TURNAROUND STRATEGY AND PERFORMANCE OF KENYA COMMERCIAL BANK

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DECLARAT ION

This Research Project is my original work and has not been presented to any other examination body in any other University.

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The Research Project has been submitted for examination with my approval as the University Supervisor.

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DEDICATION

I am dedicating this project to my wife Edith and my two daughters Angela and Mitchelle

ACKNOWLEDGEMENT

I give gratitude to the Almighty God, it is because of His Grace that I was able to undertake and complete this course.

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ABBREVIATIONS AND ACRONYMS

CBK: Central Bank of Kenya

KCB: Kenya Commercial Bank

CEO: Chief Executive Officer

KRA: Kenya Revenue Authority

GDP: Gross Domestic Product

ABSTRACT

A successful turnaround is a complex procedure that requires a strong management team and sound business core. The stage of decline of a business will determine the type of action that must be taken to accomplish the turnaround. Turnaround is a sustained positive change in the performance of a business to obtain a desired result, it is the process by which a business with inadequate performance is analyzed and changed to achieve a desired result. In a turnaround, analysis and action is simultaneous. The contemporary business environment is increasingly becoming competitive due to changes in the external environment characterized by risks and uncertainties. Turnaround strategies are seen as essential components of managing, stabilizing, funding and fixing an underperforming or distressed organization. These strategies provide the basic direction for actions and forms a basis for coordinated efforts directed towards achieving long-term business objectives. The study reviewed Turnaround Strategy and Performance of Kenya Commercial Bank. The study employed a case study research design. Data was collected using an interview gui65de which was administered to bank managers of Kenya Commercial Bank. Qualitative data collected was analyzed using content analysis technique. This enabled the researcher to make general statements in terms of the several attributes and conceptualization of the study. The study established that turnaround situation is one where a company suffers declining economic performance for an extended period of time, such that the performance level is so low that the survival of the company is threatened unless serious efforts are made to improve its performance. Turnaround strategy emphasizes the improvement of operational efficiency and is probably most appropriate when a corporation's problems are pervasive but not yet critical. They stand on the belief that the market cycle doesn't describe an inevitable course of growth followed by decline. The bank effectively manages its operating costs and has more room to maneuver during the current credit crisis. This is particularly important especially when it is struggling to rebuild capital positions damaged by the crisis. The study concludes that turnaround strategy has a positive effect on the performance of the Kenya Commercial Bank. The bank manages to halt the decline, return to profitability and growth. The bank has continually grown and has a successful listing in the recent years which has enabled it to increase its capital base. The study recommends that for turnaround to be successful there is need to pursue a strategy at any given time. Whenever a firm is faced by a decline and it desires to attempt turnaround it should consider replacing the current management and hire an experienced team to steer the turnaround process. The study implies that policy makers should obtain knowledge of banking sector dynamics and the appropriate turnaround strategies to enhance economic performance and therefore obtain guidance.

CHAPTER ONE

INTRODUCTION

1.1 Background

Turnaround is a sustained positive change in the performance of a business to obtain a desired result, it is the process by which a business with inadequate performance is analyzed and changed to achieve a desired result. In a turnaround, analysis and action is simultaneous (David, 2008). The immediate requirement is to find the major problems, analyze them and implement solutions. A successful turnaround is a complex procedure that requires a strong management team and sound business core. The stage of decline a business will determine the type of action that must be taken to accomplish the turnaround.

The contemporary business environment is increasingly becoming competitive due to changes in the external environment characterized by risks and uncertainties. In order to survive in the external environment; organizations are forced to confront diverse challenges. Turnaround strategies are seen as essential components of managing, stabilizing, funding and fixing an underperforming or distressed organization. These strategies provide the basic direction for actions and forms a basis for coordinated efforts directed towards achieving long-term business objectives. The top management is charged with the responsibility of formulating a suitable strategy that is compatible with the mission and the vision. This helps the organization to cope with the changes in the external environment (Pearce and Robinson, 2007).

There are several theories which have been related to turnaround strategies. Resource-based view theory explains dynamic capabilities pertain to the organization's competencies to integrate, build, and reconfigure resource positions in rapidly changing environments. This is gathering momentum as a consideration in the implementation of turnaround strategies in the recent past. Turnaround is no longer being viewed as strategy to increase efficiency, growth in profits, cost cutting measures and much more. Contingency theory further highlights that leaders and managers as human resources are viewed to have entirely little management/ control during the turnaround process (David, 2008). The external control assumed by this theory comes from the conceptualized effect of government policies and the stakeholders in the turnaround process.

Previous researchers undertaking case studies of turnaround attempts have asserted that recovery from decline is often facilitated by replacing the top officer and other top managers. Nonetheless, no specific study has managed to evaluate how the strategies adopted have affected the performance of these organizations and the banking industry. Unfortunately, previous researchers of turnarounds have not been very precise about what constitutes poor performance (warranting turnaround) or good performance (successful turnarounds) (Jas & Sckelcher, 2005).

According to Gichuki (2009), the Kenyan banking sector continued to exhibit resilience in 2009 in the midst of the global financial turbulences. The global financial crises that escalated in late 2008 reared its face on the Kenyan economy in the form of second, third round lags effects.

However, efforts by all players to stimulate the economy tampered the effects of the crisis in Kenya. This global financial crises has necessitated Kenya commercial bank to implementing turnaround strategies to cope with the global crises .Kenya commercial bank has adopted change in top management of the bank as a turnaround strategy to ensure the bank does not collapse.

1.1.1 Turnaround Strategy

David (2008), defined a turnaround situation as representing absolute and relative-to-industry declining performance of sufficient magnitude to warrant explicit turnaround actions. Shah (1996) notes that turnaround is the process by which an organization with inadequate performance is analyzed and changed to achieve desired results. An organization is said to be in a decline when it experiences a resource loss that is sufficient to compromise its variability. Turnaround is considered to have happened when an organization recover adequately to continue with its normal activities often defined as having survived a threat to survival and regained sustainable profitability (Prasad, 2006). When an organization faces a down turn, the management team must act swiftly to ensure that the organization goes back to its initial position.

A turnaround situation is one where a company suffers declining economic performance for an extended period of time, such that the performance level is so low that the survival of the company is threatened unless serious efforts are made to improve its performance. Achieving turnaround calls for a totally different set of skills to probe into the causes of decline and to formulate appropriate strategies to transform the company for a fresh lease of life (Prasad, 2006).

A corporate turnaround may be defined simply as the recovery of a firm's economic performance following an existence-threatening decline. From a business perspective, the turnaround strategy can be defined as a corporate action that is performed to deal with issues of a loss-making company like increasing losses, lower return on capital employed, and continuous decrease in the value of its shares. According to Wheleen and Hunger (2004), a turnaround situation represents absolute and relative to industry declining performance of a sufficient magnitude to warrant explicit turnaround actions. A firm is said to be in decline when it experiences a resource loss sufficient to compromise its viability.

Turnaround strategy emphasizes the improvement of operational efficiency and is probably most appropriate when a corporation's problems are pervasive but not yet critical (Wheleen & Hunger, 2004). Turnaround strategies stand on the belief that the market cycle doesn't describe an inevitable course of growth followed by decline. Barker and Duhaime (2001), indicate that the limitation of turnaround strategy is that they often fail since they focus on achieving a longer-term vision without getting out of the decline in the first place and thereby dying in the process.

Measures by which firms usually react to a performance crisis comprise financial, earnings-, structural, leadership, and/or strategic measures. Typical measures that have been found in most cases of firm turnaround processes are cost reductions, asset reductions, changes in management and the strategic re-direction of the company.

Several organizational variables have been identified to influence a company's ability to cope with corporate crisis by either offsetting or enhancing the urgency and severity of the turnaround situation. Organizational size has often been discussed to provide an organizational buffering resource. Wheleen and Hunger (2004), have stated that larger organizational size may give a company a temporal advantage in that the firm may dispose of better access to credit, greater potentials for downsizing through e.g. reversed diversification, and superior access to capabilities and other resources like capital that support a successful turnaround. Nevertheless, organizational size has been strongly debated and no clear direction, either towards size supporting or hampering the turnaround process has been consistently confirmed.

Organizational slack resources in form of either absorbed excess cost or unabsorbed uncommitted liquid resources have been found to serve as a cushion that provides the crisis firm with the necessary bridging liquidity to redirect the firm. A study by Barker and Duhaime (2001), showed within a UK context a small relationship between retained earnings and the outcome of a turnaround attempt. Nevertheless, it is argued by other researchers that organizational slack gives room for complacency and thereby, may serve to limit the crisis recognition, what may in turn lead to a steeper and more severe decline before a turnaround attempt is launched.

1.1.2 Organizational Performance

Organizations need highly performing individuals in order to meet their goals, to deliver the products they are specialized in, and finally to achieve competitive advantage. Performance is also important for the individual. Accomplishing tasks and performing at a high level can be a source of satisfaction, with feelings of mastery and pride. Low performance and not achieving the goals might be experienced as dissatisfying or even as a personal failure. Moreover, performance if it is recognized by others within the organization is often rewarded by financial and other benefits (Ngehnevu, 2010). Performance is a major although not the only prerequisite for future career development and success in the labor market. Although there might be exceptions, high performers get promoted more easily within an organization and generally have better career opportunities than low performers (Nelson, 2010).

The concept of organizational performance can be applied to either individual performance such as an athlete or organizational performance such as a racing team or a commercial enterprise or even a farm or livestock production. Sales performance has been conceptualized to include both the outcome and behavioral dimensions. Sales outcomes have always been seen by performance oriented sales people as evidence to their behavioral performance and consequently a positive relationship has been found to exist between job involvement component of commitment and sales performance. In other words committed sales people are expected to extend greater efforts on the job there by having a direct effect on job performance (Silva, 2006).

The growing field of public management has focused on the question of when and under what conditions management affects organizational performance. Progress has been slow because what “performance” means in the public sector is open to considerable debate (Nelson, 2010). An entire subfield of performance measurement discusses this question, both at the organizational level and at the individual level.

For many public organizations, established performance indicators do not exist – despite efforts by the federal government through such vehicles as the Government Performance and Results Act and the Program Assessment Rating Tool (PART scores). For other organizations such as schools, performance indicators are subject to substantial controversy about the reliability and validity of the measures.

1.1.3 Turnaround Strategy and Organizational Performance

The performance of organizations has been the subject of much attention following recent demands for a more efficient and effective system of governance. In response, organization managers have adopted a range of incentive policies aimed to increase the performance of the bureaucracy. These incentive policies assume that performance can be improved through changes in management strategies so that one-size-fits-all rewards and penalties will be adequate best practices for increasing performance in all types of organizations. As a result, these efforts have produced improvements in performance for some organizations, while little change is seen in others.

Strategic turnarounds emphasize changing the business the firm is engaged in and include actions such as developing new markets, divestment, or vertical integration. Operating turnarounds reassess the way the organization conducts business and include short-run tactics such as revenue generation and cost cutting. Chowdhury (2002), agrees that declines caused by the external environment should be addressed with strategic turnaround strategies while internal threats should be addressed with operating turnaround mechanisms.

As costs associated with turnaround are generally believed to be less than the cost incurred through an agency closure (i.e. finding a suitable replacement, training new personnel, etc.), underperforming organizations are often exposed to turnaround strategies. Analyzing whether strategic or operating strategies for turnaround are feasible for underperforming public organizations, Boyne (2003), categorizes turnaround policies as retrenchment, repositioning, or reorganization.

Retrenchment consists of focused downsizing of the scope or size of an organization in efforts to increase efficiency. Though this drastic form of turnaround may be feasible for private firms, it is less feasible for public organizations due to legal constraints and obligations. Still, possibilities for retrenchment may lie in outsourcing non primary duties to third parties, allowing organizations to cut costs and apply extra resources to core responsibilities (Meier & OToole 2010).

Turnaround strategies are generally considered as operational (cost and asset retrenchment), strategic (repositioning), or entrepreneurial (innovation) (Boyne 2003). These turnaround measures have been theorized to be key factors in leading to successful turnaround outcome and thus play a significant role in the theoretical framework models. Despite there is a consensus about the elements of the turnaround process, there has been a significant debate about the importance and effect of the individual turnaround strategies.

Several studies examine the effect of retrenchment but find ambiguous results Meier & O‟ Toole (2010),ignited the debate about retrenchment by arguing that retrenchment is not an essential element of any turnaround strategy. Rather, they argued that retrenchment was a consequence of severe and rapid performance decline. Supported by Boyne (2003), they question the value of retrenchment and argue that sole focus on retrenchment initiatives may obscure, exacerbate and even reduce the chance of recovering successfully by reducing morale and available resources.

1.1.4 Commercial Banks in Kenya

The Central Bank of Kenya Regulates the Commercial Banks and Mortgage Finance Institutions in Kenya pursuant to the provisions of the Banking Act and the Regulations and Prudential Guidelines issued thereunder. They are the dominant players in the Kenyan Banking system and closer attention is paid to them while conducting off-site and on-site surveillance to ensure that they are in compliance with the laws and regulations.

The Kenyan banking sector comprising of forty three banks registered total net assets of Ksh. 2.7 trillion as at 31st December 2013. There are twenty six local private commercial banks with Ksh. 1.7 trillion net assets accounting for 61.4% of the total assets (CBK, 2013).

The main performance indicators used by CBK are assets, loans and advances, deposits and liabilities, capital and reserves, asset quality, profitability and liquidity of the banking sector. Similarly, the sector's capital adequacy, which is measured by the ratio of Total Capital to Total Risk Weighted Assets, decreased from 23% in December 2012 to 21% in December 2013 but was way above the statutory minimum of 12.0%.

The banking sector is expected to maintain its growth momentum supported by the rollout of full file credit information sharing, regional integration initiatives, advances in information and communications technology and the introduction of the devolved governance system in Kenya (CBK, 2013). Turnaround strategy in banking industry is designed to reverse a negative trend and to get the industry back on the track to profitability. Turnaround strategies usually try to reduce operating costs, either by cutting excess fat and operating more efficiently or by reducing the size of operations. It thus involves the adoption of a new strategic direction, the activation of which almost by definition involves retrenchment as a first step. A turnaround strategy therefore involves a reallocation of resources from one strategic thrust to another and focuses attention on the transitional issues involved.

1.1.5 Kenya Commercial Bank

The history of Kenya Commercial Bank Limited dates back to July 1896, when its predecessor, the National Bank of India opened a branch in Mombasa to handle the business that the port was attracting at that time. In 1958, Grindlays Bank merged with the National Bank of India to form the National and Grindlays Bank. Upon independence, the Government of Kenya acquired 60% shareholding in National & Grindlays Bank in an effort to bring banking closer to the majority of Kenyans. In 1970, the Government acquired 100% of shareholding in the Bank to take full control of the largest commercial bank in Kenya. National and Grindlays Bank was then renamed Kenya Commercial Bank. In 1972, Kenya Commercial Bank acquired Savings & Loan Kenya Limited, which specialized in the provision of mortgage finance (KCB, 2013).

KCB Group is the oldest financial services firm in East Africa. As of December 2012, the Group was ranked as the largest financial services organization in the African Great Lakes, with an estimated asset valuation of about US$4.36 billion (KES:367.4 billion), and shareholders' estimated at US$632.8 million (KES:53.34 billion).By September 2013, the Group's total assets had increased to US$4.57 billion (KES:385.2 billion). A turnaround strategy in KCB involves many changes and the most primary is management change. Apart from management change, other turnaround elements involve revenue generation, product market refocusing, liquidation of assets, divestment of parts of the business, and costs reduction (CBK, 2009). At any rate attempting a turnaround necessarily, depends on the root of poor profitability and the urgency of any crisis.

1.2 Research Problem

The overall goal of turnaround strategy is to return an underperforming or distressed company to normal in terms of acceptable levels of profitability, solvency, liquidity and cash flow. To achieve its objectives, turnaround strategy must reverse causes of distress, resolve the financial crisis, achieve a rapid improvement in financial performance, regain stakeholder support, and overcome internal constraints and unfavorable industry characteristics. Turnaround especially in difficult operating environment is not easy. Turnaround failures present harsh realities of liquidating firm's assets to try and offset external obligations. It is always a drastic and sad situation to face up to the hard reality of liquidation; however, it may sometimes be the best thing to do rather than to go on into even the sadder and worse situation (Khabdwalla, 2001).

According to Berdahl (2011), previous researchers undertaking case studies of turnaround attempts have asserted that recovery from decline is often facilitated by replacing the chief executive officer and other top managers. Nonetheless, no specific study has managed to evaluate how the strategies adopted have affected the performance of these organizations. Unfortunately, previous researchers of turnarounds have not been very precise about what constitutes poor performance (warranting turnaround) or good performance (successful turnarounds).

The Kenyan banking sector continued to exhibit resilience in 2009 in the midst of the global financial turbulences. The global financial crises that escalated in late 2008 reared its face on the Kenyan economy in the form of second, third round lags effects.

However, efforts by all players to stimulate the economy tampered the effects of the crisis in Kenya. This is evidenced by the performance posted by Banks and mortgage finance companies in 2009 which surpassed expectations. During 2009, Kenyan banks continued to embrace new technology to improve their customer service delivery (Gichuki, 2009). These global financial turbulences are making banking institution to turnaround strategies. The Kenya Commercial Bank faced a serious of underperformance in these years and this necessitated a turnaround strategy in order to help the company out of financial failure.

Tengku (2011), studied corporate turnaround strategies and business performance, the effect of size and government assistance on the manufacturing companies, This research found that debt restructuring, changes in market entry and operating-asset reduction Strategies were three among seven strategy-related factors that contribute significantly towards business performance of turnaround companies.

The study also found that company size and government assistance do moderate the relationship between strategy-related factors and business performance. Berdahl (2011), looked at turnaround strategy development in china, the study found that from the scenarios give a much higher proportion of the losses to unplanned shutdowns and reduced production compared to the real data. But further investigation of the results from the Tar Analyzer is needed in order to explain this difference.

Hopfmueller (2010), did a research on the role of the board of directors in turnaround situations empirical studies of Swiss listed companies, findings have furthermore shown that the influence of boards on the choice of restructuring strategies revolves around three broad themes that comprise firstly the boards contacts and the availability (or absence) of strategic routines and analogies as experienced on other companies' boards, secondly, the distribution of industry-, firm and board-specific experience, and thirdly the diversity of thoughts provoked by demographic diversity. Higher degrees of similarity respectively homogeneity of experiences –independent of absolute levels –have been found to inhibit strategic change.

Anders (2012), looked at corporate turnaround and corporate governance in Western European Firms, the study found that ownership concentration and turnaround performance and outcome are not significantly related. The study found dominant block holdings to be weakly significant and negatively related to turnarounds, while the entry of new block holders and large shifts in the ownership structure exert an insignificant effect on turnaround performance and outcome. Turnaround performance is not affected by firm size, while turnaround firms are significantly larger compared to non-turnaround firms.

Although cost and asset retrenchment has a pronounced position in the turnaround literature as the essential turnaround measure, the study found cost retrenchment to exert no influence on turnarounds. Study found a negative relation between asset retrenchment and turnaround performance and outcome, which is contrary to the advocated effect.

Gichuki (2009), studied turnaround strategy at the Co-operative bank of Kenya, he sought to establish the cause of declining performance and how the turnaround strategy was implemented. The research findings indicate that Co-operative Bank employed various strategies to confront the decline. To steer the turnaround process the bank instituted changes at the top management which saw the exit of the previous CEO and other changes at board level. In addition the government as a stakeholder absorbed bad debts.

Kiptugen (2003), carried out a case study on KCB regarding the Bank's strategic responses to a changing competitive environment. This study however did not concentrate so much on consumer satisfaction and perceptions hence its findings may not be applied to determine consumers' satisfaction and perception of repositioning strategy adopted by KCB. Similarly,Saigilu (2008), focused on the effectiveness of turnaround strategy at the Kenya Revenue Authority. The key objective of the study was to find out how effective the turnaround strategies were in achieving the targeted organizational objectives. He found out that the turnaround strategies implemented were effective. In fact it led to consistent increase in revenue collections. The service delivery at the institution were also highly improved and led to building confidence among all the stakeholders.

Matundura (2008), studied implementing turnaround strategy at Kenya Revenue Authority (KRA). He sought to establish the turnaround strategies that were adopted by KRA, the factors that necessitated the implementation. His study found out that a new management team with the right skills was hired.

They also hired consultants to help with the change process and several meetings were arranged between the management and employees to prepare themselves for the change. The authority also decentralized its operations. From the above local studies little has been done on turnaround strategy and performance of Kenya Commercial Bank, therefore the study sought to answer the following question, how does turnaround strategy influence performance of Kenya Commercial Bank?

1.3 Research Objective

The objective of this study was to assess how turnaround strategy influence performance of Kenya Commercial Bank

1.4 Value of the Study

The government and other institutions involved in the country's policy formulation cannot overlook the banking sector as one of the major contributor to the country's GDP. The findings from this study was therefore of importance because they have the capacity of being used to formulate positive fiscal policies which are relevant and sensitive to the forces influencing the economic growth in Kenya. The study will enable policy makers obtain knowledge of banking sector dynamics and the appropriate turnaround strategies to be applied to enhance economic performance and therefore obtain guidance from this study in designing appropriate policies that will regulate the banking sector in the country.

The research findings are very instrumental to various stakeholders in the banking sector in Kenya. For the government as the regulator through CBK who formulate and implement monetary policy and associations such as Kenya Bankers Association who endeavor to standardize management practices so as to ensure harmony in the industry will be able to take into account the impact of their capital decisions on the performance of the entire banking sector.

Scholars and academicians are able to borrow from the findings of this research to support literary citations as well as develop themes for further research. Specifically, the study hopes to make theoretical, practical and methodological contributions. The findings will contribute to professional extension of existing knowledge in turnaround strategies in relation to organizational performance, by helping to understand the current challenges for adopting these strategies or practices and their effects on service business performance.

1.5 Chapter Summary

Chapter one gives a general introduction to the study. It provides the background of the study with several sub-headings which are turnaround strategy which is turnaround is defined as the process by which an organization with inadequate performance is analyzed and changed to achieve desired results. It discusses organizational performance, turnaround strategy and organizational performance, commercial banks in Kenya and Kenya Commercial Bank, the research problem and research objectives in relation to the turnaround strategy and performance of Kenya Commercial Bank.

This chapter further discusses various similar studies both locally and internationally, their findings and the resultant research gap that this study sought to fill. The chapter also discusses the value of the study and its importance to policymakers and other players in the banking industry.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of the literature on the topic turnaround strategy and performance from previous studies.

2.2 Theoretical Foundation

This section examines the various theories that are used to inform the study on the turnaround strategy and performance. The study is based on the following theories; resource-based view theory and contingency theory.

2.2.1 Resource-Based View Theory

The resource-based view stipulates that in strategic management the fundamental sources and drivers to firms' competitive advantage and superior performance are mainly associated with the attributes of their resources and capabilities which are valuable and costly-to-copy (Peteraf & Bergen, 2003). Building on the assumptions that strategic resources are heterogeneously distributed across firms and that these differences are stable overtime, Barney (1991) examines the link between firm resources and sustained competitive advantage. Four empirical indicators of the potential of firm resources to generate sustained competitive advantage can be value, rareness, inimitability, and non-substitutability.

Resource advantage theory draws on marketing's heterogeneous demand theory (Alderson, 2005). This theory holds that, because intra-industry demand is significantly heterogeneous, different market offerings are required for different market segments in the same industry. Resource advantage theory draws on differential advantage theory. In this theory, marketplace positions of competitive advantage/disadvantage determine superior/inferior financial performance. Thus, firms can have an efficiency advantage, i.e., more efficiently producing value or they can have an effectiveness advantage, i.e., efficiently producing more value or they can have an efficiency/effectiveness advantage, i.e., more efficiently producing more value.

The resource-based view of the firm emphasizes the human capital in terms of knowledge, competence and skills. It is assumed that resources are not distributed homogeneously across various firms and the transfer of these productive resources creates costs. The board can be considered within this theory as an internal source for competitive advantage in that a difference between boards that can provide access to valuable, rare, costly to imitate, and non-substitutable resources and those who cannot offer them manifests ultimately in company performance (Eisenhardt & Martin, 2000). Thus, the board performs largely a knowledge-oriented service role, although it is also imaginable, that those resources are reflected in superior potential for fulfilling the control role. Furthermore, it is unclear to what extent reputational resources are considered in this theory. Being one of the famous ‘ornaments at the Christmas tree usually is not a totally unreasonable description of boards.

Eisenhardt and Martin (2000), further noted that, dynamic capabilities involve the organizational processes by which resources are utilized to create growth and adaptation within changing environments. The theory is relevant to the study since, dynamic capabilities pertain to the organization's competencies to integrate, build, and reconfigure resource positions in rapidly changing environments. This is gathering momentum as a consideration in the implementation of turnaround strategies in the recent past. Turnaround is no longer being viewed as strategy to increase efficiency, growth in profits, cost cutting measures and much more. It is being appreciated that the unique resources within the organization could be the answer to the many questions on how to implement the turnaround strategy.

2.2.2 Contingency Theory

Contingency theory is a class of behavioural theory that claims that there is no best way to organize a corporation, to lead a company, or to make decisions. Instead, the optimal course of action is contingent (dependent) upon the internal and external situation (Thompson, 1967). Basically, contingency theory asserts that when managers make a decision, they must take into account all aspects of the current situation and act on those aspects that are key to the situation at hand. Basically, it's the approach that it depends, for example, the continuing effort to identify the best leadership or management style might now conclude that the best style depends on the situation.

Contingency theory is considered to be a mature theory and has been subject to several critical reviews of its development and deficiencies. Such reviews are largely negative, denouncing the research for being fragmentary and contradictory due to methodological limitations, and also lacking an overall framework for the analysis of the relationship between contingent factors and accounting, leaving no obvious starting point for an explanation of an increasing body of often contradictory results. However, David (2008), point out that the concerns raised by many commentators in the field revolve around criticism of particular concepts of contingency as embodied in the studies reviewed, not with the idea of contingency theory per se.

One of the most damning criticisms directed towards the theory is that the contingency variables chosen in any one study account for only a small percentage of the variation in organisational performance. Eisenhardt and Martin (2000), attribute the small percentage of the variation in performance to the questionable assumption of a positive link between the information system and organisational performance. The authors noted that even if it could be argued that an effective management information system would lead to improved organisational performance, it remains that the performance of the organisation is subject to numerous moderating variables that could swamp the beneficial effect of an effective management information system. In addition, it is argued that certain measures of organisational performance are liable to gross manipulation by managers – in particular financial measures – and could therefore misrepresent actual performance.

The theory is applicable here as the study investigates the turnaround strategy and performance of Kenya Commercial Bank. In this case, leaders and bank managers as human resources are viewed to have entirely little management/ control during the turnaround process. The external control assumed by this theory comes from the conceptualized effect of government policies and the stakeholders in the turnaround process. The theory assumes that if one is leading troops in the Persian Gulf, an autocratic style is probably best and if one is leading a hospital or university, a more participative and facilitative leadership style is probably best (David, 2008).

2.2.3 Institutional Theory

Institutional theory is a widely accepted theoretical posture that emphasizes rational myths, isomorphism, and legitimacy. Institutional theory focuses on the deeper and more resilient aspects of social structure. It considers the processes by which structures, including schemes, rules, norms, and routines, become established as authoritative guidelines for social behavior. Different components of institutional theory explain how these elements are created, diffused, adopted, and adapted over space and time; and how they fall into decline and disuse. According to North (1990), institutional theory explains ways in which institutions and institutional change affect the performance of economies, both at a given time and over time. North (1990), further argues that due to the uncertainties involved in human interaction; they are the constraints devised to structure that interaction. Yet, institutions vary widely in their consequences for economic performance; some economies develop institutions that produce growth and development, while others develop institutions that produce stagnation.

Priem and Butler (2001), explore the nature of institutions and explain the role of transaction and production costs in their development. The second part of the book deals with institutional change. Institutions create the incentive structure in an economy, and organizations will be created to take advantage of the opportunities provided within a given institutional framework. North (1990) argues that the kinds of skills and knowledge fostered by the structure of an economy will shape the direction of change and gradually alter the institutional framework.

According to Priem and Butler (2001), institution from organization aspect are "rules, norms, and beliefs that describe reality for the organization, explaining what is and what is not, what can be acted upon and what cannot". Institutions act as kinds of forces upon organizations by creating pressures and limitations, they form boundaries for what is accepted and not accepted. Organizations are buried in environment fixed up as networks. The connections of these networks are seen as interdependent to other connections. This requests an understanding of the environment in order to understand the corporation itself. According to David (2008), institutional theory deals with how organizations are affected by external and internal forces which locate beyond its own control. Instead of considering rationality, institutional theory connects to a wider perspective of homo economics. It helps one to look beyond market pressures to analyze behavior and addresses institutional pressures as a dimension of behavioral analysis.

2.3 Turnaround Strategies

According to Robbins and Pearce (2002), a turnaround situation arises when performance criteria are sufficiently depressed to warrant a turnaround response. A turnaround response consists of activities likely to overcome the firm's troubles and return it to match or exceed prior performance. The most prolific turnaround strategy implemented by firms is the pursuit of cost efficiencies. Cost efficiencies include a varied range of actions, which can all be characterized as "belt-tightening" or "fire-fighting", with the aim of producing "quick-wins" in order to either stabilize finances in the short-term until more complex strategies are devised, or to quickly improve cash flow . Cost efficiency measures are frequently the first step in any recovery strategy as they can be quickly implemented, may have an almost immediate effect, and generally require little or no capital or resource outlay (Robbins & Pearce, 2002).

The most commonly reported cost efficiencies in the literature include reducing research and development, collecting and reducing accounts receivable, cutting inventory, stretching accounts payable, reducing marketing activity and eliminating pay increases. These were frequently accompanied by financial restructuring such as a reworking of the firm's capital structure so as to relieve pressure from debt repayments (Sudarsanam & Lai, 2001). Interestingly, successful "sharp benders" concentrated on reducing production costs relative to their industry peers that pursued more general overhead reductions. This included adjusting wage incentives, tighter stock control, financial and capacity controls and investment in new plant to enable greater efficiencies and streamlined processes.

Asset retrenchment is often pursued in concert with, or immediately following, a cost efficiency drive. An asset retrenchment strategy is where areas of the firm that are underperforming are appraised to determine if efficiencies can be made, or whether it is best to divest the asset completely rather than allowing it to continue operating at a weaker level than the rest of the firm (Morrow, 2007).

As with any strategy the pursuit of cost efficiencies carries some risks. Some authors have warned that solely cutting costs can reduce employee morale and commitment, resulting in increased staff turnover. Others caution that cost efficiency activity should be halted after a suitable length of time, so as not to damage assets or resources needed to maintain the core focus of the firm. Indeed some studies present evidence that firms which were unsuccessful in their turnaround efforts over-pursued cost efficiencies to the extent that they actually exacerbated the decline. Similarly, Sudarsanam & Lai (2001), also caution that while R&D is often one of the first areas to be cut, this alone is unlikely to be a major contributor to turnaround and, furthermore, may weaken the firm for the future.

Filatotchev and Toms (2006), highlight that the usefulness of asset retrenchment as a component of a turnaround strategy depends on the firm's ability to generate cash flow from any disposal. It is often assumed that this will be the case, yet there can be significant difficulties surrounding simple disposal and cash generation due to asset specificity, liquidity in the second hand market and exit barriers.

Similarly, where asset retrenchment involves the disposal of aging assets and their replacement with new, state-of-the-art counterparts, for example investing in new plant, equipment or technology, careful assessment is obviously required to ensure that the efficiency savings will more than cover the investment and implementation costs. A focus on the firm's core activities is a further turnaround strategy repeatedly identified in the literature and frequently enacted in parallel with asset retrenchment. This strategy entails determining the markets, products and customers that have the potential to generate the greatest profits and refocusing the firm's activities on these areas. Successful turnarounds have been associated with a focus on product lines for which the firm is best known, customer segments that are particularly loyal or less price sensitive, and areas where the firm has distinct competitive strength (Sudarsanam & Lai, 2001). The firm may also return to activities for which it was well known in the past.

In conjunction with this it may be necessary for the firm to undertake a redesign or restructuring to align itself more effectively with its core purpose, entailing the rationalization, divestment or closure of operations, products or assets that do not fit with this purpose. This retrenchment can also serve to free up scarce marketing, operational and financial resources for reinvestment in the chosen core activities, including appropriate acquisitions where specific further capability is required (Filatotchev & Toms, 2006). To reinforce the importance of a focus on the core, some studies explicitly warn that following a strategy with "no distinguishing characteristics, hence qualifying as a piecemeal approach" is unlikely to lead to a successful recovery.

In concert with leadership change, the role of culture change in facilitating the rejuvenation and re-adaptation of the struggling firm is highlighted in the literature. It may be necessary to effect a change in culture to challenge past beliefs and taken for granted assumptions, which may no longer be relevant to the changed environment the firm is facing; only then can historic operating routines be abandoned and new employee behaviours adopted.

Stopford and Baden-Fuller's (2000) ,study of rejuvenation in declining UK manufacturers showed that when the CEO challenged past beliefs it acted as a signal to employees that this behaviour was acceptable and led to the generation of innovative solutions that would not have otherwise been possible. Signaling was also found to be part of the culture change turnaround strategy because it indicated a transition from the old way of behaving to the new way for the firm to move forward.

The collection and dissemination of up to date market information, reflecting the new realities of the market place, was one of the ways in which historic beliefs were challenged (Filatotchev & Toms, 2006). Others have found that the use of symbols facilitates a change in the cognition and behaviours of employees, which is important for the turnaround to progress swiftly and achieve quick results. It has been argued that a turnaround is only successfully completed when the firm in question has been left with the capacity for self-renewal, so as to be agile in responding to changing circumstances in the future.

It is the ability of the firm to replenish and renew and is described as the hardest stage to attain, since it is difficult to maintain momentum in keeping the firm agile enough to transform, and not allowing it to get “stuck” in its current position or revert to a “usual” way of operating. This can be especially challenging following a difficult turnaround period because employees may feel they need a break from the change and upheaval they have experienced. Filatotchev and Toms (2006), suggest that an aid to accomplishing this is to ensure that all managers, regardless of level, act as leaders and understand the importance of the individual employee, their own personal behaviours and how their actions have a significant impact on the ability of the firm to remain flexible.

2.4 Organizational Performance Measurement

Organizational performance comprises the actual output or results of an organization as measured against its intended outputs. According to Richard (2009), organizational performance encompasses three specific areas of firm outcomes; financial performance, product market performance and shareholder return. In contrast, performance measurement endorses a process perspective where the focus is on the internal process of quantifying the effectiveness and the efficiency of action with a set of metrics. The measures and indicators act as surrogates or proxies for organizational phenomena. Performance measurement represents management and control systems that produce information to be shared with internal and external users (Berdahl, 2011). Furthermore, as it encompasses all aspects of the business management cycle, this model constitutes a process for developing and deploying performance direction.

Although organizational performance dominates the strategic management literature, not to mention economics, finance, and accounting, it is not unchallenged. Performance is one type of effectiveness indicator, with some advantages and disadvantages (Berdahl, 2011). Hence, we first need is to distinguish between organizational performance and the more general construct of organizational effectiveness. Organizational effectiveness is a broader construct that captures organizational performance, but with grounding in organizational theory that entertains alternate performance goals. Management research in general, and strategic management research more specifically, has taken a much more limited view, emphasizing the central role of accounting, financial and stock-market outcomes (Alderson, 2005).

A limited number of the prior turnaround studies have distinguished between performance decline caused by industry-wide factors, where changes in the external environment have resulted in negative implications for all the firms in the industry, and decline caused by firm specific factors, where the focal firm had suffered a particular fall in profitability relative to rivals due, for example, to an excessively high cost base or poor product-market decisions. These studies argue that the precise cause of decline has implications for the selection of appropriate turnaround strategies. In instances of industry-based decline, cost retrenchment may be all that is required until demand picks up (Berdahl, 2011), or in cases of a fundamental shift in consumer 13 tastes, new market opportunities may need to be sought .

In such cases changing the CEO and TMT could have negative implications, not only causing internal disruptions, but also risking loss of the existing management team's understanding of the firm's competencies and customers. The latter could be vital to a more cost conscious execution of the firm's existing strategy, which may be all that is required to ride out a temporary industry downturn.

2.5 Empirical Studies and Research Gap

The studies globally on turnaround strategy have been in different sectors. Mukherjee (2010), did a study on the implementation of turnaround strategy at Air India, the study found that Available financial resources are a requirement for a high-tech turnaround attempt, particularly since many technology companies have significant cash demands. However, the availability of funds has not been found to be a deciding factor in the outcomes of turnaround efforts. This is a potentially significant finding because it is sometimes suggested that high-tech firms in difficulty require only a steady injection of cash until their products gain market acceptance.

Anders (2012), looked at corporate turnaround in Western European Firms, the study found that ownership concentration and turnaround performance and outcome are not significantly related. The study found dominant block holdings to be weakly significant and negatively related to turnarounds, while the entry of new block holders and large shifts in the ownership structure exert an insignificant effect on turnaround performance and outcome. Turnaround performance is not affected by firm size, while turnaround firms are significantly larger compared to non-turnaround firms.

Although cost and asset retrenchment has a pronounced position in the turnaround literature as the essential turnaround measure, the study found cost retrenchment to exert no influence on turnarounds. Study found a negative relation between asset retrenchment and turnaround performance and outcome, which is contrary to the advocated effect.

Kazou (2012), focused on turnaround at the Sony a Japanese electrical company, the findings showed that, From the results, characteristics of Panasonic's vertical integration management style and powerful centralization, as well as Sony's diversification into non-electronics business are verified though the social network analysis. If we confirm the relationship between the timing for reorganization with the group network structures, a more centralized and integrated group structure would be favorable for taking early turnaround actions.

Based on these findings, we can build up hypothesis and then identify how capital, transaction structures of a group affect the result of turnarounds. James (2008), investigated turnaround strategies of 100 randomly selected organisations from both local community hospitals and major medical centers in US during the years 2002-05. The findings were that significant characteristic that divides successful and unsuccessful turnarounds seems to be the procedure employed to establish which facilities or amenities are to be removed.

Lisa (2010), Studied the role of the board of directors in turnaround situations of Swiss Listed Companies.it was found that boards play an important role beyond the intuitively appealing involvement in changes of capital structure and dividends. While in these 'traditional' board domains, board constellations did not produce any significant effects, the restructuring strategies in all other areas which include; asset-, portfolio-, cash related and operational-restructuring, as well as with regards to the risk posture and generic strategy changes, they were significantly associated with either previous changes in the board constellation (asset restructuring, risk posture of the firm, generic strategy change), interactive effects between board- and top management constellations (operational restructuring, cash management) or the current constellation of the board (portfolio restructuring, company performance). Board constellations, thus, have been found to have an effect on the turnaround behavior and restructuring strategy of the firm. Different strategic clusters that emerged in response to altered environmental conditions could be discriminated according to several board level characteristics.

Unsuccessful turnarounds entail comprehensive cost reductions and cuts, while successful rejuvenation verified alert efforts to rationalize precise agenda, reduce loss-making service lines, and associate with close by rivals or association partners to in cooperation recommend particular services or other aimed incomes to lessen costs in particular areas. Murphy (2008), theoretically distilled critical insights of leadership in turnaround in the US from both public and private sector organisations on organisational failure and recovery from empirical work and also examined the concept of turnaround leadership outside the educational sector.

Change of leadership is an essential element in the organisational recovery and type of leadership and not style is important in organisational reintegration. Gichuki (2009), studied turnaround strategy at the Co-operative bank of Kenya, he sought to establish the cause of declining performance and how the turnaround strategy was implemented. The research findings indicate that Co-operative Bank employed various strategies to confront the decline. To steer the turnaround process the bank instituted changes at the top management which saw the exit of the previous CEO and other changes at board level. In addition the government as a stakeholder absorbed bad debts.

Kiptugen (2003), carried out a case study on KCB regarding the Bank's strategic responses to a changing competitive environment. This study however did not concentrate so much on consumer satisfaction and perceptions hence its findings may not be applied to determine consumers' satisfaction and perception of repositioning strategy adopted by KCB. Matundura (2008) studied implementing turnaround strategy at Kenya Revenue Authority (KRA). He sought to establish the turnaround strategies that were adopted by KRA, the factors that necessitated the implementation. His study found out that a new management team with the right skills was hired.

Saigilu (2008), focused on the effectiveness of turnaround strategy at the Kenya revenue authority. He found out that the turnaround strategies implemented were effective. In fact it led to consistent increase in revenue collections. The service delivery at the institution were also highly improved and led to building confidence among all the stakeholders.

From the above empirical review little has been done on turnaround strategy and performance of Kenya Commercial Bank. This study sought to close this research gap by looking at turnaround strategies and performance of Kenya Commercial Bank.

2.6 Chapter Summary

This chapter presents a review of the literature on the topic turnaround strategy and performance from previous studies. It discusses theoretical foundation with three theories in relation to the study. This theories are resource-based view theory, contingency theory and institutional theory. Resource-based view theory stipulates that in strategic management the fundamental sources and drivers to firms' competitive advantage and superior performance are mainly associated with the attributes of their resources and capabilities which are valuable and costly-to-copy, contingency theory is a class of behavioural theory that claims that there is no best way to organize a corporation, to lead a company, or to make decisions.

Instead, the optimal course of action is contingent (dependent) upon the internal and external situation while institutional theory is a widely accepted theoretical posture that emphasizes rational myths, isomorphism, and legitimacy. It discusses turnaround strategy in details. It also discusses the organizational performance, empirical studies and research gap. The empirical studies discusses both local and international studies.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology that was used to conduct the study. The various subthemes discussed in this chapter include; research design, data collection and data analysis.

3.2 Research Design

This research was conducted through a case study. A case study is an in-depth investigation of an individual, institution or phenomenon and the primary purpose is to determine factors and relationships among the factors that have resulted in the behavior under study. A case study is important for analyzing information in a systematic way to arrive at useful conclusions and recommendations (Cooper and Schindler, 2006).

Case study method enables a researcher to closely examine the data within a specific context. In most cases, a case study method selects a small geographical area or a very limited number of individuals as the subjects of study. Yin (2009), explains that case studies, in their true essence, explore and investigate contemporary real-life phenomenon through detailed contextual analysis of a limited number of events or conditions, and their relationships.

3.3 Data Collection

Primary data was collected using an interview guide which was administered to bank managers of Kenya Commercial Bank or their equivalent. An interview guide was used as it enables oral administration of questions in a face-to-face encounter therefore allowing collection of in depth data.

This involved in-depth discussion through individual meetings with the senior managers. With unstructured questions, a respondent's response may give an insight to his feelings, background, hidden motivation, interests and decisions and give as much information as possible without holding back (Copper & Schindler, 2006).

3.4 Data Analysis

The qualitative data collected was analyzed using content analysis technique. According to Mugenda and Mugenda (2003), the main purpose of content analysis is to study the existing information in order to determine factors that explain a specific phenomenon. According to Kothari (2000), content analysis uses a set of categorization for making valid and replicable inferences from data to their context. The responses from different respondents were compared and summarized according to the objectives of the study. Content analysis was the best method of analyzing the open-ended questions because of its flexibility and allows for objective, systematic and qualitative description of the content of communication (Cooper & Schindler, 2006).

Yin (2009), defined qualitative data analysis as working with data, organizing it, breaking it into manageable units, synthesizing it, searching for patterns, discovering what is important and what is to be learned, and deciding what you will tell others. Qualitative data requires some creativity, for the challenge is to place raw data into logical meaningful categories, to examine them in a holistic fashion, and find ways of communicating this interpretation to others.

3.5 Chapter Summary

This chapter has presented the methodology that was used to conduct the study. The various subthemes discussed in this chapter included; research design, data collection and data analysis. It has implied that the research was conducted through a case study. It has discussed data collection method where primary data was collected using an interview guide which was administered to bank managers of Kenya Commercial Bank.

The study has also stated that data analysis was done using content analysis technique and discussed the merits of this technique in analyzing qualitative data to arrive at meaningful conclusions. References were also made of previous similar studies whose findings were also analyzed using the same technique.

CHAPTER FOUR

DATA ANALYSIS RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents data analysis and discussions. The study objective was to establish the turnaround strategy and performance of Kenya Commercial Bank. Primary data was collected using an interview guide which was administered to bank managers of Kenya Commercial Bank. The data was thereafter analyzed based on the objectives of the study and the findings are as presented as per the different classes underlined below.

4.2 Turnaround Strategy and Influence of Turnaround Strategies on Performance

The interviewees were asked to explain how they view turnaround strategy. They stated that a turnaround situation is one where a company suffers declining economic performance for an extended period of time, such that the performance level is so low that the survival of the company is threatened unless serious efforts are made to improve its performance. Other researchers view turnaround strategy as the financial recovery of a company that has been performing poorly for an extended time.

The interviewees answered to this question by indicating that turnaround strategy has influenced Kenya Commercial Bank positively. The account opening balances have been too high making the bank less competitive. The potential clients prefer opening accounts with the competition since their current terms are more attractive. This in effect has reduced the banks liquidity position as it maintained very few accounts.

The respondents indicated that the bank has embarked on cost reduction measures (operational restructuring) which have helped it improve efficiency and margin by reducing direct costs and slimming overheads in line with volume.

4.3 How different skills affect performance of Kenya Commercial Bank

There is considerable positive evidence linking educational attainment to business performance. The most productive organisations tend to have a more highly educated workforce than the least productive equivalent on average, to an extra qualification level. The respondents indicated that a clear connection between higher skills and higher productivity is particularly at the intermediate skills level. They quantified that the higher average levels of labour productivity in Kenya Commercial Bank is closely related to the greater skills and knowledge of their workforces, especially intermediate skills.

Skill levels are also shown to be associated with the uptake of new equipment and to maintenance activity. Higher qualification levels of both managers and staff boost innovation and are associated with higher technological complexity and originality. Higher educational qualifications is also associated with higher levels of compensation which lead to employee satisfaction and mobility within the organizational hierarchy.

4.4 Influence of Turnaround Strategy and Performance of Kenya Commercial Bank

A turnaround strategy is influenced by several things, for example, cultural change, stretching accounts payable, change in leadership among others. Each one of them is discussed below.

4.4.1 Influence of decrease in value of shares and lower return on capital employed

The decrease in value of shares affects the performance of Kenya Commercial Bank from operating its activities. The interviewees revealed that when the value of shares goes down, the customers do not purchase them and hence they wait until the shares value increase. Shares price movement is much affected by factors other than firm's financial performance. It suggests that there is other information other than internal factors that also affect the share price movement. In certain periods, the changes in share price do not reproduce the banks financial performance.

On the question about lower return capital employed, the respondents indicated that the return on capital employed measures the proportion of adjusted earnings to the amount of capital and debt required for a business to function. They stated that lower return on capital employed on banks highly affects the bank. They explained that for a company to remain in business over the long term, its return on capital employed should be higher than its cost of capital; otherwise, continuing operations gradually reduce the earnings available to shareholders. It is commonly used to compare the efficiency of capital usage of businesses within the same industry.

4.4.2 Influence of Retrenchment and Cultural Change

A retrenchment strategy is where areas of the organizations that are under-performing are appraised to determine if efficiencies can be made, or whether it is best to divest the asset completely rather than allowing it to continue operating at a weaker level than the rest of the firm.

The interviewees indicated that retrenchment was implemented in the bank to enhance the cost efficiency strategies. They stated that the strategies did not have enough impact to stabilize the banks finances, although in the majority of cases it is the natural second step following cost efficiencies. They said that retrenchment decisions are inevitably difficult. There is the risk that sales sometimes compromise future strategic options, while conversely they are a necessity to generate cash and reduce losses. Kenya Commercial Bank has the ability to generate cash flow from any disposal.

The role of culture change is facilitating the rejuvenation and re-adaptation of Kenya Commercial Bank. The interviewees answered to this question by stating that it may be necessary to effect a change in culture to challenge past beliefs and taken for granted assumptions, which may no longer be relevant to the changed environment the bank is facing; only then can historic operating routines be abandoned and new employee behaviors adopted. Culture challenges the bank past beliefs where it acts as a signal to employees that this behaviour is acceptable and leads to the generation of innovative solutions that would not have otherwise been possible.

Signaling is also found to be part of the culture change turnaround strategy because it indicated a transition from the old way of behaving to the new way for the bank to move forward. The respondents indicated that the most popular and useful symbols as the elimination of perks and the adoption of “medical” metaphors to convey the severity of the situation.

Overall, the literature emphasizes that in implementing turnaround strategies, bank managers should remember that it is not just the systems or structures that need to change, but the behaviour and attitudes of the individuals too, and that acknowledging and respecting this is important for success.

4.4.3 Influence of Change of Leadership and Stretching Accounts Payable

The replacement of an organization's leader is frequently undertaken early in the turnaround process and in some cases is even the trigger for a realization that the organization is in serious difficulties and that action is urgently needed. The respondents quantified that the mere presence of a charismatic leader in the bank removes doubts about the survival of the bank as well as galvanize employees towards committed and focused efforts during difficult circumstances. This suggests the benefits of ensuring a charismatic leader is at the helm during the turnaround period. The replacement of a leader in the bank brought new perspectives and assumptions as well as different personal backgrounds and experiences to those they replaced and, most importantly, new ideas on what turnaround strategies the bank implemented. This is closely linked to the injection of new values, new vision, strong drive and improved motivation and communication.

A strategy that is often employed by a bank is stretching accounts payable that is, paying bills as late as possible without damaging its credit rating. On this question, the interviewees stated that stretching accounts payable strategy helps in reducing the implicit cost of giving up cash discount in Kenya Commercial Bank. However, they were against the strategy. They gave two reasons that show that stretching payables is unethical.

First, the bank is violating the terms of its trade credit agreement. Second, the customer is in effect doing additional borrowing from the bank without their authorization. They explained that though stretching accounts payable may be financially attractive, it raises an important ethical issue: It may cause the bank to violate the agreement it entered into with its customer when it started doing business together. Clearly, a bank would not look kindly on a customer who regularly and purposely postponed paying for loans.

4.4.4 Influence of Adjusting Wage Incentives

Pay for performance is generally given for specific performance results rather than simply for time worked. The interviewees stated that while incentives are not the answer to all personnel challenges, they can do much to increase worker performance. Incentives help direct employee efforts. Other benefits include cost certainty and cost reductions for the bank employee.

Benefits to employees include higher pay and satisfaction. Any time employees in the bank are rewarded for that which they have performed well, bank employers ask for a cynical or disillusioned workforce. All this having been said, some bankers may wish to have a very small profit sharing bonus as a teaching tool for top and middle management. Much better than profit sharing, however, is breaking down all elements under the control of employees or management that affect profits and rewarding personnel for achieving results.

4.5 If developing new markets and Cost Efficiencies employed is a Turnaround Strategy in the performance of Kenya Commercial Bank

On the question on whether cost efficiencies are employed as a turnaround strategy in KCB, the interviewees stated that they are highly employed in the bank. The most prolific turnaround strategy implemented by the bank is the pursuit of cost efficiencies. The cost efficiencies include a varied range of actions, which can all be characterized as "belt-tightening" or "fire-fighting", with the aim of producing "quick-wins" in order to either stabilize finances in the short-term until more complex strategies are devised, or to quickly improve cash flow. They explained that cost efficiency measures are frequently the first step in any recovery strategy as they can be quickly implemented, may have an almost immediate effect, and generally require little or no capital or resource outlay.

The most commonly indicated cost efficiencies in the bank sector include reducing accounts receivable, cutting inventory, stretching accounts payable, reducing marketing activity and eliminating pay increases. They said that this is frequently accompanied by financial restructuring such as a reworking of the bank's capital structure so as to relieve pressure from debt. The interviewees stated that successful "sharp benders" concentrated on reducing production costs relative to their industry peers that pursued more general overhead reductions. This included adjusting wage incentives, tighter stock control, financial and capacity controls and investment in new plant to enable greater efficiencies and streamlined processes.

The interviewees were asked whether developing new markets was a turnaround strategy for the bank. They quantified that, that is always an achievement to the bank because the more the expansion the more the increase of profits and the less the competition. This is because the banks turnaround is measured by improvement in the company's profitability. They further explained that in order to enhance a positive turnaround strategy, the new markets should be operating on profit. In case they operate on loss, it may not be an achievement to Kenya Commercial Bank but rather a negative turnaround.

4.6 Costs related with Turnaround Strategy in Kenya Commercial Bank

It would not have been possible for any of declining firms to turnaround without adequate financial restructuring with the help of banks, financial institutions and the parent company. These changes significantly reduced the expenses of the companies. Simultaneously, strengthening finance function in the bank is important. Cash flows need to be closely monitored and financial implications of all important decisions carefully evaluated. Under this question, the interviewees stated that there are several costs which are associated with turnaround strategy.

The upgrading of the technology requires cash that will help the bank purchase advanced machines. Also, changing the bank and leadership requires cash to implement the changes. Substantial amount of money which is invested to get a good IT platform to serve the entire branch network. Heavy investment in IT systems tied the much needed cash for financing restructuring.

4.7 Effects of Turnaround Strategy and performance of Kenya Commercial Bank

Turnaround strategy and performance of Kenya Commercial Bank has several effects. They are discussed below;

4.7.1 Effects of cutting Inventory

Keeping inventory levels low can have several negative impacts on costs and profitability. The respondents stated that cutting inventory levels limits the amount of space needed for inventory, which can cut down on storage-related costs. For example, a bank that decides to cut inventory levels might require less money for the turnaround strategies than a bank that keeps more inventory. Keeping low inventory levels reduces costs associated with the depreciation of inventory. Low inventory levels can potentially be costly to a bank due to turnaround costs and other logistical and organizational costs.

If a bank is about to run out of a high-demand service or offer, for example, shares, it might have to extend it to make sure that it has enough inventory to meet demand. Banks with low inventory levels need to monitor the levels closely to ensure that there is enough finance to avoid running out of inventory. Keeping inventory levels low can reduce certain costs, but it also increases the risk of running out of a service. Banks that run out of shares and services may miss out on sales that they would have been able to make had they kept more shares on hand. They said, if a bank has too much of its money tied up in inventory, it might not have much cash left over to spend on current expenses and make investments.

4.7.2 Effects of Transaction Structures and improvement of Operational Efficiency

On the question on effects of transaction structures on the banks performance, the interviewees stated that transaction structures help the bank avoid the creation of certain records and reports required by law. However, if many consents are required, or if the counterparties use the opportunity to try to break contracts or otherwise extract concessions, it can add delay and uncertainty to a transaction. This suggests that there is an importance of managing bank interactions to efficiently access valuable results that affect the capital structure of the bank. Government and community contracts make possible efficient access to debt financing from both private and state-owned institutions. Since interest rates in Kenya Commercial Bank are among the highest in the East Africa, debt financing is an important issue for domestic banks. In this case, private banks may positively recognize previous firm investments in social and environmental projects when assessing loan risks.

Turnaround strategy emphasizes the improvement of operational efficiency and is probably most appropriate when a corporation's problems are pervasive but not yet critical. They stand on the belief that the market cycle doesn't describe an inevitable course of growth followed by decline. The interviewees indicated that Kenya Commercial Bank generally maintains a consistent approach to improvement of operational efficiency and it enjoys superior stock-price growth in addition to being better prepared to organically fund investments. Furthermore, the bank effectively manages its operating costs and has more room to maneuver during the current credit crisis. This is particularly important for the especially when it is struggling to rebuild capital positions damaged by the crisis.

4.7.3 Effects of Reduced Research and Development

The interviewees responded to this question by stating that reduced research and development on the performance of KCB has affected the bank negatively. They stated that most of the previous studies of branch efficiency have focused on data from the mid-1990s and thus do not reflect the recent technological and regulatory changes that have affected Kenya Commercial Bank.

The assessments of the relative performance of the bank across the network size spectrum and how other network characteristics such as geographic scope and local branch density affect performance has not been viewed by various studies. This has reduced the banks performance since there are no new customers who are opening accounts. Also, the past customers are moving to other banks since they feel like the bank is not moving with technology.

4.8 Challenges that Kenya Commercial Bank face when implementing Turnaround Strategy

The interviewees explained the various challenges that Kenya Commercial Bank face when implementing turnaround strategy. The major challenge is resistance to change. Most of the employees are not ready for the change that is expected of them. Change in culture like the introduction of balance score card to measure performance does not sit well with most staff. Change also affects the bank in that some of the good employees leave under the early retirement programme this means new staff have to be hired and trained.

Resistance to change is handled through constant communication from top management who remind employees of the need to change. This is managed through regular meetings, communication, team building and awareness exercise for all staff.

Economic recession is another challenge that faces the implementation of turnaround. Most sectors of the economy like agriculture-tea, coffee which is a major client of the bank are not performing well. Additionally, the issue of non-performing loan hence persists even after the business is back on track. Large provisions for bad debts are necessary and they have negative impact on the financial performance of the bank. Inadequate resources are another major challenge. Resource constraints are both human and financial. There are no enough middle and top managers to steer the firm to profitability because the early retirement saw the exit of some key managers.

4.9 Future for Kenya Commercial Bank

The interviewees stated that Kenya Commercial Bank is moving at a high speed after the implementation of turnaround strategy. With this strategy, the bank will be able open new markets and expand the business. This will lead to high customer volume which will lead to more people transacting through the bank and thus higher profit volume. The introduction of new technology in the bank will make it easier for the customers to carry out transactions easily. The respondents said that Kenya Commercial Bank will be able to open new branches in the whole of East African region.

4.10 Discussion of the Findings

The study found how different skills affect performance of Kenya Commercial Bank. It showed that the most productive organisations tend to have a more highly educated workforce than the least productive equivalent on average, to an extra qualification level. The study identified a clear connection between higher skills and higher productivity that was particularly at the intermediate skills level.

The higher average levels of labour productivity in Kenya Commercial Bank are closely related to the greater skills and knowledge of their workforces, especially intermediate skills. The findings are in line with Morrow, (2007) who found a strong relationship between different levels of UK workforce skills and the sophistication of products. He also stated that other skills have shown a link to company survival.

The study found how the improvement of operational efficiency affects the performance of the bank. It stated that Kenya Commercial Bank generally maintains a consistent approach to improvement of operational efficiency and it enjoys superior stock-price growth in addition to being better prepared to organically fund investments. Furthermore, the bank effectively manages its operating costs and has more room to maneuver during the current credit crisis. This is particularly important for the bank especially when it is struggling to rebuild capital positions damaged by the crisis. The findings concur with Peteraf, (2003) who stated that the efficiency/operating turnaround stage aims to stabilize operations and restore profitability by pursuing strict cost and operating- asset.

The study established how leadership influence the performance of KCB. It stated that the replacement of an organization's leader is frequently undertaken early in the turnaround process, and in some cases is even the trigger for a realization that the organization is in serious difficulties and that action is urgently needed. The mere presence of a charismatic leader in the bank removes doubts about the survival of the bank as well as galvanize employees towards committed and focused efforts during difficult circumstances. The findings are in line with Sudarsanam & Lai, (2004) who stated that a change in leadership is tangible evidence that something positive is being done to improve the firm's performance even though the cause of the poor performance may have been beyond management's control.

The study found the influence that culture change has on the banks performance. The findings showed that culture challenges the bank past beliefs where it acts as a signal to employees that this behaviour is acceptable and leads to the generation of innovative solutions that would not have otherwise been possible. It further explained that it may be necessary to effect a change in culture to challenge past beliefs and taken for granted assumptions, which may no longer be relevant to the changed environment the bank is facing. The findings are in line with Stopford's (2007) study of rejuvenation in declining UK manufacturers which showed that when the CEO and TMT challenged past beliefs it acted as a signal to employees that this behaviour was acceptable and led to the generation of innovative solutions that would not have otherwise been possible.

The study established the influence that retrenchment has on the banks performance. The interviewees indicated that retrenchment was implemented in the bank to enhance the cost efficiency strategies which did not have enough impact to stabilize the banks finances. Although in the majority of cases, retrenchment is the natural second step following cost efficiencies. However, there is the risk that sales sometimes compromise future strategic options, while conversely they are a necessity to generate cash and reduce losses.

The findings are in line with Filatotchev (2006) who highlighted that the usefulness of retrenchment as a component of a turnaround strategy depends on the firm's ability to generate cash flow from any disposal. The study identified how adjusting wage incentives impact the performance of the bank. It stated that incentives can help direct employee efforts. Other benefits include cost certainty and cost reductions for the bank employee. Benefits to employees include higher pay and satisfaction. Any time employees in the bank are rewarded for that which they have performed well, bank employers ask for a cynical or disillusioned workforce. This concur with Meier, (2007) who stated that incentives increase an employee's morale and hence improvement of performance.

The study found the influence of stretching accounts payable on performance. It indicated that stretching accounts payable strategy helps in reducing the implicit cost of giving up cash discount in Kenya Commercial Bank. Though stretching accounts payable may be financially attractive, it raises an important ethical issue.

It may cause the bank to violate the agreement it entered into with its customer when it started operating together. This concurs with Richard (2009) who stated that stretching accounts payable helps customers in paying bills as late as possible without damaging its credit rating.

The study identified costs related with turnaround strategy in Kenya Commercial Bank. It stated that upgrading of the technology requires cash that will help the bank purchase advanced machines. Also, changing the bank and leadership requires cash to implement the changes. Substantial amount of money which is invested to get a good IT platform to serve the entire branch network. Heavy investment in IT systems tied the much needed cash for financing restructuring. This concurs with Thompson & Strickland, (2008) who stated that for a business strategy to thrive, it must have enough capital with advanced technology.

The study identified the challenges faced by Kenya Commercial Bank. These are resistance to change where most of the employees are not ready for the change that is expected of them, change in culture like the introduction of balance score card to measure performance, economic recession, inadequate resources and resource constraints. Most sectors of the economy like coffee which is a major client of the bank are not performing well. The issue of non-performing loan persists even after the business is back on track.

Large provisions for bad debts are necessary and they have negative impact on the financial performance of the bank. The findings concur with Boyne (2010) who indicated that the biggest challenges faced by KCB Bank Ltd in performance include, corruption, political climate and stability, economic growth of the country and inflation rate.

4.11 Chapter Summary

This chapter presents data analysis and discussions in relation to turnaround strategy and performance of Kenya Commercial Bank. It indicates the answers given by the respondents who were interviewed. It highlights the questions and responses of the interviewees. The questions answered from the interview guide are; turnaround strategy and influence of turnaround strategies and performance, how different skills affect performance of Kenya Commercial Bank.

This chapter further discussed the challenges that the bank faced when implementing the turnaround strategy notably the culture change and resistance to change that came about with the implementation of the strategy. The influence of new technology as one of the elements of turnaround strategy was also discussed in detail as well as the effect of management changes that were adopted as part of the turnaround strategy. The effect of cutting inventory and improvement of operational efficiency was also discussed in this chapter.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary, conclusions and recommendations of the study. This study focused on turnaround strategy and performance of Kenya commercial Bank.

5.2 Summary

From the findings, turnaround strategy is the financial recovery of a company that has been performing poorly for an extended time. In order to effect a turnaround, a company must acknowledge and identify its problems, consider changes in management and develop and implement a problem-solving strategy. In some cases, the best strategy may be to cut losses by liquidating the company rather than trying to turn it around. Turnaround situation is one where a company suffers declining economic performance for an extended period of time, such that the performance level is so low that the survival of the company is threatened unless serious efforts are made to improve its performance.

From the findings, there is a positive evidence linking educational attainment to business performance. The most productive organisations tend to have a more highly educated workforce than the least productive equivalent on average, to an extra qualification level. Higher average levels of labour productivity in Kenya Commercial Bank is closely related to the greater skills and knowledge of their workforces, especially intermediate skills. Higher qualification levels of both managers and staff boost innovation and are associated with higher technological complexity and originality.

From the findings, turnaround strategy emphasizes the improvement of operational efficiency and is probably most appropriate when a corporation's problems are pervasive but not yet critical. They stand on the belief that the market cycle doesn't describe an inevitable course of growth followed by decline. The bank effectively manages its operating costs and has more room to maneuver during the current credit crisis. This is particularly important for the especially when it is struggling to rebuild capital positions damaged by the crisis.

From the findings, the role of culture change in facilitating the rejuvenation and re-adaptation of Kenya Commercial Bank. Culture challenges the bank past beliefs where it acts as a signal to employees that this behaviour is acceptable and leads to the generation of innovative solutions that would not have otherwise been possible. It may be necessary to effect a change in culture to challenge past beliefs and taken for granted assumptions, which may no longer be relevant to the changed environment the bank is facing; only then can historic operating routines be abandoned and new employee behaviors adopted.

From the findings, a retrenchment strategy is where areas of the organizations that are under-performing are appraised to determine if efficiencies can be made, or whether it is best to divest the asset completely rather than allowing it to continue operating at a weaker level than the rest of the firm. Retrenchment was implemented in Kenya Commercial Bank to enhance the cost efficiency strategies. Strategies do not have enough impact to stabilize the banks finances, although in the majority of cases it is the natural second step following cost efficiencies.

From the findings, the replacement of an organization's leader is frequently undertaken early in the turnaround process, and in some cases is even the trigger for a realization that the organization is in serious difficulties and that action is urgently needed. The replacement of a leader in the bank brings new perspectives and assumptions as well as different personal backgrounds and experiences to those they replaced and, most importantly, new ideas on what turnaround strategies the firm can implement. This suggests the benefits of ensuring a charismatic leader is at the helm during the turnaround period.

From the findings, a strategy that is often employed by a bank is stretching accounts payable that is, paying bills as late as possible without damaging its credit rating. Stretching accounts payable strategy helps in reducing the implicit cost of giving up cash discount in Kenya Commercial Bank. Stretching accounts payable is unethical. It may cause the bank to violate the agreement it entered into with its customer when it started operating together.

From the findings, it would not have been possible for any of these declining firms to turn around without adequate financial restructuring with the help of banks, financial institutions and the parent company. These changes significantly reduced the expenses of the companies. Simultaneously, strengthening finance function in a bank is important. Cash flows need to be closely monitored and financial implications of all important decisions carefully evaluated.

Finally, the study identified challenges faced by Kenya Commercial Bank. These are resistance to change where most of the employees are not ready for the change that is expected of them, change in culture like the introduction of balance score card to measure performance, economic recession, inadequate resources and resource constraints. The issue of non-performing loan persists even after the business is back on track. Large provisions for bad debts are necessary and they have negative impact on the financial performance of the bank.

5.3 Conclusion

The goal of this research was to identify the turnaround strategy and performance of Kenya commercial Bank. From the research findings and in consonance with existing theory, turnaround strategy has a positive effect on the performance of the bank. Kenya Commercial Bank managed to halt the decline, return to profitability and growth. The bank has continually grown and has a successful listing in the recent years which has enabled the bank to increase its capital base. It has also expanded with a current branch network and recently acquired a financial brokerage firm in attempts to become a one 'stop shop' for financial service. This therefore indicates that it is possible to return a failing company to profitability if rescue efforts are instituted early enough and the appropriate turnaround strategies are chosen and implemented properly.

5.4 Recommendations and Implications of the Study on Policy and Practice

Research findings show that the bank solved the declines it faced and successfully implemented a turnaround strategy to improve its performance. The findings demonstrate that for turnaround to be successful there is need to pursue a strategy at any given time. This is attributed to the fact that the causes of the decline situation most often come from lack of appropriate turnaround strategies. I would thus recommend that for firms that are faced with decline there is need to pursue a turnaround strategy so as to improve its performance.

A change in top management affected turnaround outcome positively. The implementation of turnaround was successful due to the new and experienced management team who were hired to steer the turnaround process. Therefore, I would recommend that whenever a firm is faced by a decline and it desires to attempt turnaround it should consider replacing the current management and hire an experienced team to steer the turnaround process. There is also need to rally for stakeholders support throughout the process.

Policy makers can justify the reasons for growth of other firms using KCB's reasons for growth as found out in the study. Policy makers can also develop policies in regard to growth of firms in Kenya. The study can enable policy makers obtain knowledge of banking sector dynamics and the appropriate turnaround strategies to be applied to enhance economic performance.

The policy makers will therefore obtain guidance from this study in designing appropriate policies that will regulate the banking sector in the country. The government and other institutions involved in the country's policy formulation cannot overlook the banking sector as one of the major contributor to the country's GDP.

5.5 Limitations of the Study

The study was time limiting as it had to be conducted within a short period despite it being broad. The managers did not have sufficient time to explain all the issues in detail because they were attending a business conference. Being a case study, research findings cannot be generalized for other firms in other industries. This is because management is sensitive to environmental and organizational factors. The study was carried out within limited time and resources. This constrained the scope as well as the depth of the research.

5.6 Suggestion for Further Research

A further research can be carried out in looking at the situational determinants on turnaround in greater detail for instance the role of change in top management and whether an organization should hire a turnaround expert. A cross sectional survey could be carried out for a longer period to make findings more generalizable. Further research should also be done on other firms apart from the banking sector so as to see the turnaround strategies and performance applied in the sectors.

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APPENDICES

APPENDIX I: INTRODUCTION LETTER

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
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P.O. Box 30197
Nairobi, Kenya

DATE 28/09/15

TO WHOM IT MAY CONCERN

The bearer of this letter CHARLES ROTICH

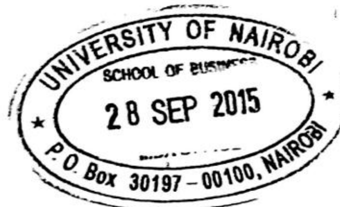
Registration No. D61/71271/2014

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.



PATRICK NYABUTO
MBA ADMINISTRATOR
SCHOOL OF BUSINESS

APPENDIX II: INTERVIEW GUIDE

1. Could you please explain how you view turnaround strategy ?
2. How do different skills affect performance of Kenya Commercial Bank? Explain?
3. Does lower return on capital employed affect performance of Kenya Commercial Bank? Explain?
4. Does decrease in value of shares influence performance of Kenya Commercial Bank? Explain?
5. How does improvement of operational efficiency affect performance of Kenya Commercial Bank? Explain?
6. How does tighter stock control affect performance of Kenya Commercial Bank? Explain?
7. How do adjusting wage incentives impact on performance of Kenya Commercial Bank? Explain?
8. What is the influence of stretching accounts payable on performance of Kenya Commercial Bank? Explain?
9. Is developing new markets a turnaround strategy in Kenya Commercial Bank? Explain?
10. What are some of the costs associated with turnaround strategy in Kenya Commercial Bank? Explain?
11. What influence do turnaround policies have on performance of Kenya Commercial Bank? Explain?
12. What influence does retrenchment have on performance of Kenya Commercial Bank? Explain?

13. What are the effects of cutting inventory on performance of Kenya Commercial Bank? Explain?
14. Is cost efficiencies employed as a turnaround strategy in Kenya Commercial Bank? Explain?
15. What influence does culture change have on performance of Kenya Commercial Bank? Explain?
16. What are some of the challenges that Kenya Commercial Bank face when implementing turnaround strategy? Explain?
17. Do transaction structures have influence on performance of Kenya Commercial Bank? Explain?
18. How does change of leadership influence performance of Kenya Commercial Bank? Explain?
19. What are the effects of reduced research and development on performance of Kenya Commercial Bank? Explain?
20. What do you think about the future for Kenya Commercial Bank?