

**ANALYSIS OF GOVERNEMENT'S POLITICAL
INTERFERENCE IN STRATEGIC DECISIONS
AND ACTIONS AT KENYA CO-OPERATIVE
CREMERIES LTD (KCC LTD), BETWEEN
1963 TO 2003**

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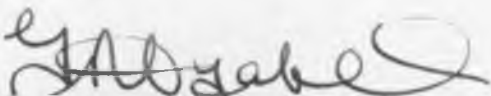
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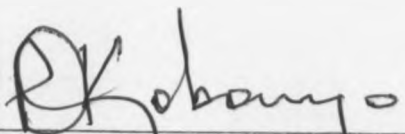
Declaration

This project is my original work and has not been submitted for a degree in any other university

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This project has been submitted for examination with my approval as the university supervisor.

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DEDICATION

I dedicate this project to my lovely wife
Rose Lumumba and children Andrew, Bismark and Kerubo

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This study has been accomplished through the encouragement, support and various contributions from a number of people to whom I am greatly indebted.

First I wish to extend my earnest gratitude to my supervisor, Prof. Peter O K'Obonyo, for his constant encouragement and instruction without which this project would have been very difficult. His contributions I gratefully acknowledge. I would also not forget to thank a number of my friends and more so to my MBA colleagues whose suggestions to the study were highly helpful. Secondly, I would like to appreciate the support, encouragement and patience of my wife Rose and lovely children Andy, Bis and Kerubo especially for the sacrifices and self-denials he underwent during my studies. Finally, I am grateful to the Almighty God who has always been guiding me all along.

ABSTRACT

This was a case study of the Kenya Cooperative Creameries Ltd (KCC). The study was about the analysis of the government's political interference in the strategic actions and decisions in milk processing industry. The objectives of the study were to determine the political processes that characterized management of strategic actions and decisions at KCC LTD 1960 to 2003 and to establish strategic changes introduced at KCC LTD during the said period.

The researcher got information regarding the particulars from court cases, KCC publications, board minutes, newspaper cuttings and other relevant documents available in the University of Nairobi Library as well as Hansard reports of parliament. Since this was a case study, the presentations of the findings were in qualitative form.

From the findings, KCC has undergone a lot of turbulence, political interference and change. In conclusion, it is evident from the study that the government's political arm chose to use blackmail and financial muscle to determine the course of events, actions and decisions at KCC.

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CHAPTER 1: INTRODUCTION

"There is no guarantee that those who gain power will use it wisely or justly. But it is not inevitable that power and politics are always demeaning and destructive. Constructive politics is a possibility and a necessary possibility if we are to create institutions and societies that are both just and efficient."(Bolman and Deal, 1991)

1.1 The Meaning Strategic Actions and Decisions

The environment in which organizations operate is very dynamic. The environment of business is both internal and external. The external business environment consists of the political, the social, the economic and the legal in context. Change in an organization can be either internal or external. It can be in any of the environments or in a combination of them or in all the environments at ago (Kotter, 1985). According to Kotter (1985) there are two types of change that challenge and impact organizations:

1. **Internal**—Structured shifts or programs that are an ongoing phenomenon within an organization. These changes may be undertaken to avoid deterioration of current performance or to improve future performance of a process or system. In this sense, they are controlled and managed from within the organization in an orderly, planned, and systematic way.
2. **External**—Environmental changes that come from outside the organization, and over which the organization exercises little or no control. In business, this could mean shifting economic tides, new competitors, or radical technology developments or political tides. In government, it can mean changes in the world situation, the administration, legislation, budgetary issues, or management reform.

Studies that have been done on change and its management have not dealt with politics in strategic change management, both external and internal. In the internal environment, organizational politics affect the areas of Human Resources management, Operations management, Financial management, Marketing management, Supplies management and legal issues. Power and politics are part of the dynamics of the change process. Vision and

the management of power and politics can define and transform an organization. As critical instruments for strategic leaders, power and politics serve as a fulcrum for organizational behaviour, enacting, reacting, and managing change. The full and active play of power and politics is probably most evident in the highly charged and volatile national environment of government departments and agencies (Mayes, and Allen, 1995).

The driving force in this project is the systematic political and organizational challenges faced by strategic leaders in leading and managing change in the Kenyan parastatals and government organizations. In many cases, the challenges are in acquiring and exercising power and developing political connections and goodwill and the motivation to achieve something even in the face of formidable opposition (Hill, 1995). As Richard Nixon (1975) wrote: "The great leader needs...the capacity to achieve." In this context, we believe the constructive use of power and politics is the basic energy required to start and motivate change...to transform motives into reality and to manage organizational transformation (Pfeffer, 1992). However, in the case of Kenya Cooperative Creameries Ltd, the opposite was true, that the destructive use of power and politics was the thin line between the implementation of positive strategic decisions and or the stagnation of the organisation leading to its eventual collapse.

Leading with power requires well-developed conceptual and interpersonal skills. Once again, environmental scanning is an essential skill for a leader or manager to develop – in that he must be able to discern the power dynamics of his organization if he is to be effective at marshalling power through coalition building to achieve his objectives and effect organizational change (Kotter, 1985). Interpersonal skills are absolutely critical since effective use of power is all about influencing others. He will need to have developed the skills necessary to engage in collaborative leadership, persuasion, and the constructive use of all the sources of power available. He also has to anticipate the destructive use of power derived from other authorities if he is going to be an effective leader in the strategic arena. By leadership it is meant either the personal leadership or the organizational leadership in a competitive field. Where power is diffused, most often his ability to lead will be dependent on his ability to muster the support of those strategic constituencies of the organization – individuals who most often do not report to him but who wield a lot of political clout. One

additional aspect of power to consider is not only how but also why one has to use power. That leader who adds most value to his organization use power constructively to further the collective goals of the organization (Pfeffer, 1992). However the opposite true in that he who uses power destructively. For him, power is a means of personal not organizational goals. It is for this reason that this project tries to look at the way power was used in the management of change in KCC.

1.2 Background of the Dairy Industry

Dairy processing was first officially adopted in Kenya on 22nd August 1925, upon the incorporation of Kenya Co-operative Creameries (KCC) as a public limited company by shares under the Companies Ordinance of 1921 and 1923. On 8th February 1932, the company again registered under the Co-operative Societies Ordinance of 1931, thereby giving it a dual legal position. Over the years the dairy industry has been run through the co-operative movement. It was not until 1958 that the Dairy Industry Act, Chapter 336, was introduced and passed in Parliament. And thereafter revised in 1961, 1963, 1964, 1967, 1969 and lastly in 1984 (The Kenya Gazette, 1984) This Act was set to provide for improvement and control of the dairy industry and its products in Kenya, via the establishment of the Kenya Dairy Board. Since then, the marketing of dairy products in the country has been dominated by the co-operative sector (GOK Sessional Paper No. 4, 1987). Immediately after liberalization in 1992, about 52 dairies were operating in the field. However they were consuming only 20% of the raw milk and 80% went to hawking (KCC Articles of Association, 1984).

1.3 Background of Kenya Cooperative Creameries Ltd (KCC)

4.1 Profile

KCC was initially registered as a Public Limited Company in August 1925 by a few European settlers for the purpose of processing and marketing milk produced in their farms, although now it's a co-operative society. The first creamery was opened in Naivasha in April 1926, followed by Nanyuki in 1927, Nyahururu (Thompson Falls) in 1934, then Eldoret (Sosiani) in 1935. During its early period, KCC concentrated in

production of butter for local and export markets. In 1935 onwards, it started organizing and taking over liquid milk market in towns in Kenya.

In 1945, the name changed from Kenya Co-operative Creamery Limited to Kenya Co-operative Creameries Limited. In 1956 KCC was among the first companies in the world to start packing in Tetra Pak, then a revolutionary method of packing milk and cream. With the advent of independence, the society's membership composition began to change gradually from a wholly European Settler Society to a predominantly African society, through Co-operative Societies.

Since its incorporation in 1925, KCC had grown to be a monopoly in dairy processing and distribution. At its peak it was operating 11 collection centres and 11 processing factories and employing about 4000 employees. It handled about 420 million litres of both raw and reconstituted milk and produced about 17 dairy products. Prior to 1969, the dairy industry was served by several processors, which utilised various packaging systems, such as bottles, sachets and offered competition to KCC. However, in 1968, Government rationalised milk distribution by withdrawing operating licenses of the main competing dairies and gave monopoly to KCC, which was using the Tetrapak Packaging System.

From 1968 to 1978 KCC was rapidly expanded through provision of Government loans and Government guaranteed external soft loans. The rapid expansion appears to have outstripped the management capability and by 1980 company surpluses started declining and in 1987 it started experiencing losses. In 1989 the Government deregistered KCC as a private company and put it under the Cooperative Act. The board was also removed and replaced by a Government appointed board. In August 1991 the management of KCC was put back in the hands of farmers through government appointed directors under the Ministry of Co-operative Development. Like the recently appointed board, that board was to be in office for one year and then call an election, which was never to be. The board stayed on without calling for an election under the relevant Act in running the organization until it was bundled out in 1995 under the World Bank conditionality on giving aid to Kenya. In May 1992 the dairy sector was liberalised before the government empowered the Kenya Dairy Board to regulate the sector. The Ministry of Agriculture came up with a

restructuring policy for KCC in a bid streamlining its future role, adaptable to the future policy on increased competition and improved efficiency (Ministry of Agriculture and Livestock Development Policy Paper, July 1993). The government appointed directors of KCC failed or neglected to implement the policy proposals, as they had no inertia to drive change. To the contrary, the company was run down. As reported in the Hansard Parliamentary Report in 1997, there was an overpricing of items supplied to KCC, over borrowing from Kenya Commercial Bank, all systems in the organization had failed, and above all over recruitment.

In 1995 KCC had innumerable problems including farmers had not been paid for over six months milk delivery, suppliers too were claiming enormous payments, employees' salary of over four months was outstanding, there were excess staff that were idle and most of the factories sales depots had idle capacity. All attractive aspects of the company plummeted. The World Bank invoked its conditionality principle and directed that the government return the organization to the farmers. The government then deregistered KCC as a co-operative and ordered its registration as a limited liability company. As at this time, KCC had an accumulated debt of KSh. 1.5 billion (1995 Financial Report). After a new board in 1995 came in, which appeared to be critical to the government, the government withdrew all the support from the organisation and directed the Kenya Dairy Board to register anybody who wanted to sell milk including 'hawkers'. The government through the Kenya Revenue Authority further invoked retrospectively unpaid taxes since 1990 and directed KCC to pay (High Court Misc. case No. 1027/1998, KCC vs. KRA). For instance during the era of the government appointed board, that is between 1990 to 1995, value added tax (VAT) was not paid as it was being argued that KCC was a government body hence it could not pay tax to the same government. But this was not documented anywhere. In 1996 the revenue officials assessed the un-remitted VAT for a product called MALA at KSh. 700 million with a further charge for late payment of Ksh. 450 million. This had a double impact on KCC in that KRA moved to attach the KCC bank accounts. Secondly milk being food under the Finance Act, was zero rated, meaning that on selling milk, KCC would not charge VAT. But when KCC bought packaging paper, furnace oil among other utilities, it was charged and paid VAT. This meant that any excess VAT paid by the organization,

under the Finance Act, was reimbursable by KRA to KCC. In this regard between 1990 and 1997, KCC used to get refunds of KSh. 10 million to Ksh. 40 million a month. With KRA demanding Ksh. 1.15 billion it treated the funds as a set off. This means that tax became a cost and every month KCC had to provide for it in its monthly budgets.

In 1998 KCC undertook several negotiations with a number of several international companies such as Bonnitta Plc, Clover Plc, and Parmalat International among others in a bid to form some strategic alliance. KCC signed a memorandum of understanding to the effect that Parmalat was to take 60% shares in KCC, invest in KCC Shs. 3 billion and the directorship be shared between six for Parmalat to three for KCC. Some farmers filed an injunction at the Kakamega Law Courts and even though the same was not served on KCC, the government made sure that the special general meeting, which was scheduled in Thika, did not take place. Parmalat officials who were present felt frustrated.

In June 1999 the government once again invoked the provisions of the Co-operatives act and took over management of KCC. All the directors and senior managers were replaced. Because of this takeover, all the activities of the organization came to a standstill. By October of the same year, KCC was put under receivership and later sold to 'strategic shareholders' who formed KCC HOLDINGS LTD and KCC 2000.

In 2003 the NARC government, having dethroned KANU, forcefully took over KCC HOLDINGS from the so-called shareholders and registered a new co-operative society called the NEW KCC LTD and appointed new directors and top managers. This happens to be the current position. It is worthy to note that some of the people whom the NARC government brought back to run NEW KCC were those dismissed one time or another by the KANU government.

1.3 Statement of The Problem

The Key question that needed to be answered was: What Political processes characterized strategic actions and decisions in KCC Ltd from 1960 to 2003? Organizational processes are characterised by different political behaviour (Pfeffer, 1992). These political behaviours can either facilitate or inhibit managerial decisions and actions. When such

politics become negative, they can seriously impair strategic thinking and action. This is because they frequently lead to impromptu changes that are inconsistent with the long-term nature of strategic management (Johnson and Scholes, 1999). Important as the political dimension of strategic management is, scholars have addressed it largely at the conceptual level. In the extensive search in the literature, the present researcher did not come across any empirical study that has focused on political influence on strategic management specifically formulation of strategic decision and their actual implementation, particularly in developing country context such as Kenya where patronage and ethnic affiliations tend to have a strong influence on the political discourse. The purpose of the proposed study is, therefore, to fill this gap in knowledge. KCC is considered ideal setting to conduct the proposed study.

The study also provides an insight into integrating the destructive rather than the constructive elements of power and politics into strategic leadership in the national environment to scuttle the aims of change agents. It should be noted that, KCC as an organization had a dual registration as a cooperative and a limited liability company. It is also important to note that all the high and mighty in the Kenyan Government were stakeholders in KCC as suppliers of raw milk and or represented constituent who supplied milk and other inputs to KCC. The problem of dual registration was being used on and off when the situation fitted the desired maneuvers as was the case in 1989, 1999, 2000, and 2003 as indicated here above. This just one stroke of political move meant that the change agents in KCC, that is the Board of Directors, the Managing Director and the senior employees were rendered redundant and dismissed. This is because they were answerable to nebulous power in KCC as a limited liability company as well as a cooperative. The high and mighty being the stakeholders meant that the change agents could not effect any restructuring and or downsizing of staff or re-engineering or any internal change successfully. Indeed most senior members of staff represented somebody's interest in the name of a stakeholder in KCC. They had to know each and everything going on in KCC. Changes that adversely affected these stakeholders' interests in KCC were stopped.

1.4 Research Objectives

1. To determine the political processes that characterized strategic actions and decisions at KCC LTD from 1960 to 2003.
2. To establish strategic decisions introduced at KCC LTD from 1960 to 2003 and consider whether they were implemented

CHAPTER 2: LITERATURE REVIEW

2.1 Analysis of Interest and Power in Strategic Decisions and Actions

Besides the analysis of stakeholder power in terms of their ability to influence people and developments, it is also necessary to evaluate, to which extent the stakeholders will exert their power. In KCC for instance, the stakeholders were interested to know everything that was going on in the organization. The power/interest matrix is a useful tool for evaluation of the expectations and impact of particular stakeholders. In the case of KCC for instance it analyses the following questions.

- How **interested** were each stakeholder group to impress its expectations on the organization's decisions?
- Did they have the means to do so? Did they have the power to do so?

In the result, the power/interest matrix provides valuable information on how particular stakeholders and groups in the management of KCC and its eventual stagnation. It also indicates that if certain decisions were to receive support or resistance, which groups had the major say in the decision processes.

Figure 1: The Power / Interest Matrix

Power	High	C Keep Satisfied	D Key Players
	Low	A Minimal Effort	B Keep Informed
		Low	High
		Interest	

Source: Johnson, G., Scholes, K. (1999). Exploring Corporate Strategy. Hemel Hempstead: Prentice Hall Europe

According to Johnson and Scholes (1999), the Power / Influence Matrix shows that:-

- **In Sector A** – The stakeholders in this sector neither have a high own interest in corporate plans nor do they have the power to exert impact in any change or strategic decision. Organizations should keep these groups informed in the necessary extent, but should not invest too much effort into them.
- **In Sector B** – The stakeholders in this sector do have a high interest in the corporation and its actions. However, they have limited means to influence things. Despite their low power, such stakeholders could be valuable allies in important decisions. Therefore, it is advisable to keep them informed about the issues they are interested in as they will support the strategic decisions.
- **In Sector C** – The stakeholders here could be difficult. In this group, we often find institutional investors or legislative bodies. They behave passively most of the time and show a low interest in corporate affairs. Despite that they can exert an enormous impact on the organization, for instance when it comes to investments. It is therefore necessary to analyse potential intentions and reactions of these groups in all major developments, and to involve them according to their interests.
- **In Sector D** – This is where the most important stakeholders happen to be. They include those with high interests and high power, to be found. They have to be involved in all relevant developments. This is the sector, which held most of the KCC stakeholders who eventually made the organization to collapse (Johnson and Scholes, 1999)

KCC planned to co-opt Parmalat of South Africa as a partner but the restraining forces in the political sphere were too strong for the directors. (Daily Nation of December 26 1998) They were accused of selling the organization to foreigners and police were sent to break up their meeting to endorse the partnership. At that time, KCC was indebted to a tune of two billion Kenyan shillings and the assets were being valued at two billion Kenyan shillings. Parmalat on the other hand were offering three billion Kenyan shillings and they were to take up 60% stake in KCC and the remaining 40% was to be owned by the Kenyans. They were to have 6 directors out of 9 and three to the Kenyans. This change could not be effected.

Identification of the forces favouring or threatening change can be beneficial in determining strategic actions and decisions and how best to overcome the identified restraining forces and maximise use of the driving forces. It should be noted that breaking down the barriers to change will generally be more effective than promoting the favourable forces. However when the barriers of change are too strong for the change agents then it will not succeed. In the case of KCC the restraining forces were increased by use of force and political power by the political elite and their self-interest became the motivating or energising factor (KCC Ltd MD's Management papers, 1996).

2.3 Role of politics in strategic management

In their book "Reframing Organizations" Lee Bolman and Terence Dill (1991) define reframing as a tool for finding new opportunities and options in confusing and troubling organizational situations. The authors show how multiple frames give leaders an edge in decoding organizational complexity. Change management at the government agency level involves aligning an agency's organizational culture with new ways of doing business. An agency's culture can be a difficult thing to get a handle on. However, Benafi Wilkinson and Orth (1986) writing about power and politics, indicate that as critical instruments for strategic leaders, power and politics serve as a fulcrum for organizational behaviour, enacting, reacting, and managing change. Defined as "the underlying assumptions, beliefs, values, attitudes, and expectations shared by the members of an organization," organizational culture is comprised of the current human and political dynamics, as well as the agency's history (Benafi, Wilkinson, and Orth, 1986). This history not only reflects how the agency came to be, what it has accomplished, and how it has evolved over time, but it also mirrors more recent historical precedents and permutations. Agencies that have struggled with various financial management initiatives in the past may be resistant to new approaches. Getting people to see past their own fears—real or perceived—is a challenge of particular relevance to financial managers in the government. According to Jacobs (2000), in his book "Strategic Leadership: The Competitive Edge", strategic leaders utilize a number of conceptual and interpersonal skills in managing organizational culture. The most important conceptual skill you arguably need to develop is environmental scanning.

Without the ability to scan the internal environment and determine the existing culture and the values, attitudes, and beliefs underlying that culture, it is very difficult to effect cultural change. It requires a unique kind of leader- sometimes called a change manager or change 'agent'". (Jacobs, 2000).

2.5.1 Role of Political Interference in Management of Parastatals in Kenya.

According to Holmquist (2002), internal politics influence the Kenyan business climate. High-level corruption is pervasive. Politically motivated appointments to ministries, parastatals, and financial institutions, including the Central Bank of Kenya, often render these institutions less effective. Tenders are often awarded on the basis of political connections. The government began in mid-1999 a process of reform meant to improve governance. This included the appointment to key senior civil service position of reformers dedicated to good governance. These appointments were welcomed by donor countries and resulted in the disbursement of some donor and International Financial Institutions (IFI) funds previously held in abeyance. The sacking of most of the reformers in early 2001 did little to help Kenya's image or its prospects for continued reform or further funding. The United States, in cooperation with the Government of Kenya, has implemented a special assistance program to help resolve these problems of governance by promoting government accountability; a responsible, effective parliament; and strong independent institutions within civil society. In 1998, the Government of Kenya established the Kenya Anti – Corruption Authority, with broad powers to investigate and prosecute officials suspected of corruption. The courts declared the KACA unconstitutional at the end of 1999, and to date a new organisation is yet to be reconstituted and or amend the Dairy Act to strengthen the Kenya Dairy Board (Holmquist, 2002).

2.5.2 Role of political interference in the agricultural industry

U.S Department of Commerce did an analysis about Kenya's Economy in 1998. According to a paper published in the Industrial Canada website (1998), it was cited that Kenya's agricultural sector has just gone through a period of market liberalization. The

government has moved out of setting prices, imposing controls and subsidizing parastatals. The trade and exchange rate regimes also have been liberalized. The process of market liberalization is not yet complete, but already a number of sectors are finding the new regime not to their liking. This is evidenced sometimes by violent farmer reactions to what they see as a reduction in their incomes, loss of control of their organizations and political interference in the running of their affairs. After the Structural Adjustment Program (SAP) initiated with the World Bank and an Enhanced Structural Adjustment Facility with the IMF in late 1993 were in place, the Government of Kenya (GOK) in 1994/95 introduced various social action programs to ameliorate the short-term impact of the SAP. Some problems, however, have continued to arise. The last Quarter of 1995 saw some regression in the agricultural sector reform program. The economy still suffers from a large, but declining as compared to 1993, government budget deficit of 1.2 percent of GDP (excluding grants). The budget deficit is largely due to inadequate implementation of parastatal divestiture, a bloated civil service and shortfalls in collection of some major revenue items. The overall trend in economic reforms has, however, been significant and positive. The positive effects of the economic reform measures remain dampened by repressive measures on the political front, and rampant corruption. The pluralistic brand of politicking introduced in 1992 has yet to grow into sensible competitive multi-party politics, than the aspects of gaining power and influence (<http://strategis.ic.gc.ca/SSG/da91024e.html>).

Business has not enjoyed a strong political position in post-colonial Sub-Saharan Africa. As Roger Tangri (1999) has pointed out, African capital was comparatively weak in the colonial period and it played only a modest role in the struggle for independence. After independence African capital has not collectively enjoyed a prominent power position whether the regimes were civilian or military. Tangri in his book tells us that by ignoring Africa's culture and ethnicity, the continent was forcibly tied to the international capitalist system, and with the culture dictating what comes in and what goes out, patronage became the order of the day—state factories and corporations are not run efficiently because of patronage, which normally sees positions given tribe's men or women whether they are efficient or not. Independent political assertions by the private sector were largely

prohibited, and its collective leverage over the making of macro-policy was limited as policy was formulated by top politicians and civil servants trusted by heads of state. Large public sectors constrained private sectors and business was hemmed in by a host of regulations providing multiple sites of opportunity for rent-seekers to grant favours for a price. Kenyan business-state relations generally fall within this broad experience, although it may lie further out on the "business favourable" end of the continuum. Holmquist (2002) continues to say that, during the immediate post-colonial Kenyatta regime, and despite many obstacles, African capital accumulators were generally encouraged. But they were not allowed free reign to assert themselves as an independent political entity. Although business has not been prominent in the politics of post-colonial Kenya, what about the 1990s? The generally pro-business neo-liberal economic reforms of the 1990s could be expected to fundamentally change the character of business-state relations. The reforms dethroned the state as the engine of development and growth while markets were liberated from many constraints and rent-seeking opportunities (Holmquist, 2002).

2.5.3 Mode of Political interference in Management of Kenya Cooperative Creameries Ltd (KCC LTD)

Kenya Cooperative Creameries Ltd (KCC LTD) was set in 1925. It was set up to buy and process milk from and on behalf of farmers. It was owned by white settlers farmers but was taken over by the government as a custodian of the dairy industry in 1984. KCC Ltd has always been a political raw nerve for politicians and farmers alike. It touches on the heart and soul of the farming community and therefore any political deal or statement that touches on it is received with a lot scrutiny (Kenya Cooperative Creameries Ltd., Articles of Association, 1984).

Justifying the political intervention which was to become the last nail in the Cooperatives coffin, President Moi on March 25, 2001 was quoted in a farmers meeting in Nakuru to discuss KCC as saying that "For the past 37 years farmers have never owned KCC. The KCC managers have been paying themselves huge salaries, built posh homes and acquired other property with KCC money without consulting farmers". The President denied the same day (March 25, 2001) claims by politicians that KCC had been sold to foreigners and

assured farmers that they will be consulted before a strategic investors is allowed to acquire shares in the new company. He said were it not for his intervention, farmers would not have been able to purchase the Creamery at the amount that KCB was demanding. He appealed to farmers who had stopped delivering their milk to KCC to reconsider their decision and support the new move to revive it. The President said KCC had potential for growth due to its establishment network and was the only organisation, which could effectively serve farmers. He said the organisation has the capacity to process excess fresh milk into powder milk for the export market (Sunday Nation, March 25, 2001). The President then invoked the Cooperatives Act to dismiss the directors of KCC who were answerable to KCC as a limited liability company. Soon thereafter, as indicated herein above, KCC was put under receivership and sold to 'Strategic' shareholders. Thanks to the NARC government, which saved it from the jaws of the 'grabbers'. But are the actions taken by NARC government any different from what happened in 1998? The crucial similarities of the KANU government action in 1998 and the NARC government in 2003 include, one, KCC was taken over by the Ministry of Cooperatives. Previous to the takeover, KCC was operating as a limited liability company. Secondly, the two governments dismissed the previous board of directors and senior managers and appointed their own supporters as directors to run the company for one year. Thirdly under the KANU government instead of one year, the board stayed for five years without elections and misappropriated the resources of the company. It is yet to be seen whether the board appointed by NARC government will call for elections after one year. It is worthy to note that some people who were appointed directors by the KANU government were also re-appointed as directors by the NARC government (East African Standard, June 14, 2003).

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Case Study

This was a case study of the Kenya Cooperative Creameries Ltd (KCC). It was a unique study because KCC being a monopoly for a long time, change of culture, coming up with new workable strategic decisions, implementation of such decision was a nightmare due to the power wielded by the stakeholders. This is thus assumed to be a representative of the other parastatals, which were run a keen to KCC which might have had innumerable non-implementable strategic decisions. Such decisions if any were merely on paper. Whatever the benefits or losses experienced the performance of KCC Ltd gives a picture of most parastatal and shows the ailing problems in such organisations.

3.2 Data Collection

The data used in this study was collected mainly from secondary sources. The researcher attempted to get information from court cases and rulings, KCC publications, Board minutes, newspaper cuttings, library materials from strategic management section at the University library. There were interviews conducted using the interview guide at the end of this research. These yielded the information needed to find out the strategic decisions arrived at in KCC, its effects as a process of change in management and the politics of change and management of the organization. Primary data was collected by interviewing twelve (12) key stakeholders during that period. These stakeholders included previous two chairmen, one Managing Director, Two Directors, two Financial Controllers and one Marketing Manager and four senior managers.

3.3 Data Analysis And Presentation

Since this was a case study, the presentations of the findings were in qualitative form. The findings were in form of narratives and report form as they were found. Court cases, reports from publications and information from the interviewees above (Data collected) were paraphrased and narrated in the findings. Content Analysis was used to identify recurrent themes and classifying them accordingly. This allowed the researcher to quantify the qualitative data.

CHAPTER 4: FINDINGS AND DISCUSSIONS

4.1 Government Interference In Management Of KCC

Decision-making takes place at every level of management. In strategic decisions we have to worry about what someone else will do in response to our actions and how such response will affect the payoff we get from our own action choices. At the strategic level, decision-making is much more dependant upon human factors and judgement. Such decision-making is often based on guided trial and error and because of uncertainty and ambiguities and therefore all possibilities cannot be explored. Every strategic decision involves:

- Context (the environment in which the organisation operates);
- Content (the main actions of the proposed strategy);
- Process (the means by which the strategy will be achieved)

From the interviews that were carried with the former managers of interviewees above and from Secondary data, the researcher came up with the conclusion provided in Table 1.

Table 1: Government interference in KCC strategies

Year	KCC Intention	Government Interference
1967	Transition	Africanisation
1968	Monopoly in distribution and processing	Withdrew licenses of competitors thus giving KCC monopoly
1989	Expansion and Growth	Deregistration as private company and put under Co-op Act
1992	Expansion and Growth	Liberalization
1995	Debt payment and capacity use	Deregistration as co-operative and making it a limited company
1996	Management independence	Retrospective recall of unpaid taxes of 6 years
1998	Strategic Alliance with Parmalat	Dispersion General Meeting to seal the deal by riot police
2000	Sale of KCC Ltd assets to KCC 2000 Ltd	KCC Ltd put under receivership so that it could be sold to interested parties.
2003	Acquisition of KCC by Government	Revocation of sale and registration of New KCC Ltd

Source: Interviews and Secondary data including dairy newspapers and hazard parliamentary report.

From the above table one could conclude the following: -

1. That in 1967 KCC moved from a full European dominated outfit in terms of control and management to one run by Africans.
2. In 1968 all mushrooming private dairy companies were closed down and incorporated into KCC thereby giving KCC greater economies of scale.
3. By 1989 KCC had expanded and invested into all parts of the country which in turn brought inefficiency thereby giving rise to poor management. This lead to the Government's interference in terms of deregistration of the organisation and putting the

same under the management of the Co-operative Ministry through the Co-operative Act.

4. As at 1992 through the World Bank initiatives in liberalizing the Agricultural sector, the dairy industry was also liberalized. Other players were allowed to operate in the milk business. Innumerable companies started processing milk and even private individuals entered into the business flooding the market with dairy products from other countries.
5. Due to the liberalization above and the shrinking of the market share for KCC Ltd, as innumerable players came in, KCC was faced with management and restructuring problems. It was unable to read the environment and move to restructure itself to fit the environment. At the end of the day as a Government parastatal, it was unable to compete effectively in the market. There was need to change the same to a limited liability company so that it can effectively compete with the new market entrants.
6. Suffering from the problems of poor management and the shrunk market shares the management was against the government as they felt that the government was protecting people who had run down the organisation. There emerged bad blood between the management and the Government making the government to resolve to ground both the management and the company for instance through retrospective recall of unpaid taxes for six years in 1998, even covering the time when the government was running the organisation and it never used to pay taxes.
7. KCC struggling to stay afloat sought some strategic alliance with other partners. Parmalat was able to sign a Memorandum of Understanding in late 1998 in order to widen the KCC market share and its economies of scale. The Government still anxious to ensure that KCC collapsed dispersed the farmers in a crucial General Meeting meant to seal the strategic alliance. After a few days all the directors of KCC were dismissed and the company was re-registered as a co-operative. Three months after such registration, the company was put under receivership. KCC 2000 Ltd was formed which acquired all the assets of KCC Ltd.
8. In 2003 with the coming in of the new Government, it was realized that the acquisition of KCC Ltd's assets by KCC 2000 Ltd was irregular and a breach of clear procedures as the same people had bought the assets unfairly. The new Government formed a new

4.2.1 Strategic Objectives

A strategic objective is a result (intended measurable change) that an organization can materially affect. The timeframe of a strategic objective is typically 5-8 years for sustainable programs, but may be shorter for programs operating under short-term transitional circumstances or under conditions of uncertainty. Strategic objectives of an organization aim at achieving positive results for the organization to enable it achieve a sustainable competitive advantage. Some of the strategic objectives that have been pursued by KCC over the years include: -

Table 2: KCC Strategic Objectives and Actions

Year	KCC Strategic Objective	Resultant Strategic Action
1965	Africanization Programme	White Senior Employees terminated and Africans recruited in their positions
1968/1969	Widening KCC economies of scale	Competitors Licences withdrawn and Kcc made a monopoly.
1968 – 1978	Government guaranteed loans	Rapid expansion of KCC
1992	Increasing profits and ensuring cost reduction and government control.	Government appointed directors
1998	Strategic Alliance with a strategic partner	Negotiations with Parmalat, Clover, Bonita and others.

Source: Interviews

From 1965, the government of Kenya was undertaking Africanization program. These objectives were also incorporated as KCC’s strategic objectives. White senior employees were terminated and Africans were recruited. All licences from other processors were withdrawn giving KCC a monopoly status. KCC got government guaranteed loans and grants, which led to its rapid expansion between 1968 and 1978. It is worth noting that the primary objective of KCC was not Africanization. Its purpose was to process and market milk and milk products. D.N. Kuguru became its first African Chairman in 1965 and Kuguru was a politician close to the establishment then it is as early as this that KCC started experiencing political interference in its decision-making processes

In 1992, KCC had intention of restructuring and making the company more competitive in the face of liberalization. The government appointed its directors in a bid to stem corruption. However this did not bear fruit. The government appointed directors in turn did not hold elections as scheduled but delayed it as they wanted to perpetuate themselves in office.

4.2.2 Strategies

Table 3: KCC Strategies and Government Objectives

Year	KCC Strategy	Government Objective
1965	Replace whites with Africans	Africanization Programme
1968 – 1978	Rapid Expansion	To Develop Dairy Sector
1968 – 1978	Government guaranteed loans	To fund rapid expansion of KCC
1998	Strategic Alliance	Sell KCC to a strategic investor
2003	Revival	Registration of a New KCC

Source: Interviews and Secondary Literature

Results

Table 4: KCC Strategic Actions and Results

Year	Action	Result 1	Result 2
1980	Rapid expansion	Management Capability outstripped	Surpluses declined and losses experienced
1991	Merger with Parmalat	Court order to stop meeting/ riot police sent	Investor scared away
1999	Heavy Debts overwhelm KCC	Collapse	Placed under receivership
1999	Strategic Investors identified	KCC sold	Incorporation as KCC Holdings 2000 Ltd
2003	KCC 2000 Revival	Deregistration of KCC2000LTD	Registration of New KCC Ltd

Source: Interviews and secondary sources

The rapid expansion appears to have outstripped the management capability such that in 1980, the surpluses started to decline and the cooperative started to experience losses. The most notable strategy the company tried to put in place in order to make KCC more competitive and move out of debt was to form a merger with a strategic investor. After negotiations with several international companies like Bonnitta Plc, Parmalat Plc, and Clover Plc all of South Africa, KCC was on the fringe of striking a merger deal with

Parmalat posted two of its officers at KCC to undertake due diligence on the organisation. Parmalat. Memorandum of understanding was later signed with Parmalat and negotiations for a merger started. Parmalat had agreed to buy all the KCC debts and inject a further amount of money into the organization in exchange for a 60% shareholding. This infuriated the government operatives who accused the management of KCC of trying to sell a farmers' cooperative without their knowledge. Riot police dispersed the managements meetings and a court order issued to try and stop an annual general meeting. The goings on finally scared away the investor and KCC was forced to fold up the strategy. It thus appeared later that the politically correct had identified strategic shareholders amongst themselves. It worth noting that due to heavy debts, KCC's activities came to a standstill by October 1999 and the cooperative was placed under receivership and later sold to the "strategic shareholder" who later incorporated it as KCC Holdings Ltd and KCC 2000 Ltd. This was a classic case of killing a company's revival strategy in order to achieve a narrow political objective. In 2003, the government took over KCC 2000 Ltd and formed a New KCC Ltd company to take over its operations.

4.2.3 Management And Structural Changes

There were several occasions when the management and structural changes in KCC were effected on political considerations. The earliest of these was the Africanization strategy of 1960's when Davidson Kuguru and W. Chirchir were elected the first African directors in 1962/63 during the advent of independence. Later Kuguru became the Chairman in 1965. A board of directors determined the policy of KCC.

Table 5: Composition of KCC board after government interference

Stakeholder represented	Number of Members in the Board
Central Province	2
Rift Valley Province	6
Eastern Province	2
Coast Province	1
Western Province	1
Nyanza Province	2
North Eastern Province	1
Chief Executive	1
Kenya Dairy Board	1
Ministry of Co-operative Development	1
Ministry of Agriculture & Livestock Development	1
Ministry of Finance	1
Total	19

Source: KCC Board Minutes.

KCC's board was supposed to be composed of 19, 15 of whom were supposed to be elected by the farmers from Central (2), Rift Valley (6), Eastern (2), Coast (1), Western (1), Nyanza (2), and North Eastern (1). The remaining four were to be the Chief Executive, one from Kenya Dairy Board and one each nominated by the Ministers of Co-operative Development, Agriculture, Livestock Development, and Finance. However that was not necessarily the case. Several times the government disbanded KCC's board and put in management committees. For example, in 1989, KCC was deregistered as a limited liability company and by a legal notice in Kenya Gazette notice made a parastatal under the Co-operatives Act. During this change, the board was removed and senior managers were dismissed. Officials of the Ministry of Co-operatives who had no experience in running a private sector organization were appointed to run KCC Ltd (Source: Interview of a former Managing Director, KCC Ltd, 1991 - 1995)

Government interference in the Structure and Management of KCC

The government appointed farmers as directors to be in office for one year and organize elections within that one-year in 1991 after the organization was run without annual general meetings and there was a farmers' outcry due to non-payment of their dues.

However, this was not to be as this board stayed in office for five years upto 1995 during which no annual general meeting was convened, there was overpricing of supplies, and farmers' payout was outstanding for 8 months (Hansard parliamentary report 1996).

Table 6: Interference in Management

Year	Interference	Reason
1989	Dismissal of Senior Managers and appointment of commission	Deregistration of KCC as Limited company and change to co-operative
1991	Dismissal of Commission and appointment of farmers as directors	No annual general meetings and outcry of farmers for non-payment of their dues
1995	New board elected	Under Companies Act regulations
1995	Government withdrew support for KCC and ordered Kenya Dairy Board to liberalize the milk sector	The new board was critical of government.
1995	Government demanded immediate statutory payment of VAT, NSSF and NHIF	Had been outstanding for over 10 months and VAT had not been paid since 1990 when the Government was still incharge of KCC Ltd.
1999	KCC run by government appointed commission	Mismanagement outcry from farmers and to save it from collapse

Source: Interviews and KCC Minutes

In 1995, the farmers under the Companies Act elected a new board. This board was very critical of how the government run the organization between 1989 and 1995. As a consequence, the government withdrew all the support from the organization and directed Kenya Dairy Board to register anyone who wanted to sell milk including hawkers since the sector was liberalized. Through the Kenya Revenue Authority, the government invoked retrospective unpaid VAT taxes since 1990. The government demanded immediate

statutory payments on NHIF and NSSF, which had been outstanding for well over 10 months (Former Chairman Interviewee KCC Ltd 1998 to 2000).

Between 1995 and 1997, KCC was managed by a Government appointed management commission following an outcry from dairy farmers about the mismanagement of their organization and an appeal by them to save it from collapse. The commission was given two years to streamline the co-operative society's affairs and put it back on firm grounds before handing it over back to its dairy farmer owners. This was the beginning of the long and treacherous political interference in the affairs of KCC. The commission consisted of Permanent Secretaries from the Ministries of Livestock Development, the Financial Secretary from the treasury and the Commissioner of Co-operatives Development. The top management was seconded from the Ministry of Co-operative Development.

KCC was plagued by government loans which formed a basis for intervention when need arose for the government to interfere in the affairs of KCC. In the management report for the year ended 30th June 1997, the auditors Gill, and Johnson indicated that any act to enforce loan agreements, especially the default clauses, would have very negative effects on KCC's liquidity and viability as a going concern. They recommended that the government forgive KCC the loans since the loans were meant for the development of the dairy industry in Kenya. This implies that the government would call up the loans when they wanted to take any action on the management of KCC. The government knew that KCC would not be able to pay and so they would take any action that they deemed political expedient (Gill and Johnson Audit Report, 1996).

In a letter dated 18th of May 1998, the management of the co-operative wrote to the head of state, to intervene on their behalf with the Value Added Tax (VAT) department. In the letter, it was indicated that VAT department owed KCC over KSh. 375 million due to input tax exceeding output tax. The co-operative was supposed to be refunded. Prior to June of 1996, the organization's products were zero rated, but the status was changed in the budget of June 1996/97 to exempt status. This meant that the organization continued to lose VAT paid to suppliers while they were not being compensated. Further, Maziwa Mala, a product

of KCC which was a zero rated product was VAT rated and the the rating backdated so that KCC could not claim the refunds from the department(Board Minutes and Reports, 1998).

4.2.4 Human Resources Policies and Practices

From the data collected above, Human resources policies and practices in KCC were influenced by politics ever since 1960 to 2003. As earlier pointed out in this paper, the Africanization program of late 1960’s ushered in the politics of employment in KCC. The European employees were dismissed by the year 1969 just because they were not Africans. This was even against the Constitution, which provided for non-discrimination on the basis of colour or race. There were changes in the top management as well as appointment of Director year in year out as indicated herein above in 1989, 1995, 1997, 1999 and the year 2003. This was also interfered with politically by appointment of management commissions on several occasions.

According to interviewees above, politicians had an interest at KCC such that most of the employees had to align themselves to such politicians to take care of their interests in KCC. For an employees to be hired in KCC, that employee had to have a backing from an interested politician. In the beginning all senior employees were basically white. Then the Africanization program politically and intentionally sought to employ Africans in KCC.

Table 7: Politically Related Employments in KCC

Year	Rank	Number of Employees
1996 – 1998	½ of the employees never interviewed upon employment	4000

Source: interviewees

At one time, there were over 4000 employees in KCC when it was reeling in debt Rationalization could not be undertaken because of the political connections and these employees did not care about performance It is worth noting that KCC had become a market for the big politicians who sought to sell all manner of supplies to KCC at

astronomically abnormal prices, (Hansard parliamentary reports 1996). These deals were cut with the assistance of their strategically placed employees in KCC. In every organization, there is a board of directors and the management. In KCC the day-to-day affairs of the organization were run more by the board than by the management, as should have been the case. At the pick of KCC woes senior managers who were politically correct would only come to the office twice in a week (Interview Directors 1995) to sign cheques for their allowances then disappear again. The policies and practices of KCC human resources were influenced in political meetings and bars where the “strategic employees” would go to be given instructions (Former MD, KCC, 1991 – 1993).

4.2.5 Production Decisions

A product is anything that is offered to customers for acquisition or purchase. This means a product could embrace physical objects, services and ideas. KCC made product decision concerning its durable and non-durable goods which were tangible products that normally would be consumed over a long time. This included products like cheese or butter. Non-durable goods being those tangible products whose consumption could last only one on a few days such as fresh milk and fermented milk (Mala).

KCC however failed to classify its products according to buying effort that customers could expend before buying. This is the time spent in comparing the available brands. Because of this KCC had a problem of in coming up with specific marketing programmes. Indeed you could find all its products were merely distributed to the consumers whether its butter or fresh milk. This led to lack of realization of the need to develop new products. There was no core product that held company’s brand like Tusker of Kenya Breweries. There was even hardly any change in either their packaging system of the products for more than 30 years under research. Because of this the company failed to raise revenue when there was competition. This included continued production of products like canned safari land milk even when there was no market for it. At the end of the day costs were incurred in making the products yet there was no market.

In terms of production decisions, this was an area of interest for those who wanted to supply production equipment and accessories and those who wanted to supplement milk production by way of importation of powdered milk to be reconstituted. This was especially an issue in 1996 in parliament. A member of parliament alleged in the house that some heavy weight politicians and well connected directors in KCC had colluded to import milk products from New Zealand with the sole intention of selling it to KCC thus denying the farmers the market for their raw milk (Hansard Parliamentary Debates, July 31, 1996). Therefore this indicates that the production decisions were not made by the management of KCC but by external interests. The same Hansard report indicates that the KCC directors could direct the financial manager and the managing director on petty things. The parliamentarian was complaining that there was a case where companies owned by directors of KCC put out a rider, "Quotation for supply of equipment to KCC". At payment, the managing director was made to pay above the quoted prices that they had invoiced. At one time these individuals tried to change the packaging system from Tetra Pak to another system so that they could have a chance to sell production equipment to KCC. In supplying stationery, the prices were unbelievable. According to an audit report at KCC, a single BIC biro pen, which costs Sh.6, was sold to KCC for KSh. 250. (Ref. Hansard parliamentary reports July 31 1996)

A decision to close plants caused a political cry when KCC wanted to consolidate production to Dandora and Nakuru factories. KCC management decided to remove equipment from other factories, which were idle and consolidate them and replenish the strategic factories. The management was accused by politicians of stripping the company of equipment and selling to then mushrooming new dairy processors (Nation newspapers 1997). This was supposed to re-organize production and sales points by making specific centres to specialize in specific operations and disposing of idle assets. This process led to lose of jobs and accusations that directors were selling machinery. In June of 1999 the government invoked the provisions of the Co-operatives Act and took over KCC as a parastatal. All the directors and senior managers were replaced by farmers (KCC Board Minutes, 1995).

At the instigation of the politically correct then, KCC was taken to court on several occasions in a bid to stop them or to compel them to perform certain things, which were not at the interest of the co-operative. One such occasion was on June 25th, 1998 when twelve farmers obtained an injunction to stop KCC from holding an Annual general meeting (Daily Nation, 26 June 1998). The purpose of the general meeting was to seal a deal with Parmalat International for a merger where the international group was to pay all the debts of KCC and acquire 60% stake in the Co-operative. The co-operative however defied the court order and proceeded with the meeting but the deal could not materialize because Parmalat thought it would be better for the mess to be sorted out first. This did come to pass because the political stakeholders had other ideas. According to the minutes of the annual general meeting (27th June 1998, Nyahururu), the management had been accused of trying to dispose of the assets of the co-operative. But the management denied arguing that they were empowered by the company statutes to dispose or acquire assets on behalf of the co-operative and that was in the normal course of managing the company.

4.2.6 Pricing Decisions

Price is the value placed on a product by customers at some point in time. Price is thus the measure of what must be exchanged in order to obtain a particular good. Price regulates the economic activity. Thus improper pricing can affect the financial position of a firm. The product price has a strong effect on sales. The view of price in economic stems from the law of supply and demand, that is more goods are sold at a lower price than a higher one.

At KCC as per our research and interviews, pricing decision were done at two levels that inputs and outputs. Firstly, this was the pricing of milk that was being supplied from the farmers. Before 1989 pricing of milk from the farmer was categorized depending on the nature of the climate. That is during dry weather the prices were higher because there was scarcity of milk, however during the wet season there was plenty of milk, which meant that the company could not sell the supplied immediately. Such milk was converted into powder to be sold in the dry weather.

Thus basically the company pricing system used to follow the rule of supply and demand.

Besides, there was another reason used to set prices of milk from the farmers. The company had to categorize the milk depending on the butter content of each respective delivery of milk from an individual farmer. If the respective milk supplied had a higher butter content then it could be highly priced and vice versa. This is because of the fact that with higher butter content in the respective milk same could generate more products such as butter and cheese among other products.

But after 1971 the government discarded the above pricing mechanism and declared one price for farmers. This pricing did not take into consideration the aspects of supply and demand neither did they consider the quality of milk, nor the nature of the season whether wet or dry or whether the butter content was high or not. This affected the company in that when there was ample surplus of milk in the wet season, it was forced to request for overdrafts to pay farmers at exorbitant prices for which it could not afford since most of the milk had not even been sold. Indeed the milk had been processed into powder and kept in stores. Thus KCC was paying for products that it had not sold. KCC became a dumping ground for farmers' excess milk that was also of poor quality. The government's directive was to seek support from farmers with the advent of the multi-party politics.

Besides, pricing of milk from farmers, there was a problem of pricing milk products to the consumers. Before 1990, like all other consumer products in the market, the government controlled the prices in bid to protect consumers. Thus the prices set by the government neither had profit objectives or sales objective but consumers' protection and for revenue creation. But the company benefited a little because it was a monopoly. On liberalization of the market the company failed to realize the pricing objectives. Poor pricing impacted negatively on the entire marketing strategy thereby affecting its cash flows. The company was unable to service its overdrafts.

The other level of pricing decision that affected the company was on suppliers of various consumables by the company. In its milk processing endeavours KCC needed innumerable basic products to assist it in processing of the milk for the market. As per the investigative report (the parliamentary Hansard in 1996) most suppliers did supply products at

exorbitant prices. For instance, as found out a simple Bic pen which ordinary could cost KShs. 9/= in the market, the company bought it at Kshs.120/= as at 1994 thereby depleting the company resources. Most of such individuals had political connection or used to collude with management to the detriment of the company.

4.2.7 Distribution Decisions

Distribution is a chain of market intermediaries or middlemen used by a producer or marketer to make products available when and where the consumers or user wants them. As per the research finding KCC all along had middlemen through whom it sold its products in the rural areas. This was two level or one level distribution channel. In the urban areas, it had the company-defined routes through which it distributed its products. This is commonly known as zero level channels.

These channels were used for well over three decades. The marketing department as per the interviewees hereinabove considered the customer locality, product nature and company characteristics in recommending specific channel. But the distribution channels were later hampered in that the middlemen appointed to distribute the product were either politically correct people who upon selling the products, they could hardly send the fund back to the company. This led to the problem where the company was supplying goods but could not receive the sales proceed. This was frequent in areas of Sotik and Baringo.

According to the research findings, the second problem with middlemen was that the political correct individual always competed to undertake the distribution in the profitable routes. Such that middlemen become parasites. Indeed most of the middlemen performed the distribution function worse and more costly than the company. Most of these middlemen even failed to undertake proper personal selling of the company products or advertisement or promotions on behalf of the company. When liberalization was introduced the middlemen started keeping products of other competitors. Indeed KCC products created an easy inroad for this competitors' products. There were no restrictive agreements with these competitors.

4.2.8 Market Segmentation.

A market is the people who have money to spend in purchases of their choice and have authority to buy. Market segmentation stems from the heterogeneity of supply and demand. As per the board minutes of January 1998 a decision was made to segment the market using psychographic and behaviouristic segmentation. This meant that for the former, buyers were to be divided into different groups on the basis of lifestyle, personality and social class. The nature of packaging of milk for a high-class locality was not to be the same. Milk also being sold to a low class group or area it was to be packaged differently. It was found through market research that people in high class estates wanted milk in long packet at least that could be stored in a fridge while in the slum the consumer cared more of the money to be paid hence cheaper packaging would do.

The other decision for segmentation was based on the behaviour of buyers in a market place. Some buyers like the army barracks and schools could prefer large volumes of milk packaged in containers instead of half a litre packet meant for the sale shops. This could mean the heavy user could prefer discounts as against normal users. The argument was that for the heavy users the company could spend less in terms of packaging costs. In the same board meeting above a decision was made for some research to be done to determine the major benefits of people could be looking for in each specific class. This could have brought into the market flavoured milk products or products with bright appearance that would increase the brand range of products.

These strategic decisions above were not implemented due to innumerable reasons. Basically KCC having operated in a monopolistic market, it mainly distributed its products to kiosks, shops, supermarkets, across the broad countryside. There was a misconception that milk being a classic food product, people could still buy the product regardless of the packaging styles

During the monopolistic era milk was bought overwhelmingly and the company could break even. Change of the packaging systems meant introducing new machine. With the

advent of liberalization of the sector other competing companies gained market as early as they segmented their markets in the line above. Indeed they poached most of the crucial managers from KCC who initiated the aforesaid strategies. As KCC was suffering in debts it could not afford to move faster. There was also a problem in cultural change. People hardly understood the market dynamics in terms of psychographic and behavioural segmentation above was due to high cost in implementation. There was need to advertise the new products, there was need to buy new packaging machine, there was need to employ highly qualified persons, there was stiff competition. The company was surviving. This delay in implementation made the company not to compete with the new competitors, which hardly experienced any debts.

4.2.9 Power of Sellers

According minutes of meetings by KCC directors, it was disclosed that, some politically correct farmers had been advanced over 40 million shillings but they had stopped delivering milk, which was the basis of the advancement. This happened while the farmers had not been paid millions in arrears. This interference in the financial management of the co-operative led to KCC having unsecured debts. On a management report of 30th October 1997, KCC reported that they had sought contacts with Kenya Commercial Bank without success. The co-operative had been advanced some 90 million shillings as overdraft and the bank had decided to recall all at once. Kenya Commercial Bank had been offered the biggest and the most prestigious assets of KCC as collateral. As a consequence, other banks would not offer any further overdraft facilities KCC funds indicating that the assets they were offering as collateral were not as prestigious as Kenya Commercial Bank holds the one.

4.2.10 Promotion Decisions Strategies

Promotions entail communication, which is the transfer of meaning or understanding from one mind to another. Initially before 1990 when KCC was a monopoly the company used a lot of one-way lines of mode of communication in promoting its products. Indeed there was popular advertisement on radio associating milk with a healthy life. But as

Liberalization came in 1990, KCC had financial problems it could not have enough money to spare for promotion activities. Promotions of competing products from other milking processing companies as competitors with shinning and flashy packets made KCC to lose its market share.

On the political front the government was at war with the company. Consider the fact that between 1998 and 1999 KCC was always in the daily press mostly negatively. Refer to the Daily nation or standard newspapers. This made the consumers to totally loose confidence on the KCC products. With lack of promotion activities, the consumers even thought KCC was poorly managed and thus its product could have quality problems. KCC failed to realize that they needed to make a wise purchase decision. There was no advertisement programme by the company to give consumers continued assurance in keeping present customers and helping them from reducing their dissonance. Without advertising programmes there was hardly any support to company's personal selling programme. Consumers too could hardly identify the "value" of the product thereby justifying the price.

4.2.11. Directors' political connections

As seen from the KCC back ground above, it is true to say that most of the Directors were either supported by the government or brought in as commissioners or co-opted from the government parent ministries. Besides directors, on the Managing Directors, between 1960 to 2003, the board had an opportunity to recruit only two managing Directors out of eleven Managing Directors employed by KCC. It is also true to note that during such a life span of 40 years the two Directors were in office for only a total of three years. Further, it is worth to note that all the other nine directors were picked by the president or his ministers despite KCC being a public company wholly answerable to a board of directors and shareholders. Most of these nine Managing Directors never came up with any strategy plans and were under the impression that strategic plans could come from the government on its policy on the Agricultural sectors. They got directives from the central government and the board of directors were mere rubber stamps. Indeed most of the directors were simple farmers who saw it as a privilege in being appointed directors and

thus could not want to be seen going against any government directive on what to do. It is this lack of a team leader for along time who could give direction of change in the company thereby leading to innumerable political interferences to in the organisations. Even when the managing Directors came up with strategic plans, the problem came up as he was supposed to get the government approval. KCC was always seen as an appendage of the government. All decisions ought to have come from the government

5.1 SUMMARY

Though it is wholly a co-operative Society, a few European settlers initially registered KCC as a Public Limited Company in August 1925 for the purpose of processing and marketing milk produced in their farms. In 1945, the name changed from Kenya Co-operative Creamery Limited to Kenya Co-operative Creameries Ltd. KCC was among the first companies to use Tetra Pak. With the advent of independence, the society's membership composition began to change gradually from a wholly European settler Society to a predominantly African society.

From the findings, KCC has undergone a lot of turbulence, political interference and change. KCC was managed several times by a Government appointed management commission following an outcry from daily farmers about the mismanagement of their organisation and an appeal by them to save it from collapse. But the same government fostered inefficiently, lack of policy directions and clear inference on its day to day activities.

It is evident from research above that, KCC was intruded with left right and centre in all its management systems. This interference in the financial management of the co-operative led to the collapse of the Co-operative. Kenya Commercial Bank has been offered the biggest and the most prestigious assets of KCC as collateral for an overdraft. As a consequence, other Banks would not offer KCC funds indicating that the assets they were being offered as collateral were not prestigious as what Kenya Commercial Bank held. In a letter dated 18th of May 1998, the management of the Co-operative wrote to the head of state, to intervene on their behalf with the VAT department which was supposed to refund them amounts over collected as tax.

5.2 CONCLUSION

in conclusion, the study was about the analysis of the government's political interference in the strategic actions and decisions in milk processing industry. This was a case study of Kenya Co-operative Creameries Ltd. This objectives of the

study were to determine the political processes that characterized management of strategic actions and decisions at KCC LTD from 1960 to 2003 and to establish strategic changes introduced at KCC LTD from 1960 to 2003. The Key question that needed to be answered was: What Political processes characterized strategic actions and decisions in KCC Ltd from 1960 to 2003?

Organizational processes are characterised by different political behaviour (Pfeffer, 1992). These political behaviours can either facilitate or inhibit managerial decisions and actions. When such politics become negative, they can seriously impair strategic thinking and action. This is because they frequently lead to impromptu changes that are inconsistent with the long-term nature of strategic management (Johnson and Scholes, 1999).

It is evident from the study that the government's political arm chose to use blackmail and financial muscle to determine the course of events, actions and decisions at KCC. The management of KCC faced a lot of pressure and uncertainty in the way it was handling the day-to-day decisions and actions because the government could if so wished.

5.3: EFFECTS OF POLITICAL INTERFERENCE IN THE MANAGEMENT OF KCC LTD.

At the end of this thesis one will appreciate the fact that political interference did affect the organisation in several areas such as: -

- (i) KCC Ltd as an organisation lost direction in its change management process as most of the strategic plans were either not implemented and or never formulated.
- (ii) Supplier and all business partners with KCC lost confidence with the organisation and could not risk to afford any credit to the organisation as one could not predict its future.
- (iii) Employees were unable to realize the necessity of any change process.
- (iv) Due to the aforesaid political interference KCC could not cope with the liberalization programmes.

- (v) KCC was bogged down tracing its past instead of scanning the environment and look at the future.

5.4 RECOMMENDATIONS FOR FURTHER STUDY

The study was just an eye opener to how the public institutions are run in the country. The researcher therefore recommends that further study be done on specific issues like the role of politics in the recruitment of staff in the public enterprises in Kenya. Also a study can be done on the effects of political interference on competitiveness of the public enterprises in Kenya. This will be able to address the reason why the public enterprises are not performing as expected.

5.5 LIMITATIONS OF THE STUDY

This study was based on political interference in the management of the public corporations in Kenya. The limitation of this study was that like politics it was difficult to find documents that pinpoint specific political decision that was made other than getting them from newspaper reports. There was no policy document. Most of the decisions that were made and which interfered with the decision-making and actions at KCC were made at political rallies and public pronouncements. There was little documentation as to how the decisions were carried out and effected other than the cabinet and policy paper on decentralization of KCC by the Ministry of Agriculture in early 1990's. The other limitation was that, using secondary data made the study limited to very few available documents. Thus the study could not be exhaustively explored. Time was another limitation in that it was not enough to achieve all that could be achieved for such a study.

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APPENDIX I: INTERVIEW GUIDE

Analysis of the influence of political processes on strategic decisions/actions at the Kenya cooperative creameries (KCC) Ltd from 1960 to 2003

1. STRATEGIC OBJECTIVES

- a) To your knowledge, were there any instances when KCC chose its important or long-term goals/objectives on the basis of political influence or considerations? Give examples.
- b) To your knowledge, were there instances when KCC was forced by influential politicians or people associated with them to change objectives or goals? Give examples.

2. STRATEGIES

- a) Were there instances when KCC's plans of action for achieving its objectives were dictated by political expediencies? Explain.
- b) How frequent were political interferences referred to in 2(a) above?
- c) How frequently was KCC forced by political influence to change its plans of action? Explain and give examples.

3) MANAGEMENT AND STRUCTURAL CHANGES

- a) How frequently did KCC have to make major structural changes as a result of political pressure? Explain and give examples.

- b) How frequently was KCC management unable to effect significant structural changes due to political hurdles? Explain and give examples.
- c) Was KCC at any time unable to effect important changes in its management due to political reasons. Explain with the use of appropriate examples.

4. **HUMAN RESOURCE POLICIES AND PRACTICES**

- a) How often was KCC unable to hire key staff due to political interference? Explain and give examples.
- b) How often was KCC unable to lay off employees due to political pressure? Explain, giving appropriate examples.
- c) How frequently did you experience occasions when a junior member of staff wielded disproportionate power due to his/her political connections?
- d) How often were promotion policies and practices influenced by political interests from within KCC? Explain and give appropriate examples.
- e) How often were promotion policies and practices at KCC influenced by political forces outside the organization? Explain with examples.

5) **PRODUCTION DECISIONS**

- a) How frequently did you experience political interference in management decisions on purchase of plant and equipment? Explain giving appropriate examples.
- b) How frequently were management policies and decisions to locate plant and equipment at certain locations determined by political interests? Explain with examples.

- c) Were there instances where management's decision to close a plant(s) failed to materialize due to political interference? Explain giving appropriate examples.
- d) Were there occasions when management's decisions to relocate a production plant was blocked due to political interests? Explain with appropriate examples.

6. **PRICING DECISIONS.**

- a) How frequently were the management's decisions to revise price of milk and other related products frustrated by political interference? Elaborate and give examples.

7. **DISTRIBUTION DECISIONS**

- a) How often did you experience political interferences in the management's market segmentation policies and decisions? Explain citing relevant examples.
- b) How often were marketing/sales policies and practices determined by political interests? Explain with examples.

8. **POWER OF SELLERS.**

- a) How frequently did the powerful sellers (i.e. those who sold large quantities of milk or had powerful political base) use their political connections to sell more milk than KCC was willing to buy? Explain with examples.
- b) How often did the powerful sellers referred in 8(a) above use their political connections to get payment upfront for their deliveries? Explain, giving appropriate examples.

9. **MANAGING DIRECTOR'S AND OTHER DIRECTORS POLITICAL CONNECTIONS**

- a) To what extent was the KCC's Chief Executives or other Directors tenure of office dependent on their political connections? Explain with examples
- b) Did the kind of connection referred to in 7(b) above facilitate or inhibit the chief executive's success in initiating strategic (i.e. significant) changes? Explain citing appropriate examples.

10. **OTHERS.**

Explain any other issues or changes that characterized KCC during your tenure there.