround strategies
Different scholars studying different business environment circumstances have identified different strategies of addressing prevailing challenges. Akrani (2012) describes a turnaround strategy as an analytical approach used in solving the main or root cause of failure of a firm that is making losses that will help it know the most crucial reasons behind its failure. To solve the issues facing such a company, restructuring and a long-term strategic plan must be designed and implemented. Boyne, (2009) points out that
turnaround strategy is defined by the components of the turnaround strategy which include stabilizing, managing, fixing and funding of a distressed or underperforming corporation that are implemented during the stages of the turnaround. The turnaround strategy’s overall goal is to put back a distressed or underperforming firm to normality in terms of satisfactory levels of cash flow, profitability, liquidity and solvency. To achieve such objectives, a turnaround strategy must initially start with reversing the factors that caused the financial distress, resolution of the financial crisis, achievement of a speedy financial performance, regaining of shareholders trust and getting past internal constraints and characteristics of the industry which may not be favorable to the firm. There are generally two broad and overlapping stages of a turnaround that are acknowledged in available literature that is; decline stemming strategies and recovery (Robbins & Pearce, 1992). These strategies are described in the following subsections:

2.3.1 Cost efficiency strategy
The most effective strategy that can be implemented by a firm facing performance decline is cost efficiencies. Cost efficiencies consists of a wide range of actions which can be described as firefighting or belt tightening which aim at arriving at quick wins so as to stabilize finances in the short run as the firm comes up with more intricate strategies or to speedily improve its cash flow position (Bibault, 1982). Measures on Cost efficiency are normally the earliest measures to be implemented in any recovery strategy as they can be quickly implemented and have an almost instant effect and require minimal or no outlay of capital or resources (Hofer, 1980). The cost efficiencies that are commonly used by firms as noted in the literature include reducing Research and development, collection and reduction of debtors, reducing stock levels, increasing creditor payment periods, reducing marketing budget and freezing remuneration increases. (Hambrick & Schecter, 1983)

2.3.2 Asset Retrenchment
The second turnaround strategy is asset retrenchment which is often implemented concurrently with or immediately after the cost efficiency drive. An asset retrenchment strategy involves assessing areas of the organization that are underperforming and
determining whether their efficiencies can be increased or if it would be best to discontinue or divest from such an asset (Hofer 1980). Various studies have also shown that the asset retrenchment strategies are only implemented if strategies on cost efficiency don’t have a substantial effect on the company’s financial stability. However, it is normally the second step to follow after the cost efficiency strategy. (Robbins & Pearce, 1992). Filatotchev & Toms (2006) state that the effectiveness of asset retrenchment strategy as a part of the turnaround strategy largely relies on the ability of the firm to generate cash from disposal of any asset. There is a misconstrued perception that cash flows will be easily generated from asset disposal however this is not always the case since major difficulties are encountered during the disposal process due to low liquidity in the second hand market or exit barriers.

2.3.3 Focus on core activities
This is a strategy that has been frequently identified in literature and is implemented concurrently with the asset retrenchment strategy (Boyne & Meier, 2009). The focus on core activities strategy dwells on determination of the products, markets and customers that have the greatest potential to generate profitability and realigning the company’s activities to these areas. Most turnaround strategies that have achieved success have been associated with focusing on lines of products that the firm is best known for, the firm’s market segments that are considered loyal or less sensitive to changes in prices, and locations where the company has a distinctive competitive strength (Hambrick & Schecter, 1993); (Sudarsanam & Lai, 2001). It is therefore necessary for a company to redesign or restructure itself in a more effective way in line with its core business which requires rationalization, divestment or closure of its assets or products that do not align with its core activities (O’Neill, 1986a).

2.3.4 Build for the future
The build for the future strategy is normally implemented once the company is out of its immediate crisis and has achieved stability in its financial position. It logically comes after the three strategies mentioned above have been implemented. (Filatotchev & Toms, 2006). The recovery phase ought to be undertaken cautiously and will most likely be
implemented as a growth strategy from the gains obtained from the core focus strategy implementation.

2.3.5 Strategic Leadership
A change of the company’s chief executive officer is normally implemented early in the turnaround strategy. It acts as an indication of how deep the firm’s crisis are and urgent action is needed to correct the rot (Stopford and Baden-Fuller, 1990). There are two main reasons why the chief executive officer is replaced. The first being that the shareholders and the media place the responsibility of the negative performance on the CEO. When the incumbent CEO is replaced it sends out the message that change is in the air both to external parties and also to the employees (Daily & Dalton, 1995). The change is also a sign that the status quo is untenable, that the firm is serious in its readiness to transform itself and that the strategic turnaround has begun (Arogyaswamy et al., 1995). The second common reason for the chief executive officer’s replacement is when the current CEO either ignores or does not see the existing problems (Bibeault, 1982), or he applies past solutions to current problems (Arogyaswamy et al).

2.3.6 Changing the top management team
Apart from changing the CEO, changing part of the top management team (TMT) is also recommended (Kesner & Dalton, 1994). In most cases, most new CEO’s bring around with them their own trusted colleagues. Research has shown that one of the first actions that a firm should implement in its turnaround strategy is changing its top management as a prerequisite to ensure a successful turnaround (Hofer, 1980).

2.3.7 Corporate Culture Change
In conjunction with change in leadership, corporate culture change is very crucial so as to confront backward thinking and assumptions that are taken for granted that may be irrelevant to the current environment. Its only by doing this that past way of doing things can be shed off to give room for new employee behaviors. Studies have shown that the implementation of turnaround strategies should not only concentrate on change in
structures and systems but they should also seek to change the behaviors and mindsets of individuals, and that respecting and acknowledging this is paramount for success.

2.4 Turnaround Process
Collard (2011) identified the five stages of the process of a turnaround which include: change of management, analysis of the situation, emergency action, restructuring of the business and return to normality. The process is structured to begin with stabilization of the situation by addressing issues of management, assessing it and then taking emergency actions. The management change stage involves the selection of a chief executive officer who can implement the turnaround successfully. Secondly, the next stage in the processes involves situation analysis. The aim of this stage is to establish how severe the situation is and if it can be respond to a turnaround. Further, Collard’s model identifies the third stage as the emergency action stage. During this stage the aim is to regain situational control of especially the cash position of the firm. The fourth stage of the process involves business restructuring. The aim of this stage is the creation of profitability through the firms remaining operations. The final stage in the turnaround process involves the return to normalcy. This stage seeks to institutionalize the corporate culture changes so as to focus on profitability, return on assets employed (ROAE) and return on investments(ROI).

2.5 Challenges facing Turnaround Strategy Implementation
Bell et al (2010) asserts that the most complicated and time consuming part of strategic management is execution of the strategy, whereas formulation of the strategy is basically intellectual and creativity with emphasis on synthesizing and analyzing. Turnaround strategies implementation has been affected by severe challenges ranging from limited resources, severe time pressures and the reduced support by stakeholder Arogaswamy, Barker and Yasai-Ardekani (1995). Firms face unique challenges when implementing turnaround strategies which arise from internal and external sources alike. The challenges are explained in the following subsections:
2.5.1 Inability to Match Strategy to the Institutions of the Organization

The firm’s inability to come up with a strategy that ensures the firm’s daily activities, resources and work efforts are focused as much as possible towards strategy implementation is a major challenge (Coulision, 2004). Such tactics and plans are supposed to be developed at the operational or functional level of strategic management. The inability to link strategy to the firm’s institutions which include policies, processes, support systems, leadership, culture and structure is at the core of the problem.

2.5.2 Resistance to Change

Resistance to change also impacts negatively to turn around strategy implementation. Implementation of strategy does not automatically follow strategy formulation (Barker, & Duhaime, 1997). There always exists a level of resistance, which occurs every time there is a change from power structure and historic behavior. It thus involves various facets which include additional costs, instabilities and delays in the change process. Kotler (1996) asserts that a complacency culture from an incompetent leadership is the main reason why turnaround situations arise. Those managers who resist change to change develop a strong culture of arrogance and disregard the customer and shareholder input. More importantly, they don’t acknowledge the importance of leadership and they tend to block any act of innovation or initiative (Kotler, 1996).

2.5.3 Inadequate Resources

Inadequate resources such as human capacity, funds, skills, experience, machinery and equipment. Resources dictate how speedily or to what extent the turnaround strategy can be successfully implemented. If the resources are inadequate they will prevent the proper implementation of strategy in a firm and may also limit the range of strategies that can be implemented. Turnaround strategies sometimes do not succeed due to the lack of a proportionate financial and logistical backup plan Coulision (2004). The competences and resources of the firm enhance its strategic capabilities which enable the success of the selected strategies.
2.5.4 Macro Environmental Forces
These forces include economic, social cultural and political-legal, ecological and technological. Understanding these forces and proper planning can assist in solving this problem. With the changing environment, a number of influences emerge on an organization’s purpose (Furman and McGahan, 2002). Questions on who is supposed to be primarily served by the organization and which managers can be held responsible for strategy implementation. The changing expectations of various stakeholders influences the focus and purpose of the strategy (Johnson and Scholes, 2002). Influences of cultural originating from within the organization and also from the environment in which it operates also act as an influence to the strategy (Pearce and Robinson, 1994). The operating environment also does exert pressures which arise from stakeholders, creditors, suppliers, customers, government shareholders and the local community (Furman and McGahan, 2002).

2.5.5 Strategic Drift
According to Porter (1996), strategies fail progressively if they fail to tackle the strategic position of the organization causing its performance to deteriorate. Most organizations run into challenges due to their failure to recognize and deal with strategic drift. We can describe strategic drift as the situation where strategies gradually fail to tackle the strategic position of the firm (Hill & Jones, 2001). Firms experience long durations of relative continuity during which its strategy remains mainly unaltered or goes through incremental changes. There are usually various strong forces that can push a firm into strategic drift. The influence of individual and collective experience, prior decisions, political processes and organizational culture normally results to incremental changes in the strategy of an organization (Burnes, 2000). However, if adjustments in an organization’s environment happen at a greater speed than the rate at which incremental changes happen in the organization the organization will get out of line with its environment (Miller, 2005).
2.5.6 Failure to adapt to Modern Information Communication Technologies
The speed at which data can be analyzed and communications enacted has been transformed through the development of cheap and powerful information and communication technologies. Although most managers would accept that this is likely to impact on their own organizations they are left with considerable uncertainty about the direction and speed of those changes (Hill, and Jones, 2001). In order to reduce this uncertainty managers first need to assess the impact on their current and future position. This includes understanding how the business environment is changed by this development. Various studies have demonstrated that the issue of technology adoption is a complex one, as adopting a particular technology depends on many factors that contribute to the success or failure of IT adoption in organizations.

2.5.7 Inability to Acquire and Manage Knowledge
Organizations must be able to integrate knowledge from inside and around the organization to develop and deliver new products or service features. In a fast moving world constant improvement and change become essential to survival and success. So the ability to manage learning is vital (Tripsas & Gavetti, 2000) Innovation is essential which is the ability to change the ‘rules of the game’, ability to do business in new ways, the willingness to challenge the status quo in the industry or market and an awareness of how the organization’s competencies can be stretched to create new opportunities (Cater, 2006).

2.5.8 Government Influences
Government influence also challenges the implementation of turnaround strategies in that it may impose a certain strategy, which may not be the choice of the management and as such interfere with the strategy that the organization was pursuing initially. Government regulations, taxation policies, foreign trade regulations, social welfare policies and expectations will play a role in an organizations choice of strategy (Johnson and Scholes 2002).
2.5.9 Stakeholders interests and expectations

Stakeholder’s expectations and interests also challenge turnaround strategy implementation. Stakeholders are those individuals or groups who depend on the organization to fulfill their own goals and on whom, in turn; the organization depends (Johnson and Scholes, 2002). The strategy development of an organization is affected by the values and expectations of those who have power in and around the organization. In implementing turnaround strategy therefore, it is important to understand the expectations of different stakeholders in detail and the extent to which they are likely to influence an organizations purposes, objectives and strategies (Kimutai, 2010)
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction
This chapter looked at the research design, data collection and data analysis aspects which enabled completion of the study. It proposed the best research design to be employed, the tools and techniques to be used in data collection and finally, how the data was to be analyzed.

3.2 Research design
The research design that was adopted in this study was a case study. It is commonly used when the study involves a single organization with unique characteristics. The case study design was chosen because it gave an in-depth investigation of the key information on the challenges of implementation of turnaround strategies at KRC. This design supports the use of content analysis that has more material details with systematic characteristics leading to trends being achieved; and is specific to understanding of situations/phenomenon and not generalization of ideas. The researcher examined the data for the period from 2012 to 2016. This time period captures the period when KRC started implementing its strategic plan of 2012-2017. Studies that have adopted a similar research design include: Simba (2010), Mutunga (2010) and Kiveu (2013).

3.3 Data collection
Primary data was collected by means of an interview guide where senior management staffs were interviewed to enable collection of qualitative data. The respondents were the Managing Director, General Manager-Finance; Project Manager-SGR; General Manager Business Development; Procurement and Logistics Manager and Human Resource and Administration Manager. They were targeted since they were critical in formulating the corporate strategies of the organizations. Secondary data collection was done thorough scrutiny of the organizations strategic plan, other publications, organizations websites, and other studies and reports on the organization.
3.4 Data analysis

The data was analyzed using content analysis largely because it was qualitative in nature. This method is preferred since it allows the researcher to learn about underlying attitudes, biases or repeating themes (Mutunga 2010). The data analysis sought to establish the turnaround strategies employed by KRC and to establish the challenges faced in the implementation of the turnaround strategies.
CHAPTER FOUR
DATA ANALYSIS, INTERPRETATION OF RESULTS AND DISCUSSION

4.1 Introduction
This chapter outlines the analysis of data retrieved from the interview sessions with the top management team of Kenya Railways Corporation. Data collection was through interview guide and analyzed using content analysis. The interviewee engaged select senior managers who were considered to be critical in formulation of the overall corporate strategy, and specifically the Turnaround strategies of the corporation. Five (5) of the six (6) targeted members of the top management team were interviewed which constitutes (83%) response rate. The Researcher made reference to secondary data to support the facts given by the respondents. This included the strategic plan (2012-2017) and other policy documents that were made available. The researcher also examined from the data collected whether there was evidence to support that a particular strategy was followed by KRC and whether it yielded the desired effect to support the turnaround strategies. The data and information generated from these activities was analyzed, and collated for documentation of the findings.

4.2 Turnaround Strategies adopted by KRC
According to the findings, the strategies that were adopted by KRC in a bid to revive the organization were privatization through concession management of the corporation’s freight and passenger business segments; Strengthening funding capacity; diversifying of its funding sources by harnessing the potential of its vast real estate portfolio; investing in rail infrastructure through the construction of the new Standard gauge railway (SGR); expanding urban passenger transport services; reopening of all viable branch closed lines that operated in the past to tap into the demand created by the devolved county governments; restructuring the organizations structure to be in tandem with its revised corporate mandate and ensuring that the board and top management team adhered
to standards and principles of good corporate governance. These strategies are described in the following subsections;

4.2.1 Privatization through concession management
Following an Amendment of the Kenya Railways (Amendment) Act, 2005 that made it possible for the Board of Directors to enter into concession agreements or other forms of management for the provision of rail transport services, KRC conceded railway operations to Rift Valley Railways Ltd (K) RVR from November 1, 2006 for 25 years for freight services and 5 years for passenger services which lapsed in June 30th, 2012. The five-year concession was to recover costs from services to reduce reliance on the exchequer revenue and improve the quality in service delivery of freight and passengers railway services. The RVR concessions terms were to invest in the railway system, upgrade it, reduce inefficiencies, utilize a smaller work force, and generate an annual concession fee of 11.1 per cent in each country (Irandu 2000).

4.2.2 Strengthening funding capacity
A key strategic objective of KRC was to develop a sustainable funding model to raise at least Kshs 60 Billion per annum for development of railway infrastructure. Rail infrastructure in terms of railway line and rolling stocks (train wagons) is a huge financial undertaking because it requires a huge capital outlay that may be beyond the capacity of KRC. To raise the required resources, KRC was to achieve this through engaging donor and development partners, re-investment of 50% of the concession fees received from RVR and pursuing Public Private Partnership as an option for investments.

According to the findings, the financial strategies adopted by the finance department in relation to the financial turnaround in the organization included debt restructuring through conversion of its huge debt portfolio to equity which returned the Corporation back to solvency; diversification of its funding sources to reduce its reliance on government; setting up of the Railway Development Funding in conjunction with GoK anchored on a levy of 1.5% of the cost of overseas imports to support the financing of the Standard Gauge Railway and asset reduction through disposal of some of its land,
investment property and scrap immovable rolling stock. This concurs with the main objective of financial strategy in turnaround management which is to develop and use the financial strength of the business as an asset to enhance the competitiveness of the business (Scherrer 2003). These strategies seem to be paying off with the Corporation reporting a profit of **1.059 Billion** during the financial year ended 30th June 2015 representing an improvement of 68%.

### 4.2.3 Diversification of Sources of Revenue

KRC has a large real estate portfolio that has largely remained untapped. In a bid to diversify its revenue generating ability and enhance its long term financial sustainability, KRC has ventured into real estate business and has been scouting for investors to build cities on land surrounding its rail stations in Nairobi, Mombasa and Kisumu. KRC intends to build office blocks, shopping malls, hotels, parking bays and industrial parks on the 320 acres of land that is currently sitting idle and which it expects to earn Kshs 1 Billion annually in land lease fees. In furtherance of this new strategic direction, KRC completed the construction of a building in Westlands, Nairobi with a capacity of 140,000 square feet of office and retail space and which has a capacity to bring in Kshs 240 million in revenue per year when fully occupied.

From the findings it was established that the diversification strategy was driven by the business development department. The respondent stated that KRCs main source of revenue was from freight revenue (75%) and passenger revenue (25%), of which the functions had been conceded to a private firm RVR. To diversify and supplement their revenue streams the respondent informed the interviewee that KRC entered into the real estate business and have recently completed the construction of a building in Westlands, Nairobi with a capacity of 140,000 square feet of office and retail space. KRC has also leveraged its assets to grow the business through leasing of former staff houses and its vast idle land, building a strong rail brand on completion of the construction of the SGR, development of supply chain solutions with rail as dominant component and modernization of the railway infrastructure through investment in the new SGR to bring in more freight and passenger traffic onto rail.
4.2.4 Modernizing Rail Infrastructure
The Construction of the 472 km Standard Gauge Railway (SGR) which was one of the strategic objectives outlined in the KRC strategic plan 2012-2017 and is a flagship project under Vision 2030 is currently 90% complete. It is projected that when the construction of the SGR is complete, the transport and logistics sector landscape in Kenya and the East Africa region will be significantly altered.

According to the findings, it was established that the impact of the construction of the SGR would fundamentally change the way KRC has been conducting its business going forward. The respondent informed the interviewee that the SGR was a flagship project under the Kenya Vision 2030 development agenda and the biggest infrastructure project in Kenya since independence. That once the project was completed, it is expected to shorten the passenger travel time from Mombasa to Nairobi from ten (10) hours to four hours (4). Freight trains will complete the journey in six (6) hours. The SGR line has been designed with an axle load of 25 tonnes and could move 22 million tonnes/year at a speed of 80-100km/hr for freight trains and 120 km/hr for passenger trains. According to the Kenya National Bureau of Statistics (KNBS), the port of Mombasa Freight throughput currently stands at 25 million tonnes annually and KRC wants to increase its share of this volume of cargo which currently stands at only 5% whereas 95% of freight business from the port of Mombasa goes through road. The respondent also enumerated other benefits that would result from the project which include the reduction of freight costs from $0.20 per tonne/km to 0.08 per tonne/km; reduction of congestion at the port of Mombasa thus securing the port as the preferred facility in the region; it will contribute to the GDP growth by at least 1.5% during construction and subsequent operation; help in reducing wear and tear on highways and hence reduce maintenance cost; reduce the number of heavy trucks on our roads thereby reducing accidents and protect the environment through reduced carbon emission.

4.2.5 Improving Market Share
KRC market share of urban transport in Nairobi currently stands at 12,000 passengers daily and is dismally low considering that 90% of Nairobi population use public transport
(Wahome 2013). KRC are targeting to transport 500,000 people per day through developing and implementing quality operating standards in their urban commuter services. KRC also intends to open five branch lines that were closed to tap into the demand created by the devolved county governments after studying their viability.

4.2.6 Reorganization of the Corporation
This strategy involved the restructuring of the organization structure in tandem with KRCs revised corporate mandate, making changes in their planning systems and procurement processes, human resource initiatives and organizational culture change.

According to the findings, the strategies adopted by the human resource and administration department in order to support the turnaround strategy at KRC were cutting down its bloated workforce through not filling vacancies and voluntary retirement schemes, ensuring all staff internalize the organization’s revised corporate objectives, leveraging the skills and capabilities of the staff through performance management and multiskilling of staff to enhance efficiency and increase productivity and organization culture change in line with the revised corporate mandate. Further, the department recruited new staff to bring in the needed expertise and to fill the vacancies created by the new organization structure that put in place new offices specifically mandated to oversee the implementation of the SGR project. On the issue of culture change, the respondent informed the interviewee that KRC had been given relative commercial autonomy to run the entity which was a departure from the past when significant decision making was political. This autonomy enabled the HR department to recruit staff without political interference, offer training programs to existing staff on change management to transit them from the old bad habits and thereby improve their productivity.

4.2.7 Strengthening Corporate Governance
The revision of KRCs mandate necessitated a realignment of the institutional management framework to ensure the Corporation was run professionally with sufficient commercial autonomy. According to KRC Annual reports, the board committed itself to run the corporation according to the standards and principles of good corporate
governance. This aspect was reinforced by the recommendations of the Presidential Taskforce Report on Parastatal reforms (2013) which recommended that a Uniform Code of Governance and Leadership will be developed to provide a firm foundation for good corporate governance and be applicable across all State Corporations based on the Constitution of Kenya 2010 including Articles 10 and 232.

According to the findings, the bulk of KRCs top management team was recruited competitively as opposed to the previous arrangement where most staff there were seconded by the Parent Ministry, the Ministry of Transport.

4.2.8 Increased adoption of Technology

This strategy involved the use of technology in all KRCs internal processes to enhance efficiency and productivity. Increased use of technology ensured better capacity utilization and a reduction in turnaround time of railway locomotives resulting in improving technical efficiency in provision of services

From the findings, it was established that KRC had invested heavily in technology over the strategic plan period and this enabled the corporation to cut down on red tape that had slowed down decision making in key departments. For instance, the principal strategy adopted by the procurement and logistics department in enhancing their operational efficiencies in their supply chain systems was through increased use of technology. The respondent informed the interviewee that this strategy was implemented through the adoption of electronic procurement to enhance competitiveness and quality access of goods and services needed. Further, this strategy ensured timely assessment, delivery and payment of the procured commodities and streamlining of relevant procurement systems to be aligned to the overall procurement strategy in order to achieve value for money. The legal framework provided by the new procurement laws (Public Procurement and Asset Disposal Act 2015) enabled KRC to fully embed the use of technology in their procurement processes.
4.3 Challenges Faced By KRC in Implementation of the Strategies
The study established some of the challenges faced in the implementation of the turnaround strategies in the corporation which included weak financial base, dilapidated and obsolete rail infrastructure and assets, lack of documents of title for a large portion of the real estate portfolio, insecurity including vandalism and encroachment of the railway corridors, dismal performance by the concessionaire Rift Valley Railways(RVR) and the weak legal regulatory framework governing State Corporations in Kenya.

4.3.1 Weak Financial Base
KRC had been on a loss making streak for many years and by June 2010, they had made cumulative losses amounting to Kshs.22, 037,905,614 (Malago and Jonyo 2015). The amount of loans on-lent by GoK to KRC, inclusive of interest and charges, amounted to Ksh.39.993 billion as at June 2010. KRC had defaulted on the repayment of Ksh.1.5 billion loan on-lent to it by GoK and was technically insolvent (Presidential Taskforce report on Parastatal Reforms, 2013).

According to the findings, lack of financial resources was a major challenge encountered by the finance department in implementation of the turnaround strategies. KRC heavily relied on government support to stay afloat and by year 2010, it was technically insolvent. Part of the financial strategies implemented was debt restructuring. KRC had a huge debt portfolio that had accumulated over the years as a result of loans taken from development partners. As part of the debt restructuring process, in the financial year 2011/2012, GoK agreed to convert on lent loans amounting to Kshs 40.09 Billion into equity returning the corporation back to solvency. The study also found out that GoK agreed to pay long outstanding principle taxes and waiving interest and penalties to improve the corporation’s financial position. In the same year, GoK provided financial support to KRC amounting to Kshs 1.7 Billion to support railway development (Source: KRC Audited Annual Report 2011/2012). The debt restructuring efforts had the effect of making KRCs balance sheet attractive which enabled them to be legally secure to enter into long term financial commitments. The study established that lack of investments in rail infrastructure was attributed to inadequate funding from the national exchequer. It is
widely acknowledged that rail business is very capital intensive since investment in rail infrastructure and rolling stock involves the deployment of huge capital outlays. The current construction of the SGR whereby the Government of Kenya signed a loan agreement with the Exim bank of China to finance 85% of Kshs 327 Billion and the Government financing 15% attests to this fact. Such huge capital outlays are way beyond the financial capacity of KRC.

4.3.2 Poor Performance of Concessionaire (RVR)
KRC had privatized part of its business segments to RVR as part of its strategy to enhance profitability. However, the performance of RVR had been below expectations and had even failed to meet some of the statutory obligations contained in the concession agreement. This affected the financial position of KRC since it had projected to re-invest part of the proceeds from the concession fee into railway development.

The Finance department was responsible for monitoring the performance of the concessionaire (RVR) who’s performance to date had been dismal thereby compounding the challenges faced in implementation of the financial turnaround strategies. According to the findings, freight cargo haulage had gone down from 15% in 2006 when the concession was signed to 5% in 2015. Passenger business was even more dismal with RVR transporting a mere 0.03% (12,000) of the total commuters who use public transport in Nairobi daily This forced KRC to offer RVR shorter one year contracts to allow them to consider new operators should they fail to meet the targets set in the concession agreement.

4.3.3 Dilapidated and Obsolete rail infrastructure/Assets
Due to lack of investments in repair and maintenance of the railway line by the Gok and general neglect, the state of the railway line has been poor leading to derailments and frequent accidents by the train wagons. The rolling stock (train wagons) are in a poor state due to poor maintenance and lack of spares.
According to the findings, the interviewee revealed that KRC had a wide range of old train locomotives fleet which broke down frequently hence increasing maintenance costs. The procurement and logistics department faced difficulties in sourcing for the required spare parts from the different overseas manufacturers and due to funding constraints, many train wagons were left in dilapidated state thereby compounding the challenges facing KRC in provision of services.

**4.3.4 Lack of documents of title**

KRC has a vast land portfolio spread all over the country but crucially, most of these land holdings lack title deeds. This has resulted in land grabbing and encroachment by squatters on the idle land that has remained unused due to general decline in the rail business over the years.

From the findings, the major challenge faced by the business development department in implementing its diversification strategy was lack of documents of title for a large portion of their real estate portfolio. The respondent informed the interviewee that KRCs diversification strategy was premised on leveraging its vast land holdings which currently lie idle to diversify its sources of revenue. In implementing this strategy, he cited the completion of construction of an office block in Westlands, Nairobi with 140,000 square feet of lettable retail and office space as an example of the strategic direction the corporation was taking in repositioning itself through additional revenue sources. To effectively manage their property holdings, they have recruited a professional property management firm.

**4.3.5 Insecurity, Vandalism and Encroachment of Railway corridor**

Insecurity along the railway line had persisted over the years with cargo train wagons being attacked by robbers and vandalism of the railway line. This was particularly pronounced during the 2007/8 post-election violence whereby a huge part of the railway track was vandalized cutting off the Nairobi-Malaba route to our neighbouring countries. This severely affected KRC bottom line with losses amounting to millions of shillings in lost revenue, compensation claims and litigation costs.
The findings revealed that slum encroachment on the railway corridor especially in Kibera and Mukuru was a major challenge in enhancing provision of services to the western part of the country and especially our neighbouring countries Uganda and Rwanda.

4.3.6 Weak Regulatory framework
The weak legal regime exposed KRC to strategic and operational risks which posed a challenge in realizing their full potential. The current legal framework inhibited KRC from being fully commercial because of its public service obligations. For instance the determination for setting of tariffs to charge passengers require prior approval from the Parent Ministry before implementation instead of letting market forces determine pricing decisions.

According to the Presidential task force report on Parastatal reforms (2013), the legislative environment for state corporations in Kenya is characterized by a myriad of legislation that is overlapping, conflicting, and fraught with duplicated provisions that lead to confusion in interpretation and application. This confusion leaves room for poor decision making and has stifled KRCs management from coming up with innovative ideas to enhance their overall performance. For instance, should KRC completely focus on profit maximization that may conflict with its public service obligations? This has placed an unnecessary obstacle for KRC in harnessing and exploiting its full potential.

4.5 Measures to overcome the identified Challenges
The respondents established that for KRC to overcome the identified challenges the following would have to be considered:

4.5.1 Enhanced Monitoring and Evaluation Mechanism by KRC
The respondents all agreed that the dismal performance of RVR was a major stumbling block towards attainment of KRCs financial turnaround objectives. The major source of revenue for railway companies is in freight and passenger business which KRC conceded to RVR. Since the signing of the contract in 2006 and the subsequent renewals, RVR has
failed to meet its contractual obligations and at times defaulted on repayment of the concession fees. To ensure compliance, KRC has enhanced its monitoring mechanisms and has applied sanctions where applicable to ensure RVR meets their contractual obligations especially on freight volumes. KRC has also secured the railway corridors that had been encroached on by informal settlements especially in Kibera and Mukuru to improve the operating environment for RVR. This was done through the Relocation Action Plan (RAP) whereby KRC partnered with the Government through construction of decent housing facilities to relocate the slum dwellers from the railway corridors. To mitigate itself against litigation risks from the concessionaire, KRC renegotiated the concession agreement with RVR and resorted to having one year rolling over contracts subject to satisfactory performance.

4.5.2 Sustainable Financing Model
The study found out that KRCs weak financial base contributed significantly to the poor implementation of its financial turnaround strategies. To address this challenge, KRC with the support of GoK developed a sustainable financing model specifically for railway infrastructure development. Railway business is capital intensive with very costly infrastructure in terms of rail truck, rolling stocks (locomotives), and other equipment. The Government is a major shareholder of KRC and therefore agreed to introduce a levy of 1.5% on all imports to support the financing of railway infrastructure development. In the year ending June 2015, Kenya Revenue authority reported to have collected Kshs 17.2 Billion from the railway development levy which KRC has been using to pay compensation claims to land owners where the SGR line is constructed. The Gok has also guaranteed loans taken by KRC for infrastructural development such as the 327 Billion loan that financed the construction of SGR.

4.5.3 Venturing into Real Estate
The study also established that KRC had ventured into the real estate business with a view to diversifying their sources of funding. For instance, in one of their real estate developments, they completed the construction of a seven storey mixed retail office development in Westlands Commercial Centre with a total of 140,000 square feet of
lettable retail and office space. The retail part of the building will be a comprehensive mix of retail service, food and entertainment outlets and the remainder will be offices. When the building is fully occupied, KRC is expected to rake in projected annual earnings of Kshs 240 million which will go a long way in sustaining the operations of the Corporation.

4.5.4 Relocation Action Plan
The Government of Kenya in conjunction with Kenya Railways has finalized the plan to relocate over 10,000 persons who had encroached on the railway corridors. They intend to move them into the newly constructed housing and business units in Kibera. The railway reserve land particularly in Mukuru and Kibera had been heavily encroached on both sides of the railway line and was a major source of insecurity and vandalism of railway lines and locomotives. This was cited by the respondents as one of the reasons for the drop in freight business to the neighboring countries. The purpose of the relocation action plan was to establish an extended safety corridor for railway operations and maintenance to minimize danger posed by accidents and derailments and to ensure smooth transit area for railway operations.

4.5.5 Modernizing the rail network
The construction of the SGR is the boldest attempt by KRC in modernizing the railway infrastructure. The construction is 90% complete and once completed it is expected to radically change the transport sector landscape in Kenya. Currently, road transporters control 95% of the freight and passenger business from Mombasa to Nairobi. Projections reveal that the SGR is expected to reduce freight and passenger costs in the region, reduce cost of doing business and spur economic growth and development in Kenya and the East African Region in general.

4.5.6 Reform of the Legal Framework
KRC has overtime experienced financial, technical and operational problems arising from poor corporate governance and inadequate investment. The legislative environment for state corporations in Kenya is characterized by a myriad of legislation that is overlapping,
conflicting, and fraught with duplicated provisions that lead to confusion in interpretation and application (Presidential task force report 2013). For instance during the 1990s, tariffs could not be increased in line with inflation due to regulatory restrictions. Political interference in the appointment and tenure of senior management was a common feature in the running of State corporations. In view of these challenges, KRC needs to make proposals for review of the State Corporation act to enable it have management and commercial autonomy to respond effectively to the challenges it is encountering especially from road competition.

4.5.7 Changes in organizational culture
KRC has made great strides in institutional reform and execution enhancement since it embraced strategic planning as part of the processes and tools for good corporate governance. Previously, political interference greatly influenced significant decision making that hindered the independence of the board and the top management team. KRC today has managed to bring on board the necessary specialized expertise to run the corporation and meet its strategic objectives outlined in their strategic plan (2012-2017) which has changed the overall organization culture that was hampered by institutional inertia and bureaucratic behavior. KRC has also invested in improving relations with its staff by providing them with comprehensive training in technical skills, customer service and change management in tandem with their revised corporate mandate currently being implemented.

4.6 Discussions
Literature on Turnaround strategies especially on the challenges of implementing them within the context of Public Sector Corporations has generated a lot of interest in the recent past. State Corporations in Kenya such as Kenya Airways, New KCC Ltd, Uchumi Supermarkets, Kenya Meat Commission etc have attempted to implement turnaround strategies with mixed results. Boyne (2006), after reviewing turnaround literature for private firms identified three primary strategies underperforming public sector organizations need to implement to improve performance; Retrenchment, Repositioning and Reorganization. Retrenchment includes initiatives like quitting difficult markets,
deleting unprofitable product lines, selling assets, out-sourcing and downsizing (Boyne & Meier, 2006). The central element of retrenchment strategy is an emphasis on cutting costs and raising efficiency’ (Boyne & Meier, 2005). Public Sector Corporations often face constraints on their ability to adopt retrenchment because of the political ramifications associated with such initiatives.

Repositioning strategy is focused on revenue generating initiatives. Boyne (2006) states that repositioning strategy involves several initiatives such as moving into new markets, seeking new sources of revenue, developing new products and altering the mission and image of a company. This is line with the findings from the study which found out that KRC was diversifying into the real estate business as a revenue generating strategy. The real estate sector in Kenya has witnessed phenomenal continuous growth thereby attracting new entrants into that market segment. However, critics have argued that KRCs venture to real estate business is ill advised and that instead, KRC should deploy those resources into its core business - rail based logistics. This is supported by the literature on turnaround strategy which emphasizes a focus on core business as a prerequisite for firms facing performance decline (Hambrick and Schecter, 1993; Sudarsanam and Lai, 2001).

Reorganization strategy focuses on restructuring the various components of the organization to align the various functions to the new strategy. Boyne (2006) states that this includes initiatives such as changes in planning systems, the extent of decentralization, styles of human resources management or organization culture. According to the findings, KRC created new offices to manage the SGR Project and a business development department whose mandate was to seek new business opportunities in line with their revised corporate mandate. The findings also reveal that the Human Resource department organized training programs on change management for the staff in tandem with the refocused strategic direction KRC was taking.

The turnaround strategies implemented at KRC which are partly mentioned above enabled the researcher to identify four critical challenges that inhibited the successful
implementation of the strategies namely: Inadequate resources, weak regulatory framework, and resistance to change and slow adoption to changing technology.

Resources available to an organization underpin the strategic capability of an organization since it is the resources that are deployed into the various implementing organs of the corporation. KRC had a weak financial base having accumulated cumulative losses before the implementation of the current strategic plan 2012-2017. KRC had been relying heavily on the exchequer for the sustenance of its operations and therefore were not able to fund infrastructure development for many years. The findings also revealed that KRC had been weighed down heavily by the huge debt in its books. They defaulted on their repayments because their business was making losses further sinking them into financial distress.

The Weak regulatory framework governing State Corporations was another challenge that affected the successful implementation of the turnaround strategies. State Corporations in Kenya are governed by the State Corporation Act Cap 446 of the laws of Kenya. According to the Presidential taskforce report on Parastatal reforms (2013), the Act had led to significant functional overlaps as well as inefficiency, financial mismanagement, waste and malpractices which was attributed to lack of a coordinating body. The report also attributed the problems facing State Corporations to absence of government administrative control. The findings concur with the report because it was established that KRC did not have sufficient commercial autonomy in making critical decisions since the Act categorizes the corporation as non-profit making. For instance, pricing decisions such as setting tariffs for its services at market rates have to receive approval from the parent ministry before adoption yet the government was not compensating KRC for providing services at subsidized rates.

Resistance to change impacts negatively the successful implementation of any strategy including a turnaround strategy. Resistance occurs whenever there is departure from historical behavior, culture and structure. According to the findings, significant resistance occurred at the Procurement and logistics department where most of the staff were used
to the manual way of procuring items. The adoption of electronic procurement ensured better capacity utilization and a reduction in turnaround time for railway wagons which improved technical efficiency. Though no evidence was adduced on the reason for staff resistance to adoption of technology, the large lucrative tenders could be the reason why the changes were being resisted.
CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction
This chapter presents the discussion of the summary, provides conclusions and recommendations of the study in line with the original objectives found in chapter one.

5.2 Summary of the results
The main objectives of the study were to identify the turnaround strategies adopted at KRC and determine the challenges faced in their implementation. To meet the objectives interview sessions with the top management team was the main source of primary data and a review of policy documents and existent literature provided the secondary data needed for the study. The study found out that KRC adopted six principal strategies that helped in making a sustained recovery from a period of performance decline namely: Privatization through concession management; strengthening the corporation’s financial base; Modernization of the railway infrastructure; Downsizing of the bloated workforce; Enhanced technology adoption and corporate culture change. When taken together, these six principal strategies provide a powerful set of principles and practices that can be pieced together into a successful turnaround strategy for the Railway industry in general.

There were also a number of challenges which were faced during the implementation process which included Weak financial base; Poor performance of the concessionaire(RVR); dilapidated and obsolete rail infrastructure and assets; lack of documents of title for a large portion of the real estate portfolio; insecurity including vandalism and encroachment; inadequate staff capacity with the required skills set in key areas of operations; staff resistance to change especially to the adoption of ICT, and the weak legal framework governing the functioning of state corporations in Kenya. In spite of the different departments adopting strategies that were directed towards their respective sections, the strategies were all geared towards achievement of the overall turnaround strategy of KRC.
5.3 Conclusions

Literature on turnaround strategies especially on State Corporations as demonstrated in this study is a field of interest for the Government, private sector and researchers. The study therefore concludes that KRC seems to be on the path to recovery following the progressive improvement in its financial performance as indicated in the recent audited financial statements for the past three financial years where KRC has posted profits. KRC made net earnings of **Kshs 680 million**, **Kshs 631 million** and **1.1 Billion** for the past three financial years (2012/13, 2013/14 and 2014/15) respectively. To sustain this profitability trend, KRC needs to focus on implementing stringent financial controls through adoption of technology and outsourcing of non-core businesses.

This study recognizes the fact that any attempt to establish a modern rail way system will require a great amount of capital and time since issues such as acquisition of land and environmental concerns need to be taken into account. In this respect therefore, Government support in modernizing the railway sector is critical if the turnaround strategies currently being implemented are to be successful.

This study is a start and contributes conceptually to the literature on understanding turnaround complexities in the railway industry and State Corporations in general on a number of levels. Firstly, it enhances the understanding of the different operating and strategic responses that can be utilized for underperforming State Corporations. Secondly the findings seek to emphasize the importance of State Corporations operating on commercial basis as a means of reducing the burden on taxpayers. The Railway sub-sector can be an effective tool for facilitating economic growth if planned and designed appropriately and thereby address the challenges encountered in the transport sector in general. For Kenya to realize its transport sector goals as envisioned in the Vision 2030 blueprint, the Railways sub-sector is an integral and crucial part of the transport industry. The findings therefore confirm that implementation of the turnaround strategies have had a positive impact on the overall performance of KRC. These conclusions form the basis for the following recommendations.
5.4 Recommendations

Going forward, the KRC should consolidate the gains made from the current turnaround plan by overcoming some of the obstacles that have hindered the full implementation of the turnaround strategies. This study therefore recommends regulatory reforms hinged on amendment of provisions of the State Corporations Act that have constrained KRCs ability to fully harness their business potential. KRC has been held back by its public service obligations which have jeopardized its economic viability, yet no commensurate funding has been forthcoming from the Government to subsidize those obligations. Once the proposed amendments to the Act are agreeable by Government, KRC should then have the necessary management autonomy to fully commercialize its operations and hence maximize its returns.

This study further recommends that KRC should critically examine its business portfolio and decide which of its many business segments are core and which can be outsourced or divested. KRCs entry into the real estate business segment has shown huge potential for rapid growth which will reduce KRCs reliance on the exchequer and achieve maximum return from their non-conceded assets. To enable KRC maximize on their real estate venture, the study recommends KRC to recruit a professional property management firm to run that business segment of their portfolio.

The study also found that the existing transportation policies in Kenya favor road transport at the expense of rail transport. More funding and investment is directed in building new roads while none is set aside for railway expansion until recently when the Railway development levy was introduced in the national budget of the financial year 2013/2014. This study therefore recommends that the Government consider reviewing the railway development levy upwards to also enable the additional resources be deployed for continuous maintenance of the railway tracks in addition to financing the repayment of the loan used to construct the SGR. From the findings, it was established that KRC had been operating a diverse locomotive fleet that had contributed heavily to the huge fleet maintenance costs. The study recommends that KRC rationalize its huge locomotive fleet to optimize on capacity and limit the sources of procuring spare parts so that economies of scale can be realized.
in maintenance. The rationalized assets will lead to operational efficiencies and consequently enhance provision of services.

Finally, the study recommends that KRC capitalize on the geographical position of Kenya in the region and do more to extend their business influences across the countries in the East, Central and Southern African region. This will help them increase their market share and diversify their business into other profit making areas.

5.5 Limitations of the Study

Despite gathering a rich and diverse range of qualitative data, the study’s findings would have benefited from more primary data if the respondents had been more forthcoming with information. A lot of information was withheld citing confidentiality rules. The respondents were willing to provide information on the progress of the construction of the SGR and other reforms that were currently being implemented rather than on the substantive issues of the study. The study was also limited by the failure to interview the CEO of the Corporation who would have given a broader perspective of the overall strategic direction that the Corporation was taking going forward.

The study recognizes the limitations of generalizing the conclusions and recommendations to the entire Public sector corporations in view of the limited size of the sample taken. There needs to be more studies conducted on other State Corporations in different context settings to enhance the validity of the findings.

5.6 Suggestions for Further Research

This study sought to identify the turnaround strategies adopted and challenges faced in their implementation at KRC. The findings have ignited other questions that require further exploration. Therefore, there is need for further research especially on the influence of context on the type of turnaround strategies to be adopted in Public Sector Corporations.
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APPENDICES

Appendix I – Interview Guide

MANAGING DIRECTOR

i) Describe briefly the history of Kenya Railways Corporation

ii) What were the major factors that have contributed to the poor performance of KRC over the several past years?

iii) Tell us more about the Private Public Partnership (PPP) initiative that was adopted by KRC in constructing the SGR?

iv) Is this initiative part of the strategies that KRC is implementing to change its dwindling fortunes?

v) What other strategies have been adopted by KRC in a bid to revive the organization?

vi) Why has the Commuter rail segment of the business that you conceded to RVR not performed to expectations?

vii) In your opinion has the concession failed? If yes what do you attribute to the failure?

viii) Were the turnaround strategies understood and supported by the corporation, concessionaire, management and employees?

ix) What programs were put in place to guarantee successful management and implementation of the turnaround strategies?

x) What challenges were faced in the implementation of the turnaround strategies?

xi) In your opinion, have the turnaround strategies been successful?

xii) KRC’s decision to diversify into the real estate has been widely criticized. Please comment on that criticism.

xiii) What recommendations would you make to improve implementation of a turnaround strategy?

xiv) How will the completion of the SGR impact the future performance of KRC?

xv) What challenges is KRC currently facing?
GENERAL MANAGER-FINANCE

i) What is the current financial position of KRC?
ii) Has there been any improvement since the last audited accounts in 2013/2014?
iii) KRC’s decision to diversify into the real estate has been widely criticized. Will this move improve the financial position of KRC?
iv) How does KRC mitigate against financial risks since you have a lot of debt in your books?
v) What financial strategies has your department adopted in relation to the turnaround management process in the organization?
vi) What challenges have you faced in the implementation of these strategies?
vii) How have you addressed these challenges?

GENERAL MANAGER-BUSINESS DEVELOPMENT

i) What is KRC’s long term organizational strategic goal?
ii) What is the turnover currently compared to 2006?
iii) What are the available business prospects for growth in the transport industry?
iv) What strategies did your department adopt in relation to the turnaround in the organization?
v) What challenges did you face in the implementation of these strategies?
vi) How did you address these challenges?

HUMAN RESOURCE AND ADMINISTRATION MANAGER

i) What is your role in KRC?
ii) What is the establishment of KRC currently?
iii) Describe the relationship between the Board of Directors and the top management team?
iv) Describe the relationship between management and other employees
v) Describe the culture that is prevailing at KRC currently
vi) What are the company’s internal processes?
vii) What strategies did your department adopt to support the turnaround strategy?
viii) In your opinion did the internal process support the new strategy?

ix) What challenges did you face in the implementation of these strategies?

x) How did you address these challenges?

**PROJECT MANAGER – SGR**

i) What is your role in KRC?

ii) How will the SGR impact on the business of KRC?

iii) Does KRC have the requisite resources to finance phase II of the SGR project?

iv) As the project manager for the SGR, what strategies has your department proposed in the turnaround process?

v) What is the state of the current railway network in the country? Does it support your future expansion goals?

vi) Are there any linkages between the construction of the SGR and the implementation of the current turnaround strategy?

vii) What suggestions would you make to maintain and improve the current railway network to supplement the SGR project?

**PROCUREMENT AND LOGISTICS MANAGER**

i) What is your role in KRC?

ii) What led to the decline in operation of KRC?

iii) What role did you play in the implementation of the turnaround strategy?

iv) What strategies did your department adopt in relation to the turnaround of the organization?

v) How did you address these challenges?
Appendix 2: Participant’s Consent Form

Informed Consent Form for Participation in Research
As part of my MBA master’s degree requirements at The University of Nairobi, I am conducting research on ‘Challenges affecting the implementation of turnaround strategies in public sector organizations in Kenya- A Case study of Kenya Railways Corporation’. As the research provides a platform of informants, I hereby invite you to be part of the team. Please note your participation is solicited yet strictly voluntary.

The research will employ a case study design that will help focus on the implementation of turnaround strategy at Kenya Railways Corporation. This will be conducted through an indepth investigation of key information on the implementation of the KRC turnaround strategy. This will investigate the outcomes of the decisions and actions taken by the corporation, concession, management and employees of KRC.

This approach is particularly suitable on this study since it has been effective and reliable in investigating behavioral and attitudinal interactions in different organizations. This project does not carry any foreseeable risks but if for any reason you feel uncomfortable, you could abort the study at any time with no penalty, and the information you may have provided would be destroyed. In addition, the study guarantees to respect the research ethics of anonymity and confidentiality both of the informants and the companies.

If you have any questions concerning this study please feel free to contact me at tonybm64@yahoo.co.uk(Tel: 0716 472 611). Thank you for considering being part of a study related to my research for a master’s degree in Education at The university of Nairobi.

Please sign below to indicate your understanding of the project and your consent to participate.
I have provided two copies so that you may keep a duplicate for your records.

_________________________________________  ___________  ______________________
Signature of Participant   Date   Name
Appendix 3: Interview Request Letter

Kenya Railways Corporation

P.O Box 30121 – 00100 Nairobi

July 22, 2016

Head of Department,

Dear Sir/madam,

My name is Anthony Masinde, an MBA students at the University of Nairobi interested in working with the Kenya Railways Corporation (KRC) to conduct a study as part of my Master Thesis on ‘Challenges affecting the implementation of turnaround strategies at Kenya Railways Corporation. Pursuant to ethical guidelines for research, I am seeking an interview appointment with you.

The goal of the study is to establish the turn- around strategies adopted by KRC and determine the challenges facing their implementation. The value of the study is (1) provide a basis for further research that will be added to the growing body of knowledge on turn- around strategies in public sector organizations, and (2) provide insights to the management and staff of KRC on turn- around strategy management. Information from the research is of interest to industry players/stakeholders by enabling them understand their role and contribution in the transformation of declining organizations. The research will equally help policy makers in making better decisions especially on effective change management.

The research design adopted in this study is a case study since it involves a single organization with unique characteristics. The case study design was chosen since it will give an in-depth investigation of the key information on the challenges of implementation of turnaround strategies at KRC. This design supports the use of content analysis that has more material details with systematic characteristics leading to trends being achieved; and is specific to understanding of situations/phenomenon and not generalization of ideas. I therefore intend to examine the data for the period from 2012 to 2016. This time period captures the period when KRC started implementing its strategic plan of 2012-2017.
Primary data is to be collected by means of an interview guide where the top management will be interviewed to enable collection of primary data. The respondents will be:

1. The Managing Director
2. General Manager-Finance;
3. Project Manager-SGR;
4. General Manager Business Development;
5. Procurement and Logistics Manager; and
6. Human Resource and Administration Manager.

The above senior managers which you happen to be one of them are targeted since they are critical in formulating the corporate strategies of the organizations. Further, Secondary data collection will done thorough scrutiny of the organizations strategic plan, other publications, organizations websites, and other studies and reports on the organization.

The participation in the interview process will be completely voluntary, and would seek your prior consent. As a participant you will be ensured confidentiality in the study. No names or identifiable information will ever be part of the publication of the findings.

In this view, I am requesting for an appointment with you to facilitate this. With the exact data and time, I surely will be glad to meeting you. Looking forward to hearing from you.

Yours sincerely,

Anthony Masinde

tonybm64@yahoo.co.uk
Tel: 0716 472 611
Appendix 4: KRC Approval Letter

Ref: ORG 7 VOL.4 15th July, 2016

Antony Masinde
Email: tonybm64@yahoo.co.uk
NAIROBI

RE: REQUEST TO COLLECT DATA FOR MBA RESEARCH

Your undated letter on the above received in our office on 8th July 2016 refers.

This is to inform you that your research request has been approved.

You will be required to seek appointment with the managers you intend to interview.

Josephine Masibo
Human Resources & Admin. Manager
FOR: MANAGING DIRECTOR

Copy: Senior Administrative Assistant
School of Business, University of Nairobi
P.O BOX 30197
NAIROBI

All correspondence should be addressed to the Managing Director