

**CHALLENGES OF THE IMPLEMENTATION OF TURNAROUND  
STRATEGY OF THE LARGE MICRO FINANCE INSTITUTIONS IN  
NAIROBI COUNTY**

**RUTH ANYANGO RANDA**

**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF  
THE REQUIREMENT FOR THE AWARD OF THE DEGREE OF  
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UNIVERSITY OF NAIROBI**

## DECLARATION

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

Signed: \_\_\_\_\_

Date: \_\_\_\_\_

**RUTH ANYANGO RANDA**

REG NO D61/79540/2012

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

Signature: -----

Date: -----

**DR. ZACHARY B. AWINO, Phd;**

Senior Lecturer

Department of Business Administration

School of Business, University of Nairobi.

## **DEDICATION**

This research project is dedicated to my loving children and husband, Anita Owiti, Geno Opiyo, Singo Odongo and Jeremiah Owiti respectively. You persevered and tried to understand my absence from home while attending classes or reading in the library late into the night. Thank you for your encouragement and support. It is through your prayers and selfless sacrifices that made me attain this. I will forever remain indebted to you.

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## **ABBREVIATIONS AND ACRONYMS**

<b>AMFI:</b>	Association of Microfinance Institutions-Kenya
<b>ATM:</b>	Automated Teller Machines
<b>CBK:</b>	Central Bank of Kenya
<b>CEO:</b>	Chief Executive Officer
<b>CGAP:</b>	Certified Government Auditing Professional
<b>DTM:</b>	Deposit Taking Microfinance
<b>ICT:</b>	Information Communication & Technology
<b>KWFT:</b>	Kenya Women Finance Trust
<b>KPOBS:</b>	Kenya Post Office Savings Bank (KPOSB)
<b>MFI:</b>	Micro Finance Institutions
<b>NGO:</b>	Non-Governmental Organization
<b>RBV:</b>	Resource Based View theory
<b>SMEP:</b>	Small & Micro Enterprise Program
<b>WWB:</b>	Women World Banking
<b>USD:</b>	USA Dollar

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## ABSTRACT

Organizations all over the world have realized the need to embrace strategic management to attain a competitive advantage in pursuit of set objectives. Since change has become a constant, successful organizations need to implement change continuously and this requires development of organizational change competencies. Successful organizations are those that implement turnaround strategies. On this note, the MFI industry has had to evolve over time; the desire to grow, expand outreach and improve quality of financial services to its target client is a legitimate and fundamental goal for any financial institution. Thus a clear corporate strategy is critical. The study focused on the challenges of the implementation of turnaround strategies in the large MFIs in Nairobi County. However, the study narrowed down to 2 MFIs who have implemented the turnaround strategy and transformed into Deposit Taking MFIs. Thus the research design adopted was a case study of the two institutions. Both primary and secondary data was used to gather information on the topical issue. The respondents were senior managers of the institutions since they were critical in the formulation of the corporate strategies within an institution. The respondents highlighted the strategies they adopted and the challenges they faced while implementing those strategies. They proposed measures that could be adopted by their institutions for effective implementation of the strategy to attain competitive advantage. The study findings indicate that transformation process take longer than expected and the cost far more than the initial estimates. They are also long and complicated processes which call for ownership from all stakeholders, thus effective communication is a crucial component of any change process since it is associated with risks and for this reason, it is important that a good communication strategy is in place, to ensure that the interests of all parties are aligned to the main corporate strategy. By transforming from a credit only microfinance institution into a DTM, extensive capacity building is required to develop skills of existing and new employees. Therefore, those smaller MFIs contemplating implementation of the turnaround strategy have a great advantage as they already have a working document to refer to. The study recommends that management should provide full financial support and also carry out extensive capacity building on the subject of turnaround strategy to have a buy in of all stakeholders owing to the various challenges highlighted. Lastly, a good governance culture is necessary prior to beginning the process since it helps to ensure transparency. Some of the implications of the study highlighted include adoption of a multi sectoral approach and wide consultations in order to develop realistic guidelines that will ascertain effective implementation of turnaround strategies. This is because turnaround strategy is more challenging to realize considering that it takes a longer period and require more resources to stabilize the organizations before profitability can be achieved. Also, the empirical results will aid theory building testing new and established theories and frameworks and will either validate or refute the current theories and paradigms. This will advance strategic management, which is still in the pre-paradigmatic stages. Thus, organizational competencies and capabilities will always play a key role for successful turnaround strategies; ideal structures/systems, effective leadership, positive culture, teamwork, efficient mobilization and utilization of resources and adoption of the rapid changing technology. Therefore, appropriate combination of these factors will enable companies operate viably while gaining a competitive edge over their rivals.

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

Organizations all over the world have realized the need to embrace strategic management to attain a competitive advantage in pursuit of set objectives. With globalization of more industries, Wheelan and Hunger (2005) state that strategic management is becoming an increasing important way to track international development and position of a company for long term advantages. It involves strategic planning implementation and control. Although formulating a consistent strategy is a difficult task for any management team making it work and implementing it throughout the organization is even more difficult. Firms at all times have to make strategic choices to suit their objectives. Thus, large microfinance institutions have had to urgently develop strategies to attain sustainable profitability, transform to regulated institutions, and attain market leadership by enhancing their competitive advantages. These have posed challenges of laying a foundation for success in the transformative stages, and therefore the need to develop appropriate turnaround strategies.

While focusing on addressing the challenges of implementation of turnaround strategy in the microfinance sector, the study will be anchored on three theories. The Resource Based View theory (RBV), Dynamic capability theory and Organizational theory. The Resource Based View theory suggests that the resources possessed by a firm are the primary determinants of its performance, and these may contribute to a sustainable competitive advantage of the firm. (Hoffer & Schendel, 1978; Wenerfelt, 1984). Rumelt (1991) describes the firm as a bundle of

resources and capabilities; while, Danneels (2002) argues that it is essential for the RBV to have a dynamic perspective, so as to understand how firms evolve over time, through their deployment and acquisition of resources, and because firms must continuously renew and reconfigure themselves if they are to survive ( Zahra *et al.*, 2006). Likewise, the dynamic capabilities has been defined as “the capacity to renew competencies so as to achieve congruence with the changing business environment” by “adapting, integrating, and reconfiguring internal and external organizational skills, resources, and functional competencies” (Teece *et al.*, 1997, p. 515).

Correspondingly, according to Daft and Armstrong (2012) Organizational theory is a macro examination of organizations because it analyzes the whole organization as a unit. Organizational theory studies organizations to identify patterns and structures for how they solve problems, maximize efficiency and productivity, and meet the expectations of stakeholders. It then uses these patterns to formulate normative theories for how organizations function best. These theories summarize the fundamentals that any organization would require to conceive and implement in order to improve its efficiency and effectiveness.

Microfinance sector has evolved over time and now accepted on the provision of a wide range of financial services. Over the years, institutions offering in Kenya have grown both in outreach and asset base. As demand for microfinance services continue to grow, MFIs continue to have challenges in delivering microfinance services, which adversely impact their future growth, systems as well as funding strategy. In Nairobi County, major MFIs have experienced key transformations over the past years, growing from a fledgling concern dominated by a few donor

and church-based NGOs to a vibrant industry increasingly driven by commercial sustainability. Most of them have had to seek new market positions as regulated in the financial industry and thus they have evolved from only offering micro credit to additional services including insurance and savings and thus in dire need for proper strategy implementation to ensure efficiency in service provision. They have also had to put a lot of emphasis on their product mix so that they Diversify into new products and service lines which can provide an effective path to fast growth, as they sell more products to existing customers or establish new markets. This also gives them an opportunity to weigh up the risks as well as the opportunities.

### **1.1.1 Turnaround Strategy**

The incidences of corporate decline have been increasing globally causing organizational failure, and in this regard turnaround management has had to be one of the most important topics addressed by business education and research in recent years. Globalization of the economy has increased the opportunities and risks that individuals and organizations have to contend with daily. The term ‘corporate turnaround’ is often used to describe, relatively similar circumstances involving change in business organization. Organizational changes can be viewed as running from a continuum starting from a small scale incremental change, to large scale transformational change Burns, (2004).

A turnaround is therefore a transformational change which is experiencing declining performance or is likely to do so in the near future. Left on its own, without recovery efforts, the organization is likely to experience further decline which may eventually lead to bankruptcy. According to Chowdhury, (2002), a turnaround strategy is a set of consequential, directive, long-

term decisions and actions targeted at the reversal of a perceived crisis that threatens the firm's survival. It is also a combination of several generic and ground strategies that address the survival of a firm in a down ward spiral and its restoration to a path of long term growth and profitability. Most turnaround strategies respond to the factors in the industry environment and factors in the operating environment.

Capon (2008), states that turnaround strategies are about developing the company's competitive position and market performance by improving the effectiveness of the company's marketing and that they need to be successfully implemented if there is to be sustained recovery. Thus a mix of strategies will need to occur particularly if a severe and deep rooted crisis is to be successfully managed. Research indicates that under some conditions, turnaround may not be feasible. This is because the organization may lack the capabilities or resources to accurately implement an appropriate turnaround strategy.

Even if implemented correctly, in a feasible setting, organizational outcomes of a turnaround strategy still depend on emergent factors such as competitor actions, which can prevent or delay any turnaround. Consequently, turnaround management requires strong leadership and can include organizational restructuring, redefining the business, changes in corporate identity/image, changes in the managerial cadre, eliminating loss making venture and focus on the core business, etcetera. Therefore, turnaround is considered to have occurred when the firm recovers adequately to resume normal operations, often defined as having survived a threat to survival and gained sustainable profitability. Barker and Duhaime, (1997).

Turnaround management is the systematic and rapid implementation of a range of measures to correct a seriously unprofitable situation. When firms are doing so badly that failure seems imminent then turnaround management can restore performance and profitability. The increasing competition, rapid advances in technology and rising complexity of the business conditions accompanied by blend of customers and employees, the challenges for any corporate have been rising. Only a timely response to this situation can save organizations. But, due to management inefficiency, most of the corporate fail to identify the problems and therefore delay in taking precautionary measures affecting the owners, employees, customers, suppliers and the economy.

Slatter et.al (1999), notes that to restore the organisation on its normal course, a corporate turnaround is essential. Organizational turnaround is influenced not only by good management practices but also by shifts in organization. Good management practices, favorable shifts in external environmental variables, and changes in organizational inertia all contribute to turnaround success besides organizational performance which can be influenced strongly by both organizational choices and external constraints.

It is therefore, apparent to study and differentiate the seeds of business decline of the declining firms viz., internal as well as external. While most of the external signals of business failure cannot be fully controlled by the firms on the other hand the internal events are believed to be extremely important because the management has a direct control over them.

### **1.1.2 Concept of Strategy Implementation**

Strategy implementation is the translation of the chosen strategy into organization action so as to achieve strategic goals and objectives. It is the nature in which an organization should develop, utilize and amalgamate organizational structure, control systems and culture to follow strategies that lead to competitive advantage and better performance. Successful organizations stay tuned to their internal and external environments and adopt quickly by changing their internal processes, systems, competencies, products and services.

If an organization wants to implement its strategies, they should neglect variables in the organizational context that could hinder effective strategy implementation. As stated by Peppard (2002) it requires that adequate resources are obtained and allocated effectively; and that the appropriate organization and responsibilities are in place and that the people are motivated to contribute to the achievement of the strategies.

During the implementation phase, the strategy is subjected to unexpected constraints and options, which leads to either realized strategies if properly implemented or failed strategy if poorly implemented. Mintzberg et al. (1996) affirms that since effective implementation can make sound strategic decisions ineffective or a debatable choice of successful, it is as important to examine the process of implementation as to weigh the advantages of available strategic alternatives. He adds that implementation of strategy is compromised of a series of sub activities which are primarily administrative and if the purpose is determined, then resources of a company can be mobilized to accomplish it.

Reviews of literature indicate that it is not possible to achieve effective implementation if there is no stability between strategy and each organizational dimension such as structure, reward policy and resource allocation. During implementation, changes are inevitable in many cases due to the actions of others in the organization or from the external stakeholders. Also, new opportunities emerge that were earlier never predicted and in many instances the realized strategy is not the originally intended.

As further noted by Peppard (2002), it is critical to involve people during strategy development as opposed to having them implement what was only developed by few top managers. This makes realizing intended strategy more feasible. As stated by Michael and Eisenhardt, (2002), aligning strategy to objectives is therefore not an end in itself. Between the ideal of strategic management and alignment and the reality of implementation, lie many difficulties.

### **1.1.3 Challenges of Strategy Implementation**

Strategy implementation is the process of transforming strategic intentions into actions, then into acceptable results. Successful strategy implementation is as critical and difficult as the strategic choice. It requires consideration of the resources to be used, human resource requirements, structure, systems, and other variables. More than ever before, companies are facing rapid change on all fronts. These include: global competition, economic uncertainty, environmental issues, technological change, a capricious consumer and even the effects of terrorist acts. This fundamental struggle with change, particularly in an overleveraged company has the potential to create a crisis environment which is rife with operational and financial problems.

When a crisis does develop, custodial management becomes ill equipped to deal with the high stakes challenges that have been created. These challenges include threats from varying stakeholders, cash shortages, imperfect information and the loss of major customers. A carousel of chaos is created which can quickly become a vortex destroying a company which could have been restored to profitability Burns, (2000). Strategy implementation can pose a number of challenges which arise from sources that are internal and external to the organization.

The particular challenges that face strategy implementation depend on the type of strategy, type of organization and prevailing circumstances, failure to work out the strategy by ensuring that operational plans and tactics are developed and implemented, inability to match strategy to the institutions of the organization which include, structure, leadership, culture, support systems, processes and policies.

Other factors that influence /affect implementation of strategies are forces such as economic, social cultural and political-legal technological and ecological. This challenge could be compounded by industry forces especially from powerful buyers, powerful supplies and stiff rivalry from competitors. The operating environment also does exert pressures which arise from stakeholders, creditors, suppliers, customers, government shareholders and the local community. All these need to be factored at the formulation stage to ensure that appropriate measures are taken beforehand, and all stakeholders must be involved to ensure effective implementation to be able deal with any probable challenge that may arise.

#### **1.1.4 Micro Finance Institutions in Kenya**

According to FSD report (2012), the Kenyan microfinance sector is one of the most vibrant in Sub-Saharan Africa. It includes a diversity of institutional forms and a fairly large branch network to serve the poor. However, microfinance activities have been regulated in Kenya only since 2006. The absence of regulation has allowed innovations to take place: institutions were set up easily without any barriers, such as minimum capital requirements. The microfinance industry has thrived in this environment.

There is a clear recognition from the public and the Government that regulation of MFIs is necessary to establish the right environment for a market shifting from donor funded and poverty oriented institutions to for-profit organizations. Former credit-only institutions wanting to leverage deposits from the public can only operate successfully in the market if it is properly regulated.

Microfinance refers to the provision of financial services to low income households, including the self-employed. These financial services include savings, credit, payment facilities, remittances and insurance (Ledgerwood, 1999; Wright, 1999; Christen and Rosenberg, 2000). Microfinance, therefore, encompasses microcredit, micro savings and micro insurance (Roth, 2002). With the passage of time, there has been increasing emphasis on the importance of offering a range of quality, flexible financial services in response to a wide variety of needs of the poor (Wright, 1999). Over the years, institutions offering microfinance services have grown both in outreach and asset base raising safety concerns on the future of such microfinance operations.

As demand for microfinance services continues to grow, MFIs continue to have challenges in delivering microfinance services, which adversely impact their future growth, systems, as well as funding strategy. Some of the reasons why NGO MFIs pursue transformation to regulated institutions include being allowed to provide their clients with a wider range of financial services beyond credit; leading to increase access to capital; and to gain legitimacy (CGAP, 2008). Most microfinance institutions have transformed into deposit taking in order to meet the rising demands of the customers, by diversifying their products mix and also to be competitive in the financial sector to ensure sustainability.

According to Omino (2005), over 100 organizations, including about 50 NGOs, practice some form of microfinance business in Kenya. About 20 of the NGOs practice pure micro financing, while the rest practice micro financing alongside social welfare activities. These institutions are registered under nine different legislations namely: NGOs Coordination Act, Building societies Act, trustee Act, Societies Act, Microfinance Act, Co-operative societies Act, Companies Act, Microfinance Act Banking Act, and the Kenya Post Office Savings Bank (KPOSB) Act. Some of these forms or registrations do not adequately address issues regarding ownership, governance, and accountability hence these gaps have contributed to the poor performance.

Given the important role played by MFIs, there is urgent need to develop turn around strategies to attain sustainable profitability, transform to regulated institutions, and attain market leadership by enhancing their competitive advantages. Some theoretical studies on the critical success factors on turnaround strategy of MFIs in Kenya suggest that; innovation & technology, regulation & control and capital requirements are key to performance of MFIs. Porter and Millar

(1985) argue that investing in IT plays an important role in lowering the total costs of a firm (giving a cost advantage) and differentiates its products (giving a competitive advantage), which should be reflected in increased net profit, since IT systems have important contributions to the managerial control of MFIs as well as the efficiency of customer services. Similarly, several other researchers (Abdullah, 1985, Katagiri, 1989, Shawkey, 1995 and Gupta, 1998) have posited that the deployment of ATMs by MFIs results in greater turnover in services without needing to recruit more staff and open more branches, thereby reducing transaction costs and eventually improving profitability.

On the other hand, ownership is widely reported to be a determinant of financial institution profitability. Several studies (Bashir, 2000, Berger et al., 2000, Clarke et al., 2000 and Naceur, 2003) have concluded that foreign owned banks are more profitable than their domestic counterparts in developing countries and less profitable than domestic banks in industrial countries, perhaps due to benefits derived from tax breaks and other preferential treatments. Lastly, MFI's capital can be seen as the amount contributed by the owners of the institution (paid-up share capital) that gives them the right to enjoy all the future earnings of the MFI. More comprehensively, it can be seen as the amount of owners' funds available to support the institution's business Athanasoglou *et al.*, (2005).

### **1.1.5 Microfinance Institution in Nairobi County**

The Microfinance industry in Nairobi has experienced major transformations over the past twenty years, growing from a fledgling concern dominated by a few donor and church-based NGOs to a vibrant industry increasingly driven by commercial sustainability. Generally, the

providers of microfinance services in Kenya can be clustered into three broad categories, notably; formal, semi-formal and informal institutions - with the level of formality defined by the degree of regulation. In the past, microfinance institutions (MFIs) established using either an NGO or a savings and credit cooperative societies framework have been important sources of credit for a large number of low-income households in the rural and urban areas of Kenya. The MFIs has, however, operated without an appropriate policy and legal framework until 2006 when Micro finance Act was enacted for their regulation and operation.

Large players in Nairobi County include: AAR Credit Services Ltd, Faulu Kenya, Kenya Women Finance Trust (KWFT), Rafiki DTM, Remu DTM Ltd, SMEP, and Uwezo DTM etcetera. Nonetheless, the focus will be on those with a gross outstanding portfolio of more than 10 million (USD) and have undertaken the transformation from credit only microfinance institution into deposit taking microfinance.

## **1.2 Research Problem**

Implementing strategy has always been a challenge for organizations across various industries, and it demands manager's attention to execute it to details. Ability to implement strategy is the deciding factor between success and failure of a company's strategy. Implementation manifests the strategic intent of a company through various tactical and competitive actions to achieve the desired results, which otherwise may remain as distant dreams. Strategy implementation can pose a number of challenges which arise from sources that are either internal or external to the organization.

The particular challenges that will face strategy implementation will depend on the type of strategy, type of organization and prevailing circumstances, failure to work out the strategy by ensuring that operational plans and tactics are developed and implemented, inability to match strategy to the institutions of the organization which include, structure, leadership, culture, support systems, processes and policies. It is therefore a multifaceted phenomenon which introduces delays, additional costs and instabilities into the process of change.

According to Omino (2005), over 100 organizations, including about 50 NGOs, practice some form of microfinance business in Kenya. About 20 of the NGOs practice pure micro financing, while the rest practice micro financing alongside social welfare activities. Like in many other countries, Kenyan approach to the regulation of MFIs is complicated by the fact that many institutions are involved in providing microfinance services under different legal structures. This presents a challenge in identifying an appropriate regulatory approach, which is conducive to the development of the sector while providing adequate flexibility to microfinance activities as well as the best strategy to adopt during the transformative stages.

Various literatures reveal that the MFIs in Kenya have evolved and grown both in outreach and asset base. Most of them have had to seek new market positions as regulated in the financial industry in order to be sustainable. That is: they have had to refocus by concentrating their efforts in identifying opportunities for competitive advantage and market segmentation with aim to identify possibility of profitable niche market which are not served by the competition and his has brought a myriad of challenges in the operations which will be addressed in this study.

Using evidence from strategic management on turnaround strategies, empirical investigations indicate that various studies have been carried out. Pearce and Robbins (1993) in their study on “Towards Improved Theory and Research on Business Turnaround,” concludes that firms performance decline primarily as a result of external problems, achieved turnarounds through new entrepreneurial strategies while firms that declined as a result of internal problems achieved turnarounds through efficiency.

Dumaine (1990), in his study on “the New Turnaround Champs” concluded that those who guide a successful turnaround often endure long hours, ceaseless travel, stressful decision making and take the heat for measures that cause friend and associate great pains. Equally, a case study by Meyer (1994) on Saatchi & Saatchi Worldwide concluded that the CEO undertook a full financial and strategic review of the company’s business and turned away from the company’s core business to reinstate it back to profitability.

Local studies of strategy implementation have gain considerably attention owing to the fact that ‘strategy is a way of life’ A review of previous studies on the subject matter include: Simba (2010) on the “Challenges faced in the implementation of turnaround strategy at KMC” He identified ineffective leadership, frequent breakdowns of the machinery, cash flow problems, negative culture/resistance to change, limited funds to undertake adequate marketing, lose of export markets, poor planning especially on livestock off take programmes, slow adoption to changing technology, non-involvement of stakeholders and lack of budget linkage to specific strategic priorityas the key challenges.

Other studies include; Kisamwa (2013) on the impact of turnaround strategies on the growth of microfinance in Kenya, Mwanza (2012) on implementation of turnaround strategies at Opportunity Kenya; and Mbugua et al (2014) on “Critical Success Factors on MFIs in Kenya, which concluded that technology & innovation, regulation & control and capital requirement are fundamental s of success in the MFI sector.

In pursuit of this study, we can observe that several studies have been conducted on challenges of strategy implementation but none has been discussed in the context of implementing turnaround strategies in MFIs in Kenya, specifically Nairobi County. Therefore, the study seeks to offer solutions to the challenges that MFIs face during implementation of the appropriate turnaround strategy. This therefore points to the need to carry out the study and thus answer the question what are the challenges encountered in implementing turnaround strategies in MFIs and how can they the addressed?

### **1.3 Research Objectives**

This study is guided by the following objectives:

- i. To establish the turnaround strategies adopted by MFIs for success
- ii. To establish the practices of implementing turnaround in MFIs in Nairobi County
- iii. To establish the challenges of implementing turnaround strategy adopted.
- iv. To determine measures to overcome the identified challenges of the implementation of turnaround strategies.

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

The study is significant in promoting good work environment in the workplace and motivation to the employees. This study will be beneficial to the policy makers when they employ effective strategies in their institutions during change management, particularly in different concepts related to turnaround. By understanding the needs of the employees and benefits of quality strategies, the implementers, policymakers and stakeholders will be assured of competitive advantage.

Moreover, the study is helpful to the practitioners by informing them in the areas of strategic management, objectives and strategies. It will also serve as future reference for researchers on the subject of turnaround. And importantly, this research will educate clients in deciding on whether an industry is really fulfilling its responsibility to the community or is just showing off to promote business.

Lastly, the research has a pool of knowledge that is applicable outside the research settings with implication for policy and management of turnaround strategies. In addition, it will assist other researchers and scholars form a basis for further research that will add value to the growing body of knowledge on turnaround strategies in microfinance industry in the Kenyan scenario. It is here that the scholars will be able to relate the theories discussed in the context of the study and try to relate them with how a firms resources would enable them achieve competitive advantage

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter will review previous literature on strategy implementation with a focus on turnaround strategy, its challenges and solutions offered. It will discuss the existing theories supporting or negating the theory and studies that have been done on how organizations translate strategy into action. It will also examine the critical success factors of implementing turnaround strategies in MFIs.

#### **2.2 Theoretical Foundations**

Various theories have been developed by various scholars in the study of strategic management. Among the theories that will be discussed in relation to this research topic include Resource Based theory, Dynamic Capability theory and Organizational Theory.

##### **2.2.1 Resource Based Theory**

Rumelt (1991) describes the firm as a bundle of resources and capabilities. These resources and capabilities are made up of physical, financial, human and intangible assets. The theory is conditioned on the fact that resources are not homogenous and are limited in mobility. The firm can translate these resources and capabilities into a strategic advantage if they are valuable, rare, in-imitable and the firm is organized to exploit these resources. It was found that RBV or the firms' competitive advantage is one of the main strategic management theories applicable to explain organizational performance, and it is also a part of the larger management theory.

Danneels (2002) argues that it is essential for the RBV to have a dynamic perspective, so as to understand how firms evolve over time through their deployment and acquisition of resources. Through examining RBV from the organizational competitive advantage perspective, organizations are able to gauge the magnitude of importance placed upon its internal firm resources and capabilities in particular towards attaining a competitive advantage level, thus providing further support and extension to RBV.

### **2.2.2 Dynamic Capability Theory**

Dynamic capabilities theory examines how firms integrate, build, and reconfigure their internal and external firm-specific competencies into new competencies that match their turbulent environment Teece et al. (1997). The theory assumes that firms with greater dynamic capabilities will outperform firms with smaller dynamic capabilities. The aim of the theory is to understand how firms use dynamic capabilities to create and sustain a competitive advantage over other firms by responding to and creating environmental changes (Teece, 2007).

Dynamic Capabilities Theory attempts to bridge the gaps by adopting a process approach: by acting as a buffer between firms' resources and the changing business environment. Dynamic resources helps a firm adjust its resource mix and thereby maintain the sustainability of the firms competitive advantage, which otherwise might be quickly eroded. So, while the Resource Based View emphasizes resource choice or the selecting of appropriate resources, dynamic capabilities emphasize resource development and renewal.

Dynamic capabilities are learned and stable patterns of behavior through which a firm systematically generates and modifies its way of doing things, so that it can become more effective (Macher & Mowery, 2009; Zollo & Winter, 2002). According to Teece (2007), a

firm's history and prior paths help determine its current tangible and intangible positions and asset bases, which lead to organizational processes. The firm uses its sensing capabilities to identify opportunities. Once they are identified, the firm invests in ("seizes") these opportunities to improve its organizational capabilities. Then the firm actually recombines or reconfigures its organizational capabilities into new capabilities that better fit its environment. These new capabilities can help a firm create new paths, positions, and asset bases, which can lead to a sustained competitive advantage for the firm relative to other firms.

### **2.2.3 Organizational Theory**

According to Daft and Armstrong (2012), Organizational theory is a macro examination of organizations because it analyzes the whole organization as a unit. It is concerned with people aggregated into departments and organizations and with the differences in structure and behaviour at the organization level of analysis and is directly relevant to top and middle management concerns and partly relevant to lower management.

Organizational theory studies organizations to identify patterns and structures for how they solve problems, maximize efficiency and productivity, and meet the expectations of stakeholders. Organizational theory then uses these patterns to formulate normative theories for how organizations function best. Therefore, one can study Organizational Theory in order to learn the best ways to run an organization or identify organizations that are managed in such a way that they are likely to be successful.

Correctly applying organizational theory can have several benefits for both the organization and society at large. As many organizations thrive to integrate themselves into capitalistic societies, they initiate a ripple effect between other competing firms and already existing economic

pressures. Once an organization sees a window for expansion, it begins to grow by producing more and thus alters the economic equilibrium by catapulting itself forward into a new environment of production. This expansion induces changes not only within its infrastructure, but also affects competing organizations and the economy as a whole. Other firms observe these innovative developments and recreate them efficiently

### **2.3 Framework of Turnaround Strategy**

Arpi (1999) defines turnaround management as the systematic and rapid implementation of a range of measures to correct a seriously unprofitable situation. It might include dealing with a financial disaster or measures to avoid the highly likely occurrence of such a disaster. When firms are doing so badly that failure seems imminent then turnaround management can restore performance and profitability. The increasing competition, rapid advances in technology and rising complexity of the business conditions accompanied by blend of customers and employees, the challenges for any corporate have been rising.

Only a timely response to this situation can save organisations. But, due to management inefficiency, most of the corporate fail to identify the problems and therefore delay in taking precautionary measures affecting the owners, employees, customers, suppliers and the economy. To restore the organisation on its normal course, a corporate turnaround is essential. Slatter (1999) notes that, organizational turnaround is influenced not only by good management practices but also by shifts in organization. A successful turnaround depends on developing appropriate turnaround prescription and implementation of effective turnaround plan.

The appropriate rescue plan or turnaround prescription must address the fundamental problems, tackle the underlying causes and be broad and deep enough in scope to resolve all the key issues. Organizations have to make a series of action choices during the turnaround process. Effective action choices lead to improvement in performance in terms of productivity and resources. On the other hand, ineffective action choices can worsen the condition, even ending up with the dissolution of the company.

Often, the top management arrives at decisions regarding these action choices with the help of external assistance like consultants. Efforts at generalizing action choices have led to the development of a typology of turnaround process. Khandwalla, (2001), identifies four basic types of turnaround processes viz., surgical-reconstructive, surgical-innovative, non-surgical-innovative and nonsurgical- transformational.

An analysis of sixty-five published turnaround cases indicates that domain initiative, cost reduction and changes in top management are some of the universal activities in the turnaround process. However, Robbins and Pearce (1992) identify two types of courses of action viz., a) efficiency driven with belt tightening and streamlining of operation and b) competitive strategy oriented with changes in technology, products or markets. While Khandwalla (2001), reiterates cost reduction as an essential activity in the turnaround process, for Robbins and Pearce it is one of the strategic options.

The series of turnaround actions taken by organizations can be grouped under the following categories. (i) change in the leadership, (ii) forming the team at the top, (iii) change in strategy, (iv) retrenchment of assets and people, (v) upgrading of technology, (vi) financial restructuring, (vii) organizational change and (viii) support of the parent company.

### **Stages in the Turnaround Cycle**

While Slatter (1999) envision seven stages including (a) crisis management, (b) selection of the management for the turnaround, (c) project management for the turnaround, (d) stakeholder management, (e) business plan development, (f) implementation of the business plan, and (g) preparing and negotiating the financial plan (financial restructuring). These stages may overlap and work may be done on more than one stage at a time. On the other hand, Bibeault, (1982) delineates just five stages viz., (i) management change stage, (ii) evaluation stage, (iii) emergency stage, (iv) stabilization stage and (v) the return to normal growth stage.

The elements in management change stage include spotting the turnaround leader, take charge strategies, motivating the organization. The evaluation stage comprises of the preliminary viability analysis, the detailed viability analysis, evaluation of company's financial strength, competition position, people resource and putting it all together, while the emergency stage focus on stabilization and return to growth stage on functional areas of financial management, operations management and marketing.

**Table-2.1: Bibeault Stages of Turnaround Strategy**

Stage (s)	Description	Actions
1	Management Change Stage	<ol style="list-style-type: none"> <li>1. The board of directors or senior management decides a transition is necessary.</li> <li>2. The turnaround agent, either internal or external, is selected and given some degree of authority.</li> </ol>
2	Evaluation Stage	<ol style="list-style-type: none"> <li>1. The nature and extent of problems are diagnosed.</li> <li>2. The type of turnaround, strategic or operational, is chosen.</li> </ol>
3	Emergency Stage	<ol style="list-style-type: none"> <li>1. Companies on the brink of failing must do whatever is necessary to survive.</li> </ol>
4	Stabilization Stage	<ol style="list-style-type: none"> <li>1. Immediate problems are resolved.</li> <li>2. Plans are put in place to improve operating and strategic performance.</li> <li>3. Results are evaluated for acceptability.</li> <li>4. When results are insufficient, the liquidation, sale or merger options are explored.</li> </ol>
5	Return-to-normal growth Stage	<ol style="list-style-type: none"> <li>1. Normal corporate operations</li> </ol>

**Source:** Harlan.D.Platt, Principles of Corporate Renewal, Michigan University Press, USA, 2001,

p.9.

## **2.4 Knowledge Gaps**

There is yet enough evidence to identify the most effective interventions for turnaround, since most turnaround research have primarily been undertaken as a case studies of various institutions. Turnaround strategies have received systematic research attention in the management literature. (Barker and Duhamel, 1997; Hofer, 1980; Lohrke & Bedeian, 1998; Schendel, Patton, and Riggs, 1976); however, the accumulated empirical and conceptual studies have resulted in a rather fragmented understanding and in some important areas the empirical findings have remained ambiguous especially with regard to firm recovery (Nystrom and Starbuck, 1984; Pearce & Robbins, 1993).

Pandit (2000) notes that significant parts of the turnaround literature lack theoretical basis or have been directly undertaken without connecting to theory afterwards. Consequently, the research area corporate turnarounds do not entail a complete unifying theory (Pearce & Robbins, 1993). In the MFI industry, the literature reviewed shows that the debate on implementation of the turnaround strategies are few despite the fact that many of them are transforming their operations to be sustainable.

The Kenyan approach to the regulation of MFIs is complicated by the fact that many institutions are involved in providing microfinance services under different legal structures. This presents a challenge in identifying an appropriate regulatory approach, which is conducive to the development of the sector while providing adequate flexibility to microfinance activities as well as the best strategy to adopt during the transformative stages.

Under some conditions, turnaround may not be feasible in other settings; the organization may lack the capabilities or resources to implement an appropriate turnaround strategy correctly. Even if implemented correctly, in a feasible setting, organizational outcomes of a turnaround strategy still depend on emergent factors (such as, competitor actions), which can prevent or delay any turnaround.

Therefore, turnaround management usually requires strong leadership and can include corporate restructuring and redundancies, an investigation of the root cause of failure, and long term programmes to revitalize the organization. Thus conducting such a study is justified by the increased rate at which MFIs are transforming in Kenya. This situation forces re-evaluating the strategies put in place by various stakeholders on turnaround management. It is against this background that I find it necessary to make a study on the challenges of the implementation of turnaround strategies of the large MFI in Nairobi County

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

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

#### **3.2 Research Design**

Research design adopted in this study was case study. According to (Kothari 2004) case study is an intensive investigation of the particular unit under consideration; it provides in-depth collection of data/information. This design supports the use of content analysis that has more material details with systematic characteristics leading to trends being achieved; and is specific to understanding of situations/phenomenon and not generalization of ideas.

Hsieh & Shannon, (2005) describes content analysis as a research method for the subjective interpretation of the content of text data through the systematic classification process of coding and identifying themes or patterns. It is a systematic method of analyzing message content / messages of certain communicators. It is essentially involves a coding operation, with coding being the process of transforming raw data into a standardized form. This is applicable as the data collected from interaction with the respondents being guided by the questions in the interview guide were able to give answers; their answers were coded into a standardized form and conclusions drawn from it.

The choice of the design is based on the fact that it pays attention to unique themes that illustrate the range of the meanings of the phenomenon rather than the statistical significance of the occurrence of particular texts or concept. It uncovers patterns, themes, and categories important to social reality. This helps to highlight the challenges of the implementation of Turnaround Strategy in the 2 MFIs under study; Faulu Kenya and Kenya Women Finance Trust (KWFT).

According to Yin (2003), the distinctive need for case studies arises out of the desire to understand complex social phenomena because the case study method allows investigators to retain the holistic and meaningful characteristics of real-life events such as organizational and managerial processes. Case study seem to be the preferred design when “how or why” questions are being posed, when the investigator has little control over events and when the focus is on a contemporary phenomenon within some real-life content. This was appropriate in the context of the study since it attempted to find out the Turnaround strategies adopted and the practices as well as the challenges of the implementation of Turnaround strategy and any proposed measures to overcome the challenges thereof.

### **3.3 Data Collection**

Both primary and secondary methods of data collection were considered. Primary data was collected by means of an interview guide where senior management staffs were interviewed to enable collection of qualitative data. They were targeted since they were critical in formulating the corporate strategies of the organizations. Secondary data collection was done thorough scrutiny of the organizations strategic plan, other publications, organizations websites, and other studies and reports on the organization.

The target group comprised of at least 5 heads of departments who are assumed to be in the leadership cadre and form part of the policy makers, formulators and implementers in the strategic management process. Nonetheless, they top managers were at liberty to appoint any other middle level managers to be interviewed, provided they understood the process of strategy formulation and implementation.

### **3.4 Data Analysis**

Data analysis refers to examining what has been collected in a survey and making deductions and inferences. It involves uncovering underlying structures, extracting important variables, detecting any anomalies and testing any underlying assumptions. According to Hartley (2004) data collection and analysis are developed together in an interactive process. This allows for theory development which is grounded in empirical evidence.

The data collected for this study was organized around key central questions and it was examined to see how it fits or fails to fit to the expected categories which were in the interview guide. Using a thematic analysis, a framework comprising of the four fundamental objectives were used together with multiple comparison between data and theory to answer the research question.

## **CHAPTER FOUR**

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

#### **4.1 Introduction**

This chapter contains findings of the study which have been presented under various thematic headings in line with the objectives of the study. This also includes challenges of the implementation of turnaround strategy in the 2 large microfinance institutions in Nairobi County and measures on how the challenges can be addressed.

The constant changes within institutions and the global business environment necessitate changes in business models and processes. The increasing focus on core functions within organization as well as the complexity of tasks and the desire to satisfy customer needs has seen the rise in the adoption of turnaround strategies. Business turnaround is associated with a number of risks running on a continuum from cost to quality and if they are not well managed, the potential gains associated with turnaround strategy could be lost. The MFIs under study; Faulu Kenya and Kenya Women Finance Trust (KWFT) have adopted various turnaround strategies and implemented a number of them which has positioned them strategically in the financial sector as well as given them a competitive edge over other institutions in the sector.

KWFT is a microfinance institution (MFI) with nationwide operations in Kenya, providing savings and loan products to more than 600,000 clients. KWFT (the "Company") focuses exclusively on financial services to women and is operating mainly through group lending. The Company and its parent company, Kenya Women Holding, an established and reputable NGO, have been providing loans to poor women in Kenya since 1981.

According to FSD report, (2012), KWFT is the largest regulated women only serving institution in Africa and the leading deposit taking microfinance institution in Kenya with over 60% market share. The institution targets low income women as an entry and contact point to their families with the objective of alleviating poverty through provision of innovative savings and credit products tailored to meet customer needs. This is in line with KWFT's vision of being the Women Financial Solutions Provider with a difference and mission of partnering with women in their creation of wealth. KWFT is a successful institution with a strong track record. It has a total loan portfolio of more than USD 170 million and deposits of more than USD 150 million (numbers as of 2014). *KWFT website*. The Company has grown substantially over the last few years.

On the other hand, Faulu Kenya began as a development project in 1991, initiated by Food for the Hungry International (FHI), a Christian international relief and development organization. It was registered as an NGO in 1994. Faulu's main objective was to provide credit to lower income households and micro-enterprises. With support from various donors, among them the Department for International Development (DFID) and the United States Agency for International Development (USAID), Faulu grew over the years to a level of near financial self-sufficiency. In order to have more access to commercial funding (which is easier for a limited liability company than for an NGO), they decided to incorporate into a private company with limited liability under the Companies Act in 1999.

According to FSD report, (2012), Faulu attained operational self-sufficiency in 2000, while its portfolio deteriorated significantly in 2002 after it tried to enlarge its main target group - the lower income market - to include an up market segment. Faulu faced difficulties for two years and recorded a loss in 2004 due to high provisions for non-performing loans. In 2005 Faulu refocused on lower income households and microenterprises once more. Following this, it regained profitability and started growing rapidly.

Therefore in reference to the 2 institutions under study, primary data was collected through an interview guide of top managers in the 2 large microfinance institutions in Nairobi County so as to be able to answer the research question and realize the objectives of the study. The findings were then be categorized into 4 broadened categories namely turnaround strategies adopted, effect of turnaround practices, challenges faced in implementing the adopted strategy and the proposed measures to improve the strategies adopted.

#### **4.2 Data Analysis**

The data collection for this study was aided using an interview guide where the respondents were interviewed on a personal basis to collect relevant details using structured open-ended questions. The interviewee engaged senior managers who were considered to be critical in formulation of any corporate strategy, in this case the Turnaround strategy. Reference to secondary data was done to support the facts given by the respondents. This included the strategic plans for the two institutions and other policy documents that were available. The data collected was structured around the key central questions, examined and categorized according to the questions in the interview guide. From the findings a response rate of 60% was achieved.

The study sought to find out how long the respondents had worked in their respective institutions. This was to find out if the respondents were part of strategy formulation or if they only participated in the implementation stage. The findings indicated that all the respondents in KWFT had worked in the institution for more than 10 years since branch managers were internally promoted. However, the director of operation and other branch managers had worked for at least 5 years since they were being hired from the banking sector to support the growing business and the high regulatory requirement of the Central Bank of Kenya. The findings on Faulu Kenya indicated that majority of the managers had worked in the institution for more than 7 years. This gave them a better understanding of the corporate strategy and ensured familiarity with the company and thus provide proper coordination of the implementation process.

The study sought to find if the respondents understood the terminology of turnaround strategy. From the findings, all the respondents were able to define the term in their own understanding and this gave an indication that they were cognizant of the strategy and this would enhance the validity of the answers of the questions they were yet to address. Some of the responses as stated by a respondent from KWFT was “Turnaround Strategy is a corporate action that is taken to deal with issues of a loss-making company to improve its performance.” Another respondent defined it as a long-term strategic plan/ restructuring plans designed to solve the issues of a company that desires to change her operations.” Some of the responses from Faulu Kenya defined it as “the step to revive a company and position to ensure that it makes profits and meet all the customer needs.” Another respondent defined it as a transformation process that a company undertakes to position her operations to meet the needs of the customers and be competitive in the industry in which they are operating in.

A sample of the cited definitions were consistent with the definition highlighted in the study which defined it as “a set of consequential, directive, long-term decisions and actions targeted at the reversal of a perceived crisis that threatens the firm’s survival.” It is also defined as “a combination of several generic and ground strategies that address the survival of a firm in a down ward spiral and its restoration to a path of long term growth and profitability.”

### **4.3 Turnaround Strategies Adopted**

In order to determine the strategies adopted by the institution, the study first required to understand what necessitated the need to implement the strategy. For Faulu Kenya, the findings indicated that the decision to adopt the strategy was based on three main reasons: increased competition, increased demand for a wider range of services and the need to lower the cost of funds in order to serve the clients better as indicated in their strategic plan (2007-2011). On the other hand, on the part of KWFT, the findings indicated that the first step in the transformation journey for was to decentralize. This was crucial to the business to level the business and expand the client base. This process led to the creation of what is a network of more than 210 offices throughout Kenya according to the FSD Report 2012.

Therefore, the findings were established as outlined below for the respective institutions in reference to the interview guide. For Faulu Kenya, some of the turnaround strategies adopted included changing the organizational structure, partnering with consulting firms to carry out market research, capacity building of employees, upgrading technology, and rebranding of the organizations.

The respondents indicated that overhauling the organizational structure and changing the mindset of the employees was the most crucial element in the turnaround process. Respondents indicated that new departments were created while others were merged. For instance: a new level of general managers was introduced to manage the banking portfolio as a requirement of CBK. Also, the findings indicated that a new number of new recruitments were made during the transformation, largely due to the growth of business to be able to meet the emerging needs of the clients and more so to be able to support the new systems that were being introduced.

The findings also established that Faulu contracted a consultant to spearhead its market research and product development. They identified Micro Save Consulting Ltd to carry out a survey of the market to understand customer needs and refine its existing credit products. Through the survey, they were able to develop savings and money transfer products in addition to business loans, consumer loans, agriculture loans, salaried loans among others. This was aimed to strategically position the organization and give her a competitive edge over other organizations in the industry.

Majority of the respondents indicated that a training needs assessment was critical to empower the employees and sensitize them on the new corporate strategies that would see the organization achieve her objectives. These trainings included product related training (credit and savings), new business processes, new MIS, and the balanced scorecard. To ensure that this was achieved, the human resources department was mandated to keep a continuous flow of communication and information by circulating Bi- monthly communication magazines for staff. Also a number of publications were produced for the clients to inform them of the new changes that the organization was implementing.

The respondents also cited upgrading of technology as a strategy. Management identified Price Waterhouse Coopers to support them in selecting and configuring a suitable management and core banking system. The software was configured to meet the organizations requirement for ease of data migration from the old system to the new system. This however posed a number of challenges as some of the organizations activities had to be put on hold and some transactions were recorded manually before the staff could easily operate the new system.

Lastly, the respondents indicated that they rebranded by adopting a new company logo and corporate identity. This was aimed to position the organization in the financial arena as the leader in the microfinance industry to gain competitive advantage and be sustainable. An extensive marketing promotion was also carried in all the major media outlets to position the brand in the minds of her clients and all stakeholders.

On the part of KWFT, the findings indicated that they adopted the following strategies. Decentralization, change in leadership of the institution, developing more products to meet customer needs, forming strategic alliances & partnerships, capacity building, as well as rebranding among others.

The respondents noted that first step in the transformation journey for KWFT was to decentralize. This was crucial to the business to level the business and expand the client base. This process led to the creation of what is a network of more than 210 offices throughout Kenya according to the FSD Report 2012. This involved the change of KWFT into Kenya Women Holding which kept the same legal form as not for Profit Company limited by guarantee and thus established KWFT DTM as a private company limited by share capital.

The respondents cited that through this, KWFT DTM enjoyed strong growth throughout the transformation process; business had grown by about 100% every year since 2007. The transformation resulted in the creation of separate departments for finance, ICT, human resource management and administration. It was reported that in the past, all the four areas were combined in one department which fell under the direct responsibility of a general manager.

A majority of the respondent regarded change in leadership of the institution as most important. Changing the leadership and forming a credible team at the top was considered to restore confidence of different stakeholders and is the foremost aspect in turnaround process. Branch managers were internally promoted from the previous positions as regional managers. The director of operations and other branch managers were hired externally from banking sector. The new personnel were recruited to support the growing business and meet the high regulatory requirements from Central Bank of Kenya. This could be attributed by the fact that they would be expected to make radical changes without fear or favor for the interest of the organization.

Furthermore, the respondents noted that KWFT had to build a competence in developing products that sought to address the needs of the whole family. This, they did by ensuring that the marketing strategy encompassed all aspects of family life and it included products such as consumer credit for water tanks or housing projects, loans for energy, and agricultural developments. This strategy allowed the organization to boost its core credit business and increase its positioning in the financial sector as well as assist in attainment of competitive advantage.

The respondents also cited marketing, rebranding and positioning as critical to turnaround. The organization changed its logo. More products were introduced to provide both financial and non-financial activities which were aimed to transform the organization into the newly created KWFT DTM and non-financial activities remain within the Kenya Women Holding, which is the only shareholder of the DTM.

Lastly, the respondents noted that the institution also had to actively partner with the business leadership organizations and develop strategies to create capabilities within the organization to speed up the execution of corporate turnaround. They joined the Women's World Banking (WWB), a network of financial institutions for women covering some 28 countries by 1982. In this initial strategic planning stage, WWB gave KWFT valuable insights and a platform to exchange ideas about the empowerment of women.

#### **4.4 Turnaround Strategy Practices**

All the respondents from the two institutions indicated that the turnaround strategy adopted had a positive effect on the performance of the organization. The respondents cited that there was great improvements and innovation in service delivery as a result of the turnaround strategy adopted, and this may be credited to the fact that the institutions were more customer focused and thus were able to address the emerging issues as they identify and implement the various strategies.

For Faulu Kenya, effective leadership played a key role in achieving successful reorientations during a strategic turnaround. The transformation was managed by all heads of departments. It was coordinated by the Internal Audit Manager, who was appointed as the transformation manager. This was to ensure familiarity with the company and provide guidance on the needs of

organization and coordination of the process. For KWFT, the strategy implementation was spearheaded by the board of directors who implemented the strategy in phases. The board comprised of bankers, financial analysts, entrepreneurs, marketing and human resources experts. However, the bankers were in the front line in leading the turnaround of the organization. This may be attributed to the fact that they understood the financial market operatives.

The findings also indicated that increased alliance networks and strategic partnerships were cited as a turnaround catalyst. Both MFIs were members of AMFI membership in very active terms. For KWFT, they joined the Women's World Banking (WWB), a network of financial institutions for women covering some 28 countries; this partnership gave them valuable insights and a platform to exchange ideas about the empowerment of women.

They also partnered with Deloitte and Touche Consulting Ltd, who took them through the transformation stages. On the other hand, Faulu Kenya Partnered with Micro Save Consulting Ltd to carry out their market research and product development, which helped them identify the products that would satisfy the need of their clients.

Review of literature indicate that the effects of strategic membership and alliances has the potential to assist recovery by increasing revenues through code sharing or other commercial partnerships and cutting costs through economies of scale generated by the alliance's purchasing power and the sharing of good practices and IT.

The respondents indicated that cost structure reconfiguration had a major effect in their turnaround. Furthermore, in all the two cases, new leadership was introduced to radically rework the business model and, most importantly, to oversee the unlearning of poor practices and establish a new corporate culture committed to delivering the revised business model.

#### **4.5 Challenges of the Implementation of the Turnaround Strategy**

The study also established the various challenges faced in the implementation of turnaround strategy. These challenges included limited funds to carry out extensive marketing, inadequate internal processes to support new strategy, failure to identify the appropriate strategy that addresses all the needs of the business, system incompatibility thus taking too long to implement, high expectation from customers and other stakeholders, inappropriate skills to execute the identified strategy, and resistance to change as employee wanted status quo, among many others.

The findings summarize some challenges faced by KWFT as longer licensing process, the consulting firm (Deloitte and Touche Consulting Ltd) was not specialized in microfinance and thus needed to first acquire knowledge, especially at the beginning of the assignment, the underestimation of the costs of implementing the project and the expected incomes, and shock for some employees finding new external staff with different backgrounds being hired for middle or senior positions. Also, the organization had a challenge of seeking long-term, responsible investors, who were expected to bring not just funds but ideas for future growth and commitment to the organization's mission and values.

For Faulu Kenya, the findings indicated that the major challenge was in managing staff in changing times, since the credit business was undergoing rapid expansion and new banking operation had to be put in place. Many employees with the recommended skill set had to be hired to manage the business. Also, conflicting cultures emerged between existing staff who were specialists in credit operation, and new staff. New staff who had a banking background felt superior to existing staff since their skills were needed for this phase of the turnaround.

The existing staff felt they had made Faulu what it was and that it was unfair to bring in new staff at higher levels. The respondents noted a number of difficulties and delays in implementing the system. Some activities had to be temporarily suspended and some transactions had to be recorded manually for a short time. The process was made more complicated by having a number of new staff. (Mostly, new recruits were hired to cope with the growth in the credit business) Lastly, the main challenge was cited as identifying new, like minded shareholders / investors. According to review of literature, ideally incoming shareholders would not only share the Faulu's social objectives, but also the Christian faith of its current investors.

#### **4.6 Measures to Overcome the Identified Challenges**

In order to address these challenges, the respondents reported that extensive capacity building program be put in place for both management and staff, and a forum be created where staff could openly share issues regarding the institutional change. Also, it was cited that streamlining financial management systems and procedures was critical and a sense of collective responsibility to be instilled in the organization culture for all employees to take responsibility. It may not be possible for any turnaround to take effect without adequate financial restructuring.

This may be with the help of banks, financial institutions and the parent company. These would significantly reduce the expenses of the companies. For KWFT, respondents indicated that all new recruits, regardless of position were sent to the units to assist in and conduct loan business with the clients.

This was considered fundamentally important and is designed to instill the core business values and mission of KWFT. This helped maintain direction and avoid mission drift. Also, effective communication played a key role in turnaround. The KWFT senior management and the board travelled to every branch, discussing and explaining the steps and procedures that were going to take place. Also, the institution has been conservative in its procedures taking the necessary time to consider all options before acting and exercising caution to ensure that the systems work before proceeding to fully implement it.

Majority of the respondent within Faulu Kenya, noted that by improving the working systems and setting time limits to monitor identified strategy would help in dealing with the challenges. Also, through upgrading the technology that was compatible with the existing systems would go a long way in addressing the challenges. Upgrading technology could vary from strengthening the current operation to investment in new processes or aligning the old systems to fit into the new systems. Also, creation of new teams for a series of change initiatives, relocation of staff and stopping some of the non-value added activities, restructuring departments to meet the requirements of the market and availability of skilled people are some of the structural strategic changes to adopt were proposed.

Last but not least, other respondents indicated that their companies outsourced the non core activities to give employees ample time to concentrate on the core activities. Reallocation of people and structural changes to implement strategic changes are essential ingredients of turnaround. Generally, the respondents were requested propose recommendations on how to improve the implementation of a turnaround strategy in their various institution.

A majority proposed allocation of more funds to implement the strategy, upgrading and adopting the latest technology to improve work efficiency. They also cited the need to continuously carry out capacity building, developing a positive corporate culture that focuses on continuous improvement, replacing any underperforming staff and shift focus in building their morale, as well as assuring staff that tough decisions had to be made and those all affected would be treated with care and due consideration.

The findings also established that partnering with credible organizations to understand how the strategy was to be implemented was critical. This was essential for organizations to get credible support from the parent companies since it softens the hostility of other stakeholder's viz., banks, financial institutions, suppliers and employees. Also, adopting a business restructuring plan that would accelerate business growth, as well as adopting a marker checker for all internal processes to ensure that any change was identified and dealt with early enough to avoid any complications later. It would not be possible for any of the firms undergoing turnaround to achieve success without adequate financial restructuring with the help of banks, financial institutions and the parent company. These changes significantly reduced the expenses of the companies

The respondents also recommended that the institutions carry out regular business reviews to quickly identify the underlying problems causing the current situation and understand the business chances of growth and survival. This would be done through thorough assessment of strategy to check if the organization has a clear and deliverable strategy that sets focus for the organization to check if the business is tackling the right market.

Commitment and capacity to change was also cited as a recommendation by some of the respondents. This would check if there was a clear mandate for change that was driven within the organization and that the organization was capable of dealing with the significant and often painful adjustments that may be needed. Some indicated the need to review infrastructure / people by checking if the organization had flexibility to respond to changes in the market conditions, by streamlining the departmental structures to ensure that they were not overstaffed or had the right people with the right skills.

The findings also established embedding the proposed change as a recommendation. This would focus on reviewing the financial health of the organization through review of management behavior, reward and compensation systems that focused employees on profitability return on investment and value creation. Review of literature indicates that by developing new markets, new products or strategic alliances with other successful organizations, improving customer service or enhancing product quality, and by securing long term financing and strengthening its balance sheet, the organization would overcome some of the identified challenges.

Lastly, the respondents recommended the need to rebuild morale and develop a positive corporate culture that focused on continuous improvement, lean thinking and long term profitability. Workplace culture reinforces the way a business operates with spoken and unspoken beliefs, and values and norms shared between employees and the owner. It is evident in everything from how workers dress, what time they come in, how they spend their lunch hours and how they create solutions for internal and external issues. Employees who understand their workplace culture have a better grasp of their goals and are more in tune with the needs of their managers, fellow employees and customers.

#### **4.7 Discussion on Turnaround Strategy**

A successful turnaround depends on developing appropriate turnaround prescription and implementation of effective turnaround plan. A successful turnaround plan consists of seven essential ingredients and an implementation framework. The implementation framework has seven key work streams. The appropriate rescue plan or turnaround prescription must address the fundamental problems, tackle the underlying causes and be broad and deep enough in scope to resolve all the key issues.

Organizations have to make a series of action choices during the turnaround process. Effective action choices lead to improvement in performance in terms of productivity and resources. On the other hand, ineffective action choices can worsen the condition, even ending up with the dissolution of the company. Often, the top management arrives at decisions regarding these action choices with the help of external assistance like consultants.

Efforts at generalizing action choices have led to the development of a typology of turnaround process. The series of turnaround actions taken by organizations can be grouped under the following categories. (i) change in the leadership and forming a credible team at the top, (iii) change in strategy, (iv) retrenchment of assets and people, (v) upgrading of technology, (vi) organizational change and financial restructuring, among others.

#### **4.7.1 Change in Leadership**

According to Collins (2001), incompetent leadership was one of the prime reasons for organizational decline and restoration of legitimacy was an important step in turnaround activity. Hence, the process generally starts with personnel change at the leadership position and this is supported by the findings of the study. It has also been consistently indicated as a prerequisite to initiate turnaround actions since it restores confidence of different stakeholders. Yet, there are various other reasons, change of leadership in the process of turnaround was regarded as the most critical action that ought to be effected at the start of the turnaround process. In the case of KWFT, general manager in charge of operation was hired externally from the banking sector to be able to support the new systems that the organization had adopted and oversee the entire implementation process.

For Faulu Kenya, the governance structure of the board had to change since they had to recruit new board members who would spearhead the high regulatory requirement of the organization. It is argued that when leaders are hired from outside, they do not hesitate to implement any dramatic strategic change that may transform the organization. This is also because they do not have the baggage of past experiences within the organization which would hinder them from putting into place new systems.

#### **4.7.2 Change in Strategy**

The characterization and need for organizational changes that are distinctly radical and strategic in nature have been well documented in the literature. Mintzberg (1978), for example, refers to strategic change as a set of activities influenced by environmental changes that affect an organizations culture, technology, structure and product-market focus. Diagnosing the problem with the support of top management, identifying the root causes, formulation of strategy based on contingency, choice of strategy for implementation are of key elements in turnaround process. However, these strategies usually take years to yield results. Therefore, diversification based recovery strategies are assumed significance in turnaround process which are also of less cost effective.

According to Barker & Duhaime (1997) the extent of domain change impacted on top management, level of organization resources, and severity of decline and level of industry growth. Keeping this in view, there was a dire need to find the relationship between decline and innovation. Review of literature points out that innovation reduces with institutionalization of organizational mission, diffused power structure, lack of slack, and the feeling that decline is uncontrollable and temporary, and this resonates well with the findings of the study. In the case of KWFT, the main strategy adopted was that of decentralization which saw the institution grow into a network of more than 210 outlets regionally. This enabled them to address the emerging needs their customers. For the case of Faulu Kenya, more departments were created and this enhanced their performance.

### **4.7.3 Upgrading Technology**

Porter and Millar (1985) argued that investing in IT played an important role in lowering the total costs of a firm (giving a cost advantage) and differentiated its products (giving a competitive advantage), which would be reflected in increased net profit. When obsolete technologies and processes are maintained within the organization, they cause organizations to decline in their processes, yet these involves huge investments for upgrading, in the long-term it can be very useful as a cost cutting tool.

The study findings indicate that upgrading technology could vary from strengthening the current operation to investment in new processes and proper implementation are some of the major issues in the process. Both institutions upgraded their technology to be able to support their business model. KWFT, had to equip their deposit taking branches with new software, on the other hand Faulu Kenya had to adopt a new system in the establishment. In some case, the systems became unreliable due to problems in the database and the system upgrade.

It is therefore critical that prior to choosing the ICT system, the organization should get references from other institutions with similar structures, or business models operating in similar environments. Also a detailed analysis of the system should be sought before investing in the system and a strong project management is deployed at the start of the system use. Lastly a testing period should be planned and contingency plan developed in case of system failure.

### **4.7.4 Organizational Change and Financial Restructuring**

Elsewhere, Nadler and Tushman (1990) characterize how organizational change can (among other types) take the form of re-orientations and re-creations. Organizational changes to implement strategic changes are essential ingredients of turnaround. The importance of such

forms change is in enabling companies to survive and adapt in turbulent environments has also been acknowledged in the field of strategy as stated by Hamel et.al (1994). Creation of new teams for a series of change initiatives, relocation of staff and stopping some of the non-value adding activities, restructuring departments to meet the requirements of the market and availability of skilled people are some of the structural organizational changes recommended by the respondents in the study.

In the case of KWFT, the transformation resulted in the creation of separate departments for finance, ICT, human resource management and administration. It was reported that in the past, all the four areas were combined in one department which fell under the direct responsibility of a general manager. In Faulu Kenya, the governance level changed by ensuring appointment of board members to form new board committees, which did not previously exist. It is at this point that the choice of new investors is introduced gradually and it must be done carefully. For instance, Faulu Kenya is keen to identify new, likeminded shareholders/investors who share their social objectives.

## **CHAPTER FIVE**

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

#### **5.1 Introduction**

This chapter will look at the conclusion of the findings in line with the original objectives found in chapter one. It will summarize the findings; discuss the implication on the findings of the findings on the theories, policies and practices mentioned earlier, limitation of the study and suggest areas for further research.

#### **5.2 Summary of the Results**

The study indicated that all the respondents were aware of the various turnaround strategies implemented in their institutions. This therefore directed to the inference that the turnaround strategy had a great impact on the transformation of any institution and in effect its sustainability. It was generally noted from the respondent that a change in the leadership of the institution and forming a credible team at the top was critical.

This is because new leaders are more likely to break the old rules of the game, be less committed to past policies and to stop attributing problems to external uncontrollable forces. Moreover newly appointed leaders could bring with them an ability to facilitate greater levels of change in the organization's strategies, processes and structures as stated by Barker and Duharne, (1997). They also provide fresh perspectives and critical turnaround skills and indicate a level of seriousness about the state of the organization.

Interestingly, these arguments with respect to the positive effect of leadership changes on turnaround sit well with other findings in the literature and draw attention to the adverse influence of long top-management tenure on corporate turnaround and the likelihood that long tenured executives will become conservative and may avoid the implementation of the strategic change when necessary.

It was also cited that change in the overall organizational strategy was important to successfully achieve a turnaround. As earlier stated in the literature, it is the nature, in which an organization develops, utilizes and amalgamate organizational structure control systems and culture to follow strategies that lead to competitive advantage and better performance. Thus if an organization wants to implement its strategies, it would neglect variables in the organizational context that could hinder effective strategy implantation.

Further, reviews of literature indicate that it is not possible to achieve effective strategy implementation if there is no stability between strategy and each organizational dimension such as structure, reward policy and resource allocation. The proposed action on retrenchment of assets and people was cited as not a better option for most respondents. This could be attributed to the fact that the proposed actions might have cost implications which would be far reaching in achieving the chosen strategy. Also it might be because the actions may create demoralization, dampen organizational productivity and increase voluntary retrenchment, discourage the organizations' most talented and productive members who will end up leaving the organizations.

The findings indicated that upgrading technology system was of utmost importance. This was because; IT systems had important contributions to the managerial control of MFIs as well as the efficiency of customer services. Porter and Millar (1985) argued that investing in IT played an important role in lowering the total costs of a firm (giving a cost advantage) and differentiated its products (giving a competitive advantage), which would be reflected in increased net profit.

Corporate restructuring was also deemed critical since it often involved stabilizing and containing the crisis in order to stop any further damage to the company. Once corporate restructuring experts have exercised the relevant damage limitation processes, they could offer advice and assistance to management teams in order to develop and implement an effective strategy to turn the business around. This was followed by a period of planned restructuring during which the company might undergo significant change to its structure and processes in order to maximize the profits of the firm.

Specialists in restructuring are adept at presenting the options available to the business and analyzing the impact and potential effects of changes to the company structure. Due to their experience, corporate restructuring consultants were able to provide forecasts which indicated how potential changes were likely to affect the business. This enabled them to successfully build new business strategies or modify existing company strategies to reflect the changes to the business and its operational procedures.

### **5.3 Conclusion**

Organizations which believe in their future must invest in proper implementation of corporate strategies. They need determined leadership, dedication, excellent communication and must start from very strong foundations of implementing the desired strategies. Investing in staff trainings and capacity building of all stakeholders in the strategy adopted is critical.

Both Faulu Kenya and KWFT have implemented the turnaround strategies, although their journey has been with a myriad of challenges. The process of strategy implementation takes a longer time than expected and cost far more than initial estimates. Therefore there is need for commitment from management and a call for ownership from all stakeholders to ensure successful implementation.

In zeroing into the context of this study, it can be concluded that most large MFIs have the zeal to transform into deposit taking microfinance institutions. This is based on the review of literature that was considered. The major obstacle is the conflicting objectives of social and profit that they want to maintain. Thus they are forced to harmonize the two so that they can be competitive in the financial industry. The harmonization process is what differentiates them from other MFIs and thus they are able to achieve their set objective. With this as the driving motive, the process is often long and full of challenges, thus it is important to plan and commit adequate resources.

#### **5.4 Recommendations**

This study therefore recommends that in order to deal with the challenges faced by large MFIs in the implementation of the turnaround strategy, the management should undertake a progressive transformation in phases, leaving time for adjustments at each phase. They should also provide full financial support and prudent planning since implementation of corporate strategies are very costly in term of time, finances and human resources.

As earlier noted, the process is often long and full of challenges, thus it is important to plan and commit adequate resources. Also, a very strong commitment towards good governance is essential for successful implementation of the turnaround. In addition, extensive capacity building on the subject of turnaround should be carried out to help the employees and all stakeholders take ownership of the process. Further, adequate funds should be set aside to undertake market research and product development to be able to sufficiently address the emerging needs of the customers. Additionally, it is important to improve on Information, Communications and Technology which is necessary in enhancing efficiency in operations.

Investing in IT played an important role in lowering the total costs of a firm and differentiated its products (giving a competitive advantage), which would be reflected in increased net profit. The study finally recommends that the current leadership in the institutions be improved, strengthened especially by inculcating a positive culture to guarantee success of the organization.

## **5.5 Limitation of the study**

The study had a number of limitations that will be highlighted briefly. The first limitation was imposed by criterion used to select the MFIs under study. For purposes of the study, only MFIs with an asset portfolio of 10 million USD were targeted on the ground that they had undertaken some form of (transformation) turnaround. Also by targeting only the top management, their views were likely to be technically biased courtesy of self-interest and the image of the organization.

The methodology selected may have posed challenges since it (content analysis) is a purely descriptive method. It describes what is there, but may not reveal the underlying motives for the observed pattern ('what' but not 'why'). The analysis could be limited by availability of information given thus observed trends may not be an accurate reflection of reality.

Lastly, although the respondents were given the assurance for confidentiality of the information, one MFI found it difficult to give confidential information on the institution and stated that it was a company policy that no research would be undertaken unless with express authority of the CEO who was not easy to access.

## **5.6 Suggestion for further Research**

Not much study has been done on the challenges of the implementation of turnaround strategies in the large MFI industry. Therefore, there is need for further research in this area with a focus on the medium size MFIs which are currently transforming into deposit taking MFIs. This would give a better population of study that would be easily replicated in other studies.

Research can also be carried out to establish the long term sustainability of turnaround strategies as a means of achieving competitive advantage vis a vis establishing and maintaining status quo. Studies can also be done to establish the factors driving the competitiveness of implementing turnaround in the medium size MFIs in Nairobi County and if the trend being observed is sustainable in the long run and link them to other outcomes such as growth in asset portfolio, performance and corporate image.

### **5.7 Implications on Policy, Theory and Practice**

Due to the ever changing operational environment, organizations will have to take into account all factors that come into play in order to ensure success of their organizations. It is therefore inevitable for organizations to implement turnaround strategies to deal with the challenges associated with the changes. These strategies will need to be carefully crafted and effectively implemented.

The following organizational competencies and capabilities will always play a key role for successful turnaround strategies; ideal structures/systems, effective leadership, positive culture, teamwork, efficient mobilization and utilization of resources and adoption of the rapid changing technology. Therefore, appropriate combination of these factors will enable companies operate viably while gaining a competitive edge over their rivals.

At Policy level, a multi sectoral approach and wide consultations need to be adapted in order to develop realistic guidelines that will ascertain effective implementation of turnaround strategies. This is because turnaround strategy is more challenging to realize considering that they take a longer period and require more resources to stabilize the organizations before profitability can be achieved.

From a conceptual standpoint, the empirical results will contribute to the steadily growing knowledge of turnaround strategies. The empirical results will aid theory building testing new and established theories and frameworks and will either validate or refute the current theories and paradigms. This will advance strategic management, which is still in the pre-paradigmatic stages.

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## APPENDICES

### APPENDIX 1: LIST OF THE LARGE MFI'S IN NAIROBI COUNTY

Number	Bank	Gross Outstanding Portfolio (USD)
1	Faulu Kenya DTM	38,892,523
2	Kenya Women Finance Trust Limited (KWFT)	134,675,901
3	SMEP DTM	18,010,135

Source; AMFI, 2012

**APPENDIX II: INTERVIEW GUIDE**

**Dear Respondent,**

This academic research is intended to determine the challenges of implementation of turnaround strategies in the large microfinance institutions in Nairobi County. The information gathered will be strictly for the academic purposes of this paper and will be treated with the highest level of confidentiality. You are kindly requested to spare some of your valuable time to assist in completing the questionnaire. Your cooperation will be highly appreciated.

Thank you.

1. How long have you worked in the institution?.....

2. What position do you hold? .....

3. For how long have worked in the position?.....

4. What is your understanding of turnaround strategy?

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5. State at least some 4 of the turnaround strategies adopted by your institution in terms of their importance?

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6. What influenced the choice of the turnaround strategy that your institution (department) adopted?

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7. State the effect (s) of the turnaround strategy practices implemented by your institution (department).

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8. State at least 3 main challenges faced in the implementation of the turnaround strategy?

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b) How did you address the challenges that were the identified?

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9. What measures/recommendations would you propose to your institution to improve the turnaround strategies of adopted?

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