Turnaround Strategies and Performance of Commercial Banks in Kenya

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Abstract:
This study sought to analyze the turnaround strategies and performance of Commercial Banks in Kenya. The specific objectives were to establish the influence of diversification strategy, restructuring strategy, modernization strategy and retrenchment strategy on the performance of commercial banks in Kenya. The theoretical foundation of this study was Resource-based theory, Generic strategic theory, Dynamic capabilities theory and Structural adaptation to regain fit theory. Descriptive cross-sectiona research design was employed. Targeted population was 84 employees at the management level in nine commercial banks that implemented turnaround strategies. The study applied the use of Fisher, Laing and Stoeckel formula in determining the sample size of 69 respondents. The study used Stratified random sampling to select the sample to be used. Questionnaires were administered for primary data collection. SPSS version 23 was used to analyze quantitative data using descriptive and inferential statistics. The findings of the study were presented descriptively using frequencies, percentages and means, while inferentially the study used correlation and regression analyses to test the relationship between turnaround strategies and performance of commercial banks in Kenya. The study found that diversification strategy positively and significantly relates with organizational performance; restructuring strategy positively and significantly relates with organizational performance; modernization strategy positively and significantly relates with organizational performance; and retrenchment strategy positively and significantly relate with organizational performance. The study recommends the government and policy makers to make sure that application by banks for diversification is made easy. Commercial bank managers and other high-level stakeholders should apply the range of diversification strategies to expand the scope of markets and operations of their entities in a bid to ensure sustainable competitive advantage. Management of commercial banks to make sure that all the respective heads of departments has full and clear information on time to enhance easy decision making on organizational restructuring to enhance performance. Commercial banks should embrace modern technology, since technology is an important asset in improving business and transforming market functions in modern society.

Keywords: Performance, turnaround, turnaround strategy, diversification, restructuring, modernisation, retrenchment strategy

1. Introduction
1.1. Background of the Study
Uncertainty in any organization may lead to a negative effect in the operating environment which in turn would lead to a situation where the performance declines drastically (Bibeault, 2012). This kind of event could be as a result of factors affecting the organization both internally or externally owing to the mere fact that a company operates as open systems. However, these trends can be avoided through formulating and implementing viable strategies that can reverse the negative performance in the positive direction (Bowman, Schoenberg& Collier, 2013). Over the period 2007-2014, the financial landscape in Kenya has considerably changed while the financial sector has made huge growth in offering products, deposits, and profitability. These changes have greatly been influenced by a number of factors which include an expansion strategy of the industry-wide branch network in the East African community and Kenya, an increase in developed automation services which has helped make the life of customers more efficient and easier.

An annual supervision report by CBK emphasizes that financial institutions have to adapt to the rapid changes in the business environment which includes incorporation of complex ICT platforms while still maintain quality services to the customers. Customers have continually demanded faster and quality individualized services. For this reason, financial institutions have heavily invested in ICT in order to keep up with the competition. It is expected that financial institutions will venture into the retail market segment specifically in licensing Microfinance Institutions taking deposits. Turnaround strategies are mainly aimed at rescuing those organizations that are underperforming in terms of profitability, solvency, cash flow and liquidity (Lee& Johns, 2014). For turnaround strategy to be successful, it should be able to resolve the...
financial problems, causes of performance decline and strive to achieve a fast improvement in the financial sector, retain the support of shareholders and overcome unfavorable organizational characteristics and internal negative constraints (Jeyavelu, 2014).

Research studies carried out on 54 American companies revealed that some turnaround strategies measures help control and cut down on costs (Bibeault, 2012). In addition, Anders (2012) reported that turnaround strategies require changes in main policies, articulate planning of the future, changes in the top management and redefinition of an organization in United States. Moreover, a study by Dikshit (2014) in India showed that Bharat Coking Coal Ltd and Scooters India Ltd required turnaround strategies implemented.

A research by Mokubung (2014) on the South African water board reported that turnaround strategies can be implemented in an occurrence of ailing and distressed projects. However, this does not call for the implementation of the same turnaround strategy to the whole organization it can only be applied to the specific divisions, department, and a branch that have been detected to have distress. The study concluded that there is a need to carry out research on formulating organizational turnaround strategies in Africa due to the shortage of turnaround theories that are designed to fit the African business market. Moreover, Meatco Annual Report (2018/19) analyzed the turnaround strategies in meat industry in Namibia. The study reported a year-round turnaround strategy focusing on increasing sustainability and minimizing costs in the company.

Based on the circumstances in which declining organizations face in Kenya, there comes a different dimension of turnarounds (Muiruri, 2015). According to (Sije, 2017), organizations facing financial difficulties and cannot pay back their debts need to convert debts into equity. This will eventually result in cash flows to the organization during the dividend payments period. This research farther recommended that business organizations should lay emphasis on group level learning, a segment of new customers to increase reach, inter-organizational collaborations, organizational level learning and the need to increase more customer friendly services and improve on the already existing services to increase customer base. An impactful implementation of this strategy will ensure that the organization is able to evolve according to business needs.

1.1. Performance of Commercial Banks in Kenya

Co-operative Bank of Kenya recorded a 10.24 per cent drop in net profit in 2017 compared to the year before, which the lender attributed to lower interest income, a consequence of the rate capping regime and slowed economic activity. However, profit after tax grew by 11.6% to Kes. 12.73 Billion in 2018 compared to Kes. 11.41 Billion the previous year. The commendable performance reflects the success of the transformation agenda which has re-tooled and equipped the business with the strategic agility and resilience to achieve its objectives even in the difficult operating environment. In 2012, the company’s market share was 8.6%. The bank posted a market share index of 9.93% in 2018.

KCB Group reported a Sh19.7 billion net profit for 2017, a flat year-on-year performance on the back of the effects of the interest rate capping law and restructuring costs. Moreover, sustained revenue growth and prudent cost management helped raise KCB Group PLC full year 2018 net profit by 22% to a record Ksh 24 billion. In 2012, the company’s market share was 11.3%. The bank posted a market share index of 14.4% in 2018.

The Development Bank of Kenya embarked on a turnaround strategy in year 2004 and has made remarkable recovery and regained the stakeholder’s confidence. In year 2008, the Bank attained a complete turnaround recording a pre-tax profit of Kes. 169 million compared to Kes 80 million in 2000. The total assets increased to Kes. 6.5 billion in 2008, compared to Kes. 3.6 billion in 2000. In 2012, the company’s market share was 0.6%. The bank posted a market share index of 2.1% in 2018.

1.2. Statement of the Problem

Organizations are forced to redesign their strategies from time to time to ensure they maintain their competitive advantage and survive in the dynamic environment; failure of redesigning can cause strategic issues. Such challenges are observed when what is offered by the organization fails to match what exists in the market. Turnaround strategies are important for firms to grow economically because their activities have direct effect on resources and expenditure of private and public sectors. When organization’s visibility is compromised by decrease in its resources, the organization is said to have declined (Sije, 2017).

Based on 2017’s banks annual report by CBK, Kenya’s commercial banks presented a drastic decline in their performance pre-tax profitability by 9.6% from Ksh. 147.4 billion in 2016 to Ksh. 133.2 billion in 2017. This was due to a number of challenges that faced that sector. The main factors that attributed to this decline included the interest rate caps enacted by the Banking Act 2016, the uncertainty created by the long electioneering period in 2017 and a prolonged drought that has occurred affecting the agricultural sector of the country. For these reasons the banking sector performance was heavily affected and thus needed a quick response to prevent losses.

Masinde (2016) researched on problems faced in implementing turnaround strategies at Kenya Railways Corporation. Mutunga (2013) researched on factors affecting the operation of turnaround strategies at KBC. Mungai and Bula (2018) researched factors that affect turnaround strategies at KQ. Majority of the studies that have been conducted on the effect of turnaround strategies on specific companies but there is no holistic study on the industry they operate in (Newton, 2014). This study sought to establish the influence of turnaround strategies on performance of commercial banks in Kenya in its entirety and why there exists a difference in performance as indicated in their profitability and market share year on year.
1.3. Research Objectives

The purpose of the study was to analyze the influence of turnaround strategies on performance of commercial banks in Kenya. Specifically, the study sought to:

- To establish the influence of diversification strategy on the performance of commercial banks in Kenya.
- To determine the influence of restructuring strategy on the performance of commercial banks in Kenya.
- To assess the influence of modernization strategy on the performance of commercial banks in Kenya.
- To establish the influence of retrenchment strategy on the performance of commercial banks in Kenya.

2. Literature Review

2.1. Theoretical Review

Theories are formulated to explain, predict, and understand phenomena and, in many cases, to challenge and extend existing knowledge within the limits of critical bounding assumptions (Swanson, 2013). The theoretical review is the structure that can hold or support a theory of a research study. The theoretical review introduces and describes the theory that explains why the research problem under study exists (Ravitc & Carl, 2016). This analysis was based on four main theories which are Resource-based theory, The Generic Strategic Theory, Dynamic Capabilities theory, and Structural Adaptation to Regain Fit Theory.

2.1.1. Resource-Based Theory

The importance of resources for growth in an organization was first identified by Penrose (1959) and argues that organizations should be able to use available resources into good use and not just having possession. RBT is used in an organization to create a link between a firm’s performances, behavior, strategy and internal resources. The theory dictates that basic drivers and sources to an organization’s successful performance are mostly influenced by the attributes of their capabilities and resources which in most cases are costly and valuable to imitate (Casson, 2012).

The importance for strategies should be defined by the organizations’ specific capabilities and resources (Odollo & Iravo, 2019). In addition, the level of organizational performance is influenced consequence of firm-specific capabilities and resources that are expensive to duplicate by other competitors in the industry (Serra et al., 2012). These resources and capabilities should be imperfectly imitable, effective, valuable, rare, non-sustainable and increase efficiency. The study made use of this theory in explaining the implementation of modernization strategy. In Kenya, some of the commercial banks have implemented modernization strategy which has been used to develop the existing resources to compete with the current change in environment. Resource base theory is there used to analyze how modernization leads to an increase in profit. The theory also helped look at the resources these commercial banks have and their contribution to competitive advantage.

2.1.2. The Generic Strategic Theory

According to Kavale (2017) the generic strategic theory is used to describe ways in which an organization acquires advantages over its competitors in a particular market scope. Any firm can choose to attain competitive advantage by choosing any of the two generic strategies which can be lowering the costs of their services than their competitors. By appealing to clients who are conscious on cost, organizations have the ability of achieving differentiation advantage by implementing core benefits that outstand those of their competitors (Smit, 2010). The study made use of this theory to analyze the way Kenya’s commercial banks have managed to enforce the retrenchment strategy and advantages they gained over their competitors and also to develop new capabilities in the changing dynamic environment. It explains how cutting down in costs helps increase the capabilities of an organization to increase.

2.1.3. Dynamic Capabilities Theory (DCT)

This theory was first implemented by Teece (1990) and indicated that the theory provided the initial contribution that enhanced the distinctive ideas of dynamic capabilities (Ambrosini & Bowman, 2009). According to Teece et al., (2007), this theory creates a competitive advantage by enhancing the dynamic capability.

The DCT establishes the specific techniques that can be implemented in an organization with the aim of increasing their profitability by capitalizing on both their external and internal capabilities (Ambrosini & Bowman, 2009). The resources that determine the position of the company include relationship between the suppliers and clients, intellectual property and technology. The focus of DCT is to improve the organizations strategic options by modifying the current available resources (Ambrosini & Bowman, 2009). The theory was used to assess how commercial banks in Kenya have changed by applying the process of diversification strategy and how they were able to fit into the dynamic environment through diversification in order to increase the market scope and develop new capabilities. In this case diversification explains how various resource-based lead to numerous dynamic capabilities.

2.1.4. Structural Adaptation to Regain Fit Theory

This theory explains that structural change can be explained using quantitative and functionalist theories (Donaldson, 1987). Companies can change over time from one form to another and by doing this they are able to enjoy high performance leading to growth in size and geographically and also diversification in response to market and technological changes in the environment. This theory explains that the only way a company can maintain its fit is if its excess resources are produced to meet for the expansion hence increasing the performance rate (Donaldson, 2008).
This theory fits in this study as it helped analyze the way Kenya’s commercial banks are utilizing the strategy of restructuring in ensuring they are aligned in constantly changing environment. Declining commercial banks have implemented this theory to adjust from a non-fit to fit situations to overcome competition and other challenges (Uzel et al., 2015). This theory is applied by organizational managers in the process of turnaround to diversify and restructure in order to maintain a sustainable excellent performance.

2.2 Conceptual Framework

A conceptual framework is a diagram that explains the relationship between dependent and independent variables. In this research, the dependent variable is the performance of the Commercial Banks in Kenya after implementing the turnaround strategies while the independent variables are the turnaround strategies which include Diversification Strategy, Restructuring Strategy, Modernization Strategy, and Retrenchment Strategy.

![Conceptual Framework](image)

2.2.1 Diversification Strategy

Implementation of diversification will assist in improving the efficiency in which available resources are used especially those that are not being used. Diversification is mainly used to widen the company’s markets (Mihail, Myra & Sofoklis, 2013). The main aim of diversification is to create an entry into various business units that are different from the existing activities. When diversification is used for this reason the organizational managers consider uplifting the company’s status by providing financial protection when undergoing economic turbulence (Mihail, Myra & Sofoklis, 2013). A study by Santarelli and Tran (2015) on diversification strategies and firm performance in Vietnam revealed that the effect of diversity on profitability is curvilinear: profitability of the company improves to a point after which further increasing diversification results in performance decline. In addition, Njuguna (2018) researched on the effects of strategy of product diversification on performance of non-financial companies listed with. Results obtained showed that performance of the companies and strategies of diversification were significantly and positively related. However, a study by Christiningrum (2015) studied the impacts of diversification strategy, leverage and IOS on multi segment corporate performance in Indonesia among 120 companies. The study showed that performance was negatively affected by implementation of diversification strategy.

2.2.2 Restructuring Strategy

Restructuring can be referred to as a strategic modification made to the structure, debt or operations of a firm (Heany, 2015). It is a major corporate action that is implemented when a company suffers from significant problems which are putting the organization in jeopardy and causing financial harm. Restructuring mainly aims at improving business and eliminating any financial harm. For instance, in a situation where an organization is having challenges with debt repayment, in most instances’ debt terms will be consolidated and adjusted into debt restructuring. Once restructuring is undertaken the debt payments become more manageable and also bondholders’ payments increase. Common methods of applying to restructure include reducing its size in terms of sale of assets or cutting costs such as payroll. It is a necessary action when the company is almost collapsing (Akrani, 2012).

A case study by Akumu (2018) on the association between performance and restructuring strategies in Kenya established that restructuring and performance were strongly and positively related. Further, Odula (2015) conducted a study to establish how financial organizations in Kenya are affected by restructuring among 43 commercial banks. Restructuring was found to positively influence performance of commercial banks; however, the effect was very small and
therefore the banks were forced to implement other strategies to improve their performance levels. In addition, a study by Anyona (2017) on corporate restructuring and performance of insurance companies in Kenya. Revealed that corporate restructuring has a positive effect.

2.3.3. Modernization Strategy

Modernization entails investing in new technology and upgrading the existing technology to ensure growth in production, improve efficiency and reduce costs. Technological advancement is mainly used to stabilize the firm before implementing other strategies like integration/diversification which can either be categorized as horizontal conglomerate, concentric or vertical diversification. Even though important, there are still numerous organizations that have not embraced the importance of technology mainly because they believe it has no effect on business due to its commoditization (Hamel & Prahalad, 2013).

This is however not the truth because technology has improved productivity and reduced costs through automation of business. Telecommunication has led to speedy decision making by improving the speed at which information is transmitted. The process of modernization can therefore be designed after the assessment in order to implement optimal mix of technological advancement in each service provided by the company. Most firms have been left performing poorly by their competitors mainly because they fail to invest into technology and other infrastructural developments (Jeyavelu, 2014).

Imran, Maqbool and Shafique (2014) researched on the effects of technological advancement on performance of employee in banking industry. The study found that advancement in technology significantly affected employees training and motivation. Njoroge (2016) conducted a descriptive study among mobile telephone companies in Kenya on effects of technology on performance of the organization. The study concluded that there is need for the companies to invest more in modern technology to cope with the changes that are necessary to enhance performance. Moreover, Canh (2019) studied the effect of innovation on the firm performance and corporate social responsibility of Vietnamese Manufacturing Firms. The findings suggest that process and product innovations are beneficial to firm performance.

2.2.4. Retrenchment Strategy

Retrenchment strategy is applied by organizations by the divestment of non-core assets and cutting down operating costs. Many organizations choose to retrench by believing it is easier to cut down on cost than to generate more revenue (Gill, 2012). According to Chuang (2015) restructuring strategy is more successful for an organization to adopt. Therefore, retrenchment is marked as an integral part of a turnaround strategy as it provides a stable platform which can be used to launch the process of recovery. According to most researchers, the strategy of asset retrenchment is applied when strategies of efficiency have failed to guide the organization in achieving its financial stability. This strategy therefore follows after the strategy of cost efficiency (Robbins & Pearce, 2012). Asset Retrenchment mainly aims at generating cash from disposed assets.

A study by Ung, Brahmana and Puah (2018) on firm performance and retrenchment strategy among 119 public listed companies in Malaysia established that performance was positively influenced by retrenchment strategy. Ochieng (2017) conducted a study in Telkom Kenya over 5 year on ways in which performance of the organization is affected by retrenchment. The research findings showed that positive transformation of TKL with wireless technology being introduced. A study by Wandera (2013) on effect of retrenchment of employees on organization was affected by retrenchment in Kenya Tea Development Agency (K.T.D.A) Ltd. Results showed that majority of the respondents felt that their employer did not prepare them sufficiently before retrenchment and were not certain of their job security. Therefore, proper planning and management of retrenchment strategy should be considered for it to be effective.

3. Methodology

3.1. Research Design

Research design is the techniques used in collecting, measuring and analyzing data are collectively referred as research design (Newing, 2011). The study used cross-sectional descriptive research design the design was considered appropriate because the researcher was able to make comparison of various commercial banks demographics based on the year of incorporation, ownership structure, and others.

3.2. Population of the Study

The population can be described as a well-described set of services, people, households, events or a group of things being investigated (Zikmund et al., 2010). The population of the study was the 40 commercial banks in Kenya. Nine commercial banks have implemented turnaround strategies and all of them took part in the study. The unit of observation were 84 employees in management positions and who were currently working in the head office.

3.3. Sample and Sampling Technique

A section of a research process that is selected as an element of data collection is referred to as sampling (Sekaran & Bougie, 2010). Stratiﬁed random sampling was adopted in this study. The sample was selected using the technique of stratiﬁed random sampling. This sampling technique provides estimates that are precise and ensures that the sample selected is from a heterogeneous population and is more representative (Cooper & Schindler, 2014). In order to determine the sample size, the Fisher, Liang and Stoeckel (1983) formula was used. The formula was as indicated below
In this case the initials represent the following:

- \( n \) = required sample size
- \( P \) = the population proportion having the characteristics of interest
- \( Q \) = \((1 - P)\)
- \( N \) = the total population
- \( e \) = the level of accuracy required. 5% = standard error
- \( Z \) = the value at confidence level of 95\%= 1.96

\[
N = \frac{Z^2 \cdot p \cdot q}{e^2(N - 1) + Z^2 \cdot p \cdot q}
\]

\[n = \frac{1.96^2 \cdot 0.5 \cdot 0.5(84)}{(0.05^2 \cdot 83) + (1.96^2 \cdot 0.5 \cdot 0.5)}\]

\[80.6736 / 1.1679\]

\[N = 69\]

According to Fisher, Laing and Stoeckel formula the sample size results to 69 respondents which represents 82% of the population target.

### 3.4. Data Collection Instrument

Primary data used in the study was collected by way of structured questionnaires which were made up of close-ended questions that were standardized in order to enable comparisons of the results from the different respondents. The questionnaire adopted a Likert scale point slanting scale with fixed responses used to measure respondents’ agreement to the questions. It was made up of two parts. Secondary data was collected for a period of five years between 2014 and 2018. This period was suitable because it provides the most recent information on performance of commercial banks.

### 3.5. Pilot Test

The pilot test is used to analyze the validity and reliability of the collected research data (Orodho, 2013). This test is applied to measure the efficiency of the tools used in analyzing and collecting information.

#### 3.5.1. Reliability Test of the Instrument

According to a research by Mugenda and Mugenda (2013), it pointed out that reliability is the degree of consistency in the findings after different trials. The instruments of the research were pretested throughout the pilot study to ensure reliability and correct any inconsistencies that may come up. A Cronbach’s Alpha was applied to measure reliability with a minimum threshold value of 0.7 (Taha, 2013). From the findings, diversification strategy has an alpha value of 0.851, restructuring strategy has alpha value of 0.873, modernization strategy Cronbach alpha value is 0.865, retrenchment strategy has alpha value of 0.852, and organizational performance has alpha value of 0.874. The findings show that all the variables had Cronbach alpha value greater than 0.7; the study therefore concludes that all the variables were reliable.

#### 3.5.2. Validity Test of the Instrument

According to Zikmund (2013) the main purpose of this test is to ensure that the measurement provides the measures for which they were created to measure. The study adopted the construct validity method to determine how well a test measures what it is supposed to measure (Yin, 2014).

### 3.6. Data Processing and Analysis

Upon collection, reviewing of collected data for completeness, accuracy and consistency was done. SPSS version 23 was used to analyze quantitative data where descriptive statistics were computed. Presentations of the findings were done in form of percentages, means and frequencies. Qualitative data was analyzed using content analysis. Before data analysis was conducted, collected data was first coded, cleaned and grouped as per the listed variables.

#### 3.6.1. Correlation Analysis

Correlation analysis was used to establish the link between dependent and the independent variables. Correlation analysis allowed the researcher to establish aspects of relation between the variables. The closer the correlation coefficient is to 1, the greater the relationship, whereas the closer the correlation coefficient is to 0, the weaker the relationship (Hair et al., 2010).

#### 3.6.2. Regression Analysis

Multiple regressions were done to analyze the influence of turnaround strategies on performance of commercial banks in Kenya. The equation used is as follows.

\[
Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \epsilon
\]

- \( Y \) = the dependent variable (Performance)
- \( \beta_0 \) = the regression constant
- \( \beta_1, \beta_2, \beta_3, \beta_4 \) = coefficients of the independent variables
- \( X_1 \) = Diversification Strategy
- \( X_2 \) = Restructuring Strategy
X₃ = Modernization Strategy  
X₄ = Retrenchment Strategy  
ε = Disturbance Term. The study also computed the analysis of the variance in order to establish whether the model is significant.

4. Data Analysis and Discussions

4.1. Response Rate
Out of 69 respondents only 58 questionnaires were returned having been duly filled translating to 84.7% response rate. Mugenda and Mugenda (2003) explained that a minimum of 50% response rate as being adequate. Based on Mugenda’s assertion, the response rate was considered excellent and was used for analysis.

4.2. Descriptive Statistics

4.2.1. Diversification Strategy and Performance of Commercial Banks
Respondents were asked to indicate their level of agreement or disagreement with various statements relating to the influence of diversification strategy on performance of commercial banks in Kenya using a 5-point scale. Results presented in Table 1

| Diversification Strategy                                      | Mean | Std. Dev. |
|-------------------------------------------------------------|------|-----------|
| Market Penetration                                          | 3.635| 1.525     |
| The bank is focusing on identifying new markets to meet customer demands |      |           |
| The banks sell its products/services to existing markets to obtain a higher market share | 4.266| 1.174     |
| Concentric diversification                                  | 4.085| 1.184     |
| The bank utilizes the existing employees’ competences to provide new services |      |           |
| Concentric diversification helps the organization departments to work together to achieve large goals | 4.014| 1.211     |
| Conglomerate diversification                                | 3.915| 1.310     |
| The bank is focusing on creating new products/services to meet new customer needs |      |           |
| The bank is considering merging with other firms to gain a competitive edge | 3.904| 1.345     |

Table 1: Influence of Diversification Strategy on Organizational Performance

The results were interpreted using their means and standard deviation where a mean value of 1-1.4 was strongly disagree, 1.5-2.4 disagree, 2.5-3.4 neutral, 3.5-4.4 agree and 4.5-5 strongly agree. A standard deviation value greater than 2 suggests that respondents had differing opinion, if the standard deviation is less than 2 it is an indication that respondent had similar opinion. The findings concur with Mihail, Myra and Sofoklis (2013) that diversification in many cases is used to widen the company’s market, products and markets. Diversification mainly aims at creating entry into different business that differ from current organizations activities. It also agrees with findings of Christiningrum (2015) that organizations recorded positive increase in market and accounting performance when the number of segments were small; he added that the performance of the organization will tend to decrease if segmentation is done past the optimum points.

4.2.2. Restructuring Strategy and Performance of Commercial Banks
Respondents indicated their level of agreement with statements about restructuring strategy. The results were as presented in Table 2.

| Statements                                           | Mean | Std. Dev. |
|------------------------------------------------------|------|-----------|
| Change of Structure                                  | 3.688| 0.861     |
| The bank has eliminated some management layers to improve communication and decision-making |      |           |
| The bank has created new lines of communication to eliminate barriers to productivity | 3.787| 1.378     |
| Reconfiguring internal operations                     | 3.780| 1.358     |
| The organization departments work as one large team to meet set objectives |      |           |
| The bank has created departments which are correlated | 3.603| 1.401     |
| Redesigning operations                               | 3.628| 1.520     |
| The organization has introduced new technologies to enhance operational efficiency |      |           |
| The organization has adopted new methods of working to improve efficiency in the organization | 3.794| 1.587     |

Table 2: Influence of Restructuring Strategy on Organizational Performance
From the findings, respondents agreed with different statements on restructuring strategy. These findings concur with Akrani (2012), that after restructuring is undertaken the debt payments become more manageable and also bondholders’ payments increase; he added that common methods of applying to restructure include reducing its size in terms of sale of assets or cutting costs such as payroll. The findings also agree with Anyona (2017) who found that performance was affected by restructuring in that it causes an increase in market share, profitability and competitiveness. Therefore, restructuring in organization is beneficial in increasing organizational performance.

### 4.2.3. Modernization Strategy and Performance of Commercial Banks

Respondents indicated their level of agreement with various statements about modernization strategy. The results were as presented in Table 3. The findings show that respondents were in agreement with various statements on modernization strategy as shown by mean values ranging from 3.6 to 4.5. The findings are in agreement with Hamel and Prahalad (2013) that technology has become an important asset in improving business and transforming market functions in modern society. Technological advancement is mainly used to stabilize the firm before implementing other strategies like integration/diversification which can either be categorized as horizontal conglomerate, concentric or vertical diversification. The study also concurs with the findings of Canh (2019) that process and product innovations are beneficial to firm performance in terms of market share, but not return on total assets and that innovation could make firms more obscure, especially when there are external parties involved.

| Statement                                                                 | Mean  | Std. Dev. |
|---------------------------------------------------------------------------|-------|-----------|
| Improvement of technology                                                 | 4.507 | 1.071     |
| The banks have adopted new technology to meet the changing business needs |       |           |
| Technology has helped in improving efficiency in the organization         | 4.085 | 1.260     |
| The organization has acquired new assets to improve operations in the organization |       |           |
| Asset renewal helps to manage maintenance costs                           | 3.943 | 1.333     |
| New business processes                                                    | 3.755 | 1.493     |
| Technology provide efficient and effective way of carrying out business processes | 3.621 | 1.662     |

**Table 3: Influence of Modernization Strategy on Organizational Performance**

### 4.2.4. Retrenchment Strategy and Performance of Commercial Banks in Kenya

Respondents gave their level of agreement with various statements about retrenchment strategy. The results were as presented in Table 4.

| Statements                                                                 | Mean  | Std. Dev. |
|---------------------------------------------------------------------------|-------|-----------|
| Project based employment                                                 | 4.064 | 1.348     |
| The bank practices project-based employment                               |       |           |
| Project based employment has helped in tapping the needed skills for specific tasks in the organization | 3.901 | 1.330     |
| Downsizing                                                                | 3.883 | 1.354     |
| Downsizing has helped in reducing the amount used in paying employees     |       |           |
| Downsizing has helped in reducing work repetition in the banks            | 3.865 | 1.330     |
| HR outsourcing                                                            | 3.635 | 1.525     |
| Outsourcing HR has helped to reduce costs and avoid trying to financially maintain nonrevenue-generating back-office expenses |       |           |
| Outsourcing HR has helped in bringing in talent in the bank               | 4.163 | 1.524     |

**Table 4: Retrenchment Strategy**

The findings show that respondents agreed with various statements relating with retrenchment strategy as indicated by mean values ranging from 3.6 to 4.1. The findings concur with Gill (2012) that the main reason for many organizations to choose to retrench is the belief that it is easier to cut down on cost than to generate more revenue. Chuang (2015) also argued that retrenchment is mainly used to provide a stable platform which can be used to launch the process of recovery; turnarounds strategies that are more successful include retrenchment, restructuring, and repositioning. The study also concurs with the findings of Ochieng (2017) who studied the effects of retrenchment on organizational performance and found that positive change improved service delivery. A general cultural change in work has been cited in these improvements. Company revenue trend analysis also showed that there was improved financial performance.
4.3. Inferential Statistics

4.3.1. Correlation Analysis of Turnaround Strategies and Performance

Correlation was used to determine the link between dependent and the independent variables. The findings were as presented in Table 5. The findings show that, diversification strategy strongly, positively and significantly relate with organizational performance ($r=0.669$, $p$-value=0.000). Sije (2017) concluded that market redefinition strategies and firm performance are positively and significantly related. These findings were further consistent with the studies carried out by Ondimu (2015) which concluded that diversification had a positive performance feedback achieved through seeking further growth opportunities in other new industries and capturing the benefits of simultaneous exploitation and exploration.

There was a strong positive association between restructuring strategy and organizational performance ($r=0.725$, $p$-value=0.000), while retrenchment strategy was strongly and positively related with organizational performance ($r=0.874$, $p$-value=0.000). The findings have been supported by Kiarie (2018) who contends that the best place to get finances during turnaround is from internal operations through cost. The findings also showed that modernization strategy had a strong positive relationship with organizational performance ($r=0.744$, $p$-value=0.000). These disagrees with Ruiz (2018) who on his study of turnaround and renewal in a Spanish shipyard found out that modernization strategy led to inefficient utilization of resources which further caused poor performance. It also agrees with Sije (2017) who concluded that turnaround strategies had a significant positive relationship with the performance measures.

| Organizational Performance | Performance | Diversification | Restructuring | Modernization | Retrenchment |
|----------------------------|-------------|-----------------|---------------|---------------|--------------|
| Pearson Correlation        | 1           |                 |               |               |              |
| Sig. (2-Tailed)            |             |                 |               |               |              |
| Diversification Strategy   | Pearson Correlation | .669** | 1       |               |              |
| Sig. (2-Tailed)            | .000        |                 |               |               |              |
| Restructuring Strategy     | Pearson Correlation | .725** | .261** | 1           |              |
| Sig. (2-Tailed)            | .000        | .000            |               |               |              |
| Modernization Strategy     | Pearson Correlation | .744** | .325** | .264** | 1           |
| Sig. (2-Tailed)            | .000        | .000            | .000          |               |              |
| Retrenchment Strategy      | Pearson Correlation | .874** | .317** | .336** | .266** | 1           |
| Sig. (2-Tailed)            | .000        | .000            | .000          | .000          |              |

Table 5: Correlation between Turnaround Strategies and Performance

**. Correlation Is Significant At the 0.01 Level (2-Tailed)
4.3.2 Regression Analysis of Turnaround Strategies on Performance

From the findings, the value of adjusted R² was 0.779 which suggests that 77.9% variation in organizational performance can be attributed to changes in diversification strategy, restructuring strategy, modernization strategy, and retrenchment strategy. Moreover, the remaining 22.1% suggest that there are other factors that can explain variation in organizational performance which were not included in this model. The findings further show that the variables being studied are strongly and positively related as indicated by correlation coefficient (R) value of 0.884. These findings were consistent with the studies of Sije (2017) and Inyange (2014) that indeed turnaround strategies influence organizational performance. It also concurs with the works of Wandera (2012) who concluded that turnaround success was a function of a combination of variety of turnaround strategies and not just one strategy.

The regression model was:

\[ Y = 1.945 + 0.575X_1 + 0.562X_2 + 0.596X_3 + 0.421X_4 + \epsilon \]

Where: \( Y \) = Organizational Performance, \( X_1 \) = Diversification Strategy, \( X_2 \) = Restructuring Strategy, \( X_3 \) = Modernization Strategy, and \( X_4 \) = Retrenchment Strategy.

The equation above revealed that holding diversification strategy, restructuring strategy, modernization strategy, and retrenchment strategy at zero, organizational performance will be at 1.945 units. The findings also show that diversification strategy is statistically significant in explaining organizational performance (\( \beta = 0.575, P = 0.019 \)). This indicates that diversification strategy positively and significantly relates with organizational performance.

Therefore, increasing diversification strategy by a unit leads to an increase in performance of commercial banks in Kenya by 0.575 units. Sije (2017) established that majority (89.2%) respondents concurred that business performance is increased by strategies of diversification which concurs with current study findings. Walshe (2014) suggested that most of the participants showed an agreement on the synergies that emerge from learning from best practices and sharing of ideas about markets and business cultures. In addition, Kavale (2017) found out that diversification and productivity increase corporate growth.

Restructuring strategy is statistically significant in explaining organizational performance (\( \beta = 0.562, P = 0.027 \)). This indicates that restructuring strategy positively and significantly relate with organizational performance. These results were in agreement with the works of Laitien (2011) that the more an organization is compactible to reorganization turnaround strategies the higher the chances of the organization performing better and better. This is in line with the findings that increasing restructuring strategy by a single unit will lead to an increase in performance of commercial banks in Kenya by 0.562 units. Sije (2017) found that reorganization strategy positively influences performance of organizations which concurs with current study findings.

Modernization strategy is statistically significant in explaining organizational performance (\( \beta = 0.569, P = 0.003 \)). This indicates that modernization strategy positively and significantly relates with organizational performance. Therefore, increasing modernization strategy by a single unit will lead to an increase in performance of commercial banks in Kenya by 0.569 units. These concurs with Randa (2012) who concluded that when obsolete technologies and processes are maintained within the organization, they cause organizations to decline in their processes, though these involve huge investments for upgrading, in the long-term it can be very useful as a cost cutting tool. The study also concluded that investing in technology played an important role in lowering the total costs of a firm (giving a cost advantage) and helped in differentiating its products (giving a competitive advantage), which would be reflected in increased net profit hence organizational performance.

The study findings indicated that upgrading technology could vary from strengthening the current operation to investment in new processes. This concurs with Kavale (2017) who found out that technology increases corporate growth in Ethiopia which is contrary to the findings of this study. The findings further showed that retrenchment strategy is statistically significant in explaining organizational performance (\( \beta = 0.421, P = 0.032 \)). This indicates that retrenchment
strategy positively and significantly relates with organizational performance. Therefore, increasing retrenchment strategy by a single unit will lead to an increase in performance of commercial banks in Kenya by 0.421 units. Mutunga (2013) also supports the study as she concludes that for the turnaround strategies to be successful, status quo must change by injecting new and vibrant workforce committed to her vision and that it should be swift, prompt, and decisive to negate the spillover effect such neglect could cause. In his study, Shale, (2014) indicated that cost reduction strategy had greater influence on procurement performance in state corporations in Kenya which contradicts this study’s findings.

5. Summary, Conclusions and Recommendations

5.1. Summary of the Findings

5.1.1. Influence of Diversification Strategy on Organizational Performance

The study found that diversification strategy is statistically significant in explaining organizational performance. The study also found that through diversification strategy of market penetration, the bank sells its products/services to existing markets to obtain a higher market share and the bank is focusing on identifying new markets to meet customer demands. The study also found that through concentric diversification, the bank utilizes the existing employees’ competences to provide new services and concentric diversification helps the organization departments to work together to achieve large goals. Further, the study revealed that through conglomerate diversification, the bank is focusing on creating new products/services to meet new customer needs and the bank is considering merging with other firms to gain a competitive edge.

5.1.2. Influence of Restructuring Strategy on Organizational Performance

The study established that restructuring strategy is statistically significant in explaining organizational performance. The study also established that through change of structure, the bank has created new lines of communication to eliminate barriers to productivity and the bank has eliminated some management layers to improve communication and decision-making. The study also established that by reconfiguring internal operations, the organization departments work as one large team to meet set objectives and bank has created departments which are correlated.

5.1.3. Influence of Modernization Strategy on Organizational Performance

The study revealed that modernization strategy is statistically significant in explaining organizational performance. The study also established that the banks have adopted new technology to meet the changing business needs; also, technology has helped in improving efficiency in the organization. In line with renewal of assets, the study found that the organization has acquired new assets to improve operations in the organization and that asset renewal helps to manage maintenance costs. Further on new business processes, the study established that employees have come up with innovative ways of performing their tasks and that technology provides efficient and effective way of carrying out business processes.

5.1.4. Influence of Retrenchment Strategy on Organizational Performance

The study established that retrenchment strategy is statistically significant in explaining organizational performance. The study also established that the bank practices project-based employment and that project-based employment has helped in tapping the needed skills for specific tasks in the organization. The study also established downsizing has helped in reducing the amount used in paying employees and that downsizing has helped in reducing work repetition in the banks. In line with HR outsourcing, the study found that outsourcing HR has helped in bringing in talent in the bank and that outsourcing HR has helped to reduce costs and avoid trying to financially maintain non-revenue-generating back-office expenses.

5.2. Conclusions

Based on the findings, the study concludes that increasing diversification strategy will lead to an increase in performance of commercial banks in Kenya. The study established that restructuring strategy is statistically significant in explaining organizational performance. Further, study concludes that increasing restructuring strategy will lead to an increase in performance of commercial banks in Kenya. The study revealed that modernization strategy is statistically significant in explaining organizational performance. The study further established that modernization strategy positively and significantly relates with organizational performance. The study therefore concludes that an increase in modernization strategy will result to an increase in performance of commercial banks in Kenya. Moreover, the study concludes that increasing retrenchment strategy will lead to an increase in performance of commercial banks in Kenya.

5.3. Recommendations

The study recommends management of commercial banks to make sure that all the respective heads of departments have full and clear information on time to enhance easy decision making on organizational restructuring to enhance performance. The study also recommend that banks to adopt financial restructuring strategy as this would enhance liquidity management in the bank, lower the cost of capital, reduce risk in the bank, avoid loss of control and
improve shareholder value, introduction of improve debt cards and increase lending performance, reduces payment pressures through equity based and debt-based strategies by dividend cuts or issuance of shares to retain or generate funds.

The study recommends commercial banks to embrace modern technology, technology is an important asset in improving business and transforming market functions in modern society; this will improve productivity and reduced costs through automation of business. The study also recommends management of the banks to considered asset retrenchment strategy which involves assessing the importance of a department in an organization that is underperforming and analyzing its efficiency in order to consider whether it should be discontinued or continued.

5.3. Suggestions for Further Studies

The main focus of this study was to analyze the influence of turnaround strategies on performance of commercial banks in Kenya. The study recommends a study to be conducted on other turnaround strategies that influence organizational performance. The study focused on commercial banks; the study therefore recommends replication of the study among manufacturing companies to facilitate comparison of the research findings. The study also recommends further study to be carried out to determine critical success factors to adoption of turnaround strategies in commercial banks.

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