Strategies for enhancing EFFECTIVE MANAGEMENT of tea factories in a liberalized smallholder TEA SUBSECTOR IN KENYA

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The main purpose of this study was to determine strategies used to enhance the effective management of tea factory companies in a liberalized smallholder tea sub-sector in Kenya. The study investigated the following three major research areas: Challenges experienced in managing tea factory companies in the stallholders tea sub-sector in Kenya; How liberalization of the smallholder tea sub-sector has affected the strategic management of tea factory companies in Kenya; and Strategies being used to enhance effective management of tea Factory companies in a liberalized smallholder tea sub-sector in Kenya. A survey research design was used to conduct the study. The sample studied comprised of twelve smallholder tea factory companies in the sector spread over five tea growing districts in Kenya. Purposive sampling technique was used to determine the study sample. An interview guide was used to collect the required data from the sampled factory companies. Content analysis was applied in analyzing the responses and explanations obtained during the interviews. The research findings revealed that the management of factory companies in this sub-sector has faced many challenges after liberalization. Lack of factory specific mission statements came out as one such major challenge during the study. Poor farmers’ and directors’ understanding of their roles in factory company management was revealed as another big challenge. The study established that intense local politics particularly in the three districts of Gucha, Nyamira and Kisii Central had negatively affected the management of factory companies in this tea sub-sector. In spite of these many challenges, the study found out that tea factory companies in this sub-sector had began to record positive growth trends in both production and returns to the farmer. The study revealed that farmers have a much bigger say in the management of factory companies now than before liberalization. Tea factory operations have become more transparent following the introduction of liberalization in the sub-sector. The study established that new entrants into the smallholder tea growing sub-sector had posed stiff competition thus leading to the institution of more responsive management approaches such as Total Quality Management to beat the rising competition. The results further showed that a majority of the factory companies in this sub-sector had adopted cost cutting strategies as the single most popular approach to improving factory company performance following the introduction of liberalization. In addition, the study established that a majority of the factory companies had started to embrace staff training and development, strategic partnerships and alliances just in time approaches, time management and competitive bidding approaches as some of the strategies to improve the management effectiveness of their factory companies. The study recommends that factory companies need to develop their own mission statements and objectives as a starting point like any other business entity in competitive business. Mission statements guide the development of strategic approaches that will result in the realization of a vision. They can also percolate a positive feeling among the employees thus leading to effective management. The study further recommends for more intensive farmers’ and directors’ training and education on their effective roles in the management of their factory companies. They should also be educated on the art of doing business in a competitive environment. The study recommends that KTDA decentralizes essential functions to the factory company levels in order to facilitate management effectiveness. Such functions are research planning and development, financial, budgeting, record keeping, marketing and information technology. Lastly, the study recommends that the managing agent takes steps to address the issue of intense local politics that has negatively affected the management of tea factories in some of the tea factories studied.

Key Words: Strategy, management, liberalization, smallholder tea sub-sector, globalization, privatization, made tea, value chain, smallholder

INTRODUCTION

Background of the study
The smallholder tea industry is one of the greatest success stories in the Kenyan agriculture sector. It is the leading foreign exchange earner accounting for about twenty per cent (20%) of the total agricultural export earnings in Kenya (Nyangito and Kimura, 1999). The crop also contributes immensely towards employment directly to farm owners and workers on farms and to industry and service sectors as Nyangito and Kimura further argue. The crop constitutes about 60% of the total tea
production in Kenya, the balance coming from the large tea estates.

Tea production in Kenya has been carried out in small and large scale (estate) farms. The smallholder tea production, processing and marketing, was until 1997 subject to government controls. The controls were implemented by the Kenya Tea Development Authority (KTDA) which was established under the agricultural Act, Cap 318 as a parastatal and given he mandate to control and regulate the small holder tea sub-sector in Kenya (Nyangito and Kimura, 1999).

According to the KTDA chairman’s report (1999) KTDA had exclusive management control over the provision of planting material and extension services to the smallholder, provision of inputs and services collection and processing of the green leaf, management of the factories and marketing of the processed leaf. KTDA organized the sale of the processed tea through its contracted agents at Mombasa and London auctions, received the sale proceeds and arranged the payments to farmers on a monthly basis. KTDA did all these tasks through its various divisions and departments at the headquarters in Nairobi.

The above functions and activities were under the leadership and guidance of the Managing director. A KTDA Board of Directors had the overall responsibility of policy formulation. The board consisted of farmers’ representatives appointed by the Minister for Agriculture.

The exclusive KTDA control over smallholder tea collection, processing and marketing worked well when membership was small. With extended smallholder tea farmers throughout the country, the KTDA approach system started to fail and hence farmers clamored for decentralization of the authority and privatization of the tea sub-sector. A KTDA (1999) report concludes that this was the beginning of the liberalization process of this very important sub-sector.

After linearization, the direct management and day to day running of the smallholder tea factories was placed in the hands of elected directors who represent the interests of the farmers from the areas served by the respective factories. Tea factories were also turned into companies limited by shares.

**LITERATURE REVIEW**

**Challenges of managing tea factor companies in the smallholder tea sub-sector**

The Kenya Tea Development Authority (KTDA) had exclusive control over the provision of planting material and extension services to the smallholders, provision of fertilizers, Inspection, collection of green leaf from farms, processing and marketing (Kimuyu and Wagacha, 2001). Smallholder tea farmers took their green leaf to collection centers from where the KTDA took over. Farmers owned the leaf collection centers whereas KTDA owned and managed the leaf collection through its leaf collection department and processing through the management. The centralized KTDA management system whereby KTDA exercised administrative and financial control of all tea factories was associated with the high overhead costs that reduced payments to farmers. There was also a limitation in decision making by the smallholder tea farmers on the processing and marketing of their tea through tea factory companies.

According to Stevens (2001), for an organization to be effectively managed, seven key elements are critical. Top in this list of elements is strategy and the rest are structure, systems, staffing, skills, style, and shared values. Stevens defines strategy as a plan an organization formulates to gain a sustainable advantage over competition. Stevens argues that managers are the architects of their organizations. Company managers should ask questions such as “what are the sources of sustainable competitive advantage (cost, quality, service and technical leadership)?” and what are the key strategic priorities for the organization? when they are formulating strategy for their organizations.

Koch (2000) argues that corporations should develop their strategy before deciding their structure. He defines strategy as the setting of long-term goals and objectives, the determination of courses of action, and the allocation of resources to achieve the objectives. Koch further argues that strategy could:

- Help managers identify short and long-term remedies for organizations in financial crisis.
- Show managers when an organization is at a turning point, and which way it should turn.
- Provides a system for successfully integrating acquisitions and improving performance.
- Help managers define the different parts of their business, where they need to do different things to succeed.
- Show in detail where organizations make most profits and cash and why.
- Indicate where institutions have to concentrate most effort and cash.
- Show up any missing skills.
- Show whether it is appropriate to make acquisitions, and if so what kind.
- Develop an institution’s culture and competencies so that it can be more successful than competitors at meeting the needs of their customers.
- Improve the performance of business units by close financial control based on a consistent methodology applied throughout the firm.

A firm’s strategy can be defined as the actions managers take to attain the goals of the firm (Hill, 2002). Hill argues that for most firms a principal goal is to be highly profitable. To be profitable in a competitive environment a firm must pay continual attention to both reducing the costs of value creation and to differentiating its products.
offering it. In this instance therefore, Hill argues that strategy is often concerned with identifying and taking action that will lower the costs of value creation and/or will differentiate the firm’s product offering through superior design, quality, service and functionality.

The characteristics of corporate strategic decisions have been summarized by Johnson and Scholes (1999) as:
- Those concerned with the scope of the organization’s activities.
- Those that involve the matching of an organization’s activities to its resource capability.
- Those that involve major decisions about the allocation or re-allocation of resources.
- Those that will affect operational decisions, because they will set off a chain of “lesser” decisions.
- Those that will also be affected by the values and expectations of the people in power within the organization.
- Those that are likely to affect the long-term direction the organization takes.
- Those that have implications for change in the organization, and so are likely to be complex in nature.

Johnson and Scholes (1999) further argue that implementation of strategy by an organization will involve a plan. The strategic planning process could be done at various distinct institutional levels namely; at corporate, business and operational or functional levels. Each of these levels would have clearly defined strategy that very well interlinks with the other strategies. According to Ansoff (1988), an analysis of strategy by an institution is necessary, as existing techniques of evaluating long-term projects (for example, capital investment appraisal) are not always appropriate for many of the decisions an organization must take. Ansoff argues that strategies are “the decision rules and guidelines which guide the process of development.” He further argues that the need for strategy arises out of the need for direction and focus in new activities with current ones. Strategic decisions mostly deal with the firm’s match with its environment. Ansoff in conclusion believes that a strategy would provide an institution with a defined common thread that sets the direction for all in an institution.

Jauch and Glueck (1988) argue that firms should engage in strategy formulation or in strategic management because of the following reasons:

a) Firms not just react to change; they can pro-act and even make change happen. This is possible through strategic management as it allows a firm’s top executives to anticipate change and provides direction and control for the institution. It will also allow the firm to innovate in time to take advantage of new opportunities in the environment and reduce the risk because the future was anticipated.

b) Effective strategic management points out the way for employees to follow. It provides a strong incentive for employees and management to achieve company objectives. It serves as the basis for management control and evaluation. It further ensures that top executives have a unified opinion on strategic issues and actions.

c) Research in strategic management is advancing so that the process can help managers manage institutions more effectively.

d) Business that engages in formal strategic planning has a higher probability of success than those that don’t.

Jauch and Glueck (1988) conclude by saying that because of the development of the theory of strategy and strategic management, many businesses and institutions make sure that it is part of their management programmes and this has led to great success for most of those firms. Gadiesh and Gilbert (2001), in support of the above arguments add that that every organization should indeed have a corporate strategy. The beauty of an organization having a corporate strategy is that everyone in the organization, the executives in the front office as well as people in the operating units, can knowingly work towards the same strategic objective without being rigid about how they do so. When a strategic principle is well crafted and effectively communicated, managers at all levels can be trusted to make decisions that advance rather than undermine company strategy.

A strategic decision should guide a company’s allocation of scarce resources, capital, time, management’s attention, labour and brand in order to build a sustainable competitive advantage.

A strategic principle can help executives maintain consistency while giving unit managers the freedom to tailor their strategies to meet their own needs. A strategic principle is also crucial when a company is experiencing rapid growth. Gadiesh and Gilbert (2001) conclude by arguing that a strategic principle can help provide continuity during periods of organizational turmoil. Having a strategy is a matter of discipline according to Porter (2001). It requires a strong focus on profitability rather than just growth, an ability to define a unique value proposition, and a willingness to make tough trade-offs in choosing what not to do.

He continues to argue that strategy goes beyond the pursuit of best practice. It involves the configuration of a tailored value chain- the series of activities required to produce and deliver a product or service that enables a company to offer unique value. Porter continues to say that by ignoring strategy, many companies undermine the structure of their industries, hasten competitive convergence, and reduce the likelihood that they or anyone else will gain a competitive advantage. Porter concludes by listing six principles of a company’s strategic positioning as follows:

1) It must start with the right goal. Only by grounding strategy in sustained profitability will real economic value be generated.
2) A company’s strategy must enable it to deliver a value proposition, a set of benefits, different from those that competitors offer. Strategy in this case becomes a way of competing that delivers unique value in a particular set of uses or for a particular set of customers.

3) Strategy needs to be reflected in a distinct value chain. A company must configure the way it conducts manufacturing, logistics, service delivery, marketing, human resource management, and so on differently from rivals and tailored to its unique value proposition.

4) Robust strategies involve trade-offs. A company must abandon or forgo some product features, services, or activities in order to be unique at others. Such trade-offs, in the product and in the value chain, are what makes a company truly distinctive.

5) Strategy defines how all the elements of what a company does fit together. A strategy involves making choices throughout the value chain that are interdependent: all a company’s activities must be mutually reinforcing.

6) Finally, strategy involves continuity of direction. A company must define a distinctive value proposition that it will stand for, even if that means forgoing certain opportunities.

**Liberalization accelerates the collapse of local institutions**

Porter (1990) observes that liberalization could be compared to “putting a flyweight in the ring with an experienced boxer (the multinational corporations), and then removing the gloves.” The results often leave the weaker participant reeling. The removal of regulations governing the activities of the strong multinationals exposes weak domestic industries to abuse and exploitation in the hands of the multinationals. Though hailed as the common trend in modern times, liberalization takes jobs out of local hands. In the name of liberalization, Kenyan institutions have instead been broken up as foreign players enter into the scene to compete with each other. In many cases, they import their own workforce and then sack Kenyans who occupied technical positions in their firms, argued a Kenyan news columnist Gogo (2002).

According to Kenen (2002), liberalization entails the removal of rules which governments have traditionally held in place to regulate the activities of state owned firms. Kenen further argues that liberalization, more commonly known as the ‘free trade’ agenda, sounds reasonable in itself. Much of the language used to describe it portrays the removal of restrictions, barriers and obstacles to free trade as a positive trend. However, beneath the language of ‘free’ trade lurks an important question: free for whom?

Kaur (1999) on the other hand argues that the common result of liberalization is the collapse of local enterprises as indigenous industries find it impossible to compete in markets that are flooded with inexpensive imports. Simultaneously the government, whose stated intention is to nurture these industries suddenly adheres to the international economic policies of non-protectionism and abandons local industry.

Kaur (1999) further says that globalization has not produced the miracle enterprises hoped for. Instead, the process has proved painful, thus causing serious socio-economic problems in countries where this has been implemented. He discusses at length the experiences of an indigenous Kenyan motor vehicle industry in a liberalized environment. He remarks that the Automobile Vehicle Association was the largest vehicle assembling plant in Kenya, established in 1977 originally as collaboration between the Kenyan government and foreign investors. However, the government in the name of liberalization, moved from a position of total protection to one of no protection overnight. The onset of liberalization, accompanied by the removal of foreign exchange controls and the abolition of import licences, meant that industry was suddenly exposed to competition from inexpensive used-cars imports as well as the gradual withdrawal of its major shareholders. Without warning or explanation, the government lowered duties on vehicles.

**Liberalization leads to enhanced performance and growth**

In spite of the many criticisms discussed in this paper, liberalization enables business firms to gain greater access to new markets free from any restrictions on their conduct (Bennet, 1999). Parker (1995) observes that firms face intensified competition in the post liberalization environment. Liberalization makes competing imports more readily available and rapid growth in self-employment, thus increasing domestic competition, especially for indigenous firms. He further observes that liberalization improves the trading environment in three main areas:

- Access to inputs – The removal or reduction of import licensing gives firms greater access to imported inputs, given that licensing systems, generally, are biased towards large, influential companies.
- Relative prices – Substantial devaluation drastically alters the prices of tradables relative to non-tradables, squeezing costs in firms that depend on imported inputs and protecting those that rely or relied on domestic materials and labour. It removes the biases often accorded to capital intensive investments.
- Ease of doing business – A reduction of state monopolies and intervention in pricing and distribution gives firms” freer reign in obtaining resources and marketing products.

Liberalization fosters management efficiency and effectiveness among firms in order to face severe
competition. It forces management into awakening and renewed strategic approaches in order to be able to survive in the hostile and competitive business environments. With renewed and well thought-out strategies, many of these institutions are able to thrive despite an increase in new entrants and competition. Liberalization is strongly associated with the expansion in employment among the indigenous firms. This is possible through the anticipated increase in production as Parker (1995) observes.

Levy-Livermore (1998) agrees with Parker that liberalization seeks to move from direct control of production by the public sector to private ownership and investment, thus promoting a more competitive environment. By reducing government control over institutional resources, firm’s access to inputs is significantly improved. It also leads to reduced biased resource allocation that favours certain sectors and allows most allocation decisions to be made according to market principles; Levy-Livermore (1998) continues to argue. Dunning and Hamdani (1997) argues that liberalization of institutions can play a strong role in stimulating investment within regions. By creating large, more open markets, regional integration may also have additional advantages of restraining any monopolistic tendencies on the part of the investing firms.

**Porter’s value chain strategy for the effective management of institutions**

Porter (1982) observes that organizational competitive effectiveness stems from the many discrete activities a firm performs in designing, producing, marketing, delivering and supporting its products. He argues that a systematic way of examining all the activities a firm performs and how they interact is necessary for analyzing the sources of competitive advantage and hence leads to organizational effectiveness. He terms the basic tool of doing this as “Value Chain”. In his diagram shown in figure 1, Porter (1982) concludes that every firm is a collection of activities that are performed to design, produce, market, deliver, and support its product. A value therefore is a reflection of a firm’s history and its strategy and how it implements it, Porter (1982) observes.

Johnson and Scholes (1999) in their contribution to Michael Porter’s value chain strategy recognize the fact that organizations are much more than a random collection of machines, money and people. They argue that these resources are of no value unless deployed into activities and organized into routines and systems which ensure that products or services are produced which are valued by customers/users. They observe that it is these competencies to perform particular activities and the ability to manage linkages between activities which are the source of competitive effectiveness for organizations.

**Institutional core competencies**

To be able to manage organizations’ chain activities requires an institution to posses a cluster of competencies, which Johnson and Scholes (1999) refer to as core competencies. They argue that the difference in performance of different organizations in the same industry is based on the degree of core competencies. Although the organization will need to achieve a threshold level of competency in all its activities, only some will be core competencies. These are the competencies that underpin the organization’s
ability to outperform competition or demonstrably provide better value for money. They continue to argue that core competencies need to be difficult to imitate, otherwise they will not provide long-term advantages. They may also be the basis on which new opportunities will be created.

Koch (2000) argues that to be valuable, core competencies must add value to something really substantial to customers; they must be unique or at least rare; they must be difficult to imitate and they must be able to be used effectively by the organization.

RESEARCH METHODOLOGY

Research design and population
The research design used in this study was a survey. This study focused on all the forty-five (45) smallholder tea factory companies managed by K.T.D.A., located in sixteen districts in Kenya. The forty-five tea factories formed the population of this study. A target population of fifteen (15) tea factories located in five of the sixteen smallholder tea growing districts in Kenya were covered in this study. The five districts covered are Kericho, Kisii Central, Nyamira, Gucha and Muranga. Out of the target population of fifteen factories, twelve (12) were located in the west and four (4) were located in the east of Kenya’s Rift Valley. The two regions are the main concentration of the small holder tea growing regions in Kenya and hence were the target population for this study.

Sampling technique and size
Non probability sampling techniques were used in this study. Purposive sampling and convenience sampling were used in identifying sample elements. To determine the specific sample size and sample elements, the study considered factors such as accessibility, convenience and cost of reaching the sampled companies. A sample size of twelve (12) tea factories out of the target population of fifteen (15) smallholder tea factories from the five tea growing districts in Kenya were studied. These formed 80% of the target population of fifteen (15) tea factories located in the five districts. The sample also formed about 27% of the entire population of the forty-five smallholder tea factories in Kenya.

Data collection and analysis
Data collection was done through interviews with the senior managers of the factory companies visited. A record of all the responses was made for later analysis and interpretation. An interview guide was administered on the senior managers during the visits. Questions designed on the basis of the main research questions were discussed with the senior factory managers. The interview guide used is given in appendix 1 of this report.

Data analysis
The primary data generated was descriptive. Content analysis techniques were used to analyze the responses and explanations given by the managers interviewed. The researcher read through each of the interview guide notes taken during the visit and identified the definitive list of ideas and topics mentioned in the order of the research questions. Where appropriate, the researcher included extra categories to ensure no ideas were missed out. Frequency tables and diagrams have been used to summarize the data obtained.

RESULTS AND FINDINGS

Summary of the research results
The purpose of this study was to determine strategies used to enhance the effective management of tea factory companies in a liberalized small holder tea sub-sector in Kenya. The following research questions were used:
1) What challenges are experienced in managing tea factory companies in the smallholder tea sub-sector in Kenya?
2) How has liberalization of the smallholder tea sub-sector affected the strategic management of tea factory companies in Kenya?
3) What strategies are used to enhance effective management of tea factory companies in a liberalized smallholder tea sub-sector in Kenya?

The first major finding of this study was that none of the twelve factory companies that were visited had formulated their own one mission statements and objectives. All the twelve factory companies studied relied on the broad mission and objectives/goals of the management agent, KTDA. The study also revealed that poor farmer and director education and awareness had negatively impacted on the effective management of tea factories in the tea sub-sector. The study revealed that a majority of the tea factory company directors did not have previous leadership and management experience necessary for the effective management of smallholder tea factories. Intense local politics in seven of the factory companies visited was mentioned as a major challenge to the effective factory management. Staff incompetence for a majority of non-managerial cadres was revealed as another challenge that impacted negatively on the performance of factory companies in a liberalized environment. Tea hawking was also a major challenge to the effective management of tea factories revealed by the study. Tea hawking was explained as a situation where large tea estate sponsored businessmen bought plucked tea direct from smallholder farms.

The study further revealed that factory companies had started to record growth in tea production and revenue following the liberalization of the sub-sector. This has been mainly for the benefit of farmers. The study also revealed that following the introduction of liberalization of the sector, farmers have had a much bigger say in the management of tea factory companies. This had led to
improved farmer motivation and satisfaction. Government on the other hand now generates a lot more income by way of corporation tax from these institutions. KTDA has become more transparent in its operations and this has improved its relationship with the farmers. There has been improved management expediency within the individual factory companies thus leading to management effectiveness. There have been minimized bureaucracies in decision making.

The study also revealed that liberalization had exposed the smallholder factory companies to stiff competition that has emerged from new entrants into the tea growing business. Most of these new competitors were from neighbouring countries such as Rwanda, Burundi and Malawi. Further competition had also been felt from some of the traditional consuming countries such as Pakistan in the Middle East. Stiff competition has led to an awakened factory management efficiency that was not visible before. Staff rationalization has been one of the major impacts of liberalization in this sector. It was revealed that a majority of the factory companies employed similar strategies in their operations. Cost cutting strategies came out as the single most popular strategies adopted across factories to achieve improved effectiveness in management. The study also established that some factory companies were beginning to lay some groundwork towards attaining international Standards Organization (ISO) certification. Other pipeline corporate strategies revealed by the study were staff development, strategic partnerships, just in time ordering (JIT), time management and competitive bidding. The study established that senior factory managers seconded by KTDA rotated between the smallholder tea factories after about a year and a half of stay in a factory. This was found an ineffective management strategy, as a manager does not stay long enough to implement any new strategies established.

Challenges experienced in managing tea factory companies in a liberalized smallholder tea sub-sector

The study revealed that all the twelve factories visited did not have their own individual mission statements. As argued by Sarkar (1998) in the literature review, Mission statements and objectives identify the accomplishment needed and the strategies of achieving them. Mission statements identify the “what” and the “how” of an organization. The needed accomplishments are designed and produced in strategic plans.

Stevens (2001) pointed out in the literature review that one of the key elements of an effectively managed institution is a strategy. He defined strategy as a plan organizations formulate to gain a sustainable advantage in a competitive environment. Kock (2002) added that strategy was about the setting up of long-term goals and objectives, the determination of courses of action. And the allocation of discussions advanced by their colleagues on the need for strategy. They argued that implementation of strategy involved a strategic plan. A strategic planning process could be done at various distinct levels namely, corporate, business and operational or functional levels. Firms therefore should engage in strategy formulation to avoid reacting to change. Kathleen and Donald (2001) concluded on mission statements and strategy by cautioning that companies that do not follow a disciplined strategy end up being paralyzed by chaos. Strategy embodied in mission statements and objectives is unique to each organization.

This discussion clearly indicates the need for business entities to have their own mission statements as well as a set of objectives. The design of these statements should be focused on securing a “fit” in a competitive environment such as the one which the factories studied are. Lack of mission statements and objectives may plunge the tea factory company into chaos.

The study revealed that farmers lacked the knowledge and information necessary for effective management of their factories. The factory directors were not spared either in this regard. Both groups have important roles to play in the management of their factory companies. The study revealed that both groups lacked fundamental information on company law and the general business operations. They also lacked sufficient and critical information on the marketing of tea and the allocation of returns to stakeholders. Some of the directors did not have previous management experience necessary for running business companies in a competitive environment.

The study further revealed that politics between the farmers, the elected directors and the factory managers was a big challenge in the management of tea factories. There was a lot of interference in managing the operations of a majority of the factories. This interference was at times directed at the KTDA factory managers and the board of directors. There was a lot of propaganda, incitements and egocentrism which affected the effective management of these factories. Wrangles in factories due to personalized interests characterized debates during board meetings. Effective management of tea factories depends greatly on the stability and harmony of the board members.

Johnson and Scholes (1999) noted in the literature review that the success of any institution depended on the quality of its staff. This study revealed that a majority of staff in most of the factories were unsuitable to handle factory tasks effectively. These factories needed competent staff in order to succeed in a liberalized and competitive business environment.

Tea hawking was revealed as another challenge that emerged after privatization of the sector. This was explained as a situation where large tea estates sponsored certain businessmen to buy tea in cash
directly from the farmers. This led to poor tea husbandry, low returns to the farmer and non-repayment of farm input-loans advanced to the farmers by the factory companies to which these farmers belonged. Due to lack of adequate knowledge, farmers in some parts continued to sell their tea to these businessmen thus compounding the issue of management of the factory companies.

**Impact of liberalization on the management of factory companies in the smallholder tea sub-sector**

This study revealed that the smallholder tea sub-sector has witnessed significant positive impacts following the liberalization of the sub-sector. The findings of this study agree with the arguments of both Bennet (1999) and Parker (1995) in the literature review. These findings revealed that factory companies recorded positive growth in the recent years following the introduction of liberalization to the sector. There was improved management expediency in decision making, elimination of bureaucratic practices and improved transparency in factory operations. Competition has prompted an awakening of factory management to re-examine and review their systems of operation with a view to making them support the consumers and the farmers. The review of systems that has ensued has led to the growth of the sector thus concurring with Bennet’s (1999) arguments. The farmer has been a major beneficiary of the liberalization of the sub-sector.

Parker (1995) argued in the literature review that liberalization, despite its many temporary setbacks fosters management into an awakening position and renewed strategic approaches in order to survive in hostile, competitive business environments. It also enables business firms to gain greater access to new markets. This has started to be witnessed in this tea sector. The process has not been without bruises as was pointed out by Kafr (1999) and Gogo (2002) in the literature review. Loss of jobs through staff rationalization has been one of the direct negative impacts of liberalizing the sub-sector. Kaur (1999) argued in the literature review that liberalization takes away jobs as was experienced in the Motor Vehicle Industry in Kenya. The same experience has been recorded in this sub-sector too through the staff rationalization approach. For those factories that have instituted this approach, the process has not been smooth but the move has started to bear fruits. The move was considered inevitable for the survival and continued performance of these factory companies. The other major negative impact has been the varying pace of growth of companies since they were privatized. Newly built factories constructed on loan inherited huge debts that they now have to repay directly using their own resources. This has reduced the level of returns to the farmer significantly for some of those affected factories. Poor quality of board directors is another challenge experienced in this sector after liberalization. Factories have had varying levels of experiences in the elected directors. Those factories that have had experienced directors in leadership and management have forged ahead while a majority of others are trailing.

**Enhancing effective management of factory companies in a liberalized smallholder tea sub-sector**

The study revealed that a majority of the factory companies employed similar strategies to reduce costs in their operations. Commonly used cost reduction strategies included, staff rationalization, use of firewood as a cheaper source of energy and seeking of competitive quotes. Use of the “Just In time” strategy in reducing storage costs, use of competent staff in company operations as well as automating company operations to improve efficiency are additional strategies used. All these findings agree with the arguments advanced by Porter (1980) in the literature review. Porter (1980) came up with three generic strategies that could be adopted by institutions to sustain superior performance in a liberalized environment. He termed the three strategies generic and these are, cost strategy, differentiation strategy and focus/niche strategy. Cost strategy is one where a company minimizes the cost of production without compromising product quality. Employing cost strategy may mean examining the cost of inputs, processing and marketing systems of the product. This has revealed that Porter’s generic cost strategies are relevant and used by the tea factories companies.

The study further revealed that tea factories are using other strategies to improve on their management effectiveness. This is a confirmation of the discussions advanced by Johnson and Scholes (1999) that organizations are much more than a random collection of machines, money and people. They further argued that it is the ability to manage linkages between activities which are a source of competitive effectiveness for an organization. Staff training and staff development is, indeed, one of those other strategies employed to achieve effectiveness in the managing of these factories. The study revealed that apart from using more immediate and medium term strategies, most of the factory companies are beginning to think about Total Quality Management (TQM) systems. This is a strategic management approach, which demands that all company operating systems observe high quality standards. Implementation of the TQM strategic approach is often aimed at meeting International Standards (ISO) certification requirements. It is a strategic approach that aims at penetrating into both new and traditional markets. To succeed in this move, there has to be total dedication and support from all factory stakeholders and most importantly, the factories' top management.

The study established that most of the senior factory company management staff are rotated quite frequently
from one KTDA managed tea factory to the other. These managers do not last for longer than a year and a half in one factory. This frequent rotation of senior managers hinders effective management, as the strategy does not give those managers enough time to formulate and implement systems that could enhance effectiveness. It is also more difficult for them to learn and appreciate company performance trends and hence can not inject any meaningful strategic suggestions. This is one of the points that Johnson and Scholes (1999), Porter (1980) and other scholars are talking about in their discussions contained in the literature review. Effective management systems thrive in an environment of stable management.

Lastly, performance of the factory companies both in the east and west of the Rift Valley always crept into the interview discussions. In some of the interviews, it was alleged that factories east of the Rift Valley were doing better after the privatization process than those in the west. Justification to these findings revolved around the quality of company directors. This has led to better performance of factories in the east compared to those in the west of the Rift Valley in Kenya.

CONCLUSIONS
The findings of this study have revealed that in spite of the host of challenges facing the smallholder tea factory companies, adequate management structures have been put in place to ensure that the companies are effectively managed in the liberalized environment.

A majority of the factory managers interviewed agreed that most of the challenges faced such as lack of company specific mission statements, uninformed farmers, poor leadership skills and intense political interference are mostly short to midterm challenges. Factory management, the managing agent, KTDA, the Factory Company Directors and the shareholders are working very closely in managing the affairs of their companies using modern strategic management approaches. Formulation of company specific mission statements together with objectives and strategic plans are being considered as key strategic approaches necessary in a competitive environment. Training and education on good quality tea husbandry, roles of shareholders and the directors in company management, the dangers of tea hawking and the need for enhanced teamwork among the major company stakeholders are some of the approaches employed in ensuring effective management of the tea factory companies.

It was argued in this study that liberalization fosters management efficiency and effectiveness among firms so as to survive in a competitive environment. Liberalization forces management into an awakening position to renew its strategic approaches in order to secure a “fit” in a hostile competitive business environment. Some of the major findings of this study indicate that liberalization of this sector has had much positive impact for the benefit of all its stakeholders. Among the positive impacts revealed by this study are: the fostered management expediency in decision making, reduced management overheads, improved transparency in sector operations and inculcated sense of teamwork among the stakeholders. Perhaps two of the most obviously felt liberalization impacts are the company ownership by the farmers and the improved net returns on their produce. This sense of ownership and improved returns has particularly motivated the farmers and assisted in the strengthening of company efficiency in operations thus leading to overall effective company management.

One of the other major findings of this study was that a majority of the tea factory companies are employing similar modern strategic approaches in ensuring sound management of their factories. This high level form of standardization across all the factories is a deliberate effort by all the stakeholders to strengthen their factory management systems with a view to compete favourably in the liberalized business environment. Wide ranges of modern day strategic approaches are employed by a majority of the tea companies in the type of cost strategy approaches employed as well as the need to attend to the issue of staffing as a key company resource. The intended moves towards attaining ISO certification is a pointer to how well visioned and alert company management and all the directly involved stakeholders are about the environment in which they operate.

RECOMMENDATIONS
This study has revealed many different results and findings. This section makes recommendations that the researchers felt are key for the effective management of the tea factory companies in a liberalized environment.

Based on the findings, there is a real need for factory companies in the tea sub-sector to formulate their own mission statements. Good mission statements include all the essential strategies necessary for the effective operations of an organization. Mission statements are company specific and can percolate a positive feeling among the employees thus leading to effective management.

KTDA needs to address the issue of frequent senior management staff transfers within its factories as well as the institutions they serve. The study revealed that a majority of senior managers do not stay long enough in one factory to create a significant impact in improving management systems. The managing agent may, therefore, need to pay attention to this issue and perhaps consider three years as a reasonable period before rotations are done.

There is need for both KTDA and the factory management to intensify and enhance farmers and directors’ education as revealed by the study. It was the feeling of many of those interviewed that the liberalization process was implanted a bit more hurriedly before proper
groundwork structures were put in place. More specifically, there was a general feeling that farmers who become company shareholders after the liberalization process needed to be trained adequately on their key role as shareholders in company management. They needed to be adequately sensitized on the importance of electing directors with proven leadership experience as well as sound management skills. They needed to be exposed to some basics of the company’s Act Cap. 486, Laws of Kenya and the art of business management. This still remains a major challenge and there is need to try and intensify farmer/shareholder education in this area. Directors’ education should also focus more on business practices and the roles of directors in policy formulation as an aspect of effective company management.

There is also need for the managing agent to decentralize more functions such as the research, planning and development, financial, budgeting, record keeping, IT and marketing to the factories for faster execution of decisions. This will significantly reduce further management overheads as well as expedite management decisions at factory level. The managing agent would need to keep a small team of experts (secretariat) in all the necessary functional areas for advice to the factory teams.

There is further need for the managing agent to address the issue of intense local politics that came up as a major finding of this study. Local politics was found to be a major interference in the sound management of factory companies. The challenge seems to be more real in the larger Kisii region than it is in any other areas visited. Local politics, incitement and propaganda have serious drawbacks in the sound management of institutions. It is necessary, therefore, for some focused research to be done on this issue with a view to finding solutions to the same. The managing agent stands the best chance to do this rather than the individual factories.

Government needs to come forth and assist the factory companies to address energy issues with a view to reducing heavy energy costs. Government also needs to address the issue of rural access roads as a support to factories. Factories have continued to suffer huge operating costs on energy and vehicle repairs due to expensive sources of energy and bad road networks. Some factories have identified firewood as a cheaper source of energy. They have applied to the government for allocation of land to assist in planting sustainable fast growing trees such as the eucalyptus to supplement their energy needs and reduce energy costs. The government has been slow in approving these applications and there is, therefore, need for this to be expedited. Government through its local councils should work closely with the factory management in improving the road network systems with a view to reducing costs as well as developing their localities.

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