

**THE EFFECT OF TURNAROUND STRATEGY ON THE
PERFORMANCE OF KENYA AIRWAYS**

BY

MERCY MULWA

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

DECEMBER, 2017

DECLARATION

This Research Project Proposal is my original work and has not been presented for a degree in any other university.

Signed _____

Date _____

MERCY MULWA

D61/79021/2015

This Research Project Proposal has been submitted for examination with my approval as the Student's University Supervisor.

Signed _____

Date _____

MIDIKIRA CHURCHIL KIBISU

Department of Business Administration

School of Business

University of Nairobi.

DEDICATION

I dedicate this project to my family whose time I spend doing this, your encouragement and support was great. My love for you all can never be quantified.

God bless you.

ACKNOWLEDGEMENT

First and foremost, I would like to thank God for the gift of life, health, strength and knowledge that he bestowed upon me and for enabling me complete this research study. My sincere gratitude to my Supervisor, Churchil Midirika Kibisu, for the continuous support I received from him during the study. I would also like to thank my project Moderator Dr.Bitange Ndemo and all the MBA Lecturers for building my knowledge during the study. I would like to thank my MBA colleagues, friends and my loving family for all the guidance, motivation and support in all stages of this project.

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ABBREVIATIONS AND ACRONYMS

KQ	Kenya Airways
KCAA	Kenya Civil Aviation Authority
IATA	International Air Transport Association
JKIA	Jomo Kenyatta international Airport
RBV	Resource Based View
VRIN	Valuable, Rare, Inimitable, Non-Substitutable

ABSTRACT

This study sought to establish the effect of turnaround strategy on performance of Kenya Airways. The theoretical framework of this study was pegged on the Mckinsey 7's model and the resource based view of strategy that was analyzed in depth under the literature review. Data was collected by the use of interview guides focusing on the managers of the various departments in the airline. Content analysis was used to analyze the data collected. This study found that the introduction of low cost airline Jambo Jet as a marketing strategy was effective and the new routes introduced to Asia with additional flights to Dubai were successful as they broke even. In addition, the sales went up as the customers were able to make and pay for online bookings. The measures put in place to cut cost included fuel hedging, outsourcing and workforce reduction. However, out sourcing and staff reduction have not worked well as strategies since the company still has to pay for the outsourced services and the employees feel overwhelmed with their jobs leading to poor performance. The sale of land and planes was used as a strategy to improve liquidity but the respondents felt that the proceeds from the sale were not put into meaningful use. The airline implemented different strategies to tackle different issues that caused the airline performance to decline. These strategies were implemented at different stages of the turnaround. The measures have improved the performance of the company though it is not out of loss making. With adjustments to their currently implemented strategies and implementation of the final stages of the turnaround strategy, the company will be back to profitability. This study recommends that the selected structure should be the best fit for a particular organization at a point in time. In addition, the number of managers should be limited in a lean structure to enable the company adequately manage the payroll cost. Lastly, there should be optimal workload for the employees to ensure that they perform at their best. Further research should be conducted to establish a trend analysis for the specific strategies based on when they were implemented to show their impact on for duration of the turnaround. In addition, since the airline has just converted debt to equity, a research should be conducted to analyze the impact of this strategy and any other turnaround strategy that will be implemented to the period the airline will bounce back to profitability.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The health of an organization is indicated through its financial performance, how well it's managing its cash flows, market reputation and the returns on investment. This health is a result of a chosen strategy and how well the strategy is implemented and executed whether formal or informal. Sudi and Lai (2001) pointed out the fact that when sales were short of expectations, when customers pay rather slowly than usual or when trade creditors respond to economic decline by tightening their terms of payment, the organization may develop cash flow problems. An institution experiencing difficulties must set in motion activities that would enable the institution to bounce back into financial health. The financial recovery of a company that has performed poorly over a period of time is referred to as turnaround. Scherrer (2003) defined turn around as the detail examination of an organization with poor performance and alignment of the goals to achieve desired results.

The Mckinsey 7's theory focuses on seven elements that an organization needs to be aligned so that its performance can be improved and this include strategy, shared values, skills, style, systems, structure, staff. The success of any turnaround strategy is pegged on analyzing the seven elements in the context of the organization and structuring them in a manner that will improve on the performance of the organization. Barney (1991) argued that organizations can only achieve success if all the seven factors work in harmony.

Further, the resource based view theory focuses on how firm's resources can be exploited to achieve higher performance with difficult imitation. The main focus is how well the resources are exploited and combined to achieve competitive advantage.

Success is therefore achieved if an organization attains set goals with minimum resources and is measured through performance.

Kenya Airways has not been performing well over several years. This however is not a secluded case but the same is being witnessed across many industries. The business environment in Kenya has seen a downward trend in the recent past. Banks like Barclays and Standard Chartered have laid off its workers while others have had to close down some of their operations in an effort to bring down the cost of operations including Colgate Palmolive, Procter & Gamble and Reckitt. It is therefore very important at this point in time to evaluate how the business in distress can renew their performance through research on the turnaround concept and companies that have and are undertaking the turnaround strategy.

1.1.1 The concept of Turnaround Strategy

Baker and Barr (2002) define turnaround as planned efforts by management carried out jointly to respond to the performance problems of the business. A turnaround is therefore undertaken as a measure towards recovery for a poorly performing company. Turnaround in broad terms is a strategy that heavily focuses on the financial aspect of the organization though it also touches on the other aspects like people and operations.

Yadav (1992) stated that there are two types of turnaround strategies: strategic and operational. Operational efficiency of the firm is the main focus of operating turnaround strategy that focuses on cost reduction, revenue generating strategy or disposal of assets. The point of focus is dependent upon the stage at which the company is at in its performance. Strategic turnaround on the other hand is many focused on divesting and funds realized invested in a viable business unit.

The choice of intervention efforts put in place in an organization is dependent on the feedback from the analysis done on a particular business. Operational interventions will include financial restructuring, market and product mix strategy and human resource strategy. An intervention can only be effective if the managers agree that there is a problem and undertake joint efforts to bring back the business to its feet. This means that they have to accept to change and adapt to the interventions being introduced to save the business. In addition, there has to be flexibility and readiness to change the plans if they are not working or adjustments to the main plan.

Financial distress in organizations has been with us for many years. Henry (2013) stated that China seemed hopeless mired in poverty; Brazil was suffering under hyperinflation while Mexico triggered the third world debt crisis. These countries have made a comeback by turning themselves. Unfortunately, many companies still find themselves in financial distress as a result of failure to control costs, failure to adapt to changes in the environment, poor management, and overtrading and harsh market conditions.

The turnaround of a firm does not happen overnight but is a process. The Chartered Institute of Management Accountants identified management change, business review, a business restructuring plan, implementation, and stabilization and embedding change as the stages that a firm goes through to turn around. This process has to be followed systematically for the organization to achieve desired results.

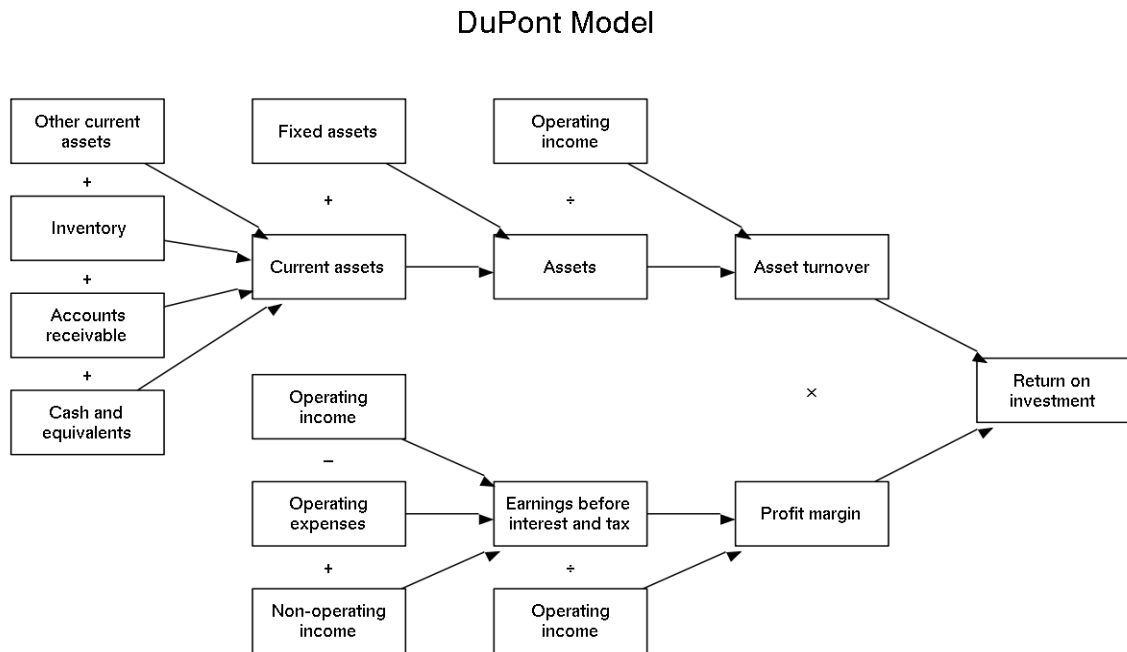
1.1.2 The Concept of Organizational Performance

An organization is set up to achieve set goals and satisfy some desires or visions of the founders. Performance is the ability to differentiate the outcomes of organizational activities (Ukko, 2009). Ittner (2008) pointed out the fact that performance can be

financial and non financial. Lebars & Eueske (2006) defined performance as the degree of accomplishment of set goals and result based on predetermined financial and non financial guidelines. Further, Mitchell (2002) argues that the organization stimulus to achieve set objectives, ability of the organization to achieve preferred outcomes and the effect of the external environment affect organizational performance.

Performance is measured through the qualitative and quantitative approaches. Venkatraman & Ramannujam (1986) pointed out that the point of focus for quantitative measures was the result at the end while that of the qualitative measures was the means by which the results were achieved. Crabtree & DeBusk (2008) identified return on assets and sales, growth in sales and the net profit margin as the quantitative measures for measuring financial performance. Hyvonen (2007) suggested that qualitative performance could be measured via measures like market share and satisfaction of the customers. The return on assets (ROA) evaluates the profitability of an organization by evaluating the net income produced by the total assets of the company. The higher the ROA ratio, the better the management of the assets in production of income. The net profit margin on the other hand measures overall business success in terms of product pricing and cost control. A net profit margin of 0.1 or more is considered to be excellent though it will vary from industry to industry. The DuPont Model below, which breaks down the return on assets, illustrates how the return on assets will be calculated in this study. This research will therefore consider the financial statements of the company from the year they started the turnaround strategy up to the last financial period to evaluate the impact of the strategies undertaken on performance and the extent of the performance.

Figure 1: DuPont Model



Source: (Umit S. Bititci, 2015)

The performance of the organization can only be meaningful if it is linked to the main objectives of the organization. Hartle (1995) argued that the strategy of the business, the development of the employees and the management of quality in the organization had to be linked to the performance management process in the organization for it to be meaningful. Performance targets for a particular period are therefore derived from the set goals of the organization in the same period.

1.1.3 The Airline Industry in Kenya

The aviation industry in Kenya is regulated by the Kenya Civil Aviation Authority (KCAA). It was formed in 2002 from the Civil Aviation Amendment Act. Their main purpose is to regulate and oversee the aviation safety and security, training, provision of air navigation services and air services economic regulation. KCAA is key to airline industry functionality as they provide and regulate navigation services in the

country. The authority is governed by both local and international statutes and regulations.

According to IATA, annual report (2016), all the airlines are registered under the International Air Transport Association (IATA) which is a trade connection for world airlines. It was established in 1945 with 57 members. Currently, it has 275 member airlines representing 83% of the world's air traffic, 400 strategic partners and 100,000 accredited agents. The association provides training, lobbying for its members, cutting cost and a driver for industry change.

The industry is dependent upon the capacity of the airports to handle traffic from the various destinations. The country has conducted upgrades in the various airport in the country with the latest being Jomo Kenyatta International Airport (JKIA) to increase the capacity and the efficiency of the airports. The ability to handle more traffic and deal with airlines from various destinations saw the entrance of Qatar Airways and Virgin Atlantic into the country. JKIA alone handles 18 international passenger carriers, 2 domestic airlines, 6 low cost carriers and 6 cargo airlines. Increased traffic results into business for the hotels, taxes for the country and employment for the administration and ground staff. The credit economic crunch hit the industry as most businesses and individuals cut down on spending. A tight economic condition was another factor that hit the airlines in the industry aside from increased competition. This led to the exit of airlines from the Kenyan industry an example being Virgin Atlantic. Other airlines like Kenya Airways performance slipped into a downward trend. That notwithstanding, the traffic through the airports hit 10 million last year which is the highest so far and JKIA received category one status.

1.1.4 Kenya Airways

Kenya Airways (KQ) is the biggest airline carrier in the country. The airline was formed in 1977 after the closing down of East African Airways. The airline has a public private ownership whose shares are traded at the Stock Exchange of three East African countries. The company has two fully owned subsidiaries and two associate companies. The total fleet for the company is 37 with 15 Embraer and 22 Boeing. The company currently flies to 62 destinations around the various continents in the world.

The published financial statement of Kenya Airways show that performance of the company started going down from 2009 but the profit before tax has consistently been on the negative since 2013 with the worst performance being witnessed in 2015. However, the number of passengers has consistently been growing since 2005. The passenger load factor has averaged between 63% and the highest being 75% which reflected similar trends in the airline industry in general. With the number of passengers consistently growing, the load factor averaging industry trends while the profits were declining, the airline needed to find out why they were ailing and develop solutions for the problems.

The airline has made several attempts to salvage the airline and turn it back to profitability. The managing director for the company was changed twice. The company restructured and retrenched part of its workforce as published by Fox News on 31 March 2016. In 2015, the company hired Seabury, a consultancy in turnaround to look into their sales, ticketing and planning functions and benchmark them against the industry as stated by an article on the Business Daily on June 3 2015. The company then hired McKinsey to implement cost savings and revenue generation initiatives. This year, the airline announced the termination of the contract while only paying for the services they only needed from the consultancy as the turnaround plan

entered its final stages. Currently, the airline is under negotiations with their lenders to convert the debt into shares. This study is at the right time to evaluate the various strategies implemented during the turnaround and what has been the impact of the said strategies on performance.

1.2 Research Problem

The success of a turnaround strategy is dependent upon successful implementation of the strategy. Dunphy and Stance (1988) pointed out the fact that successful strategy implementation could only be achieved if the process was guided by top management when using the McKinsey 7S model. The influence on the top management on the whole process and how the resources are repackaged to take advantage of the available opportunities and thus achieve performance targets while moving towards positive performance is of importance to this study. The rapidly changing business environment means that the strategies adopted to turn around the company should be in a position to accommodate changes in the environment to remain relevant and achieve performance targets.

Kenya Airways has seen passenger numbers go up by 5.4% to 4.5 million customers in the just concluded financial period. In addition, the cabin factor has gone up by 4%. The cost of fuel declined by 2.5% to 23 billion while the operating costs were 41 billion a reduction of 3.7%. On the other hand, foreign exchange losses hit 4 billion while the turnover went down to 106 billion which represents an 8.5% decline. The finance cost went up 4.1 % to 7.3 billion. The focus in the current period is financial restructuring and senior management improvements. These were the published results that were released for the past financial year. Moreover, the company has changed its managing director and last year they changed the chairman of the board. Some of the strategies seem to be working though there are areas that still need to be worked on.

The company is on a recovery path and the need to research on the adopted strategies and their current impact on the company performance.

Goolsbee and Krueger (2015) noted that measures put in place for turnaround included cutting capacity, and weaker brands, recruiting new employees at lower pay than current staff, the number of dealers were reduced and retirees and bond holders legally cost reduced. In addition, there was reduction of price discounts and the perceived quality of the cars was to be worked on and increase the market share. Goolsbee and Kruger (2015) concluded that through restructuring and shedding of majority of the legacy debt, they bounced back into profitability in 2010. Lawton, Rajwani & O'Kane (2011) researched on strategic reorientation and business turnaround a case study of Legacy Airlines where they found that two distinct approaches were being used. The improvement and innovation approach was used for airlines that were at the risk of failure. Airlines that were underperforming used the extension and expansion approach. They however failed to look at the actual effect of these two approaches. Hansen (2012) researched on corporate turnaround and corporate governance where he found that the concentration of ownership and turnaround performance and outcome were not significantly related. He also found that cost retrenchment had no influence on turnaround while asset retrenchment and turnaround had a negative relationship. This study will seek to establish whether these assertions still hold or not.

Nderu (2013) researched on the influence of survival strategies on the organizational performance of Kenya Airways and concluded that innovativeness, managerial skills, human resource practices and working capital management influenced performance. She failed to look at the actual effect of the strategies on performance. Mbandu (2016) on her study of turnaround strategies and their influence on financial

performance in Uchumi Supermarket found that asset and debt restructuring and change management were largely and positively related to performance. She concluded that in terms of their contribution to performance from the highest to the lowest were change management, debt restructuring, asset restructuring and staff rationalization respectively. This study however failed to research on the area of revenue management. Komen (2015) studied public corporations in Kenya and found out that there was a positive relationship between turnaround strategies and performance. In addition, she also found out that bigger effect on performance from cost reduction strategies vis-a-viz the revenue generating strategies. This research was based on the context of the public corporations and thus may not be fully applicable in the airline industry.

The available research on the airline industry is majorly from other countries. There is very little research conducted on the Kenyan airline industry with regard to turnaround. Kenya Airways being the biggest local carrier, is a key player and therefore vital to conduct this research and the findings referenced by other players in the country's context. In this regard, what is the effect of turnaround strategy on the performance of Kenya Airways?

1.3 Research Objectives

The research objective of this study is:

- i. To determine the effect of turnaround strategy on the performance of Kenya Airways.

1.4 Value of the Study

The findings from this study will be useful in corroborating or contradicting the theories that form the foundation of the study. By testing the theories developed

many years back in today's world, the study will establish whether these theories are still relevant. In doing so, the theories can further be used in other studies.

There is little or no research that exists about turnaround strategies in the airline industry in Kenya. This study will therefore close that gap by making available knowledge of a case study in the industry. In addition, the study will seek to establish the relationship between the strategies undertaken by the company to turnaround and the effect of the said strategies on their performance and thus corroborate or contradict findings from other studies.

This study will be available as a reference point for other scholars. The recommendations from this research will form the foundation for further research to be carried in this area. In so doing, most of the areas of concern can be researched and practicable solutions will be readily available in case of distress. In addition, further research can be conducted by changing the variables and environment of study, to further and deeper understand the concept.

The managers of airlines can identify areas that they require to work on from this study so as to avoid finding themselves in financial distress. They will be able to adopt best practice of what has worked for this airline and other worldwide airlines and not starting to formulate solutions from scratch. The government can use this study to develop industry benchmarks and policy that would assist the airlines in improving efficiency of their operations.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This section will review in detail the available literature on turnarounds and firm performance. It will cover the theoretical review of the theories that underpin this study, a review of the independent and dependant variables and empirical studies on the subject matter. Finally the summary will address the gap identified from the literature.

2.2 Theoretical Foundation

This section will discuss in depth the two theories that underpin this study namely the McKinsey 7's model and resource based view (RBV).

2.2.1 McKinsey 7's Model

Peters, Waterman and Philips developed the model in the 1980 while working as consultants at McKinsey. The model evaluates the firms organizational design by analyzing seven essential factors to ensure they are set up in a manner that would enable the firm achieves its set objectives. The seven essential factors in the model include strategy, structure, systems, shared values, skills, style and staff. Otsupius and Otsu (2016) argue that understanding organizational effectiveness is dependent on the seven key elements. Effectiveness of the organizations is thus premised on the understanding of these elements and aligning them in manner that would achieve the set objects.

Strategy is the plan for the firm to achieve its objectives while structure refers to the organizational structure that defines the authority and responsibility. The systems encompass the processes and procedures that employees are engaged in while style refers to the type of leadership management. Staff refers to the number and type of

employees while shared values refer to the principles and code of behavior that employees share. Skills are the capabilities that are distinctive among the employees. Ravanfar (2015) provided five steps for the application of the model. First, the organization identifies areas that need alignment by looking at gaps, inconsistencies and weaknesses in the relationship. Next is to develop an optimal design for the organization with regard to financial, operational and human resource structure. An action plan is then developed indicating what changes are to be done and when. The changes are then implemented and finally, the elements are continuously monitored for any changes and corrective actions taken. A change in one element affects all the other elements as they are interrelated. In research, it is important to identify the areas of weaknesses identified, the changes implemented and the impact of the implemented changes.

A turnaround strategy can only be successful if it is clearly thought out, aligned and implemented. Bowman and Faulkner (1997) pointed out the fact that major decisions in organizations are made in an objective and systematic approach. Hill (2010) notes that the elements in the McKinsey model need to be aligned in order for the organization to perform well. The McKinsey model therefore, can be used as an analysis tool to evaluate which element in the organization has a problem so that it is corrected and set in a manner that will support the overall objectives of the organization and thus performance.

2.2.2 Resource Based View

Resource based view is a theory states that sustainable competitive advantage is achieved when the organization gets the best out of its resources and capabilities (Enriquez-de-la-o, 2015). The external business environment is constantly changing and as such, it is easier to control the internal environment that is composed of

resources and capabilities to face what is happening in the external environment than to adapt to the external environment. The organization has to identify resources that are within which can be used to create unique and distinct capabilities that will form the basis of competitive advantage in future and thus improve the performance of the organization. Serra et al (2013) concurred with this by noting that unique resources and capabilities should define the firm's strategy.

Resource functionality, resource combination and resource creation and decay form the three main components of RBV (Lockett, Thompson & Morgenstern, 2009). Value is created from the combination of these resources. Barney (1991) defined the resources that achieved competitive advantage as being valuable, rare, inimitable and non substitutable. These conditions only hold if the environment is static at a point in time. However, the environment keeps changing and the resources rare and unique become common and readily available. The organization therefore needs to adapt dynamic capabilities. However, dynamic capabilities do not necessarily result in competitive advantage. As a result, management and organizational processes that are influenced by its resource position and available market opportunities should be the focus for continuously creating new VRIN and improving the performance of the organization (Teece, Pisano & Shuen, 1997).

The success of a chosen strategy is therefore dependant on how the managers combine these resources and offer the created capabilities to the market environment. It is important for the organization to continuously develop the skills of its employees and create an environment for innovativeness to create these capabilities. Wernerfelt (1995) argues that there is a low chance for success for strategies that are not resource based. Grand strategies like turnaround can therefore not be successful if the resources within the organizations are not aligned and developed to take advantage

and face the external organizational environment to produce positive or superior performance.

2.3 Empirical Review

Richard (2009) stated that organizational performance entailed financial performance, shareholder return and product market performance. Targets are set at the beginning of a period which aims at achieving particular goals of an organization at the end of the period based on particular strategies adopted by the organization. The results at the end of the period are measured against the set targets at the beginning of the year to determine how well the organizations performed. As result, performance is an outcome of an event or a series of events. Richard, Devinney, Yip, & Johnson (2009) identified firm performance as final dependent variable in studies.

An outcome is a resultant of some factors that determine the performance of the organization. The McKinsey 7's model identifies seven factors that drive organizational change and determine the final performance of the organization. These elements must be aligned towards the overall objective of the organization and thus work in harmony and not in contrast. The turnaround strategy identifies the weaknesses that exist in the seven elements, identify steps to be taken to correct this (restructuring), implement the actions and monitor the progress continuously to achieve the target performance. Hoskisson and Turk (1990) agree that strategic reorientation; alignment of the organization and changing the governance structure in organizations in organization restructuring increases the chances of improved firm performance.

2.3.1 Turnaround Strategy

Okwisa, Manana & Gicheru (2016) identified innovative breakthrough by competitors, economic recessions and production inefficiencies as the reasons why firms go through periods of declining performance. The managers and stakeholders have to work jointly to revive these entities and convert them back to profit making entities. These joint efforts are followed by a clear plan of what needs to be done over a couple of years to achieve profitability. The joint efforts towards positive change through a grand plan are referred to as turnaround strategy. Turnaround strategy therefore occurs as a result of poor performance. The above study focused on the role of stakeholder repositioning, top management reorganization, cost reduction, training and sensitization. They failed to look at expansion and revenue management strategies.

Manimala and Panicker (2015) found that the main cause of a deteriorating organization was the internal weaknesses. They mentioned that changes in the external environment only affect adversely an organization if it is internally weak. In addition, organization decline can only be managed effectively by adopting a variety of strategies. Lastly, they concluded that successful turnarounds had a varied portfolio of strategies consistent with the stage of turnaround. This literature concludes that organizations can not only rely at a single strategy to turn around their companies but will vary depending on the stage at which they are in the turn around process. This study however failed to analyze the actual impact that the individual strategies had on the organizations' performance. In addition, the study only focused on secondary data that was from published sources.

Wheleen and Hanger (2004) identified contraction and consolidation as the forms of turnaround. Contraction refers to the immediate effect of cutting down on size and

cost. Retrenchment and outsourcing are examples of contraction strategies. Other examples include cutting down on research related costs, marketing costs, freezing employment and pay increases, selling off unnecessary assets and financial restructuring. Consolidation on the other hand involves the implementation of stabilization programs within the leaner organization. This process involves cutting off unnecessary overheads and ensuring the costs from functional activities are justified. This would involve advancement in technology to ensure efficiency in the organization is achieved and cutting down on wastages. In addition, the processes are looked into to ensure they are aligned to the company objectives and any bottlenecks removed.

2.3.2 Turnaround Strategy and Performance

Khandawalla (2007) defined turnaround as the process of becoming profitable again from a loss situation. This definition implies that turnaround only comes into play when an organization is facing financial difficulty. Yadav (1992) noted that based on the limited resources on an organization facing difficulty, the choice of turnaround strategy should fit or be a match to these resources. In this regard, initiatives taken to bring back a company will vary from one company to another and will be dependent on the circumstances at a point in time. However, Rotich (2015) in his study of turnaround strategy and performance of Kenya Commercial Bank noted the outcome of the turnaround efforts was not dependent on the availability of funds in an organization.

Tikici et. Al. (2011) analyzed the operating turnaround strategies during crisis periods found that more firms pursued revenue generating strategies while maintaining their costs. They found that there existed a positive linear relationship between the choice of turnaround strategy and business performance. Further analysis of the variables

brought them to a conclusion that positive relationship only existed between strategies for revenue generation and business performance.

Ondimu (2015) analyzed seven turnaround strategies of commercial banks in Kenya and found that three of these strategies namely: advancement in technology, change of top management and retrenchment were the favorites. In addition, he also concluded that the seven strategies adopted had positive impact on the performance of the banks.

Ombego and Makori (2015) analyzed the drivers influencing the performance of Kenya Airways. The research was mainly focused on the human aspect of the company where they noted that human resource policies, reward management, the organizations environment and leadership had a significant positive influence on the performance of the company. The study however failed to address the issues of outsourcing that affected staffing and motivation.

2.4 Summary of the Literature and Research Gap

The concept of turnaround is mainly associated to the recovery of the companies that have performed poorly over a period of time. The McKinsey model is used to conduct root cause analysis of a firm from which new strategies are developed and implemented to ensure the success of the turnaround. Turnaround has also been revealed to be context based with various strategies applicable in different scenarios. As a result, turnaround cannot be a copy and paste activity as the context and root causes might be different even though some of the factors might be similar.

The literature from the sections of this topic has looked at various studies conducted around the topic of study. Turnaround research has majorly been conducted in the banking industry and quite a number of the corporate and government institutions. Research done on the airline industry and particularly Kenya Airways was mainly

focused on the human aspect of the organization with regard to the performance. The research available has not looked at the role of outsourcing organization functions as a strategy for turnaround. In addition, the research available in the airline industry relates to international companies. There is no research that has been done on the effect of turnaround on performance in the airline industry in Kenya. The timing of this research is also different as the research will be conducted as the turnaround process is still being undertaken while other researches were conducted at the end of the turnaround period to see the impact. This research therefore will seek to bridge the gap that exists in the body of knowledge.

Turnaround strategies therefore entail retrenchment and downsizing, cost cutting measures, revenue generation strategies, asset and financial restructuring. The effect of this is that costs will go down; there will be improvement of or increase in revenue which will affect the bottom line that is measured by various ratios including the gross and net profit margin which in turn affect the ratio of the return on assets that is a performance measure in our study. Therefore, the turnaround strategies that are put in place to revive the company are the independent variable while performance which is the outcome of the turnaround strategies is the dependant variable.

Table 2.1 Research Gap Summary

Author	Area of study	Finding	Gap	How to deal with the gap
Mbandu 2016	Influence on financial performance of Uchumi supermarket	Asset and debt restructuring were largely related to performance	Never researched on revenue management	Conduct similar research in a different institution
Komen 2016	Public corporations in Kenya	There was a positive relationship between strategies and performance	Never applicable in airline industry	It's the first one being done in the airline industry
Nderu 2013	The influence of survival strategies on the organizational performance of Kenya Airways	Innovativeness, managerial skills, human resource practices and working capital management influenced performance	Failed to look at the actual effect of the strategies on performance	Will look at that since its related to my area of research
Hansen 2012	Corporate turnaround and corporate governance	Cost retrenchment had no influence on turnaround while asset retrenchment and turnaround had a negative relationship	Asset retrenchment and turnaround had a negative relationship	This study will seek to establish whether these assertions still hold or not.
Lawton, Rajwani & O'Kane 2011	Strategic reorientation and business turnaround a case study of Legacy Airlines	The improvement and innovation approach was used for airlines that were at the risk of failure	They however failed to look at the actual effect expansion and extension	Look at the research gap after merger with KLM

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter looked at how the research was conducted, the criteria and reasoning behind the sample, the data collection instrument and how the analysis of the data was to be conducted.

3.2 Research Design

Parahoo (1997) defined research design as the establishment and statement of the approach that would be adopted for a particular study. In addition, the research design states the style and procedure of data collection. The study undertook a descriptive approach through collection of data, arrangement of the data in a meaningful way, analysis of the data and interpretation of the results with reference to the organization and the industry.

This research was a case study on the effect of turnaround strategy on the performance of Kenya Airways. A case study was selected because in the airline industry, it was the only company that has undergone turnaround in the country. In addition, it allowed a lot of in depth information to be collected and intensive analysis that would provide a deeper understanding of the phenomena.

3.3 Data Collection

Primary data was the source of information for this study. Primary data was collected through the use of interview guides. This data was able to gauge the various qualitative aspects of the research through scores provided via a scale to quantify the qualitative aspects that would assist in analysis of the information. Kenya Airways has ten units in its operation structure. The study drew its feedback from a representation of three managers, seven supervisors and fifteen fellow employees

from the various departments who provided feedback that was generalized for the whole airline. The managers were selected because they were involved in performance appraisal and delivery of the set objectives.

The researcher booked an appointment with the human resource department. During the meeting, the purpose of the study was discussed and a schedule of where and when the interviews were conducted was agreed upon. The researcher conducted the interviews guided by the schedule agreed upon by the human resource department. The responses were then put together in preparation for the data analysis process.

3.4 Data Analysis

Content analysis was used to analyze the data as this research was a case study. Shapiro & Markoff (1997) defined content analysis as any methodological measurement applied to text for social science purposes. Analysis of data was therefore done by making inferences to the theoretical approach of this study. The collected information was then arranged in a logical manner that was used for analysis.

CHAPTER FOUR: ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

This chapter will present in details the data analysis and discussion. The main objective of the study was to determine the effect of the turnaround strategy on the performance of Kenya Airways. Data was collected through the interview guides based on the research objective. In addition, it will discuss the findings from the data based on the objectives

4.2 Background Information

Majority of the employees in the company have worked there between zero to five years. Nine out of the ten respondents fell under this category while only one of the respondents had worked for the company for a period between five to ten years. The company majorly has young employees in terms of years of service that is resultant from the restructuring and retrenchment strategy of the company.

4.3 Turnaround Strategy Awareness

The employees of the airline are aware of the existence of a strategy by their employer. 50% of the respondents agreed that the company had a vision and objectives that were clearly communicated to the staff while the other 50% strongly agreed with this statement. They went further to state that the vision and objectives were clearly displayed and there was communication of the same to the staff. In addition, the same information is communicated through training.

The respondent also found out that the employees agreed to the existence of a flexible plan aimed at achieving the vision of the airline and that this plan helped them to compete in the market place. The plan for the airline is broken down into departmental and further into sectional objectives. The respondents stated that each

section had targets clearly set out that they had to meet. These targets were represented by the key performance indicators for the sections then individual employees.

4.3.1 Airline Organizational Structure

A majority of the interviewed respondents agreed that the airline had a clear organization structure. They stated that the structure was necessitated by the administrative bodies. However, there are some employees who felt that as the airline was still under the turnaround process, they were still trying to understand the structure as there were new changes every now and then. In addition, they stated that the structure was duplicated in manuals.

The respondents neither agreed nor disagreed on the fact that the airline had clear accountability and responsibility lines. Some of the respondents stated that this was due to administration by several bodies. In addition, the respondents felt that the airline had too many managers.

4.3.2 Airline Systems Efficiency

The respondents acknowledged the presence of standard operating procedures in the airline. They stated that these procedures were stated in the airline manual. In addition, there are procedures that are provided for by the airline industry and regulators that employees are aware of in the respective department.

The respondents agreed that the procedures have enhanced the efficiency with which the work is done in the airline. Some of the respondents felt that the efficiency was highlighted on the company's profitability. The more efficient they became in their operations, the more profitable the company became.

Majority of the respondents agreed that there was a system to constantly monitor the operating procedures. They mentioned that there was constant auditing by the internal auditor to identify any gaps in the procedures of the company. Measures are put in place to correct the gaps and actions implemented on the same. In addition, the guidelines in the aviation industry stipulate that these procedures must be monitored and any deviations corrected.

4.3.3 Airline Governance Style

The respondents affirmed that the leadership style supported the goal of the airline as there was open leadership and clear goals. In addition, meetings are held frequently with the employees to discuss the progress of the airline with regard to the set goals. The respondents agreed that the impact of the top management is positive because they are the ones who set the goals and have to ensure that these goals are achieved. In addition, they also encourage staff to do their best during trainings.

Coaching and mentoring of subordinates happens quite often due to new employees getting into the airline industry. The respondents were responsive on the fact that their leaders inspire and motivate them to carry out the vision. They felt that the airline wanted to remain the pride of Africa and therefore had to work really hard to achieve its vision and also some respondents felt that some leaders were after goals and achievements and not the welfare of the employees.

4.3.4 Airline Recruitment Procedures and Employee Skills

Some respondents felt that the airline recruitment procedures supported the vision of the airline by following the recruitment policy. However, it was also noted that not all procedures were followed during recruitment of staff. Respondents mentioned selection of staff being done through nepotism. The respondents felt that the

employees were qualified for their jobs because they had a training school and employees were trained on a regular basis. However, some respondents felt that not everyone was qualified for the position that they held in the company. As a result, trainings were conducting to bridge this gap.

The respondents were confident about being capable to achieve the set objectives. They noted that this was evident in the results that have been seen during the turnaround process. In addition, they stated that they were passionate about their jobs. The employees affirmed the fact that the airline ensured that they acquire the correct skills for the job. The trainings were offered every now and then. In addition, they noted that they have a training school which had competent trainers.

4.3.5 Airline Shared Values

The respondents indicated that the core values were displayed and adhered to. This reflected on the culture at the organization. In addition, the managers keep emphasizing on the importance of the core values to the airline. The employees stated that the work ethic was stipulated in the in the manual. In addition, the same has been repeatedly communicated to them during the year.

4.4 Strategy and Performance

The respondents felt that the marketing strategies adopted by the company was effective and had led to growth and increase in the number of customers for the airline. The airline introduced Jambo Jet in 2014 as a low cost local carrier to take advantage of the local market and be able to compete cost wise with the local airlines for the local flights and this strategy has been very successful. New routes and products were assessed by the strategy department before they were introduced. The number of flights to Dubai was increased while the Asia route was introduced after

the cancellation of Hanoi- Hong Kong route. This has in turn led to increased bookings and sales for the company. Furthermore, they have managed to breakeven from these routes.

The respondents felt that changing the airlines top management had improved the performance of the airline. In addition, some cartels that were in existence were being eliminated from the airline through these changes. The respondents felt that with the new members on the board, biasness was being eliminated. Advancement of technology used by the airline has increased the efficiency of the airline. It has enabled customers to buy and book tickets online which in turn has led to the increase in revenue for the airline.

The airline set up several measures to try and curb their costs. They are managing the cost fuel by hedging against the fuel prices in case of the currency gains or losses. The airline is currently looking at how to manage the interest cost by converting debt into equity and as such the impact is still low. The respondents felt that outsourcing as a strategy did not work well since they were still paying for the outsourced services. Other respondents felt that the cost of outsourcing was higher than providing the services in house.

The respondents who make up 40% felt that reduction of workforce had increased the performance of the employees. However, the majority felt that there was too much work for the employees and that they felt overwhelmed. 50% of the respondents felt that the sale of the non-core assets that include land and planes had improved the liquidity of the airline. However, the other half felt that the proceeds from the sale of these assets were not being used for worthwhile objectives.

4.5 Airline Performance Indicators

The respondents felt that even after applying the strategies to turnaround, the customer complaints had reduced but the significance was minimal. There has been a growth in the sales of the company in the past three years even though the company was still making losses. This indicates that things are improving and that the company is on the right track. The gross profit margin has reduced within the past three years as the losses have reduced. In addition, during the same period, the net profit margin reduced a bit. The airline is still working to increase the revenues while reducing the costs that are attached to them.

The ability of the airline to meet as and when they fall due is very low due to its huge debt burden. However, the recent conversion of debt into equity is easing the cash flow constraints on the airline. The debt burden of the airline has reduced due to the conversion of debt by banks and government into equity. However, some respondents felt that the burden was still huge since the airline was still running losses and had to meet operational costs. The respondents also felt that the rate of return for the shareholders has not improved since the airline has been making losses. In addition, the company has not been able to pay out dividends to the shareholders during the turnaround process. This indicates that the Shareholders have not been able to earn a return on the investment that they put in on the company by investing in the shares of the company.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMENDATIONS

This chapter presents the summary of the findings, the conclusion and the recommendations. In addition, this chapter will present the application of this research and findings to various stakeholders. Suggestions for further research will also be discussed to conclude the chapter.

5.1 Summary of the Findings

The airline has a vision of where it wants to be and this is clearly displayed everywhere in the company. In addition, this vision has been clearly communicated to staff through trainings and meeting. There is a clear plan that indicates the objectives of the airline to achieve its objectives. This is broken down into sectional objectives that are further broken down into key performance indicators for the individual employees.

There is a structure that is in existence in the airline which has been necessitated by the regulators and the administrators of the airline. However, the structure is not very clear as it keeps changing as a result of the turnaround process. The accountability and responsibility lines were not very clear to the employees of the company. In addition, the respondents felt that there were too many managers in the airline.

The airline has in place standard operating procedures that were clearly spelt out in the manuals. These procedures have enhanced the efficiency with which work is done in the airline and this can be seen on the profitability of the company. There is a system in place to monitor any gaps that are in the control of these procedures. This is achieved through the internal auditor who monitors these procedures/controls, identifies gaps and initiates corrective mechanisms.

The leadership of the company supported the goals of the company. In addition, the leadership frequently held meetings/investor briefings to discuss the performance progress. The leaders also motivated their employees to do the best. The respondents also noted that coaching was only done for the new employees.

It was noted that not all procedures were followed in the recruitment procedure. In addition, staff selection was done through nepotism. Further, not all employees were qualified for the jobs that they held. However, the airline had a training school with competent trainers who frequently trained the employees and this bridged the gap on qualifications for the job.

Lastly, the core values were displayed in many areas within the airline. These values were adhered to and reflected the culture of the organization. The required work ethic was stipulated in manuals and communicated to the employees of the airline through training and meetings.

5.2 Conclusion

The adopted strategies by the airline seem to be working as there are improvements that have been witnessed across the board. However, the airline is not out of the woods yet. Based on the McKinsey 7's model, all the seven elements must work in harmony for the organization to achieve its objectives. This is not the case for the airline. The current structure of the airline is not very clear to the employees as they keep changing it with the changes happening due to the turnaround process. There accountability and the responsibility lines are not very clear to the employees and there are too many managers. This forms conflict when working as an employee does not know whose work to prioritize as you can only please one manager at a time. Furthermore, there exists a weak relationship between the managers and the

subordinate staff. This makes communication difficult and the day to day areas of operations where these subordinates identify need for improvement cannot be effectively communicated to management to make timely decisions.

Further, not all procedures are followed during recruitment. The airline ends up recruiting staff that are not qualified for the positions that they are being selected for. The airline ends up spending more resources (time and money) to train these employees to be at par with the positions that they hold and this becomes a cost in itself to the company. The company ends up spending more on training and this inflates their costs which are already high.

Resources achieved as a result of the turnaround should be put in projects that would result in better economic standing for the airline other than different objectives. The outsourced services for the company should be cheaper than those of retaining the same employees in the company. While this is not the case, the overall objective of outsourcing is not achieved and the impact is not felt on the financial statements.

The number of customers for the airline has increased leading to an increase in the sales from the increased bookings. The reduction of the workforce has led to reduced payroll costs but increased the cost of outsourcing. The remaining staffs feel overwhelmed with their jobs and this result in fatigue, depression/stress and reduced employee performance.

The overall objective of the resource based view of strategy is that the airline has to make the best use of the combination of the resources to give it a competitive edge in the market place. If the staffs are overwhelmed, they will not give their best affecting their performance and thus the position that the airline was aiming at will not be achieved.

There have been improvements in some of the revenues and costs but the overall implication on the bottom line of the company is minimal as the airline still has a huge debt burden. This is indicated by the reduction of the overall loss made by the airline. However, the company has just converted debt into equity which will ease the liquidity and reduced the interest cost on the financial statements. The impact of this will be felt in future financial statements.

Several strategies are used in the turnaround process. Various issues caused the firm to have declining performance and land the airline in losses. As a result, different strategies as highlighted in our findings are used to address the various issues. In addition, the strategies are applied progressively depending on the stage of turnaround that the company is in. The latest just implemented by the airline is conversion of debt to equity in 2017 whereas the company started the turnaround process three years ago

5.3 Recommendations

The structure adopted in the turnaround process for any organization should be the best fit for the attainment of the goals of the company on where it wants to be. The managers of the company should work on all possible scenarios and identify the structure that will propel them to achieve the set goals. In addition, when working on a lean structure, the number of managers should not be too many. Effective managers should be hired to handle a large number of subordinates and not vice versa. The reason behind this is that the payroll cost of a manager is higher with regard to salary and benefits as compared to the subordinates.

The management should also ensure that the work overload for each employee is optimal to ensure that they are stretched but are not overworked and overwhelmed. This is because overworked employees are not 100% productive as there is less

production and high room for errors. In addition, the employees spend their time seeking new opportunities to move out and the organization ends up with high labor turnover. This results in higher training costs as they have to bring the new employees to par with their required standards.

The policy makers for this industry and applicable to other industries as well, should develop standards/ratios based on particular size of operations. These standards must be adhered to by the management of the airlines. In addition, there should be an audit procedure to ensure that the managers are maintaining these standards/ratios and corrective actions taken as and when they arise to avoid instances where a company is completely at loss making for corrective actions to be kicked in.

5.4 Suggestions for Further Research

A quantitative research can be conducted to evaluate a trend analysis of the specific turnaround strategies. This can be done through identifying the years in which the strategies were implemented and tracing the impact of the same on the audited financial statements of the company.

The airline is still implementing turnaround strategies. It has just converted debt into equity which will have an implication on the liquidity of the company, the interest cost and the dilution of the share value. A research should be conducted later on to weigh the impact of this strategy and the rest that will be implemented later on.

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APPENDICES

Appendix I: Letter of Introduction

University of Nairobi,
College of Humanities and Social Sciences,
School of Business.

Dear Respondent,

I am an MBA student currently carrying out a research on the effect of turnaround strategy on the performance of Kenya Airways. This study is purely for academic purpose which is in partial fulfillment of the requirement for the Degree of Masters in Business Administration (MBA). I request you to fill in the questions provided in the questionnaire or provide the necessary information to be asked by the research assistant appropriately. The opinion given will be treated with utmost confidentiality and no single responses will be reported on its own but as a summation of all the responses. Kindly comply.

Thank you in advance.

Yours Faithfully,

Mercy Mulwa

MBA Student

Appendix II: INTERVIEW GUIDE

THE EFFECT OF TURNAROUND STRATEGY ON THE PERFORMANCE OF KENYA AIRWAYS

INTRODUCTION

This interview guide seeks your views on the effect of turnaround strategy on the performance of Kenya Airways. Your response will be used for academic purposes only and will be treated with utmost confidentiality. Kindly take time to fill in the spaces provided.

SECTION A: Respondents Background

1. What is your name (optional)?
2. Which department do you belong to?
3. How long have you worked with the organization?

SECTION B: TURNAROUND STRATEGY

1. Has the vision and objectives of the airline been clearly communicated to the staff?
2. Is there a clear flexible plan for achieving the vision and goals that enables the airline compete in the market?
3. Does the airline have a clear organization structure?
4. Does the airline have clear accountability and responsibility lines?
5. Does the airline have standard operating procedures that are clearly understood by staff?
6. Do these procedures enhance the efficiency with which work is done?

7. Are these procedures monitored constantly and corrective actions taken on any deviations or changes in the environment?
8. Does the style of leadership support the goals of the airline?
9. Have the changes in the top management position had a positive impact on the achievement o the set goals?
10. Do the members of the leadership team inspire and motivate employees to carry out the vision? Do the airline leaders coach and mentor their subordinates?
11. Do the employees have the required qualifications, experience and capabilities for the jobs they hold at the airline?
12. Does the airline continuously train its employees to ensure they acquire the correct skills for the job?
13. Has the airline provided an environment for training to take place?
14. Does the airline have a culture consistent with its core values?

SECTION C: ORGANIZATION PERFORMANCE

1. Have the adopted marketing strategies increased the customer base?
2. What has been the impact on the introduction of new routes and products?
3. What has been the impact of managing the interest cost?
4. What has been the impact of managing the fuel cost?
5. What has been the impact of outsourcing noncore services?
6. What has been the impact of reducing the workforce?
7. What has been the impact of selling noncore assets?
8. What has been the impact of changing the airlines top management?
9. What has been the impact of changing the members of the board?

10. What has been the impact of advancing the technology of the airline?
11. Has there been reduced customer complaints leading to improved customer satisfaction?
12. Has there been growth in sales and profit margin in the past three years?
13. Has the ability of the airline to meet its obligations as and when they fall due increased over the past three years?
14. Have the cases of customer overbooking reduced with time?
15. Has the debt liability of the airline reduced over time?

Thank you for participating