

**TURN-AROUND STRATEGY BY KWALE INTERNATIONAL  
SUGAR COMPANY LIMITED**

**BY  
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**A RESEARCH PROJECT SUBMITTED IN PARTIAL  
FULFILLMENT OF THE REQUIREMENTS OF THE DEGREE OF  
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SCHOOL OF BUSINESS. UNIVERSITY OF NAIROBI (UON).**

**2012**

## DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted for another degree in any other college, institution or University other than the University of Nairobi for Academic credit.

Signed\_\_\_\_\_

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This project has been presented for examination with my approval as the appointed University Supervisor.

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## **ACKNOWLEDGEMENT**

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## **DEDICATION**

I dedicate this project to my parents: Mr. George Wandera Bink and Mrs. Beatrice Anyango Wandera; your love and sacrifice for education is beyond reach. May the Almighty God bless you abundantly as I lack words to express myself!

Further dedications go to my dear wife Susan and my lovely twin daughters Stacy and Maicy, they are Wonderful gifts and an investment to look at. Thank You God!

## **ABSTRACT**

Turnaround strategic management philosophy revolves around short-term survivability while endeavoring not to compromise longer-term turnaround viability thereafter. The study sought to bring out clearly the strategies employed by Kwale Sugar Company Limited to revamp back to life after having collapsed for a very long period of time.

The main objectives of the study included identifying the turnaround strategies adopted by the company and also establish the factors influencing the turnaround process. One of the important strategies included reorganizing, refocusing of the existing team under new leadership, turnaround management consulting support and the extensive support from turnaround interim managers.

The study applied a case study since it is a research on one organization targeting senior managers as the respondents. The study used both primary and secondary data. Primary data was collected using interview guide as data instrument whereas secondary data was collected from the organization brochures, available documents and the web. Data was analyzed using content analysis and findings of the study were analyzed in prose. From the findings of the study, some of the many strategies employed by the Company to revamp back to business included financial restructuring, reorganization, strategic repositioning, modernization and asset reduction.

Execution of the turnaround strategy faces immense complexities, pressure of limited time, information and resources, as well as uncertainty about the future which have to be addressed. As a conclusion, the study found out that various strategies need to be applied in plural to have a successful turnaround process.

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# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Background of the Study**

Strategic management practices is a continuous process that involves attempts to match or fit the organization with its changing environment in the most advantageous way possible (Pearce and Robinson, 2007). According to Thompson and Strickland (2007), strategies are the means by which long-term objectives will be achieved. They further point that strategies are unified, comprehensive and integrated plans that relate the strategic advantages of the firm to the challenges of the environment. They are designed to ensure that the basic objectives of the enterprise are achieved through proper execution by the organization. The role of strategy is to identify the general approaches that the organization utilize to achieve its organizational objectives.

#### **1.1.1 Turnaround Strategy**

Turnaround is a process dedicated to corporate renewal. It uses analysis and planning to save troubled companies and returns them to solvency. Turnaround Management involves management review, activity based costing, root failure causes analysis, and SWOT analysis to determine why the company is failing. Once analysis is completed, a long term strategic plan and restructuring plan are created. These plans may or may not involve a bankruptcy filing. Once approved, turnaround professionals begin to implement the plan, continually reviewing its progress and make changes to the plan as needed to ensure the company returns to solvency (Thompson and Strickland, 2007).

According to Thompson and Strickland (2007), the overall goal of turnaround strategy is to return an underperforming or distressed company to normal in terms of acceptable levels of profitability, solvency, liquidity and cash flow. Turnaround strategy is described in terms of how the turnaround strategy components of managing, stabilizing, funding and fixing an underperforming or distressed company are applied over the natural stages of a turnaround. Pearce and Robinson (2007) suggested that to achieve its objectives, turnaround strategy must reverse causes of distress, resolve the financial crisis and yearn to achieve a rapid improvement in financial performance, regain stakeholder support, and overcome internal constraints and unfavorable industry characteristics.

In these economically challenging times there are more and more businesses that find themselves in a difficult situation where sales are falling, costs are rising and the creditors getting ever more agitated. Before a business owner or investor throws in the towel and winds up the business it is worthwhile considering a turnaround approach which before formulation, the root causes of the crisis must be established. The frequently encountered causes include revenue downturn caused by a weak economy, overly optimistic sales projections, poor strategic choices, poor execution of a good strategy, high operating costs, high fixed costs that decrease flexibility, insufficient resources, unsuccessful Research and Development projects, highly successful competitor, excessive debt burden, inadequate financial controls and many others (Wheelan and Hunger, 1995).

While each case is unique, the turnaround process involves processes and the first one is normally management change where consultants can be called to manage the firm, this is followed by situation analysis which is performed to evaluate the prospects of survival and the strategies that may be adopted. This is succeeded by the emergency action plan

and business restructuring so as to achieve positive cash flow and ensuring sustainability. This should eventually return the business to normalcy by ensuring employee confidence is regained, strong balance sheet maintained and other benefits (The Turnaround Management Association - Southern Africa, 2011).

According to Wheelan and Hunger (1995), there are also other types of strategies that can apply especially when the prospects of the firm appear too bleak to continue as an ongoing operation. They include the exit strategy which can further be divided into an immediate abandonment strategy that exits the market by immediately liquidating or selling to another firm or a harvest strategy where the firm plays the end-game maximizing near-term cash flows.

Corporate Renewal Solutions' turnaround management philosophy (2011), revolves around short-term survivability (getting the business "out of the hole") while endeavoring not to compromise longer-term turnaround viability (how to "climb the mountain") thereafter. In doing this, some questions have to be answered which include: How did it fall into the hole? (Causes of distress); how deep is the hole? (Severity of the financial crisis, and nature of internal and external constraints faced); how will it get out of the hole? (Short-term turnaround strategy); what does it mean to be out of the hole? (Short-term financial turnaround objectives and stakeholder support); How will it climb the mountain? (Longer-term turnaround strategy) and finally how high is the mountain? (Vision).

Turnaround strategies often fail since they focus on achieving a longer-term vision without getting out of the hole in the first place – thereby dying in the process, (David,

1986) some also fail because they focus on getting out of hole without a strategy for sustainable recovery. Such turnarounds which focuses on short-time survivability or a financial turnaround alone tend to be short-lived. To get out of the hole successfully, certain longer-term sacrifices often need to be made if the financial crisis is severe. Seamlessly dovetailing the actions of getting out of the hole, and climbing the mountain, requires careful stakeholder management (Robins and Pearce, 1992).

### **1.1.2 The Kenya Sugar Industry**

It is one of the oldest modern industrial activities in Kenya but its story has not been so sweet. Poor pay, delayed payments, mismanagement and corruption have characterized the industry. With a new sugar strategy in place for 2004-09, however, the sector has started showing signs of recovery. British settlers established the first sugar mill in 1922, but the industry recorded minimal growth for the past half century due to political interference and dilapidated infrastructure in the sugarcane-growing areas. Other players later joined the industry in the late 1960s including the famous Mumias sugar company (1968), and other State-owned Chemelil, Nzoia, South Nyanza (Sony), Miwani and Muhoroni. Ramisi was also one of the old sugar companies at the southeast of the country near the coast and collapsed in the early 1980s (Kenya sugar industry report, 2008).

Today, sugarcane is grown mainly in western Kenya: Nyando, South Nyanza, Mumias and Busia. The area under cane is currently over 120,000 hectares, annually producing 400,000-550,000 tonnes. Almost half of this is produced on smallholdings whilst the remainder comes from large plantations. It is also important to note that the Domestic demand for sugar is 800,000 tonnes, which leaves a deficit of up to 250,000 tonnes that is met by imports from regional sugar producers. In East Africa, sugar production is high.

Tanzania, Mauritius and Sudan are the key competitors with Kenya, and new producers like Uganda and Malawi are now challenging the country's fragile sugar industry. In addition, increased regional trade and the opening up of borders to allow sugar imports from both the East African Community and the Common Market for Eastern and Southern Africa (COMESA) have hurt Kenyan sugar producers (Kenya sugar industry report, 2011).

According to the Kenya economic survey for sugar industries (2011), Kenya's sugar industry is currently dominated by competition and the factors responsible for this include the expiry of the Comesa safeguard measures, the recent entry of private investors into the sector, and the planned privatization of the state-owned factories. With the big deficit to be filled, a number of private sector players recently identified investment in the sugar sector as an avenue to deploy capital to obtain a reasonable return. The recent entrants to the sector were Kibos Sugar and Butali Sugar Company. At the same time, three factories are at different stages of construction namely: Sukari, Transmara, and Ramisi.

Sugar management is the responsibility of the Kenya Sugar Board, which regulates, develops and promotes the sector. A tentative plan unveiled by the Agriculture Ministry in early 2010 showed the government would sell a 51 percent stake in five sugar companies to strategic investors and reserve another 30 percent for farmers. Once factories are profitable, the government would then sell the remaining 19 percent in the Sony, Chemelil, Nzoia, Muhoroni and Miwani milling companies in initial public offerings (Kenya sugar industry report, 2011).

According to an article in the Kenya sugar industry report (2011), the Kenya sugar industry's woes have mainly been caused by the high cost of sugar production which makes it unable to compete well with the other east African countries. Kenya's production cost of Sh45, 000 per tonne is higher than that of rivals within Comesa such as Swaziland, Malawi, and Zambia whose average cost is Sh20,000. While the rivals plant the bulk of their sugarcane, Kenyan millers rely on independent farmers whose cane pricing is regulated by the Government, which owns at least five of the sugar firms. As it stands now, Kenyan sugar companies have been protected by the comesa treaty which unfortunately will be expiring on March 2013 exposing the industry again to cut throat competition. The mills have also not been upgraded and are suffering heavy debts to the extent that the government cannot even privatize them anytime soon. Apart from that, corruption, poor planning and red tape have reduced efficiency making the factories weak competitors in a free market. Drought is also a problem affecting the industry and this can be proved by the fact that Chemelil, Muhoroni, West Kenya, and Kibos are operating at less than half their capacities due to cane shortage, while Mumias Sugar Company is producing less than it did last year. Most farmers are also turning away from sugar cane farming for better products.

### **1.1.3 Kwale International Sugar Company Limited**

Kwale District was identified as a prospective place for cane agriculture by entrepreneurs and a sugar plant M/S Associated Sugar Company (Later to be called Ramisi Sugar Factory) was established in 1927 near river Ramisi. The company established a nucleus estate and all the sugar cane produced in the estate was processed at the factory. For improving the profitability the company in 1960 contracted nearby small scale farmers as

out growers to grow sugar cane and supply to the mill. The sugar industry contributed heavily to the economy of Kwale. Not only to the out growers who supplied sugar cane to the mill, but all round development was observed due to the contribution to the development of different sectors and people by in-direct earning through transportation, marketing etc. The closing down of this sugar factory in 1980 adversely affected the people dependent directly and in-directly and also whole economy of Kwale district (Sugar Industry Reform Report, 2011).

Established in 2007, Kwale International Sugar Company Ltd is situated at the old Ramisi Sugar Company site in Kwale district (currently Msambweni District). Its core activities are to process sugarcane for the production of sugar, ethanol and electricity. The company currently provides direct employment for 650 local residents. The project has also created Indirect Employment for over 500 people who work for the various contractors for the works being done at the site. 99% of the total work force on site is from within the Ramisi area (Kwale Sugar Board annual report, 2012).

Mauritian Sugar giant Omnicane is the force behind the new company and is investing a whopping Sh16.5 billion in the sugar company—a move that will heighten competition in a market that has witnessed a number of new entrants. The company, which is listed in Stock Exchange of Mauritius, would form a joint venture with local investors in Kwale International Sugar Company Limited — giving it access to 17, 000 acres of sugar cane. It would be the biggest entrant to Kenya's sugar market and one of the largest foreign direct investments in the country's agro industry in what could shake the dominance of the sector by Mumias Sugar. The new entrant is expected to boost competition in the

sugar industry, which is bogged down by high production costs due to use of poor technology and old machinery. The company would rely on its own as opposed to small-scale out-grower farmers for cane supplies, a situation that has worked against efficiency of local firms for a very long period of time now. At present, the company is working in Partnership with the *Kenya Sugar Research Foundation (KESREF)* to ascertain the various types of sugar cane that would be suitable for production on the Nucleus Estate and outgrowers at large (Kwale Sugar Board annual report, 2012).

So far, Mumias Sugar has faced little opposition since the new entrants such Kibos, Soin and West Kenya do not much its financial muscle in market where state owned firms Nzoia, Miwani, Sony, Chemelil and Muhoroni are struggling. Its entry will also complicate the business environment for the local producers as the country removes the 10 per cent duty on imports from least cost producers from the regional Comesa bloc that is due to expire in March 2012 (Sugar Industry Reform Report, 2011).

Just like Mumias, the Mauritius firm will be looking at new product lines such as power generation and a 30,000 litre ethanol production plant. Kwale International Sugar Company Limited is also looking forward at establishing a water bottling plant, due to be commissioned in September 2014. This comes as Kenya's sugar sector experiences cane shortages that has seen millers operate below capacity and raised retail prices of sugar to more than 200 shillings per kilogramme over the past 4 months. The local sugar sector has received a boost with the opening of Ramisi sugar factory in Kwale district. The sugar plant, closed for 28 years, is expected to produce 3,500 tons of sugar daily at full capacity. The plant has remained dormant for the last 28 years (Kwale Sugar Board annual report, 2012).

## **1.2 Research Problem**

Turn Around refers to recovery to profitability from a loss or declining situation. Top management must rescue a declining firm by responding swiftly through strategies and policies to external and internal factors causing decline with an aim of substantial recovery. A firm may be said to be in decline when it experiences a resource loss sufficient to compromise its viability (Cameron et al, 1987). Turn Around may be considered to have occurred when a firm recovers adequately to resume normal operations (Barker and Duhaime, 1997; Robins and Pearce, 1992).

Turnaround is very important especially to Kwale International Sugar Company Ltd for it is to ensure a successful comeback which will in turn ensure utilisation of the vast resources left idle for over a period of 27 years as a result of the collapse, economic development in the wider Kwale County and the country at large and also ensure development in terms of technology because of the collaboration with the overseas Mauritian Company which will oversee the cane development process, infrastructure development and general factory rehabilitation and production. Apart from that, the area is also preferred because of its strong global presence, capacity that can be improved, locational advantage and the excellent relationships that it has with the local farmers. The company will play a very important role in the Kenyan economy on its commissioning as it is expected to produce over 3,500 tonnes of sugar daily by using the modern technologies that will help reduce the high cost of sugar production by almost half of what we witness today and at the same time produce ethanol, molasses and other related cane products both for export and local use. The company first launched its strategic plan for recovery in 2007 and currently it's almost through with the recovery process. The

second turnaround strategic plan is underway and geared towards production so as to realize its vision, mission and objectives.

To date few researchers have addressed the turnaround strategic practices of a collapsed company. The limited research that has been undertaken is deeply rooted in the existing business sector and relates to the declining companies. Furthermore, little or no research has been undertaken on the difficulties that firms experience in the development of their turnaround strategic plans and general management practices especially on the sugar industry and collapsed companies. For instance, Gichuki, (2009) studied on the Turnaround Strategies at the Co-operative Bank of Kenya and found out that there was no single strategy that was able to confront declining performance instead it had to be fought from various fronts by use of appropriate strategies. Rasheed, (2001) studied Turnaround Strategies for declining small businesses: the effects of performance and resources concentration in USA. Kiarie, (2009) did a study on the Turn Around strategies adopted by Uchumi Supermarkets Limited: under receivership and noted that the causes of the decline are diverse and may be a combination of both external and internal business environmental forces. He also advocated for the use of more than one strategy: Khadija, (2011) studied on the competitive strategies employed by Mumias sugar company to develop competitive advantage and Owelle, (2011) studied on the challenges of strategy implementation at chemelil sugar company ltd and concluded that employees mattered a lot and have to be put into consideration whenever there is a new strategy to be implemented. None of the above studies focused on strategic turnaround practices of collapsed sugar industries or the sugar firms in the turbulent sugar industry in Kenya. Accordingly, this study attempts to bridge the knowledge gap by seeking answers to the

questions: What turnaround strategies can be used to revamp a collapsed business and what are the factors influencing the turnaround process?

### **1.3 Research Objectives.**

The study was guided by the following objectives:-

- (i) To identify the turnaround strategies adopted by The Kwale International Sugar Company Ltd in revamping back into business.
- (ii) To establish the factors influencing the Turnaround by The Kwale International Sugar Company Ltd

### **1.4 Value of the Study**

The study, it is hoped, will assist other upcoming sugar providers in understanding how to respond to the kind of challenges experienced by Kwale International Sugar Company Ltd that made it collapse and also the turnaround strategies that can be practically applied to come back to operation.

The personnel charged with the responsibility of formulating policies and charting the strategic direction of the depressed and non performing organizations will get information on strategic turnaround practices of the Kwale International Sugar Company Ltd, which will enhance their decision making and policy design or improvement and also equip them with the survival techniques especially after a turnaround process has been effected. The findings will also contribute to the existing body of theoretical knowledge in the area of Strategic Management and inspire future researchers to carry out further research in the same or related field.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter presents a review of the literature related to the purpose of the study. The chapter is organized according to the objectives in order to ensure relevance to the research problem. The review was undertaken in order to eliminate duplication of what has been done and provide a clear understanding of existing knowledge base in the problem area. The literature review is based on authoritative, recent, and original sources such as journals, books, thesis, periodicals and dissertations.

#### **2.2 The Concept of Turnaround Strategy**

Turnaround strategy is a process dedicated to corporate renewal. It uses analysis and planning to save troubled companies and returns them to solvency. Turnaround Management strategy involves management review, activity based costing, root failure causes analysis, and SWOT analysis to determine why the company is failing. Once analysis is completed, a long term strategic plan and restructuring plan are created. These plans may or may not involve a bankruptcy filing. Once approved, turnaround professionals begin to implement the plan, continually reviewing its progress and make changes to the plan as needed to ensure the company returns to solvency (Peters, 1987). According to Kipkeu (2009), the turnaround strategy refers to the plans to be utilized to return an underperforming or distressed company to normal in terms of acceptable levels of profitability, solvency, liquidity and cash flow. He further described Turnaround strategy in terms of how the turnaround strategy components of managing, stabilizing, funding and fixing an underperforming or distressed company are applied over the

natural stages of a turnaround. To achieve its objectives, turnaround strategy must reverse causes of distress, resolve the financial crisis, achieve a rapid improvement in financial performance, regain stakeholder support, and overcome internal constraints and unfavorable industry characteristics (Arogyaswamy, Barker and Yason, 1995).

### **2.3 Factors leading to Business Collapse**

In these economically challenging times there are more and more businesses that find themselves in difficult situations where sales are falling, costs are rising and the creditors getting even more agitated (Barker and Duhaime, 1997). Before a business owner or investor throws in the towel and winds up the business it is worthwhile considering a turnaround approach which before formulation, the root causes of the crisis must be established. Aaker (1998), points out that the frequently encountered causes include revenue downturn caused by a weak economy, overly optimistic sales projections, poor strategic choices, poor execution of a good strategy, high operating costs, high fixed costs that decrease flexibility, insufficient resources, unsuccessful Research and Development projects, highly successful competitor, excessive debt burden, inadequate financial controls, mismanagement of organizational resources, uncompetitive products, sick company, acts of God, poor strategy and poor vision. Bevan (2002), also suggested that poor business model/execution, lack of expertise, experience or education, fraud, overinvestment, high operating costs, new innovations by competitors or a downturn in demand which leads to a loss of market share and revenue, maladministration and many others could be some of the reasons.

## **2.4 The Turnaround Strategies**

These refer to the various mechanisms that can be used to reverse the existing negative trend and among others; they include retrenchment to improve internal efficiency, diversification, and liquidation. According to Denis of Corporate Renewal Solutions management group (2011), some of the signs likely to give you an early warning include persistent negative cash flows, negative profits, declining market share, deterioration in physical facilities, high turnover rate, low morale among employees, mismanagement of organizational resources, uncompetitive products, sick company, acts of God, poor strategy, poor business model/execution, lack of expertise, experience or education, fraud, insufficient financial controls, overinvestment, high operating costs among others

While each case is unique, the turnaround process involves processes and the first one is normally management change where consultants are called to manage the firm, this is followed by situation analysis which is performed to evaluate the prospects of survival and the strategies that may be adopted. This is succeeded by the emergency action plan and business restructuring so as to achieve positive cash flow and ensuring sustainability. This should eventually return the business to normalcy by ensuring employee confidence is regained, strong balance sheet maintained among others (The Turnaround Management Association-South Africa, 2011).

Gichuki (2009) explains that there are also other types of strategies that can apply especially when the prospects of the firm appear too bleak to continue as an ongoing operation. They include the exit strategy which can further be divided into an immediate abandonment strategy that exits the market by immediately liquidating or selling to

another firm or a harvest strategy where the firm plays the end-game maximizing near-term cash flows.

Corporate Renewal Solutions' turnaround management philosophy revolves around short-term survivability (getting the business "out of the hole") while endeavoring not to compromise longer-term turnaround viability (how to "climb the mountain") thereafter. In doing this, some questions have to be answered which include: How did it fall into the hole? (Causes of distress); How deep is the hole? (Severity of the financial crisis, and number and nature of internal and external constraints faced); how will it get out of the hole? (Short-term turnaround strategy); what does it mean to be out of the hole? (Short-term financial turnaround objectives and stakeholder support); How will it climb the mountain? (Longer-term turnaround strategy inclusive of asset reduction and strategic repositioning) and finally how high is the mountain?

There are so many types of turnaround strategies which include the generic turnaround strategies which can further be broken down to operational turnaround strategies, financial turnaround strategies, reorganization turnaround strategy, strategic repositioning turnaround strategy, revenue enhancement as a turnaround strategy, cost reduction as a turnaround strategy, asset reduction as a turnaround strategy and many others (Pearce and Robinson, 2007).

The Financial turnaround strategy refers to financial restructuring with a view to strengthening the balance sheet and/or provides funding. It also deals with revenue enhancement and Cutback action, which has two dimensions; cost reduction and asset reduction. The Operational turnaround on the other hand implies changes to the value

chain, which in turn requires changes in the organizational structure of the underperforming or distressed business. Reorganization may also entail changes to the leadership team and it deals with all the people issues in the business. It may entail restructuring, restaffing, reskilling and turnaround leadership revitalization to yield improved leadership, management, organizational structure, organizational alignment and culture while the Strategic repositioning turnaround strategy aims at Improving effectiveness and efficiency by basing on chances of the business domain and value proposition of the business. It can change the mission and customer value proposition of the distressed company by changing what products are offered to what markets and in which fashion which may in turn change the revenue - cost - asset structure of the business, yielding improved profitability and return on capital employed. It may do so by growing, shrinking or refocusing the business (Modern, 1999).

Modernization is also a type of strategy for turnaround and it involves developing a new technology or upgrading the existing strategy which may in turn ensure increased production, reduced costs and improved efficiency. It is normally applied to stabilize the organization before adopting other strategies like expansion and diversification/integration which can either be vertical, horizontal, concentric or conglomerate diversification. Repositioning is also another strategy that can be used and the major techniques that can be used here include Retrenchment, Repositioning, Replacement and Renewal (Howe, 1986).

## **2.5 Turnaround Stages**

Managing the turnaround process involves some stages which have to be clearly followed and according to Peters (1987) the stages include the turnaround situation assessment which is the first stage and takes place after the need for a turnaround has been recognized. It involves determining the Short-term survivability, Longer-term viability, Turnaround strategies, and high-level turnaround plan among many others. Once this is done an emergency management is carried out whose objectives includes securing the short-term future of the business through stabilizing the distressed company and laying the foundation for funding and fixing of the distressed company by allowing a window of opportunity for turnaround plan refinement. The turnaround restructuring stage is the third stage and it involves the implementation of the turnaround plan devised during turnaround situation assessment and refined during the emergency management stage. Turnaround restructuring takes the form of Leadership restructuring, Financial restructuring and Strategic, organizational and operational restructuring. This is then preceded by the turnaround recovery stage which entails embedding these changes, and managing the business during its return to normality. The Turnaround recovery is characterized by an increased emphasis on profits in addition to the earlier emphasis on cash flow, Operational efficiency improvements and Building the organization. The turnaround is completed when the company has returned to normal on a sustainable basis.

According to Khandwalla (2001), the format to be followed when formulating a strategy plan should include the executive summary; history; internal assessment - strengths and weaknesses; historical financial analysis; External environment - industry drivers, competitive forces, threats and opportunities; segmentation; market share ; market

attractiveness; causes of distress - internal and external; Approaches to reverse causes of distress; Approaches to overcome internal and external constraints; Approaches to overcome the financial crisis and rapidly improve bottom-line results; The Stabilization plan; Funding plan; Turnaround strategy to fix the business in terms of strategic repositioning, reorganization, revenue enhancement, cost reduction and asset reduction; New organizational structure; Functional plans - sales & marketing, manufacturing, etc. Others include the Turnaround leadership; Turnaround stakeholder management; Turnaround project management and financial projections

## **2.6 Managing Turnaround**

According to David (1986), to effectively manage the turnaround process well an external consultant can be involved and the existing team urged to support him/her or alternatively withdraw the existing team temporarily as a turnaround specialist is employed. It should then be followed by an analysis of the product, market, production process, competition, market segment positioning, clear thinking and lastly implementation of the plans which involves target setting, feedback and remedial action. It's also important to ensure that the strategy adopted exploits the opportunities in the environment and is consistent to the existing resources of the firm while giving the firm the competitive advantage.

Turnaround Managers are also called Turnaround Practitioners, and often are interim managers who only stay as long as it takes to achieve the turnaround. Assignments can take anything from 3 to 24 months depending on the size of the organization and the complexity of the job. Turnaround management does not only apply to distressed companies' it in fact can help in any situation where direction, strategy or a general

change of the ways of working needs to be implemented. Therefore turnaround management is closely related to change management, transformation management and post-merger-integration management (Bibeault, 1982). High growth situation for example are one typical scenario where turnaround experts also help. More and more turnaround managers are becoming a one-stop-shop and provide help with corporate funding (working closely with banks and the Private Equity community) and with professional services firms (such as lawyers and insolvency practitioners) to have access to a full range of services that are typically needed in a turnaround process. Most turnaround managers are freelancers and work on day rates, but there are a few very high profile individuals who work for very large corporations on an employed basis and usually get 5 year contracts (Yawson, 2005).

According to the Peters (1987), the components of a turnaround strategy involves Managing the turnaround which includes enabling components to manage the turnaround's stabilization- He states that when the momentum of an underperforming or distressed business is down, such a business needs to be stabilized to ensure the short-term future of the business through cash management, cash generation and cash conservation, demonstrating control, re-introducing predictability and ensuring legal and fiduciary compliance; He also advocates for funding and recapitalization to ensure that the distressed companies can be fixed financially, strategically, operationally and in general.

## **2.7 Survival Techniques after the Turnaround Process**

Turnaround strategies often fail since they focus on achieving a longer-term vision without getting out of the hole in the first place – thereby dying in the process; some also

fail because they focus on getting out of hole without a strategy for sustainable recovery. Such turnarounds which focuses on short-time survivability or a financial turnaround alone tend to be short-lived. To get out of the hole successfully, certain longer-term sacrifices often need to be made if the financial crisis is severe. Seamlessly dovetailing the actions of getting out of the hole, and climbing the mountain, requires careful stakeholder management (Cameron et al, 1987).

Once the turnaround strategies have been implemented, the company should always ensure it takes control of its cash flows, analyzes financial situations, carries out strategic planning, identifies gross margin, identifies the important business metrics that will improve controls (production, financial, management, marketing), carries out customer tuning and pruning, eliminates and simplifies (this is an art and it is critically important) the unwarranted processes, automates and delegates, establishes the firm's corporate identity, creates a corporate web identity (website & e-mail), creates and manages credit and working capital, carries out evaluation & continuous improvement among many other measures (Bevan, 2002). This new corporate style needs to be specific and written down in a strategic plan. More importantly, all of the company's leadership needs to fully buy in to the process. An independent professional can be crucial in shepparding this process along and overcoming objections (Glueck et al, 1980).

## 2.8 Factors influencing the Turnaround Strategic Practice

Although a sense of direction is important, it can also stifle creativity, especially if it is rigidly enforced. In an uncertain and ambiguous world, fluidity can be more important than a finely tuned strategic compass. When a strategy becomes internalized into a

corporate culture, it can lead to group think. It can also cause an organization to define itself too narrowly. An example of this is marketing myopia (Modern, 1999).

Many theories of turnaround strategies tend to undergo only brief periods of popularity. A summary of these theories thus inevitably exhibits survivorship bias. Many theories tend either to be too narrow in focus to build a complete corporate strategy on, or too general and abstract to be applicable to specific situations. Populism can have an impact on a particular theory's life cycle and may see application in inappropriate circumstances.

According to Barker et al (1997), There are many reasons why turnaround strategic plans sometimes fail which include Failure to execute by overcoming the four key organizational hurdles- Cognitive hurdle, Motivational hurdle, Resource hurdle, Political hurdle; Failure to understand the customer ;Inability to predict environmental reaction; Over-estimation of resource competence; Failure to coordinate ;Failure to obtain senior management commitment ;Failure to obtain employee commitment; Under-estimation of time requirements; Failure to follow the plan; Failure to manage change ;Poor communications among many others.

## **2.9 Previous studies on Turnaround strategies in Kenya**

Most studies on turnaround strategies have concentrated in the declining but still existing businesses. Examples of the current studies on Turnaround strategic practices in Kenya include Kiarie (2009), Gichuki (2009) and Kipkeu (2009), and commonly focus on strategy practices in the developed industrial, commercial and private sector firms. Others who did their studies on the sugar industry include Owelle (2011), Odhiambo (2011) and Khadija 2011.

Gichuki (2009) studied on the Turnaround Strategies at the Co-operative Bank of Kenya and found out that there was no single strategy that was able to confront declining performance instead it had to be fought from various fronts by use of appropriate strategies. Kiarie (2009), studied on the turnaround strategies adopted by Uchumi Supermarket Ltd: Under receivership and noted that the causes of the decline are diverse and may be a combination of both external and internal business environmental forces. He also advocated for the use of more than one strategy. Kipkeu (2009) studied on the challenges of implementation of Turnaround Strategies at Telkom Kenya and mentioned among other things, education, negotiation, open participation and learning as the most effective ways to prevent challenges during strategy implementation. In his study of the challenges of strategy implementation at Chemelil Sugar Company Ltd, Owelle (2011), concluded that employees mattered a lot and have to be put into consideration whenever there is a new strategy to be implemented. Khadija (2011), in her study, competitive strategies employed by Mumias Sugar Company to develop competitive advantage illustrated various strategies that can be employed by companies to outwit competitors including cost leadership strategy, differentiation and focus strategy.

## **2.10 Summary**

From a practical perspective, it appears that organizations can benefit from Turnaround strategies. The Turnaround strategic process can be as simplistic or complex as necessary. Most important is that the Turnaround plans are developed to consider the unique needs and context that the target organization is operating within. Further, and more importantly, the Turnaround plans should be viewed as a tool that evokes action within the organization and catapults it to another level. It's a living document that guides the

activities of the organization in a purposeful manner, not some show-piece that is shelved upon completion and if followed properly can lift the company to very high levels from very low.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0 Introduction**

This section looks at how the research process will be carried out. It includes a discussion on the research design, the data collection methods and data analysis.

#### **3.1 Research design**

This study will adopt a case study research design where the unit of study will be the Kwale International Sugar Company Limited. The design is most appropriate when detailed; in depth analysis for a single unit of study is desired. Case study research design provides very focused and valuable insights to phenomenon that may otherwise be vaguely known or understood. This research design was successfully used by Gichuki (2009) and Kiarie (2009) in similar studies.

#### **3.2 Data collection method**

The study will involve collection of both primary and secondary data. The focus of the study will be on carrying out an intensive study of the turnaround strategies applied by Kwale Sugar Company Limited. To achieve this, primary data will be collected by way of interview guides consisting of open-ended questions. Secondary data will also be obtained from the company's policies, strategies, documentation and reports to supplement the primary data. The respondents will mainly be drawn from top level management since turnaround is a corporate level strategy and senior management are better placed to respond to the issues required for the purpose of this research.

### **3.4 Data analysis**

Given the fact that both the primary and secondary data will be qualitative in nature, content analysis will be the best suited method for analysis. This is a technique for making inferences by systematically and objectively identifying specified characteristics of messages and using the same to relate trends. It is further argued that the method is scientific as the data collected can be developed and be verified through systematic analysis (Mugenda and Mugenda, 1999). This approach has been used previously in similar research like the one done by Gichuki (2009) and Kiarie (2009).

## **CHAPTER FOUR**

### **DATA ANALYSIS, RESULTS AND DISCUSSION**

#### **4.1 Introduction**

This chapter presents the analysis and the results of the data collected through the in depth interviews. The analysis is based on the data collected from the thirteen interviews with Kwale International Sugar Company Limited's top management. This decision was arrived at because only the top management had clear information about the subject matter as they were directly involved in the turnaround process.

#### **4.2. Profile of Kwale International Sugar Company Limited**

This section covers the history of the sugar company even before the collapse upto where it is now and the main purpose for this is to help the reader understand better why the turnaround process was necessary and the progress. The company s history dates back to 1927 when it was commissioned as M/S Associate Sugar Company (Later to be called Ramisi Sugar Factory) near River Ramisi. Its main purpose was to produce sugar by crushing sugar cane in the factory. Later, the company changed on the management and was now run by the Madvhani Group from 1947 to 1987 even long after its closure in 1980. During this time the company s performance had totally deteriorated as it only had around 3000 employees' operating in 45000 acres and supporting close to 4000 families which was not the case when it started. Mr Gachanja Githende a researcher with the Institutional Development and Management Services said the collapse of the factory was caused mainly by corruption and political interference plus huge debts which adversely affected the people dependent directly and in-directly and also whole economy of Kwale district.

In 2007, The Kenyan government intervened in the acquisition of more than 28000 acres of former Ramisi land whose title was held by the Bank of India as security for a sh 300 million loan guaranteed by the Government. Kwale International Sugar Company Limited was allocated about 15,000 acres to build their factory and develop their factory and develop the nucleus while the remaining 13000 acres was allocated to the locals in 5 acre parcels for out growing purposes.

The factory is now set to commence production in December 2012 having costed about ksh 24 billion and once fully operational is expected to create about 15000 jobs, supporting more than 1.5 million people. The company s Agricultural Research manager said the factory, once running will require 20% of its cane requirement from out growers and close to 1000 farmers have so far registered. When the President of the Republic of Kenya re-launched Ramisi in 2007, he said the government would expand the area under cane production to at least 40000 acres, which would enable the factory to double the initial 3000 tonnes crushing capacity. The firm which recently sold a 20% stake to Mauritius sugar giant Omnicane to manage operations is currently increasing the acreage of the nucleus farm too.

#### **4.3 Cause of Collapse of the Business**

The interviewees were asked on the causes of the collapse in business and the symptoms that accompanied the collapse. From the responses, it was unanimous that the major causes of collapse were corruption and political interferences which eventually led the company into huge loans that resulted into their property being held by the Bank of India. There were serious financial irregularities and procurement abuses due to lax management then. There were also serious delays in payments to farmers and suppliers

which led to their withdrawal from supplying and delivering produce which in turn led to less than capacity production which translated to high cost of production. This affected the performance even further as the company could not retain its earnings that was crucial in the running of the business. The effect was that the company could not pay its workers nor able to replace its worn out machines as a result of wear and tear, this was according to the Agricultural Research and Development head.

Other minor causes suggested by the various managers that led to the collapse of the business included Poor business planning strategies, Poor legal structure, and increased competition from the new entrants in the industry especially around 1980s, Poor Credit management and Accounting systems and Poor Asset and liability management which eventually led to poor Inventory controls and reduced Sales

#### **4.4 Turnaround Strategies in Kwale International Sugar Company Limited**

The process of Turnaround of the Kwale International Sugar Company Limited was instituted in 2007 and among the strategies used were the generic turnaround strategies which included the operational turnaround strategies, financial turnaround strategies, reorganization turnaround strategy, strategic repositioning turnaround strategy, revenue enhancement as a turnaround strategy, cost reduction as a turnaround strategy, asset reduction as a turnaround strategy and many others. The study will look at how each of the strategies was applied in the company.

##### **4.4.1 Financial Restructuring**

This refers to the financial restructuring with a view to strengthening the balance sheet and/or provides funding. Kwale International Sugar Company Limited has employed

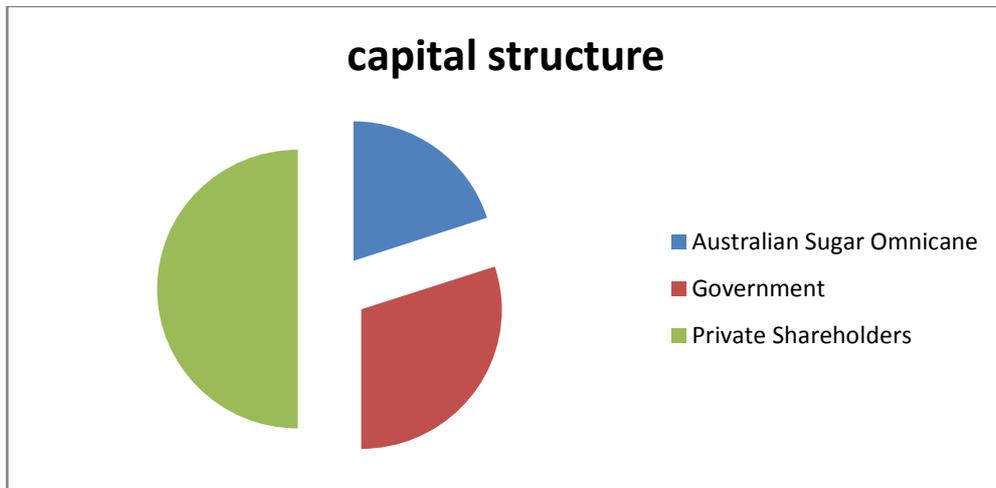
both short term and long term strategies to help it implement its commitments both during normalcy and emergency situations to cover its turnaround restructuring costs. It has received funds from both the Government, shareholders and the partner: giant Omnicane Sugar Company that will help it meet its working capital costs, restructuring costs and the investment in new technology and systems costs. The Financial turnaround strategy also deals with revenue enhancement and Cutback action, which Kwale International Sugar company looks at in two dimensions; cost reduction and asset reduction. The sugar company approached the restructuring through fixing the equity capital by recapitalizing the company first, then fixing the debt by reconfiguring, designing, financial engineering and securitization and later fixing the control through restructuring the corporate ownership where the Mauritian company owned 20%, the government 30% and the shareholders at 50% as shown in figure 4.1 below.

**Table 4.1: Table showing the steps used in Financial Turnaround**

<b>Restructuring approach</b>	<b>How it was done</b>
Fixing the equity	Recapitalizing Enterprises
Fixing the debt	Reconfiguring and Designing Corporate Debt Financial Engineering and Securitization
Fixing the control	Restructuring Corporate Ownership

Source: Research data.

**Figure 4.1: Figure showing the Capital Structure of the company**



Source: Research data.

Kwale International Sugar Company Limited has put up efficient Customer management processes such as sales and marketing, and after-sales service to increase turnover through more effective sales force performance, new products, improved functionality and range of products, new markets and better promotion Revenue enhancement strategy focusses on increasing sales through improvement of systems, processes and technology in the primary value chain activities: The company has also ensured efficient Operations management processes - inbound logistics, operations, outbound logistics - to increase performance on quality and lead time, thereby raising customer satisfaction through increased service delivery capability and at the same time ensuring improved Innovation processes through Research and Development to increase the ability to offer the market new products. It also sold the underutilized assets and looking forward to improve the revenue through diversified investments, this is according to the financial manager and also clearly depicted in their strategic plan 2010-2015.

According to the Finance Manager, increased cost of production was one of the reasons for closure of the famous Ramisi Sugar Factory, as a result, the cost reduction turnaround strategy was a necessity so as to see this company take off. Cost reduction is the turnaround strategy having the fastest impact on the bottom line, Overhead and direct costs in the primary value chain and support functions are normally reduced to a level that can be borne by the level of sales that will remain after cost cutting. Cost reduction strategy employed by the Sugar company involved employing only the necessary staff so as to have a lean structure which will help reduce the salaries and wages so that they don't represent a large portion of the cost structure but at the same time ensure that they don't cut the costs to the bone - thereby inhibiting the organization's ability to create, fulfill and administer demand. Vertical integration was also used as a cost cutting tools where the company now produced its own sugarcane, transports the cane by itself and many others hence reducing on the costs by a large margin. The company has also cut on various transactional costs and the agency costs. Among other measure put in place to check on the costs, the managers also suggested outsourcing of the activities that were less important to the organization, renegotiating labour contracts and refinancing the corporate debt to reduce interest payments.

#### **4.4.2 Operational Strategy**

This strategy implies changes to the value chain, which in turn requires changes in the organizational structure of the underperforming or distressed business. The business case for different turnaround strategy-structure-value chain combinations dictates the degrees of freedom open to the turnaround practitioner. The Kwale International Sugar Company has employed this strategy by beefing up its demand generation capability

(segment, target, position, sell, after-sales service) and its demand fulfillment capability (inbound logistics, operations, outbound logistics, general service delivery capability). Apart from this, the company is also working towards adopting some of the latest operational strategies which include virtual integration of most of the activities in the company, flexibility with a global reach bottom up strategy of communication while building the workers so as not to compromise on the quality of end products. The company also targets to employ other inventory management strategies like just in time to avoid holding unnecessary stocks, to achieve this, it is investing on the current and state of art technology so as to outwit its major competitors and regain its lost market share.

#### **4.4.3 The Reorganization**

This strategy entails changes to the leadership team and it deals with all the people issues in the business. The Kwale International Sugar Company has employed this strategy by restructuring, restaffing, reskilling and turnaround leadership revitalization to yield improved leadership, management, organizational structure, organizational alignment and culture and better management systems for planning and control of the company. The company strives to have a lean but efficient and effective structure, minimize single points of failure through promoting cross-training and succession planning and serve as exemplars of production excellence, from technology design and architecture to end user experience. Apart from this the company is also keen on ensuring greater role clarity to avoid confusion and enable control of all the activities and resources in the company. The reorganization will also enable the company minimize the bottlenecks and distribute work equitably by facilitating and coordinating internal and external communications

both within the company and outside. As a result of this strategy, the company is seeing an improvement in the quality of decisions made by the company hence ensuring growth and development through quality managerial practices.

#### **4.4.4 Strategic Repositioning**

This strategy aims at improving effectiveness and efficiency by basing on changes of the business domain and value proposition of the business. It can change the mission and customer value proposition of the distressed company by changing what products are offered to what markets and in which fashion which may in turn change the revenue - cost - asset structure of the business, yielding improved profitability and return on capital employed. It may do so by growing, shrinking or refocusing the business (Modern, 1999). Strategic repositioning holds the most potential but is the most neglected turnaround strategy according to academic research. When properly employed, strategic repositioning yields the most spectacular and sustainable turnaround results.

The Kwale International Sugar Company has employed this strategy by extending its line of business to include power generation and a 30,000 litre ethanol production plant. It is also looking forward to establish a water bottling plant to be commissioned in September 2014. The company has also adopted the vertical integration method where it is involved both in the backward and forward production. It has also established itself as an international company by virtue of its partnership with the giant Australian Sugar company which has led to changes in the mission and customer value proposition of the company. "Omnican have come in as our management partners and will hold a 20 per cent stake in the joint venture. The rest of the stake will stay with us (Kwale International

Sugar Company Limited)," Mr. Hashil Kotecha, the director, said. "He also hoped to tap into their expertise and management skills from their operations. The company will also ensure that its products are available to the consumers door step and at cheap, affordable prices. The company aims at using positioning strategies based on customer benefits, pricing, product process, use, product class, cultural symbols and competitors and this is according to the company's annual report 2011.

#### **4.4.5 Modernization**

This is also a type of strategy for turnaround that was used by The Kwale International Sugar Company and it involves developing a new technology or upgrading the existing strategy which may in turn ensure increased production, reduced costs and improved efficiency. It is normally applied to stabilize the organization before adopting other strategies like expansion and diversification/integration which can either be vertical, horizontal, concentric or conglomerate diversification. The company hopes to benefit a lot from its relationship with the giant Australian Omnicane Sugar Company as it will help supply it with the most modern plants for manufacturing purposes plus the modern production methods and techniques as it will also benefit from the improved processes (Kwale Sugar Board annual report-2012).

According to the Administration manager, the modernization process will help ensure increased customer focus, smooth introduction of new products, controlled risk management, business consolidation which will go a long way in reducing the cost of production, business realignment through information technology modernization and regulatory compliance as a result of the improved systems.

#### **4.4.6 Asset Reduction**

In this situation, the turnaround strategy is normally to shrink the business into profitability. In such cases, cutback action takes the form of shrinking into profitability by means of portfolio disinvestment. This involves closure or sale of business units, divisions, operations and assets, and outsourcing of value chain activities in order to focus on the remaining profitable or potentially profitable business units or sections of the value chain. The Kwale International Sugar Company through its strategic plan 2010-2015 has used this strategy especially through selling off most of its dead or dilapidated/obsolete assets as mechanism to raise cash for the turnaround, in the financial year 2010-2011, it managed to raise approximately Ksh 20 million from the sales according to the Kwale Sugar Board Annual Report 2011. The company had held too much of its cash in items that were not of value to it hence the application of this strategy as a measure to turn around the organization.

#### **4.5 Factors Influencing the Turnaround Strategies in Kwale International Sugar Company Limited**

The situational analysis showed that a number of situational factors determined the turnaround at the Kwale International Sugar Company Limited. The size of the company was a viable factor in ensuring the success of the company's transformation. The company generally had so much as its resources and vast acres of land were also lying idle since its closure. The support from the stakeholders was also made possible since the size of the firm was big enough to enhance their confidence, apart from that the company also enjoyed support from the government and the International Sugar Omniscane

producer that pumped in a whopping ksh 16 billion. The size of the firm also made it easy for the firm to access loans from commercial banks and the government at large.

The entry of the new management and leadership into the company was also of utmost importance since this was a sure way of ensuring that the business was run in a transparent and honest way to ensure its success. The availability of the old assets including some processors and tools also helped ensure success of the company's turnaround process. "Analysts said in addition to agricultural management, the development of a new sugar factory, such as the one targeted by our company, requires extensive research inputs in connection with seed material acquisition, agronomy, pest management, tillage and irrigation systems -- all of which call for experienced managers which we have" said one of the board members.

Apart from that, the availability of labour in the area was also an advantage to the company's revival plan plus the infrastructure system that is well developed within the area because of so many other plants existing in the area. Location of the sugar factory was a factor that was considered bearing in mind that the company was targeting both the local and international market hence exporting their products would be hassle free as the company just borders the port of Mombasa. According to the company's strategic plan 2010-2015, the company aims at crushing more than 3500 tonnes of sugarcane per day which will be able to cater for the deficit experienced in Kenya bearing in mind that so many other new sugar processing factories have already been commissioned thus leaving export as the next best alternative.

The turnaround process of the company was not a bed of roses as it was marred by a number of challenges despite its almost successful implementation. The company has

inadequate capital to boost the operations fast as it has not yet started production yet its paying for all the operational costs thus making the pace a bit slow. Some of the old machines were vandalized and thus the company had to spend a lot on new machinery to bring it back to business. The other challenge associated with the company was winning back the suppliers/workers confidence. It wasn't easy to convince the workers that the company will pay them even though not producing yet when it was producing it was unable to pay them. The company had to Endeavour to ensure that the suppliers were paid promptly as this was the only way of winning their support.

The company also faced the challenge as far as the human personnel were concerned, the company had to bring onboard totally new employees which meant that it had to spend heavily on training of the new employees which was seen to consume a lot of time as far as operations of the company were concerned.

#### **4.8 Discussion of Findings**

Kwale International Sugar Company Limited has pursued very many strategies in its pursuit to revamp back into business; Most noted are the recovery strategies aimed at reawakening the company. The strategies employed by the company include the generic turnaround strategies which aimed at coming up with better production methods and practices that will lead to improved cash flow, profitability, solvency and financial returns. It also includes the value chain analysis that ensures operational efficiency through revenue enhancement, cut back action which includes both cost reduction and asset reduction strategies. The Financial turnaround strategies were also applied and helped in financial restructuring with a view to strengthening the balance sheet and/or provide funding. Other strategies applied included the Reorganization turnaround strategy

which requires changes in the organizational structure of the underperforming or distressed business. Reorganization may also entail changes to the leadership team which Kwale International Sugar Company Limited has effectively done by changing its staff. Situma, (2006) s project on the turnaround strategy adopted by Kenya Commercial Bank successfully depicted this strategy as a powerful tool that can be used as a turnaround strategy to revamp businesses,

Improving effectiveness and efficiency may not be enough. Kwale International Sugar Company Limited has also adopted the Strategic repositioning turnaround strategy to build on the chances of the business domain and value proposition of the business. Customer management processes such as sales and marketing, and after-sales service to increase turnover through more effective sales force performance, new products, improved functionality and range of products, new markets, better promotion, etc are also to be adopted by Kwale International Sugar Company Limited as they will come up with various products. This strategy was also advocated for by Kipkeu, (2009) in his study of the challenges of implementation of turnaround strategies at Telkom Kenya Limited.

Operations management processes - inbound logistics, operations, and outbound logistics - to increase performance on quality and lead time, thereby raising customer satisfaction through increased service delivery capability is yet another strategy that the Kwale International Sugar Company Limited will adopt. The company also aims at improving the Innovation processes - Research and Development to increase the ability to offer the market new products.

The findings of the study are closely related to other previous studies that have been done on the turnaround strategies adopted by various organizations, For instance, Gichuki, (2009) studied on the Turnaround Strategies at the Co-operative Bank of Kenya and found out that there was no single strategy that was able to confront declining performance instead it had to be fought from various fronts by use of a multiple of strategies among them, repositioning, modernization, cost cutting, asset reduction and revenue enhancement. Rasheed, (2001) studied Turnaround Strategies for declining small businesses: the effects of performance and resources concentration in USA and also advocated for the use of various strategies including reorganization, asset reduction, cost reduction and restructuring. Kiarie, (2009) did a study on the Turn Around strategies adopted by Uchumi Supermarkets Limited: under receivership and noted that the causes of the decline are diverse and may be a combination of both external and internal business environmental forces. He also advocated for the use of more than one turnaround strategy:

From the findings, I do agree that for a successful turnaround strategy, the situation prevailing must be clearly analyzed and assessed, after which, emergency action plans put in place to stop the bleeding then formulation of strategies that will help renew, revitalize, resuscitate, rehabilitate and restructure the business so that it can return to normalcy. The number of strategies applied doesn't matter so long as you achieve the desired results and again, from the study, the strategies are very much interrelated to one another and the best result can be achieved if used in multiples as compared to a single strategy.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATION**

#### **5.1 Summaries of findings**

The objectives of the study were to establish the turnaround strategies adopted by Kwale International Sugar Company Limited and the factors influencing the turnaround process. These objectives were achieved through interviews with the respondents assisted with an interview guide.

##### **5.1.1 Turnaround strategies adopted**

Kwale International Sugar Company Limited has pursued very many strategies in its pursuit to revamp back into business; Most noted are the recovery strategies aimed at reawakening the company. The strategies employed by the company include the generic turnaround strategies which aimed at coming up with better production methods and practices that will lead to improved cash flow, profitability, solvency and financial returns. It also includes the value chain analysis that ensures operational efficiency through revenue enhancement, cut back action which includes both cost reduction and asset reduction strategies. The Financial turnaround strategies were also applied and helped in financial restructuring with a view to strengthening the balance sheet and/or provide funding. Other strategies applied included the Reorganization turnaround strategy which required changes in the organizational structure of the collapsed or distressed business. Reorganization entailed changes to the leadership team which Kwale International Sugar Company Limited has effectively done by changing its staff.

Improving effectiveness and efficiency may not be enough. Kwale International Sugar Company Limited has also adopted the Strategic repositioning turnaround strategy to build on the chances of the business domain and value proposition of the business. Customer management processes such as sales and marketing, and after-sales service to increase turnover through more effective sales force performance, new products, improved functionality and range of products, new markets and better promotion are also to be adopted by Kwale International Sugar Company Limited as they will come up with various products.

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### **5.1.2 The turnaround process in Kwale International Sugar Company Limited**

The process of revamping back Kwale International Sugar Company Limited into business was instituted in 2003. This was the time when a new government formed by the national rainbow coalition came to power following the elections in December 2002. It quickly produced an economic recovery strategy for wealth and employment creation (ERS-WEC), then in early 2004 adopted a strategy for Revitalization of Agriculture (SRA) as a way of implementing the principles of the ERS within the agriculture sector. In 2007 there was a ground breaking ceremony by His Excellency the president and the turnaround plans commenced.

Turnaround practitioners were sought and started by gathering facts about the organization in summary, after which they did the internal assessment, just to grasp the strengths and weaknesses of the organization. Later, they looked at the external environment and here mainly concentrated on issues like industry drivers, competitive forces, threats and opportunities, segmentation, market share, market attractiveness just to find out if the company could survive the turbulent environment. The causes of collapse were then sought, both internal and external after which the practitioners came up with various approaches to reverse the causes of collapse by overcoming internal and external constraints and the financial crisis at large.

The Stabilization plan was then put in place, which led to the Funding plan that paved way for the Turnaround strategies to fix the business in terms of strategic repositioning, reorganization, revenue enhancement, cost reduction and asset reduction. New organizational structure was developed, Functional plans - sales & marketing, manufacturing, etc set and the leadership/ stakeholder management improved. With all these in place, the practitioners remained with the task of managing the turnaround which is still ongoing.

## **5.2 Conclusion**

The findings of the study indicate that Kwale International Sugar Company Limited did put in place strategies that enabled it to successfully turnaround. The various strategies that were implemented by the company indicate that it was able to complete its turnaround by coming from a collapsed state to a state that it's now ready to commence production. The speed of the turnaround is also seen to be remarkable.

Encouraging milestones towards achieving turnaround were well defined in the company's strategic blue print and the future looks promising as more strategies are laid to solidify the success and improve on their current state. It is however worth noting that the turnaround process would not have seen the light of the day were it not for the situational factors that provided the proper environment for a successful turnaround. Also, it would not have been a success if there were no counter measures to combat a number of challenges met on the way. It could be generally concluded that turnaround strategies were employed in order to achieve a turnaround process in Kwale International Sugar Company Limited and the effect were felt in all facets of the company during the time of this study.

### **5.3 Recommendation**

There is need for a firm to pursue various strategies at any given point in time. This fact is supported by reason that the causes of a business collapse are normally attributed to factors both internal and external to the firm. It is therefore recommended that the firms that are faced by decline situations in their business operations need to pursue more than one strategy in order to ensure that the prevailing situation is fought from all sides thus enhancing business as usual.

The researcher further recommends that a similar study be carried once the company is operational so that the implementation process can also be covered fully. Other researches should be done especially on the small scale firms that have collapsed and need to revamp back to business but lacking the financial muscles like Government intervention as observed in this study.

#### **5.4 Limitations of the Study**

The time within which the study was carried out was very limited. It proved challenging at times to get the respondents who were the heads of departments due to their busy schedules. This affected the length of the study and at times inadequate information was churned out during interviews. The financial resources were also limited during the time of carrying out the research which had the effect of constraining the scope and depth of the research. Further, not all the top management team as envisaged before were interviewed for the purposes of this research and some felt that some information about the company were so sensitive to be disclosed to the researcher while others were not involved in the turnaround process from the beginning which had the effect of not coming up with a substantial conclusion

#### **5.5 Suggestions for further study**

On further research, the study recommends a study like this one to be conducted in other sectors of the economy especially the small and medium enterprises that have collapsed and require turnaround strategies to revamp them to business. Another study also should use more objective empirical data rather than opinions and perceptions that were used in this study. Similarly, another study in the field can utilize other forms of data collection like questionnaires as opposed to interview guide that was used in this study. The implementation of the turnaround strategies can also be looked at as a separate study.

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## **APPENDIX 2**

### **RESEARCH INTERVIEW GUIDE**

#### **SECTION A**

1. Department/section that you are based.....
2. Position held in the organization.....
3. When did you join the organization (year).....

#### **SECTION B**

1. Are you conversant with the company history? .....
2. If yes, briefly state what you know about the company formation and background information.....  
.....  
.....
3. Do you know some of the reasons that led to collapse of the famous Ramisi Sugar Factory?.....  
.....  
.....
4. Were there any signs to signal the collapse whether internal or external? .....
5. What are some of the strategies that you have adopted as a department head to ensure you come back to business strongly? .....

.....  
.....

6. What are you doing to make sure that your department outwits the rest in performance?.....

.....  
.....

7. Do you know the company goals, mission and vision statements?

.....  
.....

8. How have they affected your work and are they any different from the previous ones used by Ramisi Sugar? .....

.....  
.....

9. How was the Turnaround planned and managed?

.....  
.....

.....

10. By any chance, do you think that the Ghost that once haunted the famous Ramisi Sugar will come back to force again? .....

.....  
.....

11. If yes, what strategies have you put in place to combat same? .....

.....  
.....

12. What was the motivation for the turnaround strategy? .....

.....  
.....

13. What challenges did you experience in the process? .....

.....  
.....

14. Where do you see the sugar industry in the next five years? .....

.....  
.....

**SECTION C**

1. Are you aware of the industry you are operating in? .....

.....

2. If yes, kindly list some of your competitors in the industry.....

.....

3. What do you think are their strengths and opportunities? .....

.....  
.....

4. How do you fair with them when rated in terms of resources, opportunities,  
strengths, Diversity etc



Far beyond us    fairly equal    far beyond them

Resources

Opportunities

Strengths

Diversity

5. What are you doing as a company to survive in that market and also out wit all your competitors? .....

6. What are some of the external forces that might affect your company negatively and how do you rate them in terms of :

- 1. Not at all
- 2. To a small extent
- 3. To some extent
- 4. To a great extent
- 5. To a very great extent

7. What are some of the strategies put in place to combat the forces? .....

.....  
.....

9. Generally, what do you think about the new KISCOL? .....

.....

10. Any other relevant information you wish to add

.....

**Thank you for your time.**

**God bless you abundantly.**

**APPENDIX 3**  
**KWALE INTERNATIONAL SUGAR COMPANY CANE NURSERY AND THE**  
**FACTORY MODEL**



**APPENDIX 4**  
**KWALE INTERNATIONAL SUGAR COMPANY FARM**  
**ACTIVITIES**



**APPENDIX 5  
MACHINERY AND EQUIPMENT**

