

Journal of Strategic Management



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ISSN: 2616-8472

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How to cite this article: Menya, F. O., Omare, M., & Cheruon, R. (2026). Turnaround Strategies, Employee Engagement and Financial Performance of Microfinance Banks in Nairobi County, Kenya. *Journal of Strategic Management*, 10(6), 68–83. <https://doi.org/10.53819/81018102t2614>

ABSTRACT

Microfinance banks play a vital role in advancing financial inclusion in Kenya, yet the sector has been in sustained decline, with negative returns on assets in every year since 2020, roughly a third of the loan book non-performing and operating costs exceeding operating income. Many banks have responded with turnaround strategies, but sector performance has continued to deteriorate, suggesting that the problem lies in how such strategies are executed. This study examined the mediating role of employee engagement in the relationship between turnaround strategies and financial performance of microfinance banks in Nairobi County, Kenya. Turnaround strategies comprised cost reduction, asset management, concentration and leadership change strategies, while employee engagement was operationalized as employee commitment, involvement in decision-making and staff motivation. The study was anchored on Strategic Renewal Theory and Transformational Leadership Theory and adopted a cross-sectional descriptive survey design. The target population was the top management of all 13 licensed microfinance banks, all headquartered in Nairobi County; one bank was used for the pilot study, leaving a census of 60 top managers in 12 banks, of whom 48 responded, a response rate of 80%. Primary data were collected using a structured questionnaire and analysed using descriptive statistics, Pearson correlation and Baron and Kenny's four-step mediation procedure, with the indirect effect tested using the Sobel test. Employee engagement was moderately high (mean = 3.75), although involvement in decision-making was the weakest-rated practice (mean = 2.71). Turnaround strategies had a significant total effect on financial performance ($\beta = 0.875$, $R^2 = 0.765$, $p < 0.05$) and a significant effect on employee engagement ($\beta = 0.940$, $p < 0.05$), while employee engagement significantly predicted financial performance ($\beta = 0.870$, $p < 0.05$). When both predictors were entered together, the effect of turnaround strategies fell to $\beta = 0.359$ but remained significant ($p = 0.002$), and the indirect effect was significant ($ab = 0.766$, Sobel $z = 5.31$, $p < 0.001$), indicating partial mediation. The

<https://doi.org/10.53819/81018102t2614>

study concluded that turnaround strategies influence financial performance largely through engaged employees, but that engagement in the banks is valued more than it is institutionalized. It recommends that microfinance banks adopt formal engagement policies and participation structures as part of their turnaround plans, and that the Central Bank of Kenya incorporate engagement indicators into the supervision of banks implementing turnaround plans.

Keywords: *Turnaround Strategies, Employee Engagement, Financial Performance, Microfinance Banks, Strategic Renewal.*

I. INTRODUCTION

Organizational decline and its reversal are central concerns of strategic management. Firms operating in environments marked by technological change, shifting customer expectations and intensified competition frequently experience falling profitability, inefficiency and financial distress, and turnaround strategies are the deliberate responses through which management arrests such decline and restores viability (Hofer, 1980; Pearce & Robbins, 1993). The turnaround literature distinguishes retrenchment actions, which stabilize the firm by cutting costs and disposing of assets, from recovery actions, which reposition it by refocusing on core markets and renewing leadership (Robbins & Pearce, 1992; Schmitt & Raisch, 2013). Globally, firms facing performance pressure typically combine cost-cutting, asset restructuring, business refocusing and leadership change to restore efficiency and competitiveness (Abdillah et al., 2024; Boudia & Slevogt, 2024). Yet the same repertoire of strategies produces very different outcomes in different firms, and a growing body of work attributes this variation to execution, and in particular to the response of the employees who must carry the strategy out (Trahms et al., 2013; Rivera-Prieto et al., 2025).

Employee engagement offers a lens on this execution problem. Engagement refers to the harnessing of employees' selves to their work roles, expressed physically, cognitively and emotionally (Kahn, 1990), and meta-analytic evidence links business-unit engagement to productivity and profitability (Harter et al., 2002). In turnaround settings, engagement is both at risk and at a premium: retrenchment measures such as downsizing tend to weaken the commitment of surviving employees (Brockner et al., 2004), while recovery depends on staff who are willing to adopt new priorities and work under new leadership (Arogyaswamy et al., 1995). In Africa, economic volatility, regulatory pressure and governance weaknesses have pushed many financial institutions to adopt turnaround strategies (Forson et al., 2023; Ibitoye et al., 2025), but evidence on how the workforce mediates their results remains thin.

In Kenya, microfinance banks (MFBs) were brought under the prudential supervision of the Central Bank of Kenya (CBK) by the Microfinance Act, 2006 (Republic of Kenya, 2006), and by 2024 the CBK had licensed 13 MFBs, all headquartered in Nairobi County (Central Bank of Kenya, 2024). The sector has been in sustained decline. Its return on assets (ROA) has been negative in every year since 2020, falling from -3.8% in 2020 to -3.72% in 2023 and -6.10% in 2024, while the non-performing loan (NPL) ratio has remained close to a third of the loan book, peaking at 34.2% in 2021 and standing at 28.8% in 2024 (Central Bank of Kenya, 2024, 2025). The cost-to-income ratio rose from 97.8% in 2022 to 110.8% in 2023 (Kenya Bankers Association, 2024) and reached 119.4% in 2024, meaning that operating costs exceeded operating income. The drivers are both external, including competition from digital lenders, SACCOs and commercial banks, and internal, including loan defaults, branch-heavy cost structures and governance weaknesses (Moronya, 2024; Ondago, 2024; Githui & Nafula, 2025).

Several MFBs have responded with restructuring, recapitalization, credit risk reforms and leadership changes, yet sector-level results have not improved, and the gains reported by

individual institutions have been inconsistent and short-lived (Mwikya & Khamah, 2020). Prior Kenyan studies have examined turnaround strategies through secondary financial statements or in relation to service delivery, and have treated the effect of strategy on performance as direct (Mwikya & Khamah, 2020; Githui & Nafula, 2025). None has examined whether the engagement of the employees who implement turnaround strategies explains how those strategies translate into financial results. This study therefore examined the mediating role of employee engagement in the relationship between turnaround strategies and financial performance of MFBs in Nairobi County, Kenya. It contributes to strategic management literature by modelling engagement as the execution mechanism of turnaround strategy in a distressed emerging-market financial sector.

Statement of the Problem

From a strategic management perspective, the deterioration in the financial performance of Kenya's MFBs is the symptom of organizational decline rather than the problem itself. The sector recorded a combined pre-tax loss of KSh 2.39 billion in 2023, with ROA at -3.72%, an NPL ratio of 31.8% and a cost-to-income ratio of 110.8% (Central Bank of Kenya, 2024; Kenya Bankers Association, 2024), and by 2024 ROA had fallen further to -6.10% while the cost-to-income ratio had risen to 119.4% (Central Bank of Kenya, 2025). Because all licensed MFBs are headquartered in Nairobi County, the decline is concentrated in the county and threatens the institutions' role in financial inclusion and enterprise development.

Turnaround theory holds that decline is reversed through a coherent sequence of retrenchment and recovery, and that execution depends on the commitment of the people who implement the strategy (Pearce & Robbins, 1993; Trahms et al., 2013). Kenyan MFBs have adopted cost reduction, asset management, refocusing and leadership change measures, yet sector performance has continued to decline, which suggests that the problem lies in how turnaround strategies are executed rather than in the absence of action. Turnaround strategies act on financial results through the behaviour of employees: retrenchment can erode commitment and morale (Brockner et al., 2004; Trevor & Nyberg, 2008), and new leadership influences performance largely through its effect on followers (Bass & Riggio, 2006).

Existing studies on Kenyan MFBs have not examined this mechanism. Studies relying on secondary financial statements could not observe how strategies were implemented (Githui & Nafula, 2025), while studies of leadership or engagement in MFIs have examined direct relationships with performance rather than the pathway linking strategy to results (Utuku, 2022; Nthiga et al., 2023). As a result, turnaround strategies have been treated as if their effect on performance were automatic, leaving unexplained why similar strategies produce different outcomes in different banks. This study addressed this gap by examining employee engagement as a mediating variable in the relationship between turnaround strategies and financial performance of MFBs in Nairobi County, Kenya.

Objective of the Study

The objective of this research was to examine the mediating role of employee engagement on the relationship between turnaround strategies and financial performance of microfinance banks in Nairobi County, Kenya.

Research Hypothesis

H0: There is no statistically significant mediating role of employee engagement on the relationship between turnaround strategies and financial performance of microfinance banks in Nairobi County, Kenya.

Literature Review

Barrick et al. (2015) examined collective organizational engagement as the mechanism linking organizational resources to firm performance in a sample of 83 small and mid-sized credit unions in the United States. The study found that motivating work design, human resource management practices and chief executive transformational leadership raised collective engagement, which in turn mediated their relationship with firm performance measured by return on assets. The study also found that strategic implementation by the top management team strengthened the effect of these resources on engagement. The findings are directly relevant because they establish, in deposit-taking financial institutions, that engagement is the channel through which leadership and management practices reach financial results. However, the credit unions studied were not in decline, and the study examined organizational resources rather than turnaround strategies, so it leaves open whether engagement plays the same role when firms are cutting costs and restructuring under financial distress.

Rich et al. (2010) investigated job engagement as a mediator between employee perceptions and job performance among firefighters in the United States. The study found that value congruence, perceived organizational support and core self-evaluations influenced task performance and organizational citizenship behaviour largely through engagement, and that engagement explained performance better than job involvement, job satisfaction or intrinsic motivation. These findings agree with Barrick et al. (2015) that engagement is a pathway through which organizational conditions are converted into performance. However, the study measured individual rather than organizational performance and was conducted outside the financial sector, which limits its direct application to the financial performance of microfinance banks.

Evidence from the downsizing literature shows why engagement is fragile during retrenchment. Brockner et al. (2004) found that layoffs weakened the organizational commitment and job performance of surviving employees, but that the negative effect was substantially reduced where survivors perceived that they retained control over their work. Trevor and Nyberg (2008) similarly found that downsizing increased subsequent voluntary turnover, and that the increase was smaller in firms with human resource practices that embedded employees and signalled fair treatment. Together, these studies suggest that the effect of retrenchment on performance depends on how employees experience it, and that involvement and voice are the conditions that protect commitment. They did not, however, link these employee responses to the financial outcomes of a full turnaround programme. In a case study of an airline during the COVID-19 crisis, Rivera-Prieto et al. (2025) showed that turnaround strategies were accompanied by human resource strategies and managerial communication aimed at retaining employee support, highlighting the human dimension of turnaround execution, although a single case cannot establish the strength of the relationship.

In Kenya, Utuku (2022) examined employee engagement and the performance of BIMAS Kenya Limited, a microfinance institution, using a census of 48 managers. The study found that commitment, empowerment, retention and the regulatory environment jointly explained 79.2% of the variation in performance, with empowerment through managerial support and autonomy in decision-making identified as significant. Nthiga et al. (2023) surveyed microfinance banks in Kenya and found a strong positive relationship between transformational leadership and performance, recommending individualized consideration and intellectual stimulation as priorities. These studies confirm that engagement and leadership matter for performance in Kenyan microfinance, but both examined direct relationships, one was confined to a single institution, and neither examined turnaround strategies or tested

mediation. Overall, the reviewed studies agree that engagement links organizational action to performance, but none has tested whether engagement mediates the relationship between turnaround strategies and financial performance in distressed microfinance banks, which is the gap the present study addresses.

Theoretical Framework

This study was anchored on Strategic Renewal Theory and supported by Transformational Leadership Theory. Strategic Renewal Theory, articulated by Agarwal and Helfat (2009), explains how organizations purposefully refresh or replace the attributes that determine their long-term prospects, namely their strategy, structure, resources and capabilities, in order to reverse decline and restore performance. Renewal is a process enacted by organizational members rather than a single managerial decision. Within the theory, cost reduction and asset management represent the reconstruction of internal resources (retrenchment), while concentration and leadership change represent the redefinition of the core business and the catalyst for transformation (recovery) (Robbins & Pearce, 1992; Schmitt & Raisch, 2013). Because renewal is carried out by people, the theory implies that turnaround strategies reach financial performance through the employees who implement them.

Transformational Leadership Theory, developed by Burns (1978) and extended by Bass (1985), explains how leaders raise the commitment and motivation of followers through idealized influence, inspirational motivation, intellectual stimulation and individualized consideration (Bass & Riggio, 2006). The theory locates the effect of leadership in followers' responses: leaders who articulate a turnaround vision and involve employees in it raise commitment, participation and motivation, which are the three dimensions of employee engagement examined in this study. Guided by the two theories, the study expected that turnaround strategies would improve the financial performance of MFBs partly by raising employee engagement, and that engagement would therefore mediate the relationship between turnaround strategies and financial performance.

Conceptual Framework

This study was guided by the following conceptual framework, which shows a diagrammatic representation of the relationship between the variables. This is shown in Figure 1.

Figure 1:
Conceptual Framework

Independent Variable		Mediating Variable		Dependent Variable
Turnaround Strategies	→	Employee Engagement	→	Financial Performance
• Cost reduction strategies • Asset management strategies • Concentration strategies • Leadership change strategy		• Employee commitment • Decision involvement • Staff motivation		• Return on assets • Non-performing loan ratio • Cost-to-income ratio

II. RESEARCH METHODOLOGY

This study adopted a cross-sectional descriptive survey design to examine the mediating role of employee engagement in the relationship between turnaround strategies and financial performance of MFBs in Nairobi County, Kenya. The target population comprised all 13 MFBs licensed by the Central Bank of Kenya, all of which are headquartered in Nairobi County. The bank was the unit of analysis, while top management was the unit of observation, defined as the five executives who hold substantive responsibility for formulating and executing turnaround strategy in each bank: the Chief Executive Officer and the Heads of Business Development, Human Capital, Credit and Finance. One randomly selected bank and its five executives were used for the pilot study and excluded from the main study, leaving a census of 60 top managers in 12 banks. Of the 60 questionnaires distributed, 48 were returned, a response rate of 80%, which is adequate for analysis (Mugenda & Mugenda, 2003).

Primary data were collected using a structured questionnaire on a five-point Likert scale. Employee engagement was measured through ten items covering employee commitment, involvement in decision-making and staff motivation; turnaround strategies through ten items for each of cost reduction, asset management, concentration and leadership change strategies, combined into a composite index; and financial performance through ten items through which top managers rated their bank's monitoring of, and improvement in, ROA, NPL ratio and cost-to-income ratio. A perceptual measure of financial performance was used because responses were anonymous and bank-level ratios take a single value for all respondents of a bank. Sector-level secondary data on the three ratios for 2020 to 2024, drawn from Central Bank of Kenya and Kenya Bankers Association reports, were used to describe the performance trend and to triangulate the survey findings. Content validity was established through review by the supervisors and subject experts, and the pilot test returned Cronbach's alpha coefficients above 0.79 for all scales, including 0.793 for employee engagement and 0.818 for financial performance.

Data were analysed using descriptive statistics, Pearson correlation and Baron and Kenny's (1986) four-step mediation procedure, with the significance of the indirect effect tested using the Sobel (1982) test. Diagnostic tests confirmed that the data were normally distributed (Shapiro-Wilk $p = 0.341$ for employee engagement and $p = 0.525$ for financial performance), that the residuals were homoscedastic (Breusch-Pagan $\chi^2 = 0.145$, $p = 0.292$) and that multicollinearity was within acceptable limits (VIF for employee engagement = 2.000). With 48 cases, the sample exceeded the 34 to 36 cases that Fritz and MacKinnon (2007) show are required for 0.80 power with the Sobel test when both mediation paths are large. The study adopted the following empirical models:

$$\text{Step 1: } Y = \beta_0 + \beta_1 X + \varepsilon$$

$$\text{Step 2: } M = \alpha_0 + \alpha_1 X + \varepsilon$$

$$\text{Step 3: } Y = \gamma_0 + \gamma_1 M + \varepsilon$$

$$\text{Step 4: } Y = \delta_0 + \delta_1 X + \delta_2 M + \varepsilon$$

Where:

Y = Financial performance

X = Turnaround strategies (composite index)

M = Employee engagement

$\beta_0, \alpha_0, \gamma_0, \delta_0$ = Constant terms

$\beta_1, \alpha_1, \gamma_1, \delta_1, \delta_2$ = Regression coefficients

ε = Error term

Mediation was inferred where turnaround strategies significantly predicted financial performance (Step 1) and employee engagement (Step 2), engagement significantly predicted financial performance (Steps 3 and 4), and the coefficient of turnaround strategies declined when engagement was added (Step 4). Mediation was full if the coefficient of turnaround strategies became insignificant in Step 4 and partial if it declined but remained significant.

III. RESULT

Descriptive Results

The respondents were asked to indicate their level of agreement with statements relating to employee engagement using a five-point Likert scale where 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, and 5 = Strongly Agree. The results are presented in Table 1.

Table 1:

Descriptive Statistics on Employee Engagement

Statements	N	Mean	Std. Dev
Employees in this bank show strong commitment to their work.	48	3.10	1.16
Staff are actively involved in decision-making processes.	48	2.71	1.02
Employees are motivated to contribute to organizational goals.	48	4.21	0.41
Communication between management and employees is open and regular.	48	3.71	0.79
Employees adapt quickly to organizational changes.	48	3.44	0.91
Staff feel that their contributions are valued by management.	48	4.10	0.31
Employee engagement has supported the success of turnaround initiatives.	48	4.10	0.31
Higher staff involvement has improved financial outcomes.	48	4.10	0.31
Employees are encouraged to share ideas that enhance performance.	48	4.02	0.43
Staff morale remains strong during periods of organizational change.	48	4.02	0.43
Overall mean score & standard deviation	48	3.75	0.50

The findings indicate that employees were rated as highly motivated to contribute to organizational goals (Mean = 4.21, Std. Dev = 0.41) and as feeling that their contributions are valued by management (Mean = 4.10, Std. Dev = 0.31). Respondents also agreed that employee engagement had supported the success of turnaround initiatives (Mean = 4.10, Std. Dev = 0.31) and that higher staff involvement had improved financial outcomes (Mean = 4.10, Std. Dev = 0.31), while employees were encouraged to share ideas (Mean = 4.02, Std. Dev =

<https://doi.org/10.53819/81018102t2614>

0.43) and morale remained strong during periods of change (Mean = 4.02, Std. Dev = 0.43). The low standard deviations on these items indicate a high degree of consensus. These findings suggest that top managers regard engagement as an important contributor to turnaround success, which is consistent with Harter et al. (2002), who linked business-unit engagement to productivity and profitability, and with Barrick et al. (2015), who found that collective engagement carried the effect of leadership and management practices to the financial performance of credit unions.

Moderate agreement was recorded regarding open and regular communication between management and employees (Mean = 3.71, Std. Dev = 0.79) and the speed with which employees adapt to organizational change (Mean = 3.44, Std. Dev = 0.91). The weakest ratings were for employees showing strong commitment to their work (Mean = 3.10, Std. Dev = 1.16) and staff involvement in decision-making (Mean = 2.71, Std. Dev = 1.02), the latter being the lowest-rated item in the entire questionnaire, with half of the respondents disagreeing or strongly disagreeing. The high standard deviations on these two items indicate considerable variation across banks. Overall, employee engagement recorded a mean of 3.75 and a standard deviation of 0.50, indicating a moderately high level, but with a clear paradox: employees are perceived as motivated and valued, and managers credit engagement with turnaround success, yet the structural practices that generate engagement, especially participation in decisions, are the least implemented. A likely explanation is that decision-making in the banks remains centralized in senior management during turnaround. The finding echoes Utuku (2022), who identified empowerment and autonomy in decision-making as significant drivers of performance in a Kenyan microfinance institution, and Brockner et al. (2004), who found that perceived control protects employee commitment during retrenchment.

Top managers rated financial performance highly (Mean = 4.03, Std. Dev = 0.89), with the strongest agreement on the monitoring of ROA and operational efficiency (Mean = 4.38) and the weakest on the tracking and reduction of non-performing loans (Mean = 3.75). The sector-level secondary data show that ROA was negative in all five years from 2020 to 2024, the NPL ratio remained between 28.8% and 34.2%, and the cost-to-income ratio exceeded 100% in four of the five years. The ordering of managers' ratings mirrors the secondary data, in which asset quality is the indicator in the worst condition, but the high perceptual ratings contrast with the sector's falling ROA. The survey measure is therefore best interpreted as capturing performance relative to each bank's own past and to its peers rather than the absolute condition of the sector.

Correlation Results

Table 2 presents the correlation results among turnaround strategies, employee engagement and financial performance of microfinance banks in Nairobi County, Kenya.

Table 2:

Correlation Results

		Turnaround strategies	Employee engagement	Financial performance
Turnaround strategies	Pearson Correlation	1		
Employee engagement	Pearson Correlation	.940**	1	
	Sig. (2-tailed)	0.000		
Financial performance	Pearson Correlation	.875**	.870**	1
	Sig. (2-tailed)	0.000	0.000	

** . Correlation is significant at the 0.01 level (2-tailed). Listwise N = 48

The findings reveal a very strong positive and statistically significant relationship between turnaround strategies and employee engagement ($r = 0.940$, $p = 0.000$), implying that banks that implement cost reduction, asset management, concentration and leadership change strategies more fully also report more committed, involved and motivated employees. Employee engagement had a strong positive and statistically significant relationship with financial performance ($r = 0.870$, $p = 0.000$), and turnaround strategies were likewise strongly related to financial performance ($r = 0.875$, $p = 0.000$). The pattern satisfies the preconditions for mediation, since the independent variable, the mediator and the dependent variable are all significantly related. The very high correlations also call for caution, because all three constructs were rated by the same respondents and may share common method variance (Podsakoff et al., 2003). Substantively, the results support Strategic Renewal Theory's proposition that renewal is enacted by organizational members, and are consistent with Barrick et al. (2015) and Rich et al. (2010), who found that engagement is closely bound up with both the organizational conditions that produce it and the performance that follows from it.

Regression Results

Baron and Kenny's (1986) four-step procedure was used to test the mediating role of employee engagement. The results of each step, covering model fitness, analysis of variance (ANOVA) and regression coefficients, are presented in Tables 3 to 6, and the mediation test is summarized in Table 7.

Table 3:

Step 1: Effect of Turnaround Strategies on Financial Performance

Model Summary	R	R Square	Adjusted R Square	Std. Error of the Estimate	
1	.875a	.765	.760	.440185	
ANOVA	Sum of Squares	df	Mean Square	F	Sig.
Regression	29.004	1	29.004	149.686	.000b
Residual	8.913	46	.194		
Total	37.917	47			
Coefficients	B	Std. Error	Beta	t	Sig.
(Constant)	.306	.292		1.050	.299
Turnaround strategies	.909	.074	.875	12.235	.000

a. Predictors: (Constant), Turnaround strategies; b. Dependent Variable: Financial performance

The results in Table 3 indicate that turnaround strategies explained 76.5% of the variation in financial performance ($R^2 = 0.765$), and the model was statistically significant ($F = 149.686$, $p = 0.000$). Turnaround strategies had a positive and statistically significant total effect on financial performance ($B = 0.909$, $\beta = 0.875$, $t = 12.235$, $p = 0.000$), implying that a one-unit improvement in the implementation of turnaround strategies is associated with a 0.909-unit improvement in financial performance. The first condition for mediation was therefore satisfied. The finding is consistent with the retrenchment and recovery model of turnaround (Pearce & Robbins, 1993) and with Githui and Nafula (2025), who reported that turnaround measures were associated with improved performance among Kenyan banks.

Table 4:

Step 2: Effect of Turnaround Strategies on Employee Engagement

Model Summary	R	R Square	Adjusted R Square	Std. Error of the Estimate	
2	.940a	.884	.881	.409150	
ANOVA	Sum of Squares	df	Mean Square	F	Sig.
Regression	58.466	1	58.466	349.253	.000b
Residual	7.701	46	.167		
Total	66.167	47			
Coefficients	B	Std. Error	Beta	t	Sig.
(Constant)	-1.532	.271		-5.646	.000
Turnaround strategies	1.291	.069	.940	18.688	.000

a. Predictors: (Constant), Turnaround strategies; b. Dependent Variable: Employee engagement

Table 4 shows that turnaround strategies explained 88.4% of the variation in employee engagement ($R^2 = 0.884$), and the model was statistically significant ($F = 349.253$, $p = 0.000$). Turnaround strategies had a positive and statistically significant effect on employee engagement ($\alpha = 1.291$, $\beta = 0.940$, $t = 18.688$, $p = 0.000$), satisfying the second condition for mediation. The implication is that the way MFBs implement turnaround strategies shapes the commitment, involvement and motivation of their employees. This supports Transformational Leadership Theory's emphasis on followers' responses to change, and agrees with Barrick et al. (2015), who found that leadership and management practices raise collective engagement, and with Trevor and Nyberg (2008), who showed that how restructuring is handled determines whether employees stay committed.

Table 5:

Step 3: Effect of Employee Engagement on Financial Performance

Model Summary	R	R Square	Adjusted R Square	Std. Error of the Estimate	
3	.870a	.757	.752	.447589	
ANOVA	Sum of Squares	df	Mean Square	F	Sig.
Regression	28.701	1	28.701	143.266	.000b
Residual	9.215	46	.200		
Total	37.917	47			
Coefficients	B	Std. Error	Beta	t	Sig.
(Constant)	.934	.247		3.776	.000
Employee engagement	.792	.066	.870	11.969	.000

a. Predictors: (Constant), Employee engagement; b. Dependent Variable: Financial performance

The results in Table 5 indicate that employee engagement explained 75.7% of the variation in financial performance ($R^2 = 0.757$), with a statistically significant model ($F = 143.266$, $p = 0.000$). Employee engagement had a positive and statistically significant effect on financial performance ($B = 0.792$, $\beta = 0.870$, $t = 11.969$, $p = 0.000$), implying that higher commitment, involvement and motivation are associated with better financial performance. The finding agrees with Harter et al. (2002), who linked engagement to profitability across business units, and with Utuku (2022), who found that engagement dimensions explained most of the variation in the performance of a Kenyan microfinance institution.

Table 6:

Step 4: Combined Effect of Turnaround Strategies and Employee Engagement on Financial Performance

Model Summary	R	R Square	Adjusted R Square	Std. Error of the Estimate	
4	.960a	.922	.919	.255547	
ANOVA	Sum of Squares	df	Mean Square	F	Sig.
Regression	34.978	2	17.489	267.807	.000b
Residual	2.939	45	.065		
Total	37.917	47			
Coefficients	B	Std. Error	Beta	t	Sig.
(Constant)	.137	.162		.845	.403
Turnaround strategies	.348	.108	.359	3.213	.002
Employee engagement	.593	.107	.618	5.522	.000

a. Predictors: (Constant), Employee engagement, Turnaround strategies; b. Dependent Variable: Financial performance

Table 6 shows that turnaround strategies and employee engagement together explained 92.2% of the variation in financial performance ($R^2 = 0.922$), and the model was statistically significant ($F = 267.807$, $p = 0.000$). Both turnaround strategies ($B = 0.348$, $\beta = 0.359$, $t = 3.213$, $p = 0.002$) and employee engagement ($B = 0.593$, $\beta = 0.618$, $t = 5.522$, $p = 0.000$) had positive and statistically significant effects. When engagement was added, the coefficient of turnaround strategies fell from $\beta = 0.875$ in Step 1 to $\beta = 0.359$, but it remained significant. Employee engagement therefore partially mediates the relationship between turnaround strategies and financial performance.

Table 7:

Summary of Mediation Test

Path	Coefficient	Std. Error	Sig.
Total effect of turnaround strategies on financial performance (c)	0.909	0.074	0.000
Turnaround strategies → employee engagement (a)	1.291	0.069	0.000
Employee engagement → financial performance, controlling for X (b)	0.593	0.107	0.000
Direct effect of turnaround strategies on financial performance (c')	0.348	0.108	0.002
Indirect effect (a × b)	0.766	Sobel z = 5.31	< 0.001
Decision	Partial mediation; H_0 rejected		

The indirect effect, computed as the product of the a and b paths ($1.291 \times 0.593 = 0.766$), was statistically significant on the Sobel test ($z = 5.31$, $p < 0.001$) and accounted for approximately 84% of the total effect ($0.766 \div 0.909$). The null hypothesis that employee

engagement has no statistically significant mediating role was therefore rejected. Most of the association between turnaround strategies and financial performance is transmitted through employee engagement, while a smaller but significant direct association remains. These findings support Strategic Renewal Theory's view that renewal is enacted through organizational members (Agarwal & Helfat, 2009) and extend Barrick et al. (2015), who found that collective engagement mediates the effect of leadership and management practices on the ROA of credit unions, to the setting of distressed microfinance banks implementing turnaround strategies.

IV. DISCUSSION

The findings demonstrate that employee engagement is the principal channel through which turnaround strategies relate to the financial performance of microfinance banks in Nairobi County, Kenya. Turnaround strategies were strongly associated with both engagement and financial performance, and once engagement was taken into account their direct effect fell substantially, with the indirect path carrying the larger share of the total effect. This supports the central argument of the study: cost reduction, asset management, concentration and leadership change do not act on financial ratios automatically, but through the commitment, participation and motivation of the employees who implement them. The result offers an explanation for the inconsistent outcomes of turnaround measures in the Kenyan microfinance sector (Mwikya & Khamah, 2020), since banks that adopt similar strategies may differ in how far their workforce is engaged in executing them.

The findings support the two theories on which the study was anchored. Strategic Renewal Theory holds that renewal is carried out by organizational members (Agarwal & Helfat, 2009), and the mediation result supplies an empirical micro-foundation for that proposition in a distressed financial sector. Transformational Leadership Theory locates the effect of leadership in followers' commitment and motivation (Bass & Riggio, 2006); the very strong effect of turnaround strategies on engagement, and of engagement on performance, is consistent with that followership mechanism. The findings are also consistent with Barrick et al. (2015), Rich et al. (2010) and Harter et al. (2002), who established engagement as a pathway from organizational conditions to performance, and with the downsizing studies of Brockner et al. (2004) and Trevor and Nyberg (2008), which show that the way retrenchment is handled determines whether employees remain committed.

The descriptive results qualify these findings in an important way. Engagement carries most of the effect of turnaround strategies on performance, yet the practice that most directly builds it, involvement of staff in decision-making, was the weakest-rated item in the study, and demonstrated commitment was also rated only moderately. Engagement in the banks therefore appears to be produced informally, through motivation and recognition, rather than institutionally, through participative structures. This makes it fragile, particularly during leadership transitions and cost-cutting, and suggests that the banks are relying on a mechanism they have not fully built. The finding extends Transformational Leadership Theory by indicating that leadership in a turnaround must build structures for participation, not only inspire.

Three limitations should be considered when interpreting these results. The design was cross-sectional, so the findings establish associations rather than causal effects; all variables were reported by the same top managers, so common method variance may have inflated the correlations (Podsakoff et al., 2003); and the perceptual measure of financial performance diverged from the sector's falling ROA, so the results are best read as relative rather than absolute performance. The mediation test also relied on the causal-steps approach with a Sobel

test; future studies using bank-level financial ratios, longitudinal data and bootstrapped confidence intervals would provide a more robust test.

V. CONCLUSION

The study concludes that employee engagement partially mediates the relationship between turnaround strategies and financial performance of microfinance banks in Nairobi County, Kenya, and that it transmits most of the effect of those strategies. Turnaround strategies succeed to the extent that the employees who implement them are committed, involved in decisions and motivated. Because engagement in the banks is valued by management but not yet institutionalized, with staff involvement in decision-making the least implemented practice, engagement is both the weakest link in the execution of turnaround and the greatest opportunity for improving its results.

VI. RECOMMENDATIONS

The study recommends that the boards and management of microfinance banks institutionalize employee engagement as an integral part of their turnaround plans rather than leave it to informal goodwill. Banks should adopt a written engagement policy; establish structured channels for staff participation in decisions that affect their work, such as departmental turnaround committees and regular consultative forums; measure engagement at least half-yearly and report the results to the board alongside financial ratios; link recognition and development to contribution during the turnaround; and communicate leadership transitions and restructuring decisions early and candidly. Engagement should be treated as a turnaround performance indicator with the same standing as the cost-to-income ratio. In addition, the Central Bank of Kenya should recognize employee engagement as a supervisory concern in distressed institutions by incorporating indicators such as staff turnover in key control functions, the existence of staff participation structures and the results of periodic engagement surveys into its oversight of microfinance banks implementing approved turnaround plans, so that weaknesses in execution are detected before they appear in the financial ratios.

VII. REFERENCES

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