

**EFFECT OF TURNAROUND STRATEGIES ON PERFORMANCE OF PUBLIC  
CORPORATIONS IN KENYA**

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Requirements for the Award of the Degree of Masters in Business Administration of  
Egerton University**

**EGERTON UNIVERSITY**

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## DECLARATION AND RECOMMENDATION

### Declaration

This research Project is my original work and has not been presented for examination in this or any other institution.

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## **DEDICATION**

This Project is dedicated to The God Almighty for His infinite mercy towards my academics and my entire life.

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## **ABSTRACT**

Many public corporations experiencing decline in performance have opted to implement turnaround strategies to improve their performance. This study extends previous research findings by seeking to examine the effect of turnaround strategies on performance of Public Corporations in Kenya, by identifying the turnaround strategies adopted in these Corporations, and to determine the effect of turnaround strategies on their performance. To achieve this objective, correlational research was adopted. The target population comprised 162 public corporations in Kenya. A purposive sample of thirty two (32) corporations was used in the study. A Likert type scale questionnaire was administered to respondents to collect data from the selected public corporations. Primary data was complemented with secondary data collected from the corporations for the previous three years. Data collected was edited and processed using Statistical Package for the Social Sciences (SPSS). Descriptive statistics that is in percentages were used to describe the research variables. Pearson's product moment coefficient was used to examine the relationship between turnaround strategies and organisational performance and multiple regression was used to establish the effect of turnaround strategies on performance of the corporations. The results showed a significant positive relationship between turnaround strategies and performance,  $P\text{-value} < 0.05$ . The positive relationship suggests that when declining corporations implement turnaround strategies (revenue generating and cost reduction strategies) their performance when measured using the balance scorecard measurement tool which measures financial perspective, customer satisfaction, internal business processes and innovation and learning perspectives, will improve positively. The findings also found that cost reduction strategies had a greater effect on the performance of public corporations in Kenya compared to revenue generating strategies. Therefore, it can be recommended that public corporations need to implement turnaround strategies to turn around declining corporations. The study also recommends areas of further research.

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## **LIST OF ABBREVIATIONS AND ACRONYMS**

<b>BSC</b>	Balance Score Card
<b>CEO</b>	Chief Executive Officer
<b>ERS</b>	Economic Recovery Strategy for Wealth and Employment Creation
<b>IMF</b>	International Monetary Fund
<b>IR</b>	Indian Railways
<b>ROI</b>	Return on investment
<b>SAPs</b>	Structural Adjustment Programmes
<b>SMEs'</b>	Small and Medium Enterprises'
<b>SOE</b>	State Owned Enterprises
<b>TMS</b>	Turnaround Management Strategies
<b>UK</b>	United Kingdom

## **CHAPTER ONE**

### **INTRODUCTION**

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

Organisations adopt various strategies to enhance their performance, to be competitive in the market and to achieve their objectives; these corporations have adopted various strategies. According to Byars, Rue, and Zahra (1996) these strategies are classified in various categories, they include stable growth strategy, which is used by companies that wish to maintain their objectives; this is a relatively low-risk strategy and is quite effective for successful organisations in an industry that is growing and in a nonvolatile environment. Growth strategy can be adopted by companies that wish to grow their business and there are several different generic strategies that fall in this category. They include concentration strategy, vertical integration and diversification. Harvesting strategies, are considered when a company attempts to “harvest” as much as they can, it entails minimum amount of investment with maximum short-term profits. Defensive strategy also referred to as retrenchment strategies are used when a company wants to reduce organisational operations, usually through cost reductions (cutting on non-essential expenditure) and asset reduction (disposing off equipment, selling land and reducing number of staff among others). However, the most common forms of defensive strategies are turnaround, divestment, liquidation, bankruptcy and becoming captive. There are also combination strategies which include simultaneous strategies or combinations. This study mainly concentrated on a specific retrenchment strategy that is designed to reverse the corporations’ negative trend and get the organisation back on track to improved performance in terms of profitability, market share or service delivery, this strategy is turnaround.

In Kenya, Public Corporations are formed to achieve various objectives both commercial and social. Some Public Corporations exist to correct market failures. This is the case, where for instance, the service they give may not be profitably provided by the private investors, for example in tourism or infrastructure such as roads. Sometimes, they exist to meet explicit social and political objectives, such as providing education, health or even redistribute income or develop marginal areas.

### **1.1.1 Turnaround Strategy**

According to Johnson, Scholes and Whittington (1995) in turnaround strategy is on speed of change, rapid cost reduction and revenue generation. Some of the main elements include: crisis stabilization - the aim of which is to regain control over the deteriorating position. There's likely to be short-term focus on cost reduction and revenue generation. In revenue generation and cost reduction, the model indicated to increase revenue, a company should ensure that marketing must be tailored to key market segments, pricing strategy that maximizes revenue, organisational activities focused on needs of target market segment; and additional opportunities exploited for revenue creation related to target market. Funds from reduction of costs are invested in new growth areas. In reducing costs they advocated for reducing labour costs and costs of senior management, focusing on productivity improvement, reducing marketing costs not focused on target market, tightening financial controls, tightening control on cash expenses, establishing competitive bidding for suppliers, deferring creditor payments, speeding up debtor payments, reducing inventory, and eliminating non-profitable products or services.

Management changes especially at the top level are usually required. This usually includes the introduction of the chief executive as well as changes in the composition of the board of directors. Gaining stakeholder support in a turnaround situation is important, it is vital that key stakeholders are kept informed of the situation now, as well as when it improves. Clarifying the target market is key to any turnaround success, consequently the turnaround strategy, while involving cost-cutting may require the business to conceptualise and reorient itself to the market. There is also evidence that a successful turnaround strategy involves getting much closer to customers and involving the flow of market information. Refocusing involves clarifying the target market which is likely to provide the opportunities to discontinue products and services that are either not targeted on those markets, eating up management time or not making sufficient financial contribution, while there may be also opportunities to outsource services. Financial restructuring involves changing the existing capital structure, raising additional finance or renegotiating agreements with creditors. Prioritization of critical improvement areas

requires the ability of management to prioritise those things that give quick and significant improvements (Johnson et al., 1995).

### **1.1.2 Organisational Performance**

One of the important questions in business has been why some organisations succeeded while others failed. Organisation performance has been the most important issue for every organization be it profit or non-profit one. It has been very important for managers to know which factors influence an organisation's performance in order for them to take appropriate steps to initiate them. However, defining, conceptualizing, and measuring performance have not been an easy task. Researchers among themselves have different opinions and definitions of performance, which remains to be a contentious issue among organisational researchers (Barney, 1997). Chong (2008) suggest that organizational performance can achieve efficient objectives or goals than economic results. This vision reveals that financial and economic measures present critical limitations in assessing performance. An alternative way is to apply the non-economic measures, though subjective in nature, as supplements to the economic. The combinations of these two measures economic and non-economic help the owners or managers to gain a wider perspective on measuring and comparing their entrepreneurial performance, in particular, the extent of effectiveness and efficiency in utilizing the resources, competitiveness and readiness to face the growing external pressure including globalizations (Chong, 2008).

In this study, the balanced scorecard model developed by Kaplan and Norton in 1991 was used to measure the effect of turnaround strategies on performance of public corporations in Kenya. The model groups measures of performance into four distinct categories of performance (financial perspectives, customer satisfaction, internal business processes, and innovation and learning perspectives).

### **1.1.3 Public Corporations in Kenya**

Public Corporations were first established in Kenya by the colonial government to provide essential services to the white settlers. Indigenous Africans' participation in economic activities such as trade and cash crop farming was generally discouraged. The

original Kenyan Public Corporations were cartel-like organisations, and were set up to handle the products of European-owned farms, including sisal, pyrethrum, flax, and pigs. In the 1950s, farm products accounted by far for the greater part of the commodity exports of most tropical African countries (Jones, 1980). Eight Public Corporations were operating during World War II, while at independence (1963) Kenya inherited a framework of Public Corporations especially in the Agricultural Sector.

Following independence in 1963, therefore, the independent Kenya Government devised strategies to achieve three goals that were considered imperative for development: a fast overall economic growth rate, equitable distribution of development benefits and Kenyanisation of the economy. The means of achieving these goals were defined in Sessional Paper No. 10 of 1965 on African Socialism and its Application to Planning in Kenya, which states that, “under African Socialism, the power to control resource use resides with the state”. From 1965 onwards, the government actively expanded and strengthened State Owned Enterprises (SOEs) as the vehicles of development and Kenyanisation. Indeed, as the SOEs proliferated in the first decade of independence, Kenya’s economy grew apace at an impressive rate of 6.8%. Economic growth, however dropped marginally to 5% in the 80s, and further declined to a mere 0.3% in 1990s.

The late 1980s saw a paradigm shift in the global politico-economic system, which emphasizes reforms that favour a free market economy. The thinking advocated by Breton Woods institutions such as the World Bank and the International Monetary Fund (IMF) led to the introduction of Structural Adjustment Programmes (SAPs) that pushed for liberalization of economies to pave way for private sector participation. SAPs are economic policies countries must follow in order to qualify for World Bank and IMF loans, SAPs are designed for individual countries but have common guiding principles and features which include export-led growth, privatization, liberalization and the efficiency of free market. The number of Public Corporations has reduced since then. Structural Adjustment Programs are programs which make it possible for countries to get a loan from the IMF or the World Bank. These loans are connected with conditionalities like significant policy reforms which have to be complied with before getting the loan

(Abugre, 2000). In history the main agency providing structural adjustment lending was the World Bank. In 1986 the IMF also joined in providing adjustment loans and later other international financial institutions adopted the principle.

Public Corporations in Kenya are found in various sectors of the economy that include transport, trade and industry, agriculture, energy, education, tourism, housing, roads among others. These corporations are coordinated under various ministries. This study sampled 32 public corporations which have implemented turnaround strategies with a view to investigating the effect of specific turnaround strategies on their performance. Other studies have in the past established a link between corporate diversification strategy and resource constraints but the effect on performance especially in Kenyan Public Corporations have not been addressed.

## **1.2 Statement of the Problem**

A turnaround strategy is designed to reverse a negative trend and get the organization back on the track to profitability. In Kenya this strategy has been implemented to reverse negative trends of public organisation. Much of the literature examining the effect of turnaround on performance has focused on private businesses, and other organisations abroad. The initial purpose of Public corporations in Kenya as vehicle for development and Kenyanisation worked well in the 1960's, however these corporations declined marginally in the 1980's and further in the 1990's. A policy decision to introduce Performance Contracts in the management of the Public Corporations was conveyed in the Economic Recovery Strategy for Wealth and Employment Creation (ERS), between 2003 and 2007. During that period Public Corporations implemented various corporate strategies including growth, harvesting and defensive strategies, defensive strategies include divestment, liquidation, captive and turnaround. To improve their performance, various public corporations adopted turnaround strategies in order to reverse their previously negative trend. According to Hofer, (1980) a link between severity of the downturn and the degree of cost and asset reductions that a firm should include in its recovery response was conceptualized, he referred to cost and asset reduction activities as operating turnaround strategies. Robbins and Pearce (1992), presented a model of



turnaround based on evidence that business firm turnaround characteristically involved a multi-stage process in which retrenchment could serve as either a grand or operating strategy, while Proropsaltis et al. (2002) concluded in their study of UK hospitals, found that inadequacies in existing performance management systems mean that potential or actual failures often go undetected for long periods. Turnaround strategy probably is most appropriate when a corporation is in a highly attractive industry and its problems are pervasive but not yet critical. Turnaround emphasizes on the improvement of operational efficiency. However, there is little empirical work done to establish the effect between turnaround strategies and performance of corporations. In Kenya, there is no known study that has been done to measure extend on how turnaround strategies influenced the performance of the public corporations after implementation. This study, thus sought to examine the effect of turnaround strategies on performance of Public Corporations in Kenya.

### **1.3 Objectives of the Study**

The overall objective of this study was to examine the effect of turnaround strategies on performance of Public Corporations in Kenya. The specific objectives of the study were to:

- i. Determine the effect of revenue generating strategies on organisational performance.
- ii. Determine the effect of cost reduction strategies on organisational performance.
- iii. Determine the combined effect of turnaround strategies on organisational performance.

### **1.4 Research Hypotheses**

This study sought to test the following hypotheses:

- H<sub>A1</sub>: Revenue generating strategies have a positive effect on organisational performance
- H<sub>A2</sub>: Cost reduction strategies have a positive effect on organisational performance.
- H<sub>A3</sub>: The combined turnaround strategies have a positive effect on organisational performance.

## **1.5 Significance of the study**

This study was undertaken to explore the effect of turnaround strategies on organisation performance. This is important for both practitioners and scholars. For practitioners, in public corporations such as schools, health institutions, tourism, and roads, the findings and recommendations will be useful, managers and executive in managing a turnaround strategy in organisations will also benefit from this study.

Scholars will benefit from this study as the research findings will enrich literature. It is also expected that the study may refine or extend further research by academicians.

## **1.6 Scope and Limitations of the Study**

### **1.6.1 Scope of the Study**

This study focused on revenue generating strategies and cost reduction strategies as elements of turnaround strategy and organisation performance. The study focused on Kenyan Public Corporations.

### **1.6.2 Limitations of the Study**

There were challenges in acquiring data from the various corporations as the information required was mainly classified as confidential and could only be provided by a middle level, senior managers or the managing directors of these corporations, most of the questions asked were classified as sensitive. However, the researcher made efforts to reach the senior managers who proved to be helpful.

## 1.7 Operational Definition of Terms

<b>Cost Reduction Strategies:</b>	The process of looking for, finding and removing unwarranted expenses from a business to increase profits without having a negative impact on product quality.
<b>Performance:</b>	An analysis of a company's performance as compared to goals and objectives. Within corporate organizations, there are primary outcomes analyzed: Financial, Customer satisfaction, Internal business processes, Innovation and learning
<b>Public Corporations:</b>	This refers to state owned enterprises or businesses that are owned and managed by the government – they may be wholly or partially state-owned, also referred to as parastatals in Kenya
<b>Retrenchment:</b>	Strategies designed to address organizational weaknesses and deficiencies that are leading to performance declines. It involves efficient orientation and a refocus on the core business. It includes strategies such as divestment, turnaround, liquidation, captive and bankruptcy.
<b>Revenue Generation Strategies:</b>	Strategy that is characterized by increased capacity utilization, and increased employee productivity
<b>Turnaround Strategy:</b>	A turnaround situation exists when a firm encounters multiple years of declining performance subsequent to a period of prosperity; it involves two major strategies cost reduction and revenue generation.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter presents the literature review which was used to contextualize and illuminate this study. The chapter reviews literature on turnaround strategy; cost reduction, revenue increasing, organisational performance and its relationship turnaround strategy. This chapter also outlines the conceptual framework of the study.

#### **2.2 Turnaround Strategy**

The formulation of a strategy is one of the major management tools for coping with both external and internal challenges. This managerial process requires the art of matching and balancing between resources, skills, opportunities, and constraints (Hofer & Schendel, 1978). Balancing means matching spending available resources, for instance, if there is a reduction in available finances, services should be respectively retrenched or assets should be sold. In addition, the authors emphasise that it is worthwhile and important that the organisational strategies be formally formulated. Hence, management should make a better forecast of possible developments and adapt policy to them, rather than improvise. Most importantly, a proper strategy can indeed result in superior performance and it has the potential to achieve the following purposes: development of organisational goals and objectives, identification of major organisational problems, allocation of resources, coordination and integration of complex organisations, development and training of managers, helping to forecast future performance, evaluation of management and stretching the thinking of top management.

The term “Strategy” has been defined as the direction and scope of an organisation over the long-term: which achieves advantage for the organisation through its configuration of resources within a challenging environment, to meet the needs of markets and to fulfill stakeholder expectation. Byars et al.(1996) explained turnaround strategies as trying to reduce operating costs, either by cutting “excess fat” and operating more efficiently or by reducing the size of operations. It seeks to redefine the company's business model in a way that results in additional or improved revenue streams. It also examines how the

company spends money and applies return on investment (ROI) analysis to each sector of expense in order to improve the value received for each shilling spent.

Landrum and Gardner (2005) emphasised the broadness of strategic management and described it as a wide setting of goals, examinations, and behaviours, where the organisation promotes managerial cognitive processes, managerial abilities to coordinate intra organisational and inter organisational resources, and managerial abilities to support organisational learning. The Turnaround Process begins with a depiction of external and internal factors as causes of a firm's performance downturn. If these factors continue to detrimentally impact the firm, its financial health is threatened. Unchecked financial decline places the firm in a turnaround situation. A turnaround situation represents absolute and relative-to-industry declining performance of a sufficient magnitude to warrant explicit turnaround actions. A turnaround is typically accomplished through a two stage process. The initial stage is focused on the primary objectives of survival and achievement of a positive cash flow. The means to achieve this objective involves an emergency plan to halt the firm's financial hemorrhage and a stabilization plan to streamline and improve core operations. In other words, it involves the classic retrenchment activities: liquidation, divestment, product elimination, and down-sizing the workforce.

Retrenchment strategies are also characterized by the revenue generating, product/market refocusing or cost cutting and asset reduction activities. While cost cutting, asset reduction and product/market refocusing are easy to visualize, the idea of revenue-generating is best captured by a strategy that is characterized by increased capacity utilization, and increased employee productivity. According to Boyne et al. (2004), the balance of the evidence on private firms suggests that turnaround is influenced positively by retrenchment, repositioning and re-organisation. Although the evidence is mixed and contradictory in places, a clear majority of the empirical studies find that these strategies are associated with the reversal of financial decline in the private sector.

Retrenchment is an integral component of turnaround strategy. The critical role of retrenchment in providing a stable base from which to launch a recovery phase of the turnaround process is well established. Many firms that have achieved a reversal of financial or competitive decline inevitably refer to the presence of retrenchment as a precursor or prelude to the implementation of a successful recovery strategy (Bibeault, 1982; Finkin, 1985 and Goodman, 1982). The question remains, however, as to why retrenchment is so frequently an appropriate first step in an overall turnaround process. One possible explanation is that economic decline diminishes the firm's resource base hence Resource flexibility in the form of retrenchment provides an important tool in arresting financial decline. These heightened requirements stem from concurrent demands on the firm to overcome the destructive momentum of the established strategy and to cover the high startup costs of implementing the new strategic initiatives. Consequently, retrenchment may be necessary to stabilize the situation by securing or providing slack regardless of the subsequent recovery strategy that is chosen.

According to Bibeault (1982), this involves a return-to-growth or recovery stage; the turnaround process shifts away from retrenchment and moves towards growth and development and growth in market share. The means employed for achieving these objectives are acquisitions of new products, new markets, and increased market penetration. The importance of the second stage in the turnaround situation is underscored by the fact that primary causes of the turnaround situation have been associated with this phase of the turnaround process- the recovery response. Firms that declined primarily as a result of external problems, turnaround has most often been achieved through strategies based on revenue driven reconfiguration of business assets. For firms that declined primarily as a result of internal problems, turnaround has been most frequently achieved through recovery responses that were heavily weighted towards efficiency maintenance strategies. Recovery is said to have been achieved when economic measures indicate that the firm has regained its pre-downturn levels of performance. Between these two stages, a clear strategy is needed for a firm. As the financial decline stops, the firm must decide whether it will pursue recovery in its retrenchment reduced form through a scaled-back version of its preexisting strategy or

shift to a return-to-growth stage. It is at this point that the ultimate direction of the turnaround strategy becomes clear. Essentially, the firm must choose either to continue to pursue retrenchment as its dominant strategy or to couple the retrenchment stage with a new recovery strategy that emphasizes growth. The degree and duration of the retrenchment phase should be based on the firm's financial health.

Slatter (1984) noted change of management, financial control, organizational change, asset reduction, cost reduction and investment. Lee, Mathur, and Gleason (1998) pointed out that some actions also include asset sales, employee layoffs, acquisitions, mergers, bankruptcy filing, dividend cut and debt restructuring. Finally, Fisher, Lee, and Johns (2004) suggested recognition of decline problem, matching the solution to the cause of decline, replacement of the chief executive officer (CEO) or top management, retrenchment, and speed of action and rate of (pre-turnaround) decline of the distressed company.

In a study examining turnaround strategies for declining entrepreneurial firms, Rasheed (2002) observed that during an organisational life cycle, entrepreneurs choose between growth, stability or retrenchment strategies to overcome deteriorating trends in performance. The results indicated that entrepreneurs choose growth strategy when their perceptions of resource availability and past financial performance are both high.

In their study, investigating turnaround strategies in the realm of established small family businesses, Cater and Schwab (2009) examined turnaround commonalities at two exemplary family firms: a milk processor and a furniture retailer. They identified eight family-specific contingency factors that moderate the implementation of standard turnaround strategies. Their focus on three turnaround strategies provides an important starting point for the development of a more comprehensive theoretical framework of turnaround strategies for family firms that also includes later-stage turnaround strategies and captures turnaround success. This stream of research promises not only to advance theoretical understanding but also to improve how businesses implement turnaround strategies.

Boyne et al. (2004) the balance of the evidence on private firms suggests that turnaround is influenced positively by retrenchment, repositioning and re-organisation. Although the evidence is mixed and contradictory in places, a clear majority of the empirical studies find that these strategies are associated with the reversal of financial decline in the private sector.

In a study conducted by Beerli (2009), on private firms suggests that successful turnarounds are characterised by strategies of retrenchment, repositioning and reorganization. Failing companies that use one or more of these strategies are likely to perform better. A retrenchment strategy in local government could take a number of forms. The most drastic approach would simply be to stop providing a service that is performing poorly (i.e. to exit from the market completely). In many cases this would be impossible because of statutory obligations to ensure that services are provided. A more feasible form of 'exit' is to pass full or partial responsibility for service provision to other organizations (e.g. through contracting-out or partnership arrangements). Retrenchment could also involve disposal of underused assets (e.g. land, premises, and equipment) or cutbacks in 'non-essential' activities, in order to reallocate resources to services that may deliver better value for money. As in the case of retrenchment, a strategy of repositioning in local government would be subject to statutory limits (e.g. it would not be feasible to expand the education service by building schools in other jurisdictions, or to diversify into the provision of hospitals and the payment of child benefit). Yet, even within these limits, many opportunities remain for repositioning. These include enhancing the range and quality of services, spreading existing services to cover new client groups, or providing new services (independently or in partnership) to existing client groups. The strategy of 'recovery through reorganization' can be applied directly in a local government context. Indeed, attempts to reform the culture, processes and management of local authorities appear to be widespread. A focus on reorganization in isolation suggests that success will follow from better delivery of existing services. Although this may be possible in some circumstances, it seems more likely that recovery requires reorganization in conjunction with retrenchment and/or repositioning. Their review of



evidence on poorly performing hospitals, schools and local authorities showed that the most common recovery strategy in these sectors is reorganization, and in particular the replacement of head teachers, chief executives and service directors. A common finding from research on schools and local authorities is that turnaround is associated with greater clarity of priorities and better performance management.

In their analysis of the sustainability of the Indian railways turnaround, Sharma and Manimala (2007), found that it was not confined to the stage of arresting the decline, but reorienting, institutionalization and growth, one aspect which strengthened the conclusion of their study being in higher than initial stage of financial turnaround, is the alignment of the strategies with the diagnosis of operational inefficiency, lack of market orientation, lack of focus on core, lack of resources for growth. Indian railways turnaround challenges a widely held untested belief that private sector is synonym of efficiency and public sector by its very nature cannot be efficient and productive. Research study by Khandawala (2001), supports their conclusion that these beliefs are unfounded when put to empirical tests. The distinct contribution of their paper is twofold. Firstly, it provides practicing turnaround managers a model to help those making strategic decisions, Preoccupation or over-occupation with strategies resulting into financial recovery may be fatal. Adequate emphasis on institutionalizing and growth strategies is called for to sustain the performance recovery. Secondly, it applies the stage theory model to analyze the turnaround of the Indian Railways and provides an answer to a difficult question, whether the turnaround is sustainable.

Beeri (2009) reported that on turnaround management strategies (TMS), dealt with the linkage between public performance, public management, and public failure in the context of English local government. In this sense, it makes a significant step towards a better understanding of failing public organisations and the processes they undergo to improve their performance. Based on the combination of the case studies with the quantitative results, they concluded that TMS should be used after conducting a reliable diagnosis of organisational strengths, weaknesses, opportunities, and threats, and a fair ranking of the causes of the failure. Such a diagnosis would provide an accurate picture

of the reality in which the organisation is performing and supply the basis for matching the required TMS to the specific causes of failure. Choosing the adequate strategies should be done after considering whether the set of strategies has the best chances to solve the organisation's problems after coordination of their order, time, and extent of implementation. Statistically significant negative correlations between extent of implementation of reorganization strategies and recovery were found in their study, replacements of staff and organisational restructuring should be done wisely. Radical changes in the structure of an organisation may lead to a negative organisational climate, lack of stability, mistrustfulness, and insecurity of positions. Nevertheless, it should be noted that the negative relationships found do not necessarily indicate that reorganization strategies should be avoided. Their study made a step towards dealing with the existing gap of knowledge and experience in the management of a failing public organisation. As these studies shows, further research in this area is required to fill the knowledge gaps.

### **2.2.1 Revenue Generating Strategies**

Revenue generation refers to the way a company sells its products in order to make income. Arthur et al. (2005) noted that revenue generating strategie increase revenues and sales volumes are necessary. When there is liitle or no room in the operatings aim at generating increased sales volume. There are a number of revenue generating options that include price cuts, increased promotion, a bigger sales force, added customer services, and quickly achieved product improvements. Attempts to increase revenues and sales volumes are necessary. In some cases, especially in public corporations the government has major influences in influencing revenue generation through tax policies, regulations and even sometimes in terms of business policy.

Times of corporate distress present strategic management challenges. In such situations, a firm might be bankrupt or nearing bankruptcy, and often turnaround strategies will be sought. There are different techniques that can be applied to cause the turnaround. These include retrenchment, repositioning, replacement and renewal. Examples of reducing operations include eliminating low-margin or unprofitable products, selling buildings or equipment, laying off employees, and dropping low-margin customers. Organisations that

employ turnaround strategy are usually forced into it and do so with the hope that it will be a temporary measure until things improve (Byars et al. 1996).

In the aspect of turnaround, government was found to be helpful in some cases of aiding in revenue generation such as in the case of Chrysler Corp (Chowdury, 2002). In the wake of 2008 economic crisis, cases like this were found to be quite common.

### **2.2.2 Cost Reduction Strategies**

Cost reduction is the process used by companies to reduce their costs and increase their profits. Depending on a company's services or Product, the strategies can vary. Cost reductions must be supplemented with more drastic asset reduction measures. Assets targeted for divestiture are those determined to be underproductive. In contrast, more productive resources are protected from cuts or reconfigured as critical elements of the future core business plan of the company, i.e., the intended recovery response. Pearce and Robinson (1992) presented a model of turnaround based on evidence that business firm turnaround characteristically involved a multi-stage process in which retrenchment could serve as either a grand or operating strategy. Hambrick and Schecter (1983) pointed at asset cost surgery which will require significant reduction in research & development, marketing receivables and inventories, selective product/marketing pruning, and increase in employee productivity.

Hofer (1980) conceptualized drastic cost reductions coupled with asset reductions were recommended for firms in more severe turnaround situations. Innovative turnaround strategies involve doing things differently whereas efficiency turnaround strategies entail doing the same things on a smaller or more efficient scale. Revenue generating through product reintroduction, increased advertising and selling efforts, and lower prices represent modifications in existing strategy can be classified as innovative turnaround strategies. In other words, innovative turnaround strategies involve product or market based activities while efficiency strategies focus on the production and management systems within the firm.

Jeyavelu (2007) attempted to build a case for including organisational identity concept into turnaround research and identified seven turnaround themes which included: top management change- this meant breaking from the past and it implies that managerial actions are not bound by history, there is a potential for creating a new identity; asset reconfiguration- this may include divesture, acquisition, merger, it implies a choice in organisational identity; organisational restructuring- this may include organisational redesign, business process reengineering, team based structure among others, the process of restructuring plays a critical role in achieving objectives of retaining or changing identity; strategic change- change in competitive and growth strategies, core competencies, domain changes, product or market changes, changes in strategies have the potential for changing identity, so it should be a choice; substantive changes in membership- these include retrenchment of workers, managers, voluntary retirement schemes, and shift from permanent workers to contractual workers, to constitute these, managers need to be aware of the impact of substantive changes in membership on survivors, retrenched employees and image, alternatives need to be actively considered in contexts where social security is absent, if necessary retrenchment processes should safeguard the individual's dignity in an honorable way and transformational change- this involves participative change, empowerment, change agent programs, mindset change, and culture change, transformational changes can reinterpret or transform the existing identity or create a new identity, organization wide changes that are likely to penetrate deep and remain for long in the organization, the cost of transformational changes should be balanced with the expected results.

### **2.3 Organisational Performance**

In the twenty first century, organisational environments have continued to experience changes as a result of competition in the global market. Each change, be it technological, political, environmental or economical; these external changes exert pressure to organisations for them to remain competitive. Kenyan Corporation's existence have continued to be threatened and, therefore, the need to continuously improve their performance. The word "performance" is utilized extensively in all fields of management. Despite the frequency of the use of the word, its precise meaning is rarely

explicitly defined by authors even when the main focus of the article or book is on performance. The correct interpretation of the word performance is important and must never be misread in the context of its use. Often performance is identified or equated with effectiveness and efficiency (Neely et al., 1995). Performance is a relative concept defined in terms of some referent employing a complex set of time-based measurements of generating future results (Corvellec, 1995). According to Richard et al. (2008) organizational performance encompasses three specific areas of firm outcomes including financial performance (profits, return on assets, and return on investment); market performance (sales, and market share); and shareholder return (total shareholder return and economic value added).

In Kenya, public corporations are registered under the State Corporations Act (Cap 446) Laws of Kenya, an Act of parliament that makes provision for the establishment of public corporations for control and regulation of public corporations and for connected purposes. The Kenya Government forms public corporations to meet both commercial and social goals. Some Public Corporations exist to correct market failures. This is the case, where, for instance, the service they give cannot be profitably provided by the private investors, for example tourism or infrastructure such as roads. Sometimes they exist to meet explicit social and political objectives: provide education, health or even redistribute income or develop marginal areas.

In management research, various indicators, both objective and subjective, have emerged to measure organizational performance. However, it has been difficult to operationalize the concept of performance (Lu & Beamish, 2006) and there is a lack of consensus regarding the measures of performance in management field. Efforts to identify the variables associated with the organizational performance and what should be done with a view to attaining the results have been limited due precisely to the lack of comparison and reliability of alternative measures of business performance (Geringer & Hebert, 1991). More exactly, there has not been a comprehensible explanation of the relevant variables that affect performance or development of a network of hypotheses for explaining and predicting organizational performance (Osland & Cavusgil, 1996).

Measurement of organizational performance is a controversial topic. This debate is associated with traditional financial/economic measures, for example, return on investment, profit, growth and returns sales (Chong, 2008).

In this context, Bucklin and Sengupta (1993) claim that economic or financial measures of performance, such as sales and profit, may not clearly reflect the quality of the Small and Medium Enterprises' (SMEs') performance, while Osland and Cavusgil (1996) state that profit, as an economic measure, is not directly comparable across different sectors and stages in the life-cycle of SMEs. Financial measures are objective, simple and easy to understand and compute, but in most cases, they suffer from being historical and are not readily available in the public domain (Chong, 2008). Sapienza et al. (1988), and Geringer and Hebert (1991) suggest that financial data are often not published, and when that type of data is made public, then it will be merely incorporated in calculations of financial performance. In fact, a financial or economic measure is unlikely to capture the relative performance of the firms.

The balanced scorecard (BSC), developed by Kaplan and Norton, has found wide acceptance in the private sector. Also, with its focus on customer satisfaction and organisational learning and growth in addition to internal process and financial aspects, it appears to provide a way forward in the public sector. The major players in the implementation of the BSC acknowledge the significance of the systemic dimensions necessary to underpin the framework. De Geus (1996) conclusions parallel the findings, from a different standpoint, of Kaplan and Norton. Kaplan and Norton, spent years researching the elements of successful organizations. They found that most organizations focus too heavily on "lag" indicators, such as financial statements and market share surveys, rather than on "lead" indicators to reveal the health of their organizations. The product of this research was the BSC, which is an outcomes oriented performance management system that seeks to link the short and long term activities of an organization with the vision, mission, and strategy of the organization through the establishment measurable, consensus-driven goals.

Kaplan and Norton (2001) explicitly recognized the systemic inter-relationship within and between four sectors, incorporating both lead and lag indicators, which impact on organisational performance. In their classic model, two of these have an inward oriented dimension, a learning sector and a processes sector, and two an external focus, a customer sector and the traditional financial sector.

Proropsaltis, Fulop, Meara, and Edwards (2002) conducted a study of UK hospitals to examine inadequacies in existing performance management systems. The results indicated that policy makers and managers need to develop a much more 'sophisticated diagnosis of the problems that caused the failure' in order to avoid simplistic solutions'. Furthermore, accurate identification of the reasons underlying an organisation's failure is a vital step in developing an appropriate recovery strategy. More work is, they claim, required to identify better markers for Strategies for organisational recovery. This is consistent with private sector research which suggests that rapid and decisive action is required for a successful turnaround.

Performance can be measured using objective or subjective self-reported measures. Although the use of objective measures would be preferred, obtaining accurate financial data is often a problem particularly in privately held firms. Dess and Robinson (1984) suggest that where objective measures of performance are unavailable or difficult to gather especially for private firms due to confidentiality, a researcher might consider using subjective perceptual data of these performance dimensions. In most public corporations in Kenya the information required for this study is mainly considered confidential and therefore the respondents will be asked to compare their organisations with other public organisations on the indicators of organisational performance.

#### **2.4 Turnaround Strategy and Organisational Performance**

Many organisations decline due to falling sales, declining profits and more importantly declining demand. Demand in an industry declines for a variety of reasons (Harrigan & Porter, 1983). Organizational performance and its improvement is a dominant theme in the field of strategic management. New substitutes emerge often with higher quality and

or buyers shrink or simply disappear, changing customer needs, lifestyles and tastes also lead to declining demand, cost of inputs may increase and reduce demand for products. In such situations, top managers must find a strategy that will stop the organisation's decline and put it back on a successful path. The issue of organisational performance in the public sector has become increasingly important in recent years. The current Kenya Government's huge effort to monitor and measure the performance of public service providers has uncovered wide variations in the efficiency and effectiveness of different organisations.

According to March and Sutton (1997), organizations compete with one another, consciously seeking advantage. A major feature of that competition is competitive imitation. Poor performance rankings are interpreted by potential competitors as indications that a practice does not work or a market does not exist, thus inhibiting imitation and competition, thereby reducing the competitive pressure and improving relative performance. Good performance rankings, on the other hand, not only stimulate admiration; they also encourage imitation and competition that tend to erode a favorable position. Organizations seek to emulate the performance successes of others by emulating their organizational forms and practices. This practice is institutionalized through concepts of "best practice" and in the activities of managerial media and consultants. The result is the progressive elimination from net effect of organizational factors that are clearly relevant to performance advantage or disadvantage. This complication has often been used, by itself, to explain the relatively poor record of organizational research in explaining variations in performance. The basic idea is that any feature of organizational practice that might provide major competitive advantage is ordinarily adopted by all competitors. In this study the performance of the organisation was measured by the market share, asset growth, and service delivery, depending on the industry/commercial setup of the organization.

After the publication of the sessional paper No.1 of 1986, SAPs have been integrated as policy tool for economic management; its adoption was aimed at restoring efficiency in all sectors of the economy (Rono, 2002). The implementation of SAPs has since evolved



initially focusing on eliminating fiscal and external imbalances and reviving growth to involving liberalization of prices and marketing systems; financial sector policy reforms; international trade regulation reforms; government budget rationalization; divesture and privatization of public corporations and civil service reforms. The key ingredients of SAPs are based on an economic model of private ownership, competitive markets and outward-oriented development strategy. In his study of the impact of structural adjustment programmes on Kenyan society Rono (2002) observed that SAPs generally encompassed reduced relative expenditures on basic needs and social services. Local products have been subjected to serious competition from imported ones and often from subsidized commodities.

## 2.5 Conceptual Framework: Relationship between Turnaround Strategies and Organisational Performance

In this study, the dependent variable is organisation performance while the independent variable is turnaround strategies. The variables and their relationships is shown in Figure 2.1

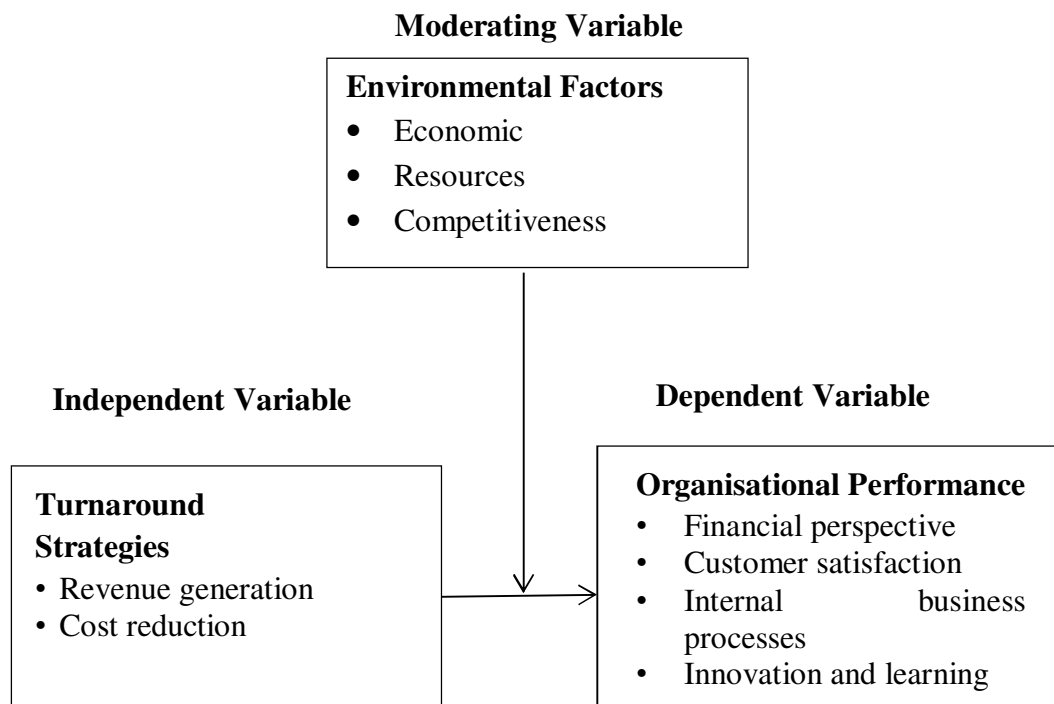


Figure 2.1: Conceptual Framework: Relationship between Turnaround Strategies and Organisational Performance

As shown in Figure 2.1, these strategies are geared towards increasing revenue and reducing the organisation's costs. Performance was measured in four perspectives namely: Financial- summarizes measurable economic consequences of actions taken; Customer- contains measures that "identify the customer and market segments in which the business unit will compete and the measures of the business unit's performance in these targeted segments"; Internal Business Process- measures the internal processes in which the organization must excel; and Innovation and learning which measures the infrastructure that the organization must build to create long-term growth and improvement. The performance of the organisation was measured using balance score card model by Kaplan and Norton (2001).

Relationship between turnaround strategies and organisational performance is influenced by moderating factors such as resource allocation and environmental. The two variables, that is; revenue generating strategies and cost reduction strategies was tested using the Balance score card model developed by Kaplan and Norton, (2001) to determine the effect of turnaround strategies on organisational performance which is hypothesised by the researcher to be positive.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter addresses the research design adopted for the study, population targeted and the sample. Methods of data collection, analysis and presentation are also discussed here.

#### **3.2 Research Design**

This study adapted a correlational design. The study used a cross-sectional sample survey where the relationship between turnaround strategies and organisation performance was tested. Data was collected over a period of two months.

#### **3.3 Target Population**

The target population comprised of Public Corporations within Kenya in various sectors such as agriculture, education, livestock, industrialization, transport, health, information and communication, housing, trade and industry among others, spread geographically across the country. There were 162 Public Corporations (Appendix II), (Office of the Prime Minister, 2012).

#### **3.4 Sample and Sample Design**

A sample of 32 public corporations was used for the study. To select 32 corporations purposive sampling was by identifying those Public corporations that implemented turnaround strategies to reverse their negative trends, among the 162 corporations, 139 public corporations implemented growth strategies and others divested. The selected corporations for this study were those that had adopted the turnaround strategies following the Economic Recovery Strategy for Wealth and Employment Creation (ERS) (Appendix III).

#### **3.5 Data Collection**

To achieve the objectives of the study, both primary and secondary data was used in the study. Primary data was collected using a closed Likert-type scale questionnaire. The questionnaires were self-administered. The questionnaire was administered to one

respondent from each selected corporation; the responded chosen was either Chief Executive of the corporation, a middle level manager or a senior manager who was familiar with the organisation's strategies and policy formulation. Primary data was complemented by secondary data extracted from available internal and external reports of the corporations, for a period dating not more than three years.

### **3.6 Validity and Reliability**

Validity is the degree to which results obtained from the analysis of the data actually represents the phenomenon under study, Kothari (2004) pointed out that validity measures the accuracy of the instruments in obtaining the anticipated data which can meet the objectives of the study and, according to Gay (1982), and it is established by experts' judgment. The researcher consulted and sought the opinion of other experts in assessing or validating the contents of the research instruments.

The researcher checked for reliability by using Cronbach's alpha coefficient to measure internal consistency and reliability of the variables. The results were used to improve the reliability of the questionnaire before it was administered to the chosen sample respondents. Reliability of the questionnaire was evaluated using reliability Cronbach's Alpha. According to Nunnally (1978) a reliability Alpha coefficient of 0.7 and above is acceptable. The results of reliability analysis show that all the items, with the exception customer perspective and internal business perspective, met the threshold of 0.7 and above as shown in Table 3.1. Although the reliability coefficient for customer perspective and internal business perspective was below 0.7, Pallant (2011) argues that Cronbach alpha values are quite sensitive to the number of items in the scale. With short scales (e.g. scales with fewer than ten items) it is common to find quite low Cronbach values of 0.5. Where the reliability coefficient is between 0.5 and 0.6, Pallant (2011) suggests that the inter-item correlation for the items should be reported. As suggested by Pallant (2011), alpha coefficients above 0.5 can also be considered acceptable.

**Table 3.1: Reliability Test**

VARIABLE	No. of Item	Cronbach's Reliability Coefficient
Revenue generating strategies	5	0.7582
Cost Reduction strategies	8	0.8679
Finance Perspective	4	0.7775
Customer Perspective	2	0.5817
Internal Business Perspective	3	0.5356
Innovation and learning perspective	3	0.7980

### 3.7 Data Analysis

The data collected from twenty one (21) corporations was edited, coded using Microsoft Excel software and keyed into SPSS computer software database, organized and checked for any errors that could have occurred during data collection. The data was then analyzed with the aid of the SPSS and Microsoft Excel 2010 computer software. Composite averages were analyzed using descriptive statistics. Pearson's product moment correlation and multiple regression methods of analysis have been used to analyze data. Pearson's product moment correlation was used to determine the relationship between turnaround strategies and organization's performance, and was found to be statically significant. The multiple regression model was developed as follows:

$$Y = a + b_1x_1 + b_2x_2 + \epsilon$$

Where:

Y = Organizational Performance

a= Constant

b<sub>1</sub> –b<sub>2</sub> = Regression coefficients

x<sub>1</sub>= Cost reduction strategies

x<sub>2</sub>= Revenue generation strategies

$\epsilon$  = Error term

## CHAPTER FOUR

### RESULTS AND DISCUSSIONS

#### 4.1 Introduction

This chapter presents the research findings and discussions of the results. The chapter presents results of descriptive statistics analysis and tests of hypothesis.

#### 4.2 Organisational Profile

The main focus of this study was the effect of turnaround strategies on performance of Public Corporations in Kenya. A sample of 32 Public Corporations was sampled. Out of the thirty two corporations, only twenty one corporations completed and returned the questionnaire's representing a response rate of 65.6%. This response is considered good (Bryman & Bell, 2007).

The Public Corporations selected where 32, however 21 Public Corporations responded, these institutions provide various products and services and operate in different market segments which include Regional, National and International. A majority, 81% of the corporations served the international market, while those serving regional markets (within the counties) were zero and those serving the national market (Kenya) were 19% as indicated in Table 4.2.

**Table 4.2: Sample Distribution**

Type of Business	Frequency	Percentage
Product	15	71%
Service	6	29%
<b>Total</b>	<b>21</b>	
Market Served		
Regional	0	0%
National	4	19%
International	17	81%
<b>Total</b>	<b>21</b>	

### 4.3 Turnaround Strategies

#### 4.3.1 Revenue Generation Strategies

To determine the effect of revenue generating strategies on organisational performance the researcher sought responses on these strategies. The responses were ranked from a low of “Not at all” to a high of “great extent” the results were as shown in Table 4.3.

**Table 4.3: Results of Revenue Generation Strategies**

	Not at all	Little extent	Moderate extent	Great extent
a) Focusing organizational activities on needs of target market sector customers	0	9.5%	19%	71.4%
b) Ensuring marketing mix tailored to key market segments	0	9.5%	28.6%	61.9%
c) Exploiting additional opportunities for revenue creation related to target market	0	14.3%	19%	66.7%
d) Reviewing pricing strategy to maximize revenue	4.8%	19%	28.6%	47.6%
e) Investing funds from reduction costs in new growth areas	4.8%	47.6%	14.3%	33.3%

The results in Table 4.3, shows the distribution of responses of revenue distribution strategies. The analysis has shown that 71.4% of the respondents believed that focusing organizational activities on the needs of target market sector customers greatly contributed to revenue generation as compared to 9.5% who believed that it made little contribution. 61.9% of the respondents believed that ensuring marketing mix tailored to key market segments greatly contributed to revenue generation as compared to 9.5% who believed that it made little contribution. 66.7% of the respondents believed that exploiting additional opportunities for revenue creation related to target market greatly contributed to revenue generation as compared to 19% who belied that it moderately contributed and 14.3% who believed that it contributed to a small extent. On the other hand, only 33.3% of the respondents believed that investing funds from reduction costs in new growth areas

greatly contributed to revenue generation as compared to 47.6% who believed that it contributed to a little extent and 4.8% who believed that it did not contribute at all.

### 4.3.2 Cost Reduction Strategies

To determine the effect of cost reduction strategies on organisational performance the study sought to describe the cost reduction strategies adopted by the organisation. The analyses were done using descriptive statistics. The results are presented in Table 4.4.

**Table 4.4: Results of Cost Reduction Strategies**

	Not at all	Little extent	Moderate extent	Great extent
a) Tightening control on cash expenses	0	4.8%	33.3%	61.9%
b) Tightening financial controls	0	4.8%	42.9%	52.3%
c) Reducing marketing costs not focused on target market	0	14.3%	33.3%	52.4%
d) Establishing competitive bidding for suppliers; defer creditor payments; speed up debtor payments	4.8%	4.8%	47.6%	42.9%
e) Focusing on productivity improvement	0	33.3%	14.3%	52.4%
f) Reducing labour costs and costs of senior management	4.8%	9.5%	52.4%	33.3%
g) Reducing inventory	0	28.6%	38.1%	33.3%
h) Eliminating non-profitable products/services	0	47.6%	19.0%	33.3%

The results in Table 4.4 show the distributions of responses of cost reduction strategies. The analysis shows that the following strategies made strong contributions towards cost reduction: Firstly, tightening control on cash expenses 95.2% of the respondents indicated that the strategy moderately to greatly contribute towards cost reduction as compared to 4.8% of the respondents who stated that it made little contribution. Similarly, 95.2% of the respondents stated that the strategy moderately to greatly



contribute towards cost reduction as compared to 4.8% who believed that it made little contribution. Thirdly, reducing marketing costs not focused on target market 85.7% of the respondents stated that the strategy moderately to greatly result in cost reduction as compared to 14.3% who stated that it made little contribution. Fourthly, establishing competitive bidding for suppliers, defer creditor payments and speeding up debtor payments the results have showed that 90.5% of the respondents indicated that this strategy made moderate to great contribution towards cost reduction as compared to 4.8% who stated that it made no contribution at all. On the other hand, the following two strategies made the least contributions towards cost reduction: reducing inventory and eliminating non-profitable products/services, the results showed that 71.4% of the respondents reducing inventory moderately to greatly contributed to cost reduction as compared to 28.6% who believed that it made little contribution. Finally, 52.3% of the respondents stated that eliminating non-profitable products/services moderately to greatly contributed to cost reduction as compared to 47.6% who stated that it made little contribution. These results are supported by studies which have emphasized the importance of asset and/or cost reduction for achieving turnaround success (Hofer & Schendel, 1978; Bibeault, 1982; Robbins & Pearce, 1992).

#### 4.4 Organisational Performance

In this study, performance is measured using the Balance Scorecard (BSC) concept. The core argument of BSC is that financial results alone cannot capture value-creating activities (Kaplan & Norton, 2001).

**Table4.5: Organisational Performance**

	Lowest 20% (0 – 20)	Lower 20% (21 – 40)	Middle 20% (41 – 60)	Next 20% (61 – 80)	Top 20% (81– 100)
Finance perspective	4.80%	30.13%	30.17%	49.20%	12.70%
Customer perspective	2.40%	16.65%	35.70%	19.05%	26.20%
Internal Business Perspective	4.77%	6.33%	20.60%	41.00%	27.00%
Innovation and Learning Perspective	4.77%	17.47%	31.73%	17.47%	28.57%

The analysis in table 4.5 shows that financial perspective rated highly as visible measure of performance. For instance, 49.2% of the respondents indicated that their organisations rated 61% and above on financial perspective compared to 19.05% on customer perspective, 41% internal business perspective and 17.5% on innovation and learning perspective. The innovation and learning perspective encourages the identification of measures that answer the question "Can we continue to improve and create value?" in this study, it is measured by technology leadership, production/service focus and new product introduction.

#### 4.5 Summary for Hypotheses Testing

The main objective for this study was to examine the effect of turnaround strategies on organisational performance. The study's hypothesis is directional hypotheses, and therefore it was determined by use of one-tailed Pearson's correlation analysis. The results provided correlation coefficients which indicated the nature and strength of the relationship as shown in Table 4.6.

**Table 4.6: Correlation Matrix**

		Organisational Performance	Revenue Generating Strategies	Cost Reduction Strategies
Organisational Performance	Pearson Correlation	1	.536**	.556**
	Sig. (1-tailed)	.	.006	.004
	N	21	21	21
Revenue Generating Strategies	Pearson Correlation	.536**	1	.771**
	Sig. (1-tailed)	.006	.	.000
	N	21	21	21
Cost Reduction Strategies	Pearson Correlation	.556**	.771**	1
	Sig. (1-tailed)	.004	.000	.
	N	21	21	21

\*\* Correlation is significant at the 0.05 level (1-tailed).

Multiple regression analysis was carried out to determine the extent to which turnaround strategies (cost reduction and revenue generating strategies) influenced organisational performance.

#### **4.5.1 Revenue Generating Strategies and Organisational Performance**

The study tested to determine the effect of revenue generating strategies on organisational performance. The correlation analysis showed that there was a moderate, positive relationship between Revenue generating strategies and overall organisational performance ( $r = 0.536$ ,  $p < 0.05$ ). This suggests that implementation of revenue generating strategies had a significant positive effect on the organisational performance of public corporations. Thus, the hypothesis that states that revenue generation strategies have a significant positive effect on organisational performance was accepted. These findings are consistent with the findings of Chowdury's (2002) study of Chrysler Corporation, who also found that in the aspect of turnaround, the United States Government aided in revenue generation. In the wake of 2008 economic crisis, cases like this was found to be quite common and Hofer (1980) who suggested that revenue generating through product reintroduction increased advertising and selling efforts, and lower prices represent modifications in existing strategy can be classified as innovative turnaround strategies.

#### **4.5.2 Cost Reduction Strategies and Organisational Performance**

To determine the effect of cost reduction strategies on organisational performance, the study performed a correlation analysis that showed that there was a moderate, positive relationship between cost reduction strategies and overall organisational performance ( $r = 0.556$ ,  $p < 0.01$ ). This suggests that public corporations that implemented cost reduction strategies had high levels of organisational performance. Thus, the hypothesis that states that cost reduction strategies have a significant positive effect on organisational performance was accepted. These findings are consistent with Jeyavelu (2007) asset reconfiguration report where it included asset divesture, retrenchment of workers, retirement schemes; these measures are focused towards cost reduction which improves organisational performance.

#### 4.6 Effect of Turnaround strategies on Organisational Performance

Regression analysis was conducted between the dependent variable and independent variables of the study. The dependent variable was the organisation performance, while the independent variables was the turnaround strategies; revenue generating and cost reduction strategies. To determine the effect of turnaround strategies on organisation performance (Public corporations in Kenya), multiple regression analysis was carried out as shown in Table 4.7.

**Table 4.7: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.581(a)	.337	.264	.75005	1.715

a Predictors: (Constant), Revenue Generating Strategies, Cost Reduction Strategies

b Dependent Variable: Organisational Performance

The results of the regression analysis shown in Table 4.7 shows that the turnaround strategies accounted for 33.7% of the variance influencing overall organisational performance. This implies that 66.3% of the variance in overall organisational performance is explained by other factors not included in the regression model. Table 4.8 show the full regression model

**Table 4.8: Full Regression Model**

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.127	.802		1.405	.177
Revenue Generating Strategies,	.308	.350	.265	.880	.390
Cost Reduction Strategies	.369	.316	.351	1.167	.259

a Dependent Variable: Organisational Performance

From the regression table 4.8 the following equation was developed:

$$Y = 1.127 + 0.308 x_1 + 0.369x_2$$

The full regression model shows that cost reduction strategies had a greater influence on performance ( $\beta = 0.351$ ) compared to revenue generating strategies ( $\beta = 0.265$ ). The regression equation indicates that an improvement in revenue generating strategies and cost reduction strategies positively affects organisational performance. Therefore the study's three hypotheses  $H_{A1}$ : Cost reduction strategies have a positive effect on organisational performance,  $H_{A2}$ : Revenue generating strategies have a positive effect on organisational performance and  $H_{A3}$ : The combined turnaround strategies have a positive effect on organisational performance are supported by the study and therefore accepted. Therefore it can be concluded that there is a positive relationship between turnaround strategies on performance of public corporations in Kenya.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter provides a summary of major findings of the research, drawing conclusions and making recommendations on various mechanisms that can be put in place to improve organisational performance.

#### **5.2 Summary of Findings**

This study intended to establish the extent to which turn around strategies (revenue generation and cost reduction) influenced performance in Public Corporations in Kenya. The measuring instrument was constructed based on the following objectives: to determine the effect of revenue generating strategies on organisational performance; to determine the effect of cost reduction strategies on organisational performance; and to establish the combined effect of turnaround strategies on organisational performance.

The first objective was to determine the effect of revenue generating strategies on organisational performance, the study found that there is a highly positively significant relationship between revenue generating strategies and organisational performance, since the p-value is less than 0.05, we therefore accept the alternative hypothesis, and revenue generating strategies have a positive effect on organisational performance.

The second objective was to determine the effect of cost reduction strategies on organisational performance the study found that there is highly positively significant relationship between cost reduction strategies and organisational performance, the study found that there is a highly positive significant relationship between cost reduction strategies and organisational performance, since the p-value is less than 0.05, we therefore accept the alternative hypothesis, and cost reduction strategies have a positive effect on organisational performance.

The third objective was to determine the effect of the combined turnaround strategies on organisational performance. This study showed that turnaround strategies have a positive effect on organisational performance and accept the alternative; concluding that there is a positive relationship between turnaround strategies and organisational performance. Companies seeking to improve their performance should implement turnaround strategies; both revenue generating and cost reduction strategies which have been proven in this study to synergize and improve performance. The results also revealed that the effect of cost reduction strategies on organisational performance is greater than that of revenue generating strategies.

The results of data analysis supported hypothesis one which stated that revenue generating strategies have a significant positive effect on organisational performance was accepted. The results of the Correlation analysis established that there was a positive correlation between revenue generating strategies and organizational performance. Hypothesis Two which stated that cost reduction strategies have a positive effect on organisational performance was supported. The results of the Pearson Correlation analysis showed that there was moderate positive correlation between cost reduction strategies and organizational performance. The third hypothesis which stated that turnaround strategies had a positive effect on organisational performance was accepted. The results of the multiple regression analysis showed that cost reduction strategy was the strongest positive predictor of organizational commitment.

### **5.3 Conclusions**

The study concludes turnaround strategies have an effect on performance of public corporations in Kenya. When organisations implement turnaround strategies their performance improves. Among the twenty one companies who responded 66% implemented turnaround strategies to an average moderate extent and their performance showed that they ranked above the middle 20%. The study concludes therefore that there is strong relationship between turnaround strategies and organisation performance.

## **5.4 Recommendations**

### **5.4.1 Recommendations for Practitioners**

To improve organisation's performance an organisation should implement turnaround strategies this will improve the organisations financial and non-financial performance as measured in this study using the balanced scorecard. It is recommended that organisations concentrate more on cost reduction strategies than revenue generating strategies. The study also revealed that there other factors that influence organisation performance, therefore practitioners are advised to implement other strategic alternatives after turnaround such as growth strategies.

### **5.4.2 Recommendations for Further Research**

This study sought to explore the effect of turnaround strategies on performance of Public Corporations in Kenya. The study recommends an in-depth study to be carried to find out other factors that influence organisational performance and what challenges the Kenya Government experience when these corporations do not perform. It may also be of benefit to do a study on effects of privatizing these corporations. This study's findings also showed that turnaround strategies accounted for 26.4% of overall influence on organisational performance. Studies to determine the other 73.6% can be done. In addition other strategies such as growth stabilization can be studied to determine their effect on organisation performance.



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## APPENDICES

### Appendix I: Research Questionnaire

#### Section A: Background Information

1. Name of company: .....
2. Designation/ Title of respondent: .....
3. Years of Establishment: .....
4. Product or Service offered: .....
5. Markets served (tick as appropriate): (✓)
  - Regional ( \_ )
  - National ( \_ )
  - International ( \_ )

#### Section B: Turnaround strategies adopted

To regain control of the corporation in a turnaround strategy, the emphasis is on cost reduction and revenue generation. Kindly indicate the level of adoption of these strategies.

Please use the five point scale where: **1 – Not at all, 2- Little Extent, 3- Moderate Extent, 4 – Great Extent, 5. Very Great Extent**

#### 1. Revenue Generation Strategies

		Rating				
		1	2	3	4	5
i	Ensuring marketing mix tailored to key market segments					
ii	Focusing organizational activities on needs of target market sector customers					
iii	Exploiting additional opportunities for revenue creation related to target market					
iv	Investing funds from reduction costs in new growth areas					
v	Reviewing pricing strategy to maximize revenue					

## 2. Cost reduction Strategies

i	Reducing labour costs and costs of senior management					
ii	Focusing on productivity improvement					
iii	Reducing marketing costs not focused on target market					
iv	Tightening financial controls					
v	Tightening control on cash expenses					
vi	Establishing competitive bidding for suppliers; defer creditor payments; speed up debtor payments					
vii	Reducing inventory					
viii	Eliminating non-profitable products/services					

### Section C: Performance

For each of the following measures of performance, indicate how your company compares with others (competitors) in the same industry currently:

1 = Lowest 20% (0 – 20)

2=Lower 20% (21 – 40)

3=Middle 20% (41 – 60)

4=Next 20% (61 – 80)

5=Top 20% (81 – 100)

		Rating				
		1	2	3	4	5
i.	Increased Market share					
ii.	Asset growth					
iii.	Cost reduction and savings realized					
iv.	Increased customer satisfaction					
v.	Employee satisfaction					
vi.	Research and development activities increased					
vii.	Increase in debt equity ratio					

## **Appendix II: Public Corporations in Kenya**

- 1 Kenya Wine Agencies Ltd.
- 2 Nyayo Tea Zones Development Corporation
- 3 University of Nairobi
- 4 Kenya Literature Bureau
- 5 Kenyatta University
- 6 Kenya Pipeline Company Ltd.
- 7 National Irrigation Board
- 8 Jomo Kenyatta University of Agriculture and Technology
- 9 Kenya Re-Insurance Corporation
- 10 Kenyatta International Conference Centre
- 11 Kenya Education Staff Institute
- 12 Moi University
- 13 Kenya Water Institute
- 14 Postal Corporation of Kenya
- 15 Coffee Research Foundation
- 16 Kenya National Library Services
- 17 Lake Victoria North Water Services Board
- 18 National Commission on Gender and Development
- 19 Kenya Power
- 20 Egerton University
- 21 Athi Water Services Board
- 22 Kenya Forest Service
- 23 Kenya Airports Authority
- 24 Water Services Trust Fund
- 25 Nzoia Sugar Company
- 26 Insurance Regulatory Authority
- 27 National Water Conservation and Pipeline Corporation
- 28 EwasoNg'iro North Development Authority
- 29 Kenya Institute of Education
- 30 Kimathi University College



- 31 Communications Commission of Kenya
- 32 Pwani University College
- 33 South Nyanza Sugar Company
- 34 Higher Education Loans Board
- 35 Kenya Dairy Board
- 36 Rural Electrification Authority
- 37 Tea Research Foundation of Kenya
- 38 National Museums of Kenya
- 39 Consolidated Bank of Kenya
- 40 Kenya Revenue Authority
- 41 Kenya ICT Board
- 42 Kisii University College
- 43 Kenya Electricity Generating Company Ltd.
- 44 Kenya Tourist Board
- 45 Kenya Institute of Administration
- 46 Constituency Development Fund
- 47 Kenya Coconut Development Authority
- 48 Kenya Railways Corporation
- 49 Kenya Maritime Authority
- 50 Privatization Commission of Kenya
- 51 Moi Teaching and Referral Hospital
- 52 Co-operative College of Kenya
- 53 Tana Water Services Board
- 54 Catering and Tourism Training Development Levy Trustees
- 55 Export Promotion Council
- 56 Kenya Roads Board
- 57 Kenya Sugar Board
- 58 Kenya Bureau of Standards
- 59 Maseno University
- 60 Kenya Sugar Research Foundation
- 61 National Coordinating Agency for Population and Development

- 62 Kenya Post & Savings Bank
- 63 Kenya National Examinations Council
- 64 Masinde Muliro University of Science and Technology
- 65 Kenya National Bureau of Statistics
- 66 Kenya Medical Research Institute
- 67 NGO Coordination Board
- 68 Northern Water Services Board
- 69 National Campaign Against Drug Abuse Authority
- 70 Kenya Medical Supplies Agency
- 71 South Eastern University College
- 72 Kenya Accountants and Secretaries National Examinations Board
- 73 Mombasa Polytechnic University College
- 74 Capital Markets Authority
- 75 Water Resources Management Authority
- 76 Retirement Benefits Authority
- 77 Commission for Higher Education
- 78 Council of Legal Education
- 79 Kenya Forestry Research Institute
- 80 Kenya Tourist Development Corporation
- 81 Rift Valley Water Services Board
- 82 Water Services Regulatory Board
- 83 Lake Victoria South Water Services Board
- 84 National Council for Persons with Disabilities
- 85 Kenya Urban Roads Authority
- 86 Bondo University College
- 87 Meru University College of Science and Technology
- 88 Kenya National Trading Corporation
- 89 Teachers Service Commission
- 90 Kenya Marine and Fisheries Research Institute
- 91 Kenya Ordnance Factories Corporation
- 92 National Environmental Management Authority

- 93 Kenya Copyright Board
- 94 Kenya Agricultural Research Institute
- 95 Kenya Polytechnic University College
- 96 Tana and Athi Rivers Development Authority
- 97 Kenya Institute for Public Policy Research and Analysis
- 98 Kenya Electricity Transmission Company
- 99 Kenya Industrial Research and Development Institute
- 100 Agricultural Development Corporation
- 101 Tea Board of Kenya
- 102 Horticultural Crops Development Authority
- 103 National Hospital Insurance Fund
- 104 Kenya Civil Aviation Authority
- 105 EwasoNg'iro South Development Authority
- 106 Public Procurement Oversight Authority
- 107 Kenya Ports Authority
- 108 Kenya Plant Health Inspectorate Services
- 109 National Aids Control Council
- 110 Kenya Film Commission
- 111 Local Authorities Provident Fund
- 112 Energy Regulatory Commission
- 113 Coast Development Authority
- 114 Lake Basin Development Authority
- 115 National Social Security Fund
- 116 Kenya Safari Lodges and Hotels
- 117 Pest Control Products Board
- 118 Youth Enterprise Development Fund
- 119 Bomas of Kenya
- 120 Kenya Ferry Services Ltd.
- 121 National Cereals and Produce Board
- 122 National Council for Children Services
- 123 Narok University College

- 124 Kenya Institute of Special Education
- 125 Industrial Development Bank
- 126 Kenya Medical Training College
- 127 Kenya Wildlife Service
- 128 Tanathi Water Services Board
- 129 Sports Stadia Management Board
- 130 Kenya Industrial Property Institute
- 131 Kenya Seed Company Ltd.
- 132 Export Processing Zones Authority
- 133 Kerio Valley Development Authority
- 134 Chuka University College
- 135 Brand Kenya Board
- 136 Kenyatta National Hospital
- 137 Kabianga University College
- 138 Kenya Broadcasting Corporation
- 139 Industrial and Commercial Development Corporation
- 140 Coffee Board of Kenya
- 141 Kenya National Highways Authority
- 142 Kenya Utalii College
- 143 Kenya Rural Roads Authority
- 144 Kenya Industrial Estates
- 145 National Housing Corporation
- 146 Multi-Media University College of Kenya
- 147 Bukura Agricultural College
- 148 Pyrethrum Board of Kenya
- 149 Kenya National Shipping Line
- 150 National Oil Corporation of Kenya
- 151 Numerical Machining Complex
- 152 Agro Chemical and Food Company Ltd.
- 153 Coast Water Services Board
- 154 Coffee Development Fund

- 155 New Kenya Cooperative Creameries Ltd.
- 156 Cotton Development Authority
- 157 Jomo Kenyatta Foundation
- 158 Kenya Meat Commission
- 159 Agricultural Finance Corporation
- 160 East African Portland Cement Company Ltd.
- 161 Chemelil Sugar Company
- 162 School Equipment Production Unit


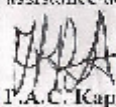

### **Appendix III: Public Corporations, the Sample**

1. Kenya Pipeline Company Ltd.
2. Kenyatta International Conference Centre
3. Postal Corporation of Kenya
4. Kenya Power
5. Egerton University
6. Kenya Institute of Education
7. Kenya Revenue Authority
8. Kenya Tourist Board
9. Kenya Post & Savings Bank
10. Capital Markets Authority
11. Retirement Benefits Authority
12. Kenya Forestry Research Institute
13. Kenya Polytechnic University College
14. Tea Board of Kenya
15. National Social Security Fund
16. Kenya Wildlife Service
17. Sports Stadia Management Board
18. Kenya Seed Company Ltd.
19. Kenyatta National Hospital
20. Kenya Broadcasting Corporation
21. Coffee Board of Kenya
22. Kenya Utalii College
23. National Housing Corporation
24. Pyrethrum Board of Kenya
25. National Oil Corporation of Kenya
26. Numerical Machining Complex
27. Cotton Development Authority
28. Jomo Kenyatta Foundation
29. Agricultural Finance Corporation
30. Kenya Wine Agencies Ltd.

31. University of Nairobi

32. Kenyatta University

## Appendix IV: Introductory Letter

<b>EGERTON NAKURU TOWN</b>		<b>UNIVERSITY CAMPUS COLLEGE</b>
Tel: (051) 215648/215798 Fax: (051) 62527 E-mail: <a href="mailto:info@egerton.ac.ke">info@egerton.ac.ke</a>		P. O. Box 13357 Nakuru
<b>OFFICE OF THE DEAN FACULTY OF COMMERCE</b>		
15 <sup>th</sup> March, 2013		
<b>TO WHOM IT MAY CONCERN</b>		
<b><u>RE: RESEARCH UNDERTAKING – LUCY KOMEN DIRIK – CM11/059/10</u></b>		
<p>This is to certify that the above named person is a bona fide student of Egerton University undertaking Masters in Business Administration a programme offered at Nakuru Town Campus College. She has passed all the coursework examinations and the research proposal for the partial fulfilment of the requirement of the degree. The title of her research is <i>"Effects of Turnaround Strategies on Performance of Public Corporations in Kenya."</i></p> <p>The purpose of this letter is to request you to allow her to collect data from your organization.</p> <p>This information and data thus given will only be for research purposes and will be treated with utmost confidentiality.</p> <p>Any assistance accorded to her will be highly appreciated.</p>		
 <b>Mr. P.A.C. Kaputut</b> <b>DEAN, FACULTY OF COMMERCE</b>		
		
<i>PAC/mon</i>		
<hr/> <i>Egerton University is ISO 9001: 2008 Certified</i>		